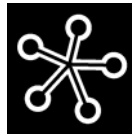


University of Amsterdam



**AMSTERDAM INSTITUTE FOR
ADVANCED LABOUR STUDIES**

**DISTRIBUTION OF RESPONSIBILITY FOR SOCIAL SECURITY
AND LABOUR MARKET POLICY
COUNTRY REPORT: THE UNITED KINGDOM**

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ABSTRACT

High levels of unemployment, or high levels of social expenditures as well as the growing demand for a flexible labour force have given new impetus to the world-wide discussion on what model to use for an efficiently operating labour market and in particular on the role of institutions. Although there seems to be a growing consensus on the restricted governmental role in recent decades, this has not been translated into a unanimous appraisal of the role of intermediary organisations, such as trade unions. There is no clear view on an appropriate distribution of responsibility between government, social partners and the market. The research project 'distribution of responsibility for social security' aims to create a scientific basis for a clear and consistent view on the role and distribution of responsibilities between the different labour market institutions. As part of this research project, this paper provides an elaborate country study of the United Kingdom.

It is shown that the domains of industrial relations, employment protection and unemployment compensation in the United Kingdom are separate and cannot be regarded as functionally complementary as in other countries. The government is anxious to retain the highly deregulated and flexible labour market and there is no institutional involvement of the social partners in policy making, either in employment law, labour market policy or unemployment insurance. Instead of established tripartite talks, both employers and employees are consulted and informed and are primarily seen as playing important roles as partners in policy implementation. National government determines the conditions for social insurance which offers minimum protection and for active labour market policies, with the New Deal programmes recently introduced. In the field of employment protection, as a 'common law country' the UK relies on decision-making by judges in practice rather than strong legislation. The labour market in the UK is characterised by relatively high labour participation, yet traditionally high youth unemployment and rising inactivity among prime-aged men and minimum protection during unemployment spells.

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I INTRODUCTION

I.1 A QUICK VIEW ON SOCIAL INSURANCE, EMPLOYMENT PROTECTION AND LABOUR MARKET POLICY IN THE UK

International indices of employment protection suggest that the UK has the lowest level of individual employment security in Europe. Moreover, from an already low level there has been a further decline in the 1980s and early 1990s before, under the Labour government after 1997, a moderately expansionist trend was pursued. Similarly, the Labour administration has established more contact between government and social partners who tend to be informed and consulted in questions of employment law. However, the current government is anxious to retain the highly deregulated and flexible labour market and there is no return to a stronger institutional involvement of the social partners in policy making, either in employment law, labour market policy or unemployment insurance. Thus, instead of established tripartite talks, both employers and employees are consulted and informed and are primarily seen as playing important roles as partners in policy implementation.

A similar absence of social partners and other actors can also be observed in social insurance which is distinctive in the UK due to its top-down, centrally controlled approach. Instead of a separate unemployment insurance system or budget, the contributory based Jobseekers Allowance is merely one element within the National Insurance Fund, out of which insurance-based benefits are paid. Moreover, instead of earmarked unemployment insurance contributions, there is a general national insurance contribution to the Fund. Benefits are relatively low and flat-rate, making additional means-tested support necessary for all but a small minority of unemployed persons. Thus, rather than merely concentrating on unemployment insurance, a more meaningful analysis of social security support for unemployed persons in the UK has to include other 'working-age' benefits, such as the income-based (means-tested) Jobseekers Allowance and other transfers, such as housing benefits. Moreover, private forms of income replacement during unemployment, such as unemployment cover in the context of mortgage payment protection plans, are not insignificant.

Until the late 1990s unemployment benefits and active labour markets policies have been developed as separate policy domains, governed by different government ministries. However, after 1997 both fields have been linked more closely and a more prescriptive policy approach within a strong 'welfare-to-work' context has been adopted. As the report will show, three aspects in particular have changed under the Labour government. First, the access to benefit support has become more conditional, which implies a mandatory participation in a New Deal programme. Secondly, transfer

payments and public employment services have become more closely connected and both are now administered by the same government agency. Finally, the target of employment policy has become broader with a switch from unemployment as the main problem to non-employment or 'worklessness' among working-age recipients of social security transfers.

However, the overall labour market policy approach has not changed direction under the Labour government. The UK continues to be one of the low spenders on active labour market policy in the EU; (lengthy) training periods or subsidised employment continue to play a minor role, while job search, intensive counselling and individual case management during the first stage of unemployment have been emphasised even more strongly. Also unchanged is top-down centralised policy model without a formal role of social partners in policy formation. Instead, employers and employee organisations are encouraged to cooperate in partnerships at local level, thereby shaping and maximising the effectiveness of local labour market programmes.

Finally, between the late 1970s and late 1990s there has been a steady and long term decline in trade union membership and scope of collective bargaining. Since then the decline in trade union membership has levelled out. Moreover, under the labour government it has become easier for trade unions to obtain recognition for the purpose of wage setting. However, latest surveys indicate that the extent of collective bargaining has further diminished between 1998 and 2004 and the most common form of wage setting is unilateral pay setting by management at the workplace or higher level of the organisation. However, as the report will show, there are important differences between the private and public sector.

1.2 THE FORMAL RELATION BETWEEN EMPLOYMENT PROTECTION, SOCIAL INSURANCE AND LABOUR MARKET POLICY

The political economy of the UK differs from most continental European countries. In Germany or the Netherlands, for example, it might be justified to emphasise the 'tightly coupled' domains of social insurance on the one hand and industrial relations on the other (Manow, 1997; Hemerijck *et al.*, 2000), and to express this link as 'social wage', *i.e.* the entitlement to a wage replacement benefit rendered by employment-based contributions to social insurance, complemented by a high level of employment protection. No such link exists in the UK and the term 'social wage' makes little sense. In the field of unemployment insurance the 'deviant' British case can be traced back to policy paths taken in the 1920s and 1930s. Unable to cope with mass unemployment, trade union run unemployment support schemes collapsed and the British labour movement began to lobby for improved state benefits. However, by the time of the major restructuring of the British welfare state

in the 1940s, trade unions had decided against any involvement in the administration of social insurance in favour of a state-run system (Crouch, 1999). Instead of an occupational based and tightly contribution-based scheme as in continental European countries, British social insurance became a 'weak' citizenship model (Crouch, *ibid.*: 448) with low contributions and low levels of benefit. This divorce between the labour movement and social insurance has remained a characteristic of the British political economy, and a comparative weakness at a time of subsequent welfare state growth. Exacerbated by a fractured and decentralised trade union and wage bargaining structure, the absence of a 'social wage' at the centre of a social consensus made it impossible to 'link advances in welfare provision with a medium- to long-term commitment to wages and price stability' (Rhodes, 2000: 36). In short, while elsewhere in Europe social insurance-based 'deferred wages' and employment protection are interlinked domains, debates about social protection have traditionally been disconnected from workers 'economic security' or employment protection in the UK (Bonoli, 2003), with British industrial relations focusing exclusively on wages and employment conditions.

Today, the domains of industrial relations, employment protection and unemployment compensation remain separate and cannot be regarded as functionally complementary as in other countries, such as Denmark. However, as will be argued below, the erstwhile disconnection between cash support for the unemployed and active labour market policies has come to an end under Labour governments since 1997. At the same time, the focus of active labour market policies has shifted from the unemployed as a narrow target group for labour market integration towards the much broader understanding of 'worklessness' amongst working-age persons, irrespective of the reason for non-employment and benefit receipt, be this unemployment, long-term sickness or caring responsibilities. Accordingly, there has been an administrative amalgamation of benefit provision and employment integration for persons of working age.

1.3 A BRIEF HISTORICAL OVERVIEW

1.3.1 UNEMPLOYMENT INSURANCE

Historically the British social insurance system is rooted in poverty alleviation rather than maintaining living standards for industrial workers. In its post-war reconstruction, erstwhile separate schemes covering different risks were amalgamated into the single comprehensive National Insurance (NI). Contributions, as well as benefits, were flat-rate in order to enable also lower paid employees to contribute to the system and to leave room for additional non-statutory forms of social protection. Indeed, occupational (and to a lesser extent private) pension schemes developed

strongly in the UK and have a wide coverage, with non-statutory forms of pensions having all but become more important than public pensions as a source of income security in old age (see Clasen, 2005:101). While the same cannot be said for unemployed people, private unemployment insurance in the form of a mortgage protection policy for home owners has become fairly widespread, although uneven in coverage (for details, see section 3.2 below).

Fiscal problems within the National Insurance Fund in the 1960s led contributions to become fully proportional to earnings in the 1970s. Partially, benefits too became proportional to wages with the introduction of earnings-related supplements to unemployment (and sickness benefits) in 1966, and a supplementary pension system in the 1970s. However, while insurance benefits in many European countries became explicitly wage replacement transfers in the 1950s and 1960s, British steps in this direction remained half-hearted. The restrictive access to earnings-related additions and the low level of transfers which was allow to decline in real value over time, made it relatively easy for the Thatcher government to terminate the experiment of wage-replacement in unemployment (and sickness) in the early 1980s (Clasen, 1994). However, even the flat-rate insurance benefit has eroded since the 1970s. Due to the modest generosity and small margin between the standard unemployment benefit and means-tested support (in fact, both rates have been identical for years) it has always been common for recipients of insurance benefits, particularly those with a non-working partner or dependants, to be claiming additional means-tested benefits, such as housing benefit (see section 3.2). Moreover, the share of unemployed who do not meet the contribution conditions, or who had exhausted their entitlement, and were thus reliant on means-tested benefits has traditionally been high. As a result, unemployment in the UK often implies a significant drop in individual or household income and the effect of unemployment on income poverty, financial difficulties and material deprivation is more pronounced in the UK than in many other European countries (Gallie *et al.*, 2000:54).

1.3.2 ACTIVE LABOUR MARKET POLICY

Leaving training to a large extent to employers, the UK does not have a strong record in active labour market policy. Nevertheless, in the light of steeply rising unemployment in the early 1980s, a range of programmes, including job creation schemes (of mainly part-time and generally low wage employment) were put in place and subsequently expanded (see King, 1995: 135; Meager, 1997: 72). However, after Thatcher's third general election victory in 1987, labour market policy was scaled down significantly and the focus shifted. There was less emphasis on training elements for adult unemployed and more on low-cost schemes of job-search, improving work incentives and subsidising work placements for the long-term unemployed. There was also institutional reform

which affected the Manpower Service Commission (MSC) in particular. Created in 1973, the MSC was a national tripartite forum for training policy intent on upgrading the skills of the workforce. Formally independent, the MSC was accountable to the Secretary of State for Employment. It was given the responsibility of a network of public sector 'skillcentres' and worked closely with 23 sector based Industrial Training Boards (ITBs), which had the 'power to levy from employers and distribute grants to pay for apprenticeships and other types of training' (Finn, 2005). The ITBs themselves were corporatist bodies with equal representation from employers and relevant trade unions, while the MSC included minor representation also from local government, further education and the voluntary sector.

However, from the start the work of the MSC was hampered by underfunding and lack of institutional influence. After 1979 its training role eroded further and anti-unemployment schemes introduced which the unions regarded as emulating US American workfare programmes (King, 1995: 185). After 1987 the MSC's role was transferred to the Employment Service, an Executive Agency of the relevant government ministry, the Department of Employment. The MSC itself was later abolished and its training role transferred to a network of employer-led Training and Enterprise Councils (TECs) (Local Enterprise Councils, LECS, in Scotland), which were established as private companies. Over 70 percent of TEC budgets were tied to programmes for the unemployed (Evans, 2000). The role of the trade unions in training was effectively marginalised.

In the second half of the 1980s all elements of adult training were brought together into the Employment Training programme which, in 1993, was replaced by Training for Work (TfW) with reduced funding and coverage. Apart from stepping up efforts of job search activity on the part of unemployed people, the prevailing ideology of labour market deregulation led to an atmosphere of government training which was low cost. Allowances for participants were only marginally above benefit levels and schemes had a poor reputation due to both low quality and poor inflow rates into unsubsidised jobs (Evans, 2000).

1.3.3 EMPLOYMENT PROTECTION

All of the above can be regarded as in accordance with conservative government's ideological framework of the 1980s, which involved breaking the influence of vested interests (trade unions in particular), restoring the power of the central state and creating a 'free economy' (Gamble, 1988). This became manifest in many policy areas, such as privatisation of nationalized industries or changes in taxation which favoured the better off (decreases in marginal income tax rates, increases in indirect taxation, more extensive tax breaks for home owners and employees in receipt of

company-based benefits). Some aspects of the welfare state, and unemployment protection in particular, were affected by a multitude of small but cumulatively significant cut-backs (see section 3.1 below). At the same time, the 'informal welfare state' (Rhodes, 2000), i.e. employment relations, trade union legislation and labour market regulation were subjected to significant restrictions, manifested in a deregulated labour market and a decline of employment protection by the mid 1990s (see section 2.1 below).

Both stemmed from perception of social security benefits, as well as employment protection regulation, as sources of rigidities, raising the reservation wage and hampering the hiring of unemployed persons (Deakin & Morris, 2005: 32). Although becoming politically more explicit in the 1980s, the notion of maintaining and enhancing labour market flexibility has influenced British social and economic policy for some time. Narrowly understood as laws relating to individual job protection, British governments first adopted policies in the 1960s and early 1970s, with the implementation of notice periods (1963), the introduction of statutory redundancy compensation (1965) and the unfair dismissal law from 1971. Influenced by the perceived need to foster labour mobility at the time, but also by ILO recommendations on enhancing employment security, these pieces of legislation were less interventionist than elsewhere, illustrated, for example, by the exclusion of part-time workers or employees on fixed-term contracts from unfair dismissal and redundancy pay legislation (Deakin & Morris, 2005: 391).

Nevertheless, these statutory interventions marked a slight tendency away from the traditionally voluntarist British tradition, which left matters to collective bargaining as the best method of conducting industrial relations. The 1970s witnessed a return to a 'modified, supplemented form of voluntarism under the Labour governments of 1974-9' (Dickens & Hall, 2003: 126). Anti-discrimination legislation was enacted, for example, covering sex and race, and the Health and Safety at Work Act 1974 'emphasized self-regulation within a framework of state inspection' (Dickens & Hall, *ibid.*). Employment rights were seen as constituting a statutory floor upon which collective bargaining might build. The activities of the Advisory, Conciliation and Arbitration Service (ACAS) took over dispute settlement functions from the government. A tripartite industrial tribunal system enforced statutory rights.

The subsequent period of the Thatcher and Major governments from 1979 and 1997 however was one of a 'decisive shift away from voluntarism' (Dickens & Hall, 2003: 127). Legislation was used not to support collective bargaining but to reduce its relevance since it was deemed to be hampering flexibility, imposing burdens on employers and thus hindering economic and employment growth. Collective labour law (employee representation, industrial action etc.) was weakened by restricting

the legal basis for industrial action, the abolition of compulsory trade union membership (the ‘closed shop’) and the removal of statutory floors to wages and intervention in internal trade union issues (for an overview of key legislative action, see Dickens & Hall, 1995).

Individual employment rights, such as discipline and grievance procedures, unfair dismissal protection, redundancy payments and minimum periods of notice in case of employment termination were curtailed too. The Employment Act 1980 weakened the protection against unfair dismissal and lengthened the qualifying period to two years for workers in small firms. In 1985 this was extended to all employees. In 1989 small firms were exempted from the requirement to provide written statements of disciplinary procedures. Stipulating minimum wage levels for some 2.5 million workers, mainly women, the Wages Act 1986 reduced the scope for the wages councils and in 1994 wages councils were abolished altogether. More generally however, it was difficult to reduce the scope of employment protection much further because of its already very low level compared with other European countries (see section 2).

1.4 POTENTIAL THREATS TO THE SYSTEM

It would be misleading to portray the three domains of unemployment protection, active labour market policies and employment protection as a ‘system’ or even as complementary to each other. However, as will be discussed later, active labour market policy and unemployment support have become more coherent and closely linked in recent years. At the time of writing there are few signs which would indicate that current institutional settings or policy frameworks might be under threat. The overall labour market development has been fairly positive for at least a decade, making it relatively easy for the Labour government to legitimate current active labour markets policies, keeping expenditure low, focussing even more on job search and individual counselling and refining existing programmes based on evaluative evidence. Pointing to deadweight effects, the conservative opposition proposed the abolition of the New Deal programmes (see section 4) prior to the 2005 general election. However, under David Cameron as new party leader there a more cautiously line has been pursued, advocating more decentralisation, privatisation and localisation instead.

In the field of unemployment benefit, there has been very little change since 1996. Labour’s embrace of targeting and means-testing might make the abolition of contributory benefit support conceivable, but such a move seems counterproductive given the sound fiscal state of the National Insurance Fund and the revenue-raising function of national insurance (see section 3). Besides, the political emphasis is less on unemployment policies or benefits but on changing disability and incapacity benefit regulations with the aim of increasing labour market participation rates amongst claimants.

Finally, individual employment protection has witnessed a moderate expansionary trend since 1998. After Labour's signing of the Amsterdam Treaty this was partly due to the impact of EU directives, but domestic motives too were influential. Nevertheless, as will be discussed below, the expansion of employment rights has been relatively modest and does not challenge either the individualistic private law tradition of British employment relations, nor the cross-party consensus of maintaining a flexible and only lightly regulated labour market as perceived asset in international economic competition.

2 EMPLOYMENT PROTECTION

2.1 RECENT HISTORICAL DEVELOPMENT

Restrictions of the scope of employment protection in the UK during the 1980s had a clear impact. Labour Force Survey data suggest that in the late 1980s more than half of all part-time workers and 29 percent of full-time workers were excluded from unfair dismissal protection because of the tight hours of service and length of service qualifications. Indeed, Dickens and Hall (1995) refer to studies of the 1980s and 1990s which indicate the minimal impact of British employment legislation in terms of job security or enhancing equality of opportunity in employment. Official tribunal statistics show that individual employees made 'little use of their legal rights to seek redress, with limited success and with limited redress for those who are successful' (Dickens & Hall, 1995: 269). Besides, the usual outcome of disputes was then, and remains (see section 2.3), compensation rather than reinstatement or re-engagement within the company. In other words, redundancy legislation is largely directed at monetary compensation for, rather than prevention of, job loss or enhancing job security.

After 1997 the Labour government introduced several pieces of legislation which reversed the previous deregulatory trend. Within a context of a continuing commitment to labour market flexibility, and emphasising the responsibilities of workers and jobseekers, the Labour government improved basic employment rights. This applies to the introduction of a national minimum wage, the rights of parents (family leave, parental leave, working time), the rights of part-time workers, which was prompted by an EU Directive in 1997, and the rights of those seeking to resolve disputes with their employers over dismissal or redundancy matters (see Dickens, 2002; Deakin & Morris, 2005: pp42). For example, the Employment Relations Act 1999 removed derogations from unfair dismissal protection for fixed-term contract workers and shortened the qualifying period for unfair dismissal from two to one year. It also raised the upper limit on unfair dismissal compensation awards (from £12,000 to £50,000) and indexed it in line with inflation.¹ This was somewhat short of abolishing the upper limit altogether, as was initially proposed, but successfully opposed by employers (Dickens, 2002: 626). Several other changes in legislation improved employment rights further (see Appendix I). For example, the Employment Relations Act 1999 introduced a right for a worker to be accompanied by a representative (trade union official, lawyer, or simply friend or colleague) in grievance and disciplinary hearings, even when a union is not recognised for collective bargaining by the employer. The Employment Act 2002 required employers to institute an 'internal grievance

¹ Exchange rate pound to euro is about 1.49 (December 2006).

procedure', and employees to pursue and complete this route, prior to bringing a claim to an employment tribunal in respect of a wide range of statutory employment rights. Moreover, trade union lobbying was important for the application of the wider term 'worker' rather than 'employee' in employment protection, extending the scope of some employment rights to dependent labourers such as home workers or casual staff.

Although the Labour government ended the previous 'opt-out' from the EU social chapter, the adoption of EU law (on parental leave, working time etc.) was generally introduced with some time lag and typically subscribed to at a level close to the minimum requirement. Lobbying from employers in this respect has been regarded as influential (Dickens, 2002: 626). But the Labour government itself was concerned not to place burdens on employers and to retain the 'most lightly regulated labour market of any leading economy of the world' (Cm 3968, 1998), as the Prime Minister was keen to point out in a forward to the 1998 White Paper. Thus, although expansionary, Labour's advances in employment protection have been pursued cautiously and in moderation. Moreover, there are examples of legislation which weakened employment rights somewhat, making it harder for employees to succeed in their claims for unfair dismissals, for example. Most notably in this respect, the Employment Act 2002 diminished the importance of procedural fairness, allowing tribunals to 'disregard procedural breach above basic standards where it was felt it would have made no difference to the outcome' (Dickens, 2002: 627). Since 2004, redundancy dismissal cases have been subject to statutory dismissal and grievance procedures. This means that an employee who has been dismissed will need to have instituted the appropriate statutory grievance procedure prior to referring a claim for redundancy payment to a tribunal.

2.2 DESCRIPTION OF THE PRESENT SYSTEM

The present system of individual employment rights continues to depend on minimum statutory provision which is often supplemented by voluntary payments in case of redundancies or in lieu of notice (see section 2.3). Employees who have lost their job might be entitled to statutory redundancy pay. This applies if they have been dismissed, rather than resigned themselves, and the dismissal was because a work place is closing down or fewer employees are (or are expected to be) needed for work of a particular kind. Normally the particular job must have disappeared. It is not redundancy if the employer immediately takes on a direct replacement for the dismissed worker. Somebody laid off (not receiving wages) or put on short time (receiving less than half a week's pay) for four weeks in a row (or 6 weeks in 13 weeks) might also claim redundancy payment – without actually having been dismissed for redundancy.

Eligibility to statutory redundancy payment requires a minimum of two years of service with the same employer. The amount depends on the length of service in relation to particular age bands (Table 2.1). For each completed year of continuous service between the ages of 18 and 21 a redundancy pay of half a week's pay applies. For each complete year of continuous service between the ages of 22 and 40, one week's pay is payable, and for each year between the ages of 41 and 65 previous employees receive one and a half week's pay. However, the maximum number of years which count towards redundancy is 20 and the limit of payment in 2005 was £280 per week (uprated with inflation). The maximum statutory payment in 2005 was thus £8,400. Redundancy pay is tax free and does not affect (contribution-based) JSA. Statutory redundancy pay in the UK is among the lowest paid in the EU (Kaupinnen & Meixner, 2005). However, many employers will pay employees with long services more than the statutory minimum (see section 2.3), in which case only redundancy pay of up to £30,000 remains tax free.

Table 2.1: Statutory redundancy payment

| Completed years of service - aged | Payment for each year worked |
|-----------------------------------|------------------------------|
| 18-21 | 0.5 week's pay |
| 22-40 | 1 week's pay |
| 41-64 | 1.5 week's pay |
| 65+ | None |

Employees have the right to receive a minimum period of notice of termination of employment. During this period they receive the normal salary. The length of the minimum period of notice depends on the length of employment with the respective employer (see Table 2.2). If the employer cannot pay redundancy or pay in lieu of notice because of insolvency, the Department of Trade and Industry (DTI) will pay ex-staff directly, but only the legal minimum even if the contract of employment stipulates more.

Table 2.2: Minimum period of notice

| Continuously employed for: | Notice at least: |
|----------------------------|------------------------------------|
| 1- 24 months | 1 week |
| 24 months plus | 2 weeks |
| Less than 12 years | Plus 1 week for each year employed |
| More than 12 years | at least 12 weeks |

Individuals who consider themselves as having been treated unfairly or dismissed for unfair reasons and seek to enforce their statutory rights to employment protection should first aim to resolve the dispute by mutual agreement with the employer, mainly through the company's own grievance or appeal procedure. Employees or employers might also want to seek advice from a conciliator of the Advisory, Conciliation and Arbitration Service (ACAS; see section 2.4). If no agreement can be reached, employees have to apply to an employment tribunal (ET) within three months beginning with the employee's effective date of termination. ETs are independent judicial bodies, comprising a

legally qualified chair and two lay members (see section 2.3). In a survey of employees who had left their employment in 2000/01 (Corbin, 2004), only 17 percent of all job leavers had been a member of a trade union (20 percent of those who were made redundant) and only 42 percent of trade union members sought advice or help from their union.

Statutory provisions require employers to inform and consult appropriate representatives of employees who may be affected by collective redundancies, *i.e.* at least 20 employees in one plant over a 90-day period. Consultation must begin at least 30 days before the first dismissal (90 days before in relation to 100 or more redundancies). Employers must disclose the reasons for redundancies, numbers and descriptions of employees affected, method of carrying out the redundancies, including payments, as well as the method of selection. Employers must give reasonable time off for employees to look for another job. Agreement does not have to be reached but the employers should seek to reach it (DTI, 2006).

Finally, as for collective employee representation, after a zenith of 13 million trade union members in 1979, membership declined steadily by over 5 million in the subsequent twenty years. Since it has remained fairly constant at around the seven million mark, producing a trade union 'density' figure of around 29 percent of the workforce. The Employment Relations Act 1999 established a statutory procedure which enables a trade union to obtain recognition by the employer for collective bargaining purposes where the majority of the relevant workforce wants this. Partly due to voluntary and pre-emptive agreements between management and employees, this has produced a growth in union recognition and might have helped to level off the decline union membership since the late 1990s (Blanden, Machin & Van Reenen, 2006). However, it has hardly reversed the long term trend of declining union relevance in collective bargaining. Latest survey results indicate that in 2004 only about 27 percent of workplaces recognised trade unions for the purposes of negotiating pay for at least parts of the workforce, compared with 33 percent in 1998 (Kersley *et al.*, 2005). While half of all employees work in a workplace with at least one recognised trade union, only about a third of all workers have wages and conditions determined by collective bargaining. However, there are significant differences between private and public sector employment, with union recognition featuring in 16 percent of private but 90 percent of public sector workplaces (for more details, see section 5.2.11).

2.3 HOW THE SYSTEM WORKS IN PRACTICE

Despite the advancement in employment protection since 1997 the 'individualised, private law model characteristic of the UK remains the corner stone of enforcement' (Dickens, 2002: 628).

Individual workers can make applications to an Employment Tribunal on a form which is available from Jobcentre Plus offices, Citizen Advice Bureaux, the DTI or the Employment Service websites. A copy of the completed form will be sent to ACAS and a conciliator will in most cases contact the employee or employer (or both) in order to establish whether a voluntary settlement can be reached without the need for an ET hearing. If not, a hearing will take place at an ET in locations throughout the country. Legal Aid is not available at ETs and the scheme does not cover legal representation at the hearing. Appeals against decisions by an ET is made to another specialist tripartite (the Employment Appeal Tribunal) and then to ordinary courts.

Between 1990 and 2002 the number of claims to employment tribunals (ETs) trebled, with a record level of 130,408 tribunal cases in 2000/1 referred to ACAS for conciliation (Dickens & Hall, 2003: 134). Reasons for this trend include the widening of coverage of employment protection (see section 2.1 and Appendix 1), employment growth and a changing employment structure with an increase of small non-unionised workplaces. Since then the number of claims has fallen however, most likely influenced by new statutory and dismissal procedures (see section 2.1 above). In 2004/5 only 86,000 claims were made. However, due to an increase in 'multiple cases', the number of claims rose again recently, to 115,000 in 2005/6 (ETS, 2006).

Unfair dismissal cases are by far the most prominent reason for employment disputes disposed of by employment tribunals. In 2003/4 almost half of all 94,000 cases concerned unfair dismissals and only 4,000 dealt with redundancy pay (Deakin & Morris, 2005: 385). However, only about a quarter of all disputes are actually heard by a tribunal (Dickens & Hall, *ibid.*: 135). Most cases are settled through conciliation by ACAS or are withdrawn and settled privately, or abandoned. In total, applicants succeed in about half of all heard cases, while about one third of all applications against unfair dismissal are upheld. The normal remedy is compensation payment. Re-instatement or re-engagement is rarely sought by applicants and rarely awarded by tribunals (less than 1 percent of all cases). In 2004/5 the median compensation in cases of unfair dismissal was about £3,500, which is about half the amount as in cases of sexual or racial discrimination.

As far collective redundancies are concerned, employers must, by law, consult the workforce and relevant trade union if it is recognised for collective bargaining purposes. If not, the employer must establish a representative body or consult an existing representative body, e.g. staff council which must be elected by the entire workforce. The employer has to inform about the reasons for redundancies, numbers and descriptions of staff affected and the proposed method of selecting those to be made redundant (e.g., 'last in first out') and for the calculation of redundancy pay over and above the legal minimum.

A number of collective labour agreements improve on statutory provision, including measures to avoid redundancies, longer consultation periods, a more active redeployment policies, reducing overtime and the use of temporary staff, early retirement etc. (see Work Foundation, 2003). Many employers also improve on minimum statutory redundancy payments by removing the earnings cap on a week's pay, increasing the number of weeks paid per year of service or simply making additional lump-sum payments (Lloyd, 2003). A survey of 59 large employers found that only 9 did not exceed the statutory minimum. At times additional payments are fixed in collective labour agreements but in many other cases they are 'unilaterally determined by management or agreed with trade unions at the time of redundancies' (Lloyd, 2003). Some employers might offer better terms than redundancy pay, e.g. a lump sum 'severance payment', and in return staff might be asked to sign a legal document which will disallow any legal action against the employer in relation to the dismissal.

Some recent cases of redundancies might be illustrative. For example, during an industrial dispute in the summer of 2005, the airline catering firm Gate Gourmet sought 675 voluntary redundancies. In negotiations with the T&GWU (Trade and General Workers Union) a redundancy offer included the payment of twice weekly wages for each completed year of service, i.e. an offer which was over twice the level of statutory redundancy pay. An agreement between Bombardier Aerospace and the Confederation of Shipbuilding Unions provides for a redundancy payment of up to 3.5 weeks pay for each year worked, up to 104 weeks and depending on age and completed year of service, with the earnings cap removed (Lloyd, 2003). In addition, for those accepting early retirement the occupational pension schemes might be used as part of the redundancy package, offering a pension more generous than normally on offer from those taking early retirement. Finally, as part of a redundancy deal, employers might offer the provision of training that help employees find a new job.

In high profile cases the government might provide support which goes well beyond the usual statutory requirements. For example, in the case of the closure of the MG Rover plant at Longbridge when 5,500 workers lost their jobs in April 2005, the government set up a regional task force, bringing together regional chambers of commerce, trade unions community groups, industry bodies and Jobcentre Plus as well as the Learning and Skills Council (for the latter, see sections 3 and 4 below). This task force was originally given £129 million to secure the long-term economic sustainability of the region and later an additional £156 million aid package was made available for MG Rovers and suppliers. Additional 160 staff were drafted in to the Jobcentre Plus office to handle applications for unemployment and other benefits by more than 90 percent of those who had lost their job. A survey suggests that 60 percent of the unemployed had undergone an assessment of

training needs and nearly 69 percent had tried to access training courses, but only 29 percent taken advantage of reskilling opportunities (Armstrong, 2006).

2.4 DISTRIBUTION OF RESPONSIBILITIES

The relevant Ministry in the area of employment legislation is the DTI. It has a significant role in the field of employment legislation, not only as a source of relevant information for employers and employees, but as commissioning body into employment related research and workplace surveys, as well as the statutory body which companies which are planning collective redundancies are required to notify. It also underwrites redundancy payments in cases when employers are insolvent.

Unlike continental European countries, as a 'common law country' the UK relies less on substantive and procedural codification but on 'decision making by juries, independent judges, and the emphasis on judicial discretion..' (Botero *et al.*, 2004: 1344). In the area of individual employment rights, two bodies are highly important. First, first established in 1964 and then known as Industrial Tribunals, Employment Tribunals are responsible for the settlement of employment disputes and decision makers in matters of dismissal, redundancy, discrimination and other forms of dispute (see ETS, 2006). ETs are independent judicial bodies, with a qualified chair and two lay members. Chairmen should have at least seven years 'general standing' in the field and are appointed by the Lord Chancellor who is a Cabinet member.

As the responsible Ministry over the ET service, the DTI appoints assessors, but the process of selection tends to be outsourced. Members are selected after an open tender process, with adverts in the press. For example, in 2002 there were 242 new vacancies to be filled. About 9,500 expressions of interest were received, followed by 4450 written applications and 595 interviews. Sifting through applications, independent assessors include retired civil servants and ET chairmen. There are government targets of 'diversity' (regarding the proportion of women, ethnic groups, people with disabilities), and employers and employee organisations are consulted and can nominate candidates. In 2002 the selected 242 new members included 36 persons who had been nominated, mainly from employee organisations.

Second, ACAS, the Advisory, Arbitration and Conciliation Committee, is another publicly funded independent body which has a major impact on the outcome of individual and collective employment disputes. Until the mid 1970s, arbitration and conciliation services were provided by a government ministry. In 1974 this role was transferred to the formally independent ACAS which employs about 750 staff in 11 main regional offices. It is governed by a Council of, currently, 13

persons who are appointed by the Secretary of State of the DTI. The Council comprises 'leading figures from business, unions, independent sectors and academics', mainly with a professional background in Law (see <http://www.acas.org.uk>).

The role of ACAS has become more important since 2001 when, supported by the TUC and the CBI (Confederation of British Industry), the 'arbitration' alternative to ETs came into force as a way of 'tackling undue legalism and the failure of tribunals to live up to their original remit to provide an accessible and informal way of resolving individual employment disputes' (Dickens & Hall, 2003: 135). On the precondition of ending the right to go to tribunal hearing, since 2001 employers and employees have been able to agree to go before a single arbitrator to have a case decided (see Appendix 1). However, this route has hardly been used, with fewer than 50 cases by 2004 (Dickens & Hall, 2005: 23).

2.5 FIRST ORDER EFFECTS

The OECD league table of employment protection suggests that both in 1983 as well as in 2003 the level of regulation regarding both regular and temporary in the UK was the weakest in Europe (see OECD, 2004). However, while Belgium, Netherlands, Germany and Denmark pursued somewhat deregulatory policies between the mid 1980s and 2003 (especially in the field of temporary job contracts), in the UK the opposite trend can be observed. Regulations in the area of unfair dismissal, procedural inconvenience on the part of employers in dismissal processes, as well as notice and redundancy pay provisions have become somewhat more pronounced. Thus, while the scope of employment regulation in the UK continues to be considerably lower than in other European countries (OECD, *ibid.*), there has been a trend of 'constrained expansion' (Dickens, 2002) of individual statutory employment rights since 1997 (see section 2.1). For example, although set at a low level, the national minimum wage has raised earnings for some two million low-paid workers (one in 12 employees) and parents have benefited from improvements in the field of maternity and parental rights.

However, this expansionary trend has not challenged traditional employment relations. For example, the notion and the role of Works Councils, as in Germany or other continental European countries, remains alien in a British context. The employment relations survey 2004 asked managers whether they normally negotiated, consulted or informed unions or non-union representatives over a range of issues. The most important issue in the context here is 'staffing plans', *i.e.* recruitment, re-deployment or redundancies. Only 3 percent of all workplaces negotiated staffing plans, 11 percent

consulted and 12 percent informed employee representatives, while three-quarters of all workplaces did not involve staff (Kersley *et al.*, 2005).

At the level of individual employment protection general job security or managerial prerogatives and control over hiring and firing have not been weakened under the Labour government. However, employment legislation has fostered 'improvements in managerial efficiency in the handling of job terminations and the development of 'good employment practice' or more professional personnel policies' (Dickens & Hall, 2003: 136/7). Arbitrary 'hire and fire' approaches to discipline have been curbed and a due process of corrective procedures instituted, pay structures revised and discrimination legislation has curbed the 'most overt discrimination practices' (*ibid.*).

As for some direct effects in the areas of redundancy, dismissal and employment disputes, information about access to and the calculation of statutory redundancy pay has already been provided (Table 2.1) and section 5.2 (below) includes information about the frequency and distribution of redundancies in the UK. Of those made redundant in 2002 about 45 percent received redundancy pay and a further 15 percent received pay in lieu of notice (Llyod, 2003). As discussed (see section 2.3 above), many will receive more than the statutory minimum. In the absence of comprehensive data on actual redundancy payments, a survey of more than 1200 workers who have left their employers in 2000/01 provides some information (Corbin, 2004). Of those who had left because of a dismissal, redundancy or dispute, only 41 percent stated that they had received some kind of payment from their employer (Corbin, 2004: 34). The survey suggests that redundancy (and dismissal) are particularly relevant causes of job separation in manufacturing (see section 5.2.3 below). Similarly, redundancy is far more common reason amongst men than women. However, more than half of all respondents either had already another job when they left or left because they wanted another job. The majority of the survey (65 percent) reported that they had resigned from their job voluntarily, while 16 percent had been made redundant and just three percent had been dismissed. Thus, the low scope of employment protection in the UK does not necessarily imply high levels of involuntary job losses due to redundancy, dismissal or end of a temporary job. Employment statistics show that about 3.5 percent of the labour force quit their job voluntarily each year, which is about twice as high as involuntary job separations. Moreover, the rate of involuntary job separations steadily declined from close to 2 percent in the mid 1990s to about 1.2 percent in 2004 (Heap, 2005a).

A recent survey covering 37 percent of all workplaces (with 91 percent of all employees in the UK) indicates that around 90 percent of all British companies have some sort of formal procedure for handling grievances, disciplinary issues or dismissals (Kersley *et al.*, 2005: 23). However, in the above

mentioned survey of job leavers (Corbin, 2004) only 44 percent of the respondents reported that their employers had had such internal procedures in the years 2000/01, while 29 percent stated that no such procedures were in place. The amount of extra monetary compensation received as a result of grievance procedures varied substantially, from £345 to £20,000.

Only three percent who left because of redundancy, dismissal or dispute had made an application to an employment tribunal, and in most cases ACAS had been involved in settlements. This puts the overall annual number of tribunal cases in perspective. In 2005/06 tribunals sat in 29,750 cases out of a total of 115,000 claims made (ETS, 2006). About 42,000 cases related to disputes over unfair dismissal and about 11,000 over redundancy pay or failure to inform or consult in matters of redundancy. Of the unfair dismissal cases, about 35 percent were withdrawn, another 35 percent settled via ACAS conciliation and 10 percent were upheld. The median award was £4,228 and the average sum was £8,679. About 81 percent of all cases were heard within 26 weeks of receipt.

These figures indicate the relevance of settlements without tribunals in the UK and the above survey of employees after job separation (Corbin, 2004) provides further evidence of this. The majority (48 percent) of those who received compensation for the loss of their job or redundancy pay received less than £5,000, but another 20 percent received between £5,000 and £10,000 and 16 percent received more than £25,000. The latter reflects the fact that almost a fifth of men who had been made redundant (19 percent) had been working as managers or senior officials. Similarly, over two-thirds of all who received compensation for job loss or redundancy money reported that this pay was equal to six months or less salary, but 18 percent received an amount equal to between one and two years salary (Corbin, 2004).

In sum, employment protection legislation in the UK is less aimed at employment (and certainly not job) security but more at procedural fairness which, supported by an independent conciliatory and judiciary system, is individually enforced. Building on relatively low levels of statutory minima, the role of informal procedures and non-statutory payments is significant. Recent improvements in individual employment law have benefited low paid workers, and employees in temporary and other forms of non-standard employment, as well as parents. Some of these improvements merely complied with EU directives, while others were driven domestically by a Labour government anxious to maintain a highly deregulated labour market, a minimum of statutory intervention and a model of industrial relations which emphasises social partnership at the level of delivery end rather than tripartism in policy making.

3 UNEMPLOYMENT COMPENSATION

As will become obvious in this section, in the UK a focus merely on unemployment insurance would be an extremely partial view on the ways in which people are supported financially during periods of unemployment. Indeed, starting in the 1980s the erosion of the insurance (contributory) element of state support continued during the 1990s both under conservative and Labour governments. Today, the vast majority of unemployed benefit recipients are dependent on unemployment assistance (the so-called income-based Jobseekers Allowance), as well as other or additional forms of means-tested transfers, such as housing benefit or council tax rebates.

3.1 RECENT HISTORICAL DEVELOPMENT

Rhetorically and administratively the policy direction during the 1990s remained similar to the 1980s. Unemployed benefit claimants were asked to be more active in their job search and to adapt expectations to 'more realistic' wages. Wage and income inequality had significantly widened since the early 1980s (Joseph Rowntree Foundation, 1995), regulatory mechanisms such as Wages Councils abolished and the role of trade unions considerably weakened. This deregulation of the British labour market included declining levels of unemployment benefits too, thereby maintaining the distance to equally declining wage levels.

Having risen steadily during the 1980s, the dependency on means-tested transfers amongst the unemployed almost doubled between 1990 and 1993 (Evans, 1998: 288). While principally in line with the notion of targeted benefits, this trend was regarded as potentially undermining work incentives due to the interaction between benefits and wages at the lower end of the labour market. As a response, the government widened the gap between social security support and earnings by making in-work benefits more generous and by introducing small-scale job subsidies such as 'back-to-work' bonuses (Meager, 1997). This strategy began to connect unemployment benefit claimants more closely with labour market policy, a trend which became ever more pronounced during the 1990s.

The endpoint of Conservative policies seeking to tighten benefit conditionality and enhancing job search behaviour was the introduction of the Jobseekers' Allowance (JSA) in 1996. The reform implied both retrenchment and structural change in the wake of merging two previously separate schemes into a single system, Jobseekers Allowance, which grants contributory support followed by means-tested support (see Appendix 2). With JSA the contributory benefit period was halved to 6 months and benefit eligibility became stricter (see Table 3.1).

Table 3.1: Job Seekers Allowance – eligibility criteria, benefit levels, entitlement (rates for 2006)

| Membership | Compulsory |
|----------------------|--|
| Waiting period | 2 days |
| Qualifying condition | Contribution-based JSA (CB JSA) minimum 25 weekly contributions to National Insurance Fund paid and 100 credited within previous 2 years Income-based JSA (IB JSA) Means-tested; savings over £6000 will affect the level of JSA, savings over £16000 disqualifies; disqualified if partner works for 24 hours per week or more; earnings for work below 24 hours will affect the level of benefit |
| Level | Flat-rate benefit 1. CB JSA and IB JSA: 16-17 year olds: £34.60 per week 18-24 year olds: £45.50 per week 25 and over: £57.45 per week 2. additions for IB JSA only: couple: depending on age of both partners, responsibility for children, between £34.60 (both aged 16 or 17) and £90.10 (both aged 18 or over) lone parents: £34.60 (under 18), otherwise £57.45 depending children (until 19 years of age): £45.58 premiums: the same premiums (supplements) as under Income Support (social assistance) apply for families, disabled children, carers, disability plus housing costs (where applicable) |
| Maximum duration | CB JSA: 6 months IB JSA: in principle indefinite |
| Obligations | Availability, capability, actively seeking work Signing Jobseeker's Agreement specifying actions to find work and which type of employment Fortnightly interviews to re-establish benefit entitlement and review Jobseeker's Agreement participation in New Deal programmes |

The reform was expected to save expenditure, with about a quarter of a million people becoming worse off due to benefit exclusion or reduction (Unemployment Unit, 1995). More generally, the creation of the common JSA framework represented a further demotion of insurance-based support and a form of homogenisation in the sense that the type of benefit receipt had become all but irrelevant within unemployment British support policy. Irrespective of the reasons for unemployment, needs based income protection had become the norm and new mechanisms deemed to facilitate labour market integration were introduced for all benefit claimants, such as Jobseekers 'Agreements' and Jobseekers 'Directions' (see section 3.2 and Appendices 2 and 3).

The JSA benefit regime remained largely intact under the Labour governments from 1997 onwards. Indeed, successive governments under Tony Blair refrained from further direct reform of the benefit system. However, the Jobseekers Allowance programme was strongly, albeit indirectly, affected by significant changes in active labour market policies after 1998 in the form of the so-called New Deal

programmes (see section 4.1), which brought about a much closer connection and alignment between these two domains of public policies directed at unemployed people.

3.2 DESCRIPTION OF THE CURRENT SYSTEM

Social security in the UK is often regarded as dominated by tax-based programmes and the contributory principle as weak. Indeed, social insurance contributions are less important than in many other European countries and direct and indirect taxes are a more relevant source of funding (Kautto, 2001). However, just over half of all spending on cash benefits in the UK continues to be contributory-based (DWP, 2004a), with the largest part being devoted to the basic state pension. The share was larger in the 1960s (at about 70 percent) but it would be misleading to argue that contributory funding has become marginal within the British welfare state.

Nevertheless, as far as unemployment protection is concerned, the insurance element has become rather weak. Table 3.1 provides information about eligibility and entitlement criteria, as well as other main features of Jobseekers Allowance, which includes both unemployment insurance (contributory JSA), a compulsory system for wage earners above minimum earnings threshold for National Insurance contributions, as well as the means-tested, or in government parlance ‘income-based’, JSA (unemployment assistance). Table 3.2 highlights the decline of the insurance element within British unemployment protection with respect to its coverage rate amongst the annual stock of unemployed. Official statistics (DWP, 2005) indicate ‘contribution deficiency’ as the most prevalent reason for non-receipt of the insurance based JSA (59 percent of all claimants without contributory JSA) and ‘exhausted entitlement’ as the second most important reason (13 percent). In part this might indicate changes in nature of employment (more part-time and short-term work), but it reflects the relatively tight eligibility criteria for contributory JSA too, as well as the continuing relevance of unemployment spells longer than 6 months (on the latter see section 5.2.7 below and Table 5.16).

Table 3.2: Beneficiary rates Job Seekers Allowance (benefit recipients as % of registered unemployed), 1980-2005

| | 1980 | 1981- 1984 | 1985- 1989 | 1991- 1993 | 1994- 1996 | 1997- 2000 | 2001 | 2005 |
|--------------------------|------|---------------|---------------|---------------|---------------|---------------|------|------|
| UB or JSA (contributory) | 48 | 31 | 28 | 30 | 24 | 14 | 18 | 19 |
| IS or JSA (means-tested) | 40 | 53 | 60 | 60 | 69 | 73 | 75 | 72 |

Notes: Clasen, 2005; DSS, Social Security Statistics (various years) and DWP, 2004a, table C1 (for 1993 onwards) – claimants divided by annual claimant unemployment; 2000 onwards: all claimants with contribution based JSA divided by all claimants and all with income based JSA divided by all claimants (February figures), DWP statistics (Table: JSA 1.1).

Three main features distinguish British unemployment protection:

- contributory and means-tested benefits are centralised, top-down and integrated. Although insurance based benefits are funded differently and are technically separate from non-contributory transfers;
- unemployment protection has a weak contributory basis (see below) and provides flat-rate benefits only;
- there is no separate funding arrangement with earmarked contributions to unemployment insurance.

While income based JSA is paid out of general taxation, unemployment insurance (contributory JSA) is paid out of the National Insurance Fund, which is also the source for other contributory benefits, particularly the basic state pension. Employees contribute 11 percent of income between a lower and upper earnings limit (£94 and £630 per week respectively in 2005). Another 1 percent (on all income) is paid by employees with earnings above the upper earnings limit. Employers pay 12.8 percent of all income above £94. Employees who choose to 'contract-out' of the public second pension receive a rebate of 1.6 percent.

In 2004/5 the fund's total receipts were £64.5 billion and total expenditure amounted to £62.5 billion (National Audit Office, 2006). The fund transferred £16.8 billion to the National Health Service. By far the largest single item of expenditure was the public retirement pension (£48.8 billion). The next largest contributory benefit was Incapacity Benefit (£6.6 billion). By contrast, contributory based Jobseekers Allowance (i.e. unemployment insurance) amounted to only £0.4 billion, which is due to relatively low levels of unemployment, but also because of low benefit coverage (see Table 3.2) and short maximum benefit entitlement.

For ten years now the fund's income has exceeded annual spending levels, producing surplus income of between £0.5 to 4 billion per year, thereby adding to the substantial reserves of currently £29 billion. The surplus is transferred to a National Insurance Fund investment account and is, in principle, a security against unexpected short-falls in income. However, from the Treasury's point of view the Fund is a convenient form of taxation and insurance benefits simply a part of total public expenditure. Originally contributing to the Fund's income at 18 percent of the combined contributions, the Treasury supplement was first reduced in the early 1980s and finally abolished in 1989, substituted by ad-hoc grants when the need arose.

In other words, in two respects the funding of unemployment insurance in the UK differs significantly from arrangements in many other European countries. First, there are no separate

contributions and UI is part of single fund. Secondly, the administration of the National Insurance Fund does not involve social partners and is entirely under the control of the government. The latter considers national insurance contributions as a form of taxation, with the option of using revenue and reserves for purposes other than insurance based benefits, e.g. compensating employers for imposing 'green taxes' in the late 1990s and early 2000s via lowering contribution levels to the NIF.

As far as recipients of contributory JSA are concerned, due to the modest generosity and small margin between the standard unemployment benefit and means-tested support (in fact, both rates have been identical for years) it has always been common, particularly those with a non-working partner or dependants, to be claiming additional means-tested benefits, such as housing benefits. Moreover, the share of unemployed who do not meet the contribution conditions, or who had exhausted their entitlement, and were thus reliant on means-tested benefits has traditionally been high. Thus, the scheme functions much less as a form of wage-replacement than in other European countries (see also section 3.5). As a consequence, British trade unions have been less inclined to get involved in debates surrounding unemployment compensation compared with, for example, their French or German counterparts.

Ever since the introduction of the JSA in 1996 unemployed benefit claimants have been required to sign a 'Jobseekers Agreement', specifying the detailed steps intended to take to look for work. These actions are monitored fortnightly by JSA officials who received new discretionary powers, enabling them to issue a 'Jobseekers Direction', *i.e.* requiring individuals to look for jobs in a particular way and to take certain steps to 'improve their employability'. The definition of 'actively seeking work' also changed. The requirement for the claimant was to take such steps which can reasonably be expected in order to have 'the best prospects of securing employment'. Under the previous test the steps required were those which offered the 'best prospects of receiving offers of employment' (CPAG, 1996: 10). Claimants must be willing and able to take up any employment within 48 hours. Employment Services (now Jobcentre Plus) staff were required to check the steps to find work against the JSA agreement. More compulsory interviews were also introduced, at 13 weeks (at which point some voluntary schemes are made available), 6 months (Restart interview), 12 months, 18 months and 2 years. At these stages different schemes became compulsory and different types of help available.

The JSA was another step of benefit and active labour market policy becoming ever more closely linked, also in terms of the cooperation between the previous Benefit Agency and Employment Services staff at Jobcentres, *i.e.* local offices of the Employment Services. Today, both have been

amalgamated in the new Jobcentre Plus structure (see section 4.3). While the UK does not spend a lot on active labour market policies (section 4.4), a considerable share of expenditure has been concentrated on benefit administration and job search and placement services for benefit claimants (see OECD, 2006). At the same time, targets for placing jobseekers into jobs or programmes were introduced and employment services were restructured and modernised (Finn, 2005). Finally, in recent annual quarters about 100,000 decisions have been made on benefit sanctions or allowances, which is a considerable number given the current inflow into JSA of about 200,000 new unemployed persons in the same time period (DWP, 2006). All of the above underline the fact that a tighter benefit regime and the focus on job search has been more than mere policy rhetoric.

3.3 THE SYSTEM IN PRACTICE

The JSA system is a UK-wide benefit system. Eligibility, entitlement regulations are uniform and there are no differing benefit rates across the country. In the past claimants had to frequent two local offices, with benefit (Benefit Agency) and job search functions (Employment Services) dealt with separately. In the new system, nationwide since 2006, Jobcentre Plus offices are charged with both functions, and are also responsible for benefits (and job-based interviews) for other claimant groups (such as lone parents; people with disabilities).

Finn *et al.* (2005) analysed the ways in which Jobcentres operate in practice. New JSA claimants are seen first by a 'Financial Assessor' (20 minutes) and then by an assigned Personal Adviser (40 minutes), exploring 'job goals' which are finally formalised into a 'Jobseekers Agreement' which has to be signed. A key feature is that most interviewed are given a 'better off in work' calculation, usually 'calculated in relation to the wage attached to a particular job vacancy' (Finn *et al.*, 2005: 34). Benefit claimants have to attend the Jobcentre fortnightly for a ten minute 'job search review', with a longer formal 'Restart' interview after 26 weeks of unemployment. Persons under the age of 26 are allocated a New Deal Personal Adviser, and must participate in the New Deal (see section 4 below). Older claimants must do the same after their third 'Restart' interview, *i.e.* after 78 weeks.

3.4 DISTRIBUTION OF RESPONSIBILITIES

Income based JSA is tax-funded, contributory JSA is paid out of the National Insurance Fund. The Fund is under direct government control, *i.e.* the Inland Revenue, which is free to subsidise it or to use reserves for purposes outside of the National Insurance system. Social partners play no role in the administration or running of the NIF. Unlike social policy fields such as social services or health care, social security is a so-called reserved policy domain, which means that it is governed by

Westminster in London rather than by the Welsh Assembly or the Scottish Executive UK. The government determines the terms and conditions of both insurance-based and income-based JSA, with the Department for Work and Pension (DWP) as the responsible Ministry for policy making and local Jobcentre Plus offices are in charge of policy implementation for both passive and active labour market policy. There is no role for local authorities in the delivery of JSA benefits. However, as part of the approach which links benefit payments and active labour market policy for unemployed (and other groups), a large number of non-statutory agencies function as providers and local networks, including private companies, influence implementation and job reintegration programmes for JSA claimants (see section 4.3 below).

3.5 FIRST ORDER EFFECTS

Ever since the 1970s there has been a considerable decline in unemployment benefit generosity (DWP, 2004b). One reason for this is the way the level of benefits are adjusted. Annual upratings are based on price indexation rather than average earnings. This, in addition to a range of policy changes introduced in the 1980s, led to a decrease in the value of UB from 36 percent of average incomes in 1983 to 28 percent by 1996 (Hills, 1998). The current (June 2006) weekly standard level of JSA of £57.45 for claimants aged 25 and over, which represents about 9.5 percent of full-time average male earnings.

Putting the above in comparative context, the OECD has developed a summary indicator of unemployment benefit entitlement which combines a range of (gross) unemployment replacement rates for workers with full employment records at two earnings levels, three family situations and of unemployment spells (OECD, 2002). It indicates a middle position in the mid 1970s, but a declining generosity since then. By 1999 the UK unemployment insurance system had become, as far as gross benefit levels are concerned, the least generous across 16 European countries and, disregarding Greece, has maintained this position ever since (OECD, 2006; see Table 3.3).

Table 3.3: Gross replacement rates of unemployment protection (OECD summary index), 1979-2003.

| | 1979 | 1985 | 1989 | 1993 | 1997 | 1999 | 2003 |
|----|------|------|------|------|------|------|------|
| UK | 24 | 21 | 18 | 19 | 19 | 17 | 16 |

Source: OECD (2006)

Also the net replacement rate for unemployed persons with previously high earnings is low in European comparison and, depending on the family situation, even the lowest level out of 21 European countries listed by the OECD (OECD, 2006). However, due to the flat-rate benefit character, unemployed persons with previously low income from work have similar or even slightly higher replacement rates in the UK than their counterparts in many other European countries.

Much depends on the family type though. OECD calculations indicate that a single unemployed person without children who previously earned 67 percent of APW in the UK has a relatively high replacement level in European comparison (e.g. higher than his or her counterpart in Germany or Austria), but the relative generosity is lower for somebody on the same wage who is married to an employed spouse. For illustrative purposes, Table 3.4 shows that the flat-rate character of British JSA produces net replacement rates which are comparable with Germany or the Netherlands, especially for long-term unemployed persons with a working spouse and children. It also shows the declining relative generosity for unemployed on previous average and above average earnings, both within the UK and in comparison with other countries. However, once again this does not apply to long-term unemployed who are married and have children.

Table 3.4: Net replacement rates at different earnings levels and family situations, UK, Germany and the Netherlands (in % of wage for average production worker), 2004

| % of APW | | Initial phase of unemployment | | Long-term unemployment | |
|----------|----------------|-------------------------------|--------------------------|------------------------|--------------------------|
| | | Single person | 2 earners, 2 children | Single person | 2 earners, 2 children |
| 67 | United Kingdom | 63 | 77 | 63 | 73 |
| | Denmark | 62 | 93 | 81 | 66 |
| | Netherlands | 81 | 85 | 82 | 55 |
| 100 | United Kingdom | 45 | 65 | 45 | 62 |
| | Denmark | 61 | 91 | 60 | 58 |
| | Netherlands | 71 | 83 | 61 | 47 |
| 150 | United Kingdom | 31 | 42 | 31 | 50 |
| | Denmark | 62 | 88 | 54 | 57 |
| | Netherlands | 59 | 73 | 40 | 37 |

Note: long-term unemployment includes social assistance and other benefits in the 60th month of benefit receipt

Source: OECD (2006), *Benefits and Wages 2004*;

The UK is a good illustration that calculating the actual 'replacement rate' (degree by which benefit compensate for lost earnings) is not straightforward (Kvist, 1998). Apart from the definition of earnings, rates depend heavily on assumed socio-economic characteristics of benefit claimants and decisions about the inclusion or exclusion of potential benefits in addition to the primary form of unemployment protection (Gallie & Paugam, 2000: 381-385). In the UK the standard level of JSA is typically supplemented by additional means-tested support such as Council Tax benefit and housing benefits, which can be as high as unemployment benefit. Indeed, once help with housing costs is included, UK replacement rates improve considerably in international comparisons since the receipt of housing benefits can have an even more important impact on post-transfer income than unemployment compensation or social assistance.

While the significance of housing-related benefits in Britain is unique in the EU (OECD, 1999), help with housing cost is not tenure neutral. Council tenants receive means-tested housing benefit which covers the entire rent, but there is a maximum level of rent eligible which applies to claims for housing benefit by private landlords (and some housing associations). For home owners, housing

benefit is not available. Partly on account of council house sales in the early 1980s, home ownership grew significantly within the lowest income decile from 30 percent in 1979 to 42 percent in 1997/8, and about half of them have a mortgage (Burrows *et al.*, 2000). Recent estimates indicate that half of all poor households (income below half average income) are home owners. Yet, home owners receive only about 8 percent of the state help with housing costs targeted at low-income households (Burrows *et al. ibid.*). This is because of a change in legislation in October 1995. New mortgages taken out after that date are no longer covered by help with mortgage costs for the first nine months of their claim. This was introduced on the basis that homeowners should be encouraged to take out private mortgage protection payment insurance.

A recent study of persons who have borrowed mortgages after 1993 indicates that about 60 percent had one or more of four insurances, *i.e.* against redundancy (12 percent), critical illness (40 percent), permanent health insurance (20 percent) or mortgage payment protection insurance (MPPI), which covers mortgage payments against one or more of these risks for between 12 and 24 months (37 percent) (Ford *et al.*, 2004). While MPPIs are normally offered by mortgage lenders (banks or building societies), other policies are typically sold through insurance brokers from life insurance companies and general insurers. Amongst all borrowers, 16 percent were covered against both unemployment and health related risks, and another 7 percent had unemployment cover. In other words, about 23 percent of all mortgage borrowers had some form of insurance against redundancy, paying out a proportion of gross income during unemployment for a specified maximum period of time (often up to 24 months), or until a return to work or the mortgage is paid off. As for the pattern of taking out such policies, there was no evidence of adverse selection and no clear relationship between income and take up. However, the proportion of those without insurance was found to increase with age, and was high amongst single persons, lone parents and low income groups. Two main reasons for not taking out insurance were affordability (see also Pryce & Keoghan, 2002) and a perception of poor value for money. In the above survey, between a quarter and half of all borrowers (depending on the insurance under consideration) did not consider themselves at risk. The mean monthly costs for unemployment insurance only was £25 in 2001, ranging from about £10 in the lowest decile to £40 in the top. Nationwide, a major building society, currently offers protection against unemployment at a monthly cost of £4.19 for every £100 of monthly mortgage cover, with a maximum 12 months benefit period (and 30 days excess period).

Finally, the relatively small role of JSA in the context of the total social security budget in the UK is illustrated in Table 3.5, as well as the significance of income-based JSA compared with contributory JSA, even if the benefit elements are disregarded which are directed at children in JSA households. Moreover, the table underlines the relevance of benefit expenditure for those who are categorised

as long-term sick, or having some form of incapacity, compared with JSA claimants. Finally, it illustrates the importance of housing benefit, exceeding the total of JSA expenditure for adults.

Table: 3.5 Total social security expenditure and benefit expenditure for labour force , (real terms, 2006/7 prices, £billion)

| | Total spending | JSA income based | | JSA contributory | Incapacity benefit | Housing benefit |
|--------|----------------|------------------|---------------|------------------|--------------------|-----------------|
| | | Adult element | Child element | | | |
| 1996/7 | 116.6 | 2.0 | 3.4 | 1.1 | 8.6 | 5.1 |
| 1997/8 | 114.7 | 3.7 | 3.0 | 0.6 | 8.3 | 4.8 |
| 1998/9 | 114.5 | 3.3 | 3.0 | 0.6 | 8.2 | 4.7 |
| 1999/0 | 116.4 | 2.9 | 3.1 | 0.5 | 7.8 | 4.5 |
| 2000/1 | 117.5 | 2.5 | 3.6 | 0.5 | 7.8 | 4.5 |
| 2001/2 | 120.7 | 2.1 | 3.9 | 0.5 | 7.6 | 4.6 |
| 2002/3 | 120.9 | 2.0 | 4.3 | 0.6 | 7.4 | 5.1 |
| 2003/4 | 113.2 | 1.9 | 4.1 | 0.5 | 7.2 | 5.1 |
| 2004/5 | 116.1 | 1.7 | 3.5 | 0.5 | 7.0 | 8.7 |

Source: Budget report (2006), Table 2 Benefit expenditure by DWP objective 1991/92 to 2007/08.

4 ACTIVE LABOUR MARKET POLICIES

As indicated in the introductory section, the UK has never been a major spender on active labour market policy (ALMP). This has not changed under the Labour government. Although more resources were channelled into help with job search and training programmes after 1997, the gap between the share of national income devoted to active labour market programmes in the UK and the average spending across the EU has widened rather than narrowed (see Table 4.1 below). However, there have been significant changes since the early 1990s, both with respect to the prevailing orientation within ALMP and its connection with the benefit system.

Table 4.1: Spending on active labour market policy (% of GDP), 1985-2003

| | 1985 | 1986-1990 | 1991-1994 | 1995-1997 | 2002 | 2003/4 |
|----------------|------|-----------|-----------|-----------|------|--------|
| United Kingdom | 0.7 | 0.8 | 0.6 | 0.4 | 0.54 | 0.53 |
| EU average | 0.9 | 0.9 | 1.1 | 1.1 | 1.0* | 1.04* |

* EU-15 without Luxembourg and Greece, data for 2001 and 2003 for most countries.

OECD, 2001; OECD, 2002b; OECD 2004b; OECD, 2005;

4.1 RECENT HISTORICAL DEVELOPMENT

After a major de-investment in active labour market policy after the 1987 election, increasing unemployment in the early 1990s led the conservative government to introduce some rather small scale temporary job programmes, such as the *Employment Action* (1991) and the *Community Action* schemes (1993). By the mid 1990s the Major government also experimented with employment subsidies on a limited scale. Introduced in 1993, *Workstart*, for example, was piloted in four areas. It provided subsidies for taking on unemployed people who had been out of work for more than two years.

In the mid 1990s the Labour Party attacked the conservative government's plan of introducing the Jobseekers Allowance scheme, albeit without committing themselves to revoking either the changes introduced to benefit regulations or the conditions attached to benefit eligibility which the JSA introduced (see Appendix 3). With hindsight this merely rhetorical stance against the JSA was not surprising but reflected a programmatic shift within the Labour Party regarding its stance towards the welfare state, and particularly towards benefits for people of working age. Indeed, by the mid 1990s a cross-party consensus around the problem of 'welfare dependency', as well as the emphasis on a 'stricter benefit regime' and supply-side labour market policies had emerged (see Clasen, 2005). This is evident in the light of the structural similarity between Labour's New Deal and the conservative government's pilot *Project Work*, which was introduced on a trial basis in two localities in 1996. This programme was a compulsory (13 weeks) work experience scheme aimed at people

under the age of 50 who had been out of work for at least 2 years. Hailed as a great success in the 1996 Conservative Party Annual Conference, it was to be expanded to another 28 areas, and its nationwide introduction was announced as an answer to Labour's New Deal programme in the run-up to the 1997 general election.

After Labour's victory in the 1997 general election the new government not only maintained its predecessor's policy course but accelerated it, albeit augmented by improvements for low paid workers and by introducing a comprehensive and coherent labour market programme regime. Representing a clear break with Labour Party aspirations and policy proposals of the 1970s and 1980s, the move towards a more prescriptive, work oriented social security policy linked the unemployment benefit system much more directly to active labour market programmes, which in themselves were reformed. Unlike previous Labour administrations, and driven by Chancellor Gordon Brown as major architect of welfare reform, the Blair government embraced means-testing as a just principle for allocating public resources within the context of the introduction of a 'new contract' between citizens and the state. While it was the government's obligation to provide opportunities for entering paid employment, benefit claimants had to become more 'pro-active', and obliged to accept training, work or education offers (Cm 3805, 1998). Aimed at enhancing employability, and with the moral underpinning of participation in paid employment as the norm for all in an 'active society' (Walters, 1997), the Blair government explicitly aimed to create a new balance between 'rights and responsibilities' by strengthening the latter, coupled with better quality training and improved take home pay, via wage subsidies, for those accepting low paid employment.

One of the influences which contributed to Labour's adoption of a more prescriptive labour market policy and activation approach was economic research and theory which implied that the introduction of stricter work tests, more restricted benefit entitlement, mandatory training or other appropriate measures would improve the employability of particularly long-term job seekers and increase the actual supply of labour (Layard, 2000). Any deadweight associated with these measures were expected to be compensated by employment generating wage moderation effects. The assumption that more 'employable' benefit claimants would increase the effective competition for jobs and contributed to non-inflationary employment growth gained prominence within the Labour Party by the mid 1990s and seems to have influenced government policy after 1997 (Finn, 1998; 2000). Indeed, increasing employability became something of a buzzword in Labour's rationale for the New Deal programmes (Philpott, 1999) as a way of not only improving employment chances but combating systematic disadvantage among specific groups, and young people in particular.

As part of its much heralded welfare reform, the Labour government introduced and subsequently modified a range of New Deal programmes which became the central component of its 'welfare-to-work' strategy (see Appendix 3). The programmes did not alter benefit rates, but considerably increased the conditionality attached to benefit receipt. Several schemes for different groups of working-age benefit claimants were devised, with different eligibility rules and degrees of obligations attached (see Trickey & Walker, 2001; Walker & Wiseman, 2003).

4.2 DESCRIPTION OF THE SYSTEM

Active labour market policies are entirely tax funded. Having committed themselves to maintain public spending limits of its conservative predecessor in 1997 the incoming Labour government was keen to stress that the New Deal programmes would be cost-neutral. The projects overall sum over the first 5 years was both relatively limited and did not burden existing expenditure since resources were raised via a special levy on privatised utility companies (e.g. electricity and gas) which had enjoyed major profits as the result of privatisation.

The most explicit degree of mandatory transition from benefit into labour market programmes can be found in the New Deal for young people (NDYP - for all people between 18 and 24 years), and the programme for long-term unemployed people. This latter was remodelled in 2001 and, as the ND 25+, now applies to claimants out of work for 18 (within the past 21) months. Both the NDYP and the ND25+ involve the assignment of personal advisers and the drawing up of individual 'action plans'. Individual counselling is designed to improve motivation, build self-esteem and ensure that placements and training are appropriate to individual needs. Programmes consist of three stages.

1. The 'gateway period' of four months provides individual intensive job search assistance.
2. Those who do not find work are transferred to one of four 'options' which last six months or more. These are subsidised employment, full-time education, or (for young people only) voluntary or environmental work. Unlike any previous active labour market programmes, the take-up of one of these four options is mandatory, and non-compliance sanctioned by benefit reduction or withdrawal. All options involve at least some degree of training. Employers receive a weekly subsidy per participant and a flat-rate contribution towards training costs. Unlike any previous programmes, the take-up of one of the four options is compulsory. Those on options receive an allowance which is equal to or slightly above benefit rates, except for subsidised work where a training wage is paid (at least equal to the subsidy paid to employers).
3. Failing to enter unsubsidised work after completion of one of the options, further guidance and, if required, training follows (the 'follow through' stage).

As Table 4.2 shows the NDYP is the 'flagship' programme with about 70 percent of overall allocated expenditure. It is a compulsory scheme for all people between 18 and 24 years of age who have been unemployed and receiving benefit for 26 weeks or more. A personal adviser is assigned to new entrants who is supposed to draw up individual 'action plans'. Individual counselling is designed to improve motivation, to build self-esteem and to ensure that placements and training are appropriate to individual needs. Within its first stage (gateway period) a range of provision is available, including job search advice, careers advice, short training courses (in basic skills or to help motivation and confidence), specialist support for the disadvantaged, advice on self-employment). There is a target of 40 percent of gateway participants who should find unsubsidised employment during this stage and there evidence that this target has been reached (see section 4.4 below).

Table 4.2: Total projected spending on the New Deals, 1997-2002

| New Deal | £m | % |
|-------------------------------|-------|-----|
| 18-24 year olds | 2,240 | 70 |
| Over-25 year olds | 490 | 15 |
| Over-50 year olds | 40 | 1 |
| Lone parents | 190 | 6 |
| Disabled people | 210 | 6 |
| Partners of unemployed people | 50 | 2 |
| Total | 3,220 | 100 |

Source: Robinson (2000), HM treasury figures

The New Deal for long-term unemployed people (ND25+) is a compulsory scheme targeted at those aged 25 and over who have been unemployed for (initially) two years or more. Originally eligibility was established after 24 months of JSA receipt. As part of a redesign in 2001, all those out of work for 18 months (within 21 months) must enter the ND25+, and some categories of jobseekers earlier. The programme consists of a 'gateway' period of typically 13 weeks, which includes interviews with the New Deal Personal Adviser (NDPA), intensive job reorientation, identification of basic skill needs, followed by an 'intensive activity period' (IAP), offering tailored, full-time, provision such as 'basic employability training', work placements, work-focused training etc. This period lasts 13 weeks but can be extended to 26 weeks. During the IAP a New Deal allowance is available to participants.

The other New Deal programmes are generally of a voluntary basis. However, a trend towards a more prescriptive approach is detectable in two of them. A voluntary New Deal for those over 50 (ND50+) was launched in April 2000. The New Deal for lone parents (NDLP) is aimed at lone parents whose youngest child is five years old and enrolled in primary school, but others may also take part. Participation is voluntary, but since April 2001 the work-focused interview for all new lone-parent claimants (with children over five) has become compulsory. The New Deal for partners

of unemployed consists of personal advice and assistance with work for the potential second earner in an unemployed household. It has also recently become compulsory for partners under 25 without children.

Finally the New Deal for disabled people (NDDP) is targeted at all working-age disabled or sick claimants and consists of personal advice and assistance (for details see Stafford, 2003). It is aimed at those who have claimed JSA or Incapacity benefit for at least six months. It offers personal advice and assistance. There are training grants of up to £750 and employment credits, allowing participants to accept lower wages, which are paid directly to participants for a maximum of 52 weeks. The government provides ample information about the various schemes (http://www.jobcentreplus.gov.uk/JCP/Customers/New_Deal/).

The number of economically inactive, but not unemployed, groups became a growing cause of policy concern during the second half of the 1990s (HM Treasury and DWP, 2001). This has to be seen against the background of a steep rise since the 1980s in the number of working-age people in receipt of benefit and not classified as unemployed, such as lone parents (Millar, 2003: 116), men claiming sickness or disability benefits (Alcock *et al.*, 2003). The latter includes prime age working men, and particularly those with no or low qualifications (see section 5.2 below). This then is the background for the extension of the New Deal programmes to groups who previously were not included in labour market integration schemes (see Appendix 3). Compared with particularly young and long-term unemployed benefit recipients, for these groups the degree of obligation attached to benefit receipt is generally lower. Nevertheless, recent policy changes have introduced an increasingly work-focused benefit regime for all working-age benefit claimants, involving more frequent invitations to 'work oriented' interviews, for example.

In recent years the mandatory New Deal programmes (NDYP and ND 25+) have been redesigned (see Appendix 3) and in 2005 the government launched the so-called 'Building on the New Deal – local solutions meeting individual needs'. Maintaining existing structures, plans envisage a more flexible and localised delivery system, increased use of mandatory 'work-focused interviews' for working age benefit claimants not registered as unemployed (e.g. lone parents), more accessible New Deal eligibility conditions for claimants with shorter unemployment duration, greater local discretion, a more flexible use of funds, as well as a stronger push for local accountability and target setting. The latter might possibly lead to further 'outsourcing' of services which, traditionally, were delivered by Jobcentre Plus.

The overall policy orientation will remain the same however. As supply-side instruments the New Deal programmes focus on problems of employability. Rather than stimulating labour demand, attitudes to work and expectations regarding employment and wages are portrayed as determining employment chances (Peck and Theodore, 2000:731). In this respect, it is not surprising that under the Labour government the level of expenditure on active labour market policy has not (or only marginally) increased, and continued its focus on elements such as job placement and job search at the expense of employment creation (Table 4.3). To which extent policies have succeeded in raising employment levels or improving the job chances of benefit claimants will be discussed in section 4.4 (see also Card *et al.*, 2004; Walker & Wiseman, 2003). Suffice to state here that, as a whole, the New Deal and other policies (tax credits) highlight Labour's embrace of maintaining and fostering a flexible and deregulated labour market, and its strategy which is aimed at integration into employment which might be low paid and thus requires public subsidies.

Table 4.3: Profile of active labour market policy expenditure – major measures (% of GDP), 1985-2004.

| | 1985 | 1986-1990 | 1991-1994 | 1995-1997 | 2003* | 2004* |
|------------------------|------|-----------|-----------|-----------|-------|-------|
| PES and admin. | 0.14 | 0.15 | 0.20 | 0.19 | 0.15 | 0.14 |
| Labour market training | 0.09 | 0.17 | 0.15 | 0.14 | 0.14 | 0.14 |
| Subsidised employment | 0.22 | 0.17 | 0.03 | 0.03 | 0.02 | 0.01 |

Notes: PES and administration includes placement, counselling and vocational guidance, job search courses, job mobility measures etc, as well as administrative costs. Measures disregarded in the table are youth measures (targeted at transition from school to work) and special schemes for disabled job seekers; * figures for 2003 and 2004 (PES and administration) only for 'placement and related services' (not comparable with previous years).

Source: own calculations based on data from OECD Employment Outlook (1992; 1996; 2000; 2004; 2005); until 1991 Great Britain; UK figures: 1985 is 1985/6 etc (for definitions, see OECD 2001a).

Finally, it should be noted that the New Deal programmes are all but one aspect within Labour's welfare-to-work strategy. Incomes of those in work were raised by the introduction of a minimum wage and several types of tax credits (wage subsidies) targeted at different groups, such as lone parents, disabled people, families and recently also single people (Walker & Wiseman, 2003). In fact, the scope of minimum wage and tax-credits, as measures which aim to 'make work pay', are of a much larger magnitude than the New Deal programmes. The UK government's forecast for 2001/2, for example, was to spend £900m on the latter but more than £5 billion on tax credits for low earners.

Under the Labour government the tax credit system, effectively subsidising low paid employment via a negative income tax system, has grown enormously. Helping to overcome in-built unemployment traps within systems which rely heavily on means-tested benefits, in 2002 about 1.4 million families which children were in receipt of 'working family tax credits'. Two years later their number had increased to 2.3 million. In addition around 235,000 households without children were in receipt of tax credits which are now available for low paid employees irrespective of family status (DWP

2004c). This means that about 15 percent of all households with income from paid work in the UK receive in-work benefits in the form of wage subsidies.

4.3 DISTRIBUTION OF RESPONSIBILITIES

With the introduction of the New Deal regime, the Labour government has not reverted to a more corporatist training framework which was (partly at least) in place prior to the abolition of the MSC (see section 1.3). Instead, the DWP (and Jobcentre Plus) retain full policy responsibility for design and coordination of benefits and active labour market policy. However, far short of a return to a tripartist modus, it can be argued that the role of social partners has become modestly more important than it was in the mid 1990s. This is not because of the government wishing to return to a form of industrial relations which existed in the 1970s or to strengthen trade unions per se. Instead soon after its return to power, an early White Paper (Cm 3968, 1998) stated New Labour's vision of trade unions as playing an active albeit specific role, *i.e.* in partnerships with business so as to improve British competitiveness and allow the minimal level of regulation.

Since then, European directives (e.g. on working time; parental leave) have led to a more regular contact between social partners and government, but one which is restricted to information and consultation between relevant ministries (DWP, DTI) and the TUC (Trade Union Congress) as well as the CBI (Confederation of British Industry). Prior to adoption in national law, social partners are typically and informally consulted by the government and the participation in EU level negotiations (social dialogue), often providing social partners with more immediate and informed knowledge than British civil servants, has increased their influence at the consultative stage of policy making (Falkner *et al.*, 2005).

However, policy responsibility, as well as the provision of active labour market policy, remains clearly in the hands of central government however, with Jobcentre Plus acting as the executive agency of the DWP. Following examples in Australia and New Zealand (Clasen *et al.*, 2001) and devised in 2002, Jobcentre Plus has been created as a single point of contact for all claimant groups of working age. It brought together the previously separate Employment Service (in charge of New Deal and other labour market programmes) and the Benefit Agency (responsible for the payment of unemployment and other cash transfers). Jobcentre Plus has thus a dual function – to help working age people find employment and receive social security support. Its clientele is not merely unemployed benefit claimants but all who are of working age and 'unemployed or economically inactive'. As a consequence, the British government defines the 'purpose' of Jobcentre Plus to

contribute to the government's aim of 'tackling poverty' and 'reducing worklessness' (<http://www.jobcentreplus.gov.uk>). The terminology is deliberate, indicating a policy focus which has moved on from reducing 'unemployment' towards combating 'non-employment', i.e. unemployment and labour market inactivity (see also Clasen, 2005). Moreover, the UK government makes a distinction not so much between contributory and non-contributory (assistance) benefit, but between benefits for working-age people and other benefit groups.

Jobcentre Plus has 'significant operational autonomy' (Finn, 2005) but is accountable to the Secretary of State and Ministers at the DWP. The system is strongly driven by senior civil servants. While social partners have no formal role, there is a 'National Employment Panel', comprising of 25 Chief Executives, more than half of whom are from large employers in the private sector. While the TUC nominates three representatives, the nominees appointed by the government are 'personal' appointments. The Panel's role is to scrutinize and 'help develop' welfare to work policies. According to Finn (2005), it has been 'instrumental in ensuring that the DWP and Jobcentre Plus have focused on developing services for employers'.

The actual delivery of New Deal programmes involves a complex mix of local organisations with a complex web of contractual relationships with Jobcentre Plus (Bivand, 2001). The NDYP and ND25+ are designed to be provided through local partnerships in 144 'units of delivery'. There are four broad models of delivery (Hasluck & Green, 2006: 18): joint venture partnerships (JVP): several partners including the local Jobcentre Plus consortia: Jobcentre Plus contracts with a lead organisation which then sub-contracts private sector delivery; Jobcentre Plus contracts with lead private sector organisation independent contractor, with Jobcentre Plus as the lead contractor who sub-contracts with individual service providers.

Which model applies where depends on existing partnerships, networks and local labour market conditions. 'Local Strategic Partnerships', for example, bring together Jobcentre Plus with local government, regional development agencies and Learning and Skill Councils (see section 1.3). Trade unions have varying degrees of involvement in these partnerships, but 'little strategic involvement in the work of Jobcentre Plus' (Finn, 2005). Case study based evaluations of NDYP suggest that private sector lead partnerships (PSL) were effective delivery mechanisms due to a stronger emphasis on job search, more flexible management, participants remaining longer at the gateway stage and lower referrals to one of the four options (Hasluck & Green, 2006).

Prior to 1997 only very few private employment agencies played a role in the delivery of mainstream employment schemes. In recent years this has changed. Initially there were merely two out of the

144 delivery areas in which the NDYP was contracted out to the private sector. By 2005 contracts with private providers had been renewed and currently about ten percent of New Deal provision for the unemployed is delivered through the private sector in 12 areas (Finn, 2005; Bruttel, 2005) and Employment Zones are entirely privately managed.

The problem of strongly diverse nature of labour market situations in the UK has led to the creation of 15 so-called Employment Zones (EZ) which are areas characterised by long-standing mass unemployment and high levels of labour market inactivity. Active labour market programmes within Employment Zones differ from the standard set-up of New Deals elsewhere in the country. For example, eligibility is extended to people aged 25 or over who have been out of work for 12 months (in eight EZs) or 18 months (in seven EZs). Since 2002 EZs include mandatory participation for NDYP 'returners'. Able to pool resources for training, Jobcentre Plus support and the equivalent of benefit payments in order to provide a tailor-made packages of provision, EZs have more flexibility than standard New Deal programmes. Moreover, EZs are private sector organisations which have been contracted by the DWP. Contractors receive 'substantial performance related payments for achieving successful outcomes' (Hasluck & Green, 2006: 25). Participants receive the equivalent of the net weekly benefit. They work with a Personal Adviser (PA) through three stages of the EZ process: four weeks (stage 1) of development of and action plan (detailed job search, help with travel, work clothes etc); 26 weeks of intensive job search activities (stage 2) and up to 13 employment (stage 3) with 'in-work support'.

4.4 FIRST ORDER EFFECTS

In 1997 the incoming Labour government inherited a 4-year trend of falling unemployment. Also youth unemployment declined after 1993. However, in the mid 1990s the risk of unemployment before the age of 25 actually increased, as well as the average duration of unemployment spells for young men. This and the perceived adverse consequences of long-term benefit dependency and social exclusion can be regarded as major reasons for the particular policy focus on youth unemployment. As a consequence, the spending on the NDYP was easily the largest single item within the New Deal programme (see Table 4.3 above).

Cumulative data of all participants indicated a relatively high percentage of successful job entry rates. Table 4.4 shows that since the start of the scheme in 1998 over 2.8 million persons participated and more than 1.7 million people left New Deal programmes in order to start an unsubsidised job. Within mandatory schemes, job entry rates are highest amongst leavers of the NDYP and lower in the ND25+. Involving mandatory work-focused interviews but no compulsory referral to options,

the programmes for lone parents (NDLP) and for people with disabilities (NDDP) are relatively successful in terms of people leaving for employment.

Table 4.4: Participant numbers (total and February 2006) in New Deal Programmes and Employment Zones and job entry numbers (x 1,000)

| Programme | Total number of participants | Participants in February 2006 | Gaining a job |
|------------------|------------------------------|-------------------------------|---------------|
| NDYP | 1.087 | 87 | 678 |
| 25+ | 635 | 48 | 266 |
| NDLP | 696 | 63 | 458 |
| NDDP | 204 | 140 | 100 |
| ND50+* | 71 | 54 | 154 |
| NDpartners** | 13 | 3 | 5 |
| Employment Zones | 141 | 25 | 68 |
| TOTAL | 2.847 | 420 | 1.729 |

*from January 2004 onwards; ** from March 2004 onwards (jobs include those up to March 2004)

Source: DWP, New Deal Evaluation Databases;

Not all employment is 'sustainable' however, defined by the government as jobs lasting at least 13 weeks, or more precisely, the non-return to JSA within this period. Table 4.5 provides total job entry rates and employment considered as sustainable. In 1998, 47 percent of NDYP leavers moved into jobs which lasted at least 13 weeks. Cumulatively, between the start of the New Deal programmes 1998 and May 2006 45 percent of leavers from the New Deal for Young People are known to have entered sustained employment, compared with about 31 percent of leavers from the New Deal 25+ and over 54 percent of leavers from the voluntary programme for lone parents (DWP, 2006). However, with falling numbers of NDYP participants - from about 140,000 in March 1999 to about 80,000 five years later - , job entry rates have also declined. In 2004 the job entry rate of the NDYP was 48 percent and the entry into sustained jobs only 38 percent (Bivand, 2005).

Table 4.5: Participants leaving NDYP and ND25+ for jobs and sustained employment* (cumulative, x 1,000), May 2005

| | New Deal for Young People | | New Deal 25+ ** | |
|--------------------------|---------------------------|----------------|-----------------|----------------|
| | Total job entry | Sustained jobs | Total job entry | Sustained jobs |
| Total job entries | 631 | 537 | 164 | 132 |
| male | 455 | 387 | 137 | 110 |
| female | 177 | 150 | 27 | 23 |
| People with disabilities | 78 | 65 | 47 | 38 |
| Ethnic minority groups | 88 | 74 | 21 | 17 |

* sustained employment defined as not returning to JSA within 13 weeks after leaving the New Deal; ** enhanced ND25+ only.

Source: ONS, Labour Market Trends, December 2005;

Table 4.6 illustrates the relevance of the gateway period as a phase where intensive local job search support takes place. Only if job integration at this stage fails will job-seekers be referred to one of the options (NDYP) or Intensive Activity Period (ND25+). Although only a snap-shot, the table

underlines that job entry rates of participants of the NDYP in recent years is below those at the start of the programme in 1998.

Table 4.6: Participants during a particular month (June 2004), NDYP and ND25+ (x 1,000 rounded numbers)

| | NDYP | ND25+ |
|--------------------------|------|---------------------------------|
| Total | 83 | 53 |
| On gateway | 53 | 33 |
| Options: | | |
| Employment | 3 | Intensive activity period (IAP) |
| Education & training | 7 | 12 |
| Voluntary sector | 4 | |
| Environmental task force | 3 | |
| Follow through | 13 | 9 |
| All starts June 2004 | 11 | 8 |
| All leavers June 2004 | 19 | 10 |
| Leavers into jobs* | 6 | 3 |

*sustained employment (13 weeks) or less

Source: DWP, *Work and Pensions statistics 2004, labour market summary*.

Of course, a simple count of gross job entries does not necessarily say much about the success of a labour market programme. While additional indicators might be useful (improved employability; social inclusion etc.), gross job entry rates do not take account of job substitution or deadweight effects. For example, the National Audit Office reported in 2002 suggested that, due to 'substantial' deadweight effects, the NDYP had resulted in an increase in net employment of between 8,000 and 20,000 new jobs, in contrast to government's claims of the programme having moved 340,000 people into jobs at the time (NAO, 2002).

In accordance with Labour's emphasis on 'evidence based' policy, there have been numerous evaluations of the New Deal programmes. Indeed, during 1997-98 a New Deal Evaluation Database (NDED) was established which collects information recorded by front-line staff records on interactions with jobseeking claimants. White (2004) made use of this database in his evaluation of the NDYP, following over 70,000 individuals who participated in the programme between October 1998 and February 1999. He found strong area based variation in outcomes, with moves off benefits positively influenced by strong 'work-first' practices by front-line caseworkers, frequent and closely-spaced repeat interviewing, the use of sanctions to enforce the mandatory nature of NDYP and the 'usage of short courses that helped clients choose work experience or educational options (White, 2004: 23).

Several other studies of the NDYP have been conducted and all found positive, albeit mainly moderate, effects in terms of a reduction in benefit claiming and job entry rates (for an overview and 'meta-analysis', see Hasluck & Green, 2006). For example, an early evaluation of all male participants (more than 33,000 individuals) of the NDYP in September and November 1998 showed

that subsidised employment proved the most effective 'option' in terms of job entry and securing unsubsidised work, with 51 percent of the recruits still employed after nine months (see also Hales *et al.*, 2000). Blundell *et al.* (2003) found that the NDYP to have a positive net employment creation effect of about 17,000 jobs per year between 1998 and 2002, which is considerably less than the government had envisaged. McVicar and Podvinsky (2003) found that the NDYP has improved the chance of exit from unemployment, and identified as its primary effect a shift of large numbers of young people from unemployment into education and training. Indeed, while youth unemployment fell, the employment rate of 18 to 24 year olds in the UK also declined, from 66.7 percent in 1997 to 65.5 percent in 2005, (ONS, 2006: table B.2). Thus, rather than raising employment, the main impact of the NDYP seems to have been in the area of reducing long-term unemployment (Blundell *et al.*, 2003). Between 1997 and 2004 the number of unemployed young people (18-24) out of work for more than 12 months declined from 111,000 (representing almost 23 percent of all unemployed in this age group) to 51,000 (12.6 percent). However, in 2005 the number climbed again to 67,000 (15.3 percent) (ONS, LMT, table C.1).

Evidence of the impact of the New Deal for long-term unemployed is harder to establish. One reason is the substantial overhaul of the programme since 2001, which widened the eligibility. Also, initially consisting mainly of advisory services and (re)motivation and support for job seekers, provision was subsequently widened to periods of subsidised employment, as well as voluntary opportunities for full-time education and training, which were rarely taken up however. Hasluck and Green (2006: 31) review studies which indicate that the introduction of earlier entry to the ND25+ (after 18 months or even earlier in some pilot areas) has had a moderate effect of accelerating exit rates. Studies show that early advice-only services were clearly less effective in terms of employment entry than later mandatory activities, including work experience and training.

Finally, most 'compelling is the evidence relating to Employment Zones (EZ)' (Hasluck & Green, 2006: 32). Case studies (Hales *et al.*, 2003) found that customers preferred the more informal and friendly atmosphere of EZs (compared with Jobcentres) and there are indications that the performance of EZs is better than average New Deal programmes, with a greater chance for participants finding employment (Bruttel, 2005; Hirst *et al.*, 2006).

5 PERFORMANCE

5.1 INTERACTION BETWEEN EMPLOYMENT PROTECTION, UNEMPLOYMENT INSURANCE AND ACTIVE LABOUR MARKET POLICY

As indicated in the introduction, and evidenced in the three subsequent sections, the three areas of employment protection, unemployment insurance and active labour market policies are not as closely linked in the UK as in other countries. Moreover, they are not part of some corporatist arrangement which can be incorporated into negotiated settlements between the government and social partners. Instead, despite devolution and the extensive use of employee and employers in partnership networks at local level, policy formulation has remained firmly in the hands of central government. Moreover, there are few real signs of a shift towards another settlement. Instead, after Labour's embrace of the comparative advantage of the British deregulated and flexible labour market, incremental adjustment to the three domains are likely, but no restructuring - as long as economic and labour market developments remain fairly buoyant.

This does not mean that there have been no changes. On the contrary, while unemployment support has become all but devoid of its erstwhile contributory basis, it has also become more tightly linked to active labour market policy as part of an increasingly coherent 'welfare-to-work' approach. If anything, it is here where a closer policy co-ordination and interaction of policy domains can be identified. However, the broadening of erstwhile unemployment policies (benefits, labour market programmes) to all groups of working-age benefit claimants is ambitious and thus potentially a strenuous influence on the area of unemployment protection. Once again much will depend on labour market developments.

5.2 ASSESSMENT OF (SECOND ORDER) EFFECTS

5.2.1 EMPLOYMENT AND UNEMPLOYMENT

As other countries the UK was greatly affected by the two major economic recessions in the mid 1970s and early 1980s. In addition, Conservative governments' neo-liberal policies of accelerating the process of de-industrialisation and reluctance to embrace active labour market policies on any significant scale contributed to unemployment levels which reached around 12 percent in the mid 1980s. In the second half of the 1980s unemployment subsided but rose rapidly again after 1990 to a peak of about 10 percent in 1993. After that a sustained period of declining unemployment set in (Table 5.1).

Table 5.1: Standardised unemployment rates (unemployment as a percentage of the total labour force), 1975-2005

| 1975 | 1980 | 1985 | 1990 | 1993 | 1996 | 1998 | 2000 | 2002 | 2004 | 2005 |
|------|------|------|------|------|------|------|------|------|------|------|
| 4.1 | 6.2 | 11.5 | 6.9 | 10.0 | 8.0 | 6.2 | 5.4 | 5.1 | 4.7 | 4.7 |

Source: 1960-1974: OECD (1988) *Historical Statistics 1960-1986*; 1960-1997: OECD (1999): *Historical Statistics 1960-1997*; 1998-2000: OECD, 2006 (*Employment Outlook*)

Since the mid 1990s the labour market performance in the UK has improved markedly. The government points out that between 1995 and 2005 the unemployment rate declined from above 8 percent to around 5 percent, while employment rose from about 71 percent to above 75 percent (Fitzner, 2006). Also the number of workless people on benefits has declined, with the biggest improvement among the number of people claiming unemployment benefit, which has roughly halved since 1997 and has remained constantly below 1 million since 2001, 'the first time this has happened since 1975' (Fitzner, 2006:9). Even the number of people in receipt of Incapacity Benefit 'has now been falling for more than a year, after decades of continuous increase' (Fitzner: *ibid.*). Recently, the number of claimants of JSA has declined further, despite the fact that unemployment started to climb, reaching 5.5 percent in August 2006. Moreover, there are groups in the British labour market which remain disproportionately affected by unemployment and, more importantly, by labour market inactivity. These trends deserve a little more inspection.

Overall labour force participation in the UK first declined and later rose in the 1990s. Between 1998 and 2005 employment growth in the public sector (plus 13.2 percent) was more than twice as strong as in the private sector (5.7 percent), with the steepest job expansion on health and social work and in education. In other words, the Labour government's achievement in the labour market was, to a significant extent, carried by public sector expansion. Moreover, this was on contrast to the previous conservative government which presided over a significant decline in public sector employment between 1992 and 1997 while total employment increased. However, the proportion of public sector out of all employment in the UK stood only about 20.4 percent in 2005 and thus not significantly above its level in 1999 (19.2 percent) and much below its peak of 23.1 percent in 1992 (Heap, 2005b). Nevertheless, public sector employment has certainly benefited women in the labour market, with female employment rates reaching almost Scandinavian levels by the end of the 1990s (Table 5.2). By contrast, the decline of male labour force participation began already the 1960s continued in subsequent decades and only came to a halt in the late 1990s (Table 5.2).

Table 5.2: Total, male and female labour force participation rates (population from 16 to 64 years), 1960-2005.

| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 2000 | 2002 | 2005 |
|--------|------|------|------|------|------|------|------|------|------|------|
| Total | 72.0 | 72.8 | 72.4 | 73.6 | 74.4 | 74.5 | 76.5 | 77.2 | 76.4 | 76.1 |
| Male | 99.1 | 97.1 | 94.4 | 92.1 | 90.5 | 88.6 | 88.3 | 84.3 | 83.3 | 82.8 |
| Female | 46.1 | 49.0 | 50.7 | 55.1 | 58.1 | 60.5 | 67.3 | 68.9 | 69.3 | 69.7 |

Sources: 1960-1995: OECD (1999): *Historical Statistics 1960-1997*. 1990 onwards: OECD, 2006 (*Employment Outlook*)

As to salient aspects of unemployment in the UK, youth unemployment (under 25 years old) has traditionally been high, and rose in the first half of the 1990s from 11 percent in 1990 to 16 percent in 1994. It has since declined, but remains high and explains why active labour market policies under New Labour have concentrated most on this age group (see section 4.2, Table 4.3). Unusual within Europe, male unemployment has been consistently higher than female unemployment. This has to do with the sharp decline in predominantly male types of employment, such as manufacturing, and the growth of, predominantly, female types of employment in services. While this is a common trend across countries, de-industrialisation was politically enforced in the 1980s and particularly marked in the UK (Rowthorn, 2000). Weakening trade union influence in the 1980s and relatively little employment protection are other factors facilitating the dismissal of workers in manufacturing.

Table 5.3: Unemployment rates and labour force participation rates by sex and age (women for 2002 and 2005)

| | | 1990 | 2001 | 2002 | 2002 | 2005 | 2005 |
|---------------------------------|-------|------|------|------|-------|------|-------|
| | | men | men | men | women | men | women |
| Unemployment rate | 25-54 | 5.6 | 4.1 | 4.2 | 3.8 | 3.6 | 3.3 |
| | 15-24 | 11.1 | 12.0 | 13.2 | 8.8 | 13.4 | 10.0 |
| Labour force participation rate | 25-54 | 94.8 | 91.3 | 91.4 | 76.7 | 91.0 | 77.4 |
| | 55-64 | 68.1 | 64.4 | 67.9 | 45.6 | 68.1 | 49.1 |

OECD (2006)

5.2.2 LABOUR MARKET INACTIVITY

The UK has a high proportion of working-age people who are not in work but not classified as unemployed either. This trend relates to male non-employment in particular which had climbed to 22 percent by 1993 (excluding students), compared with about 8 percent in the mid 1970s (Gregg & Wadsworth, 1999). Notably, when the labour market improved and employment grew after 1993, labour market participation of men below the age of 55 continued to drop (Table 5.3) and inactivity levels rose (Clasen *et al.*, 2006). Table 5.4 underlines that it is low skilled men who are disproportionately affected by labour market inactivity, and who have not benefited from the decline in unemployment and growth of employment since 1993 (see Table 5.4). Disaggregating labour market inactivity, Table 5.5 illustrates the geographical pattern of labour market disadvantage. Inactivity and unemployment cannot be regarded as functionally equivalent. Instead, areas with high unemployment also tend to be areas with high levels of labour market detachment. Finally, it has been noticeable that it is older men (aged 50 onwards) who have become more attached to the labour market since the start of the recovery in 1993, while the trend of rising inactivity of prime aged men (25-49) continued throughout the 1990s and beyond (see Clasen *et al.*, 2006).

Table 5.4: Labour market participation of low skilled men aged 25-64, 1994-2004.

| | 1994 | 1996 | 1998 | 2000 | 2001 | 2004 | 1994-2004 |
|-----------------------------|------|------|------|------|------|------|-----------|
| Unemployment rate | 18.8 | 15.1 | 13.7 | 11.6 | 9.4 | 7.9 | -10.9 |
| Employment/population ratio | 61.0 | 61.7 | 59.1 | 60.0 | 60.9 | 60.1 | -0.9 |
| Labour force participation | 75.1 | 72.7 | 68.5 | 68.0 | 67.2 | 65.2 | -9.9 |
| Inactivity rate | 24.9 | 27.3 | 31.5 | 32.0 | 32.8 | 34.8 | +9.9 |

Source: OECD (Employment Outlook, 1996-2006); *less than secondary education

Table 5.5: Male unemployment and inactivity across regions, 1990-1998.

| | Inactivity Rate | | Inactivity rate (low skill and over 25) | |
|------------------------|-----------------|------|---|------|
| | 1990 | 1998 | 1990 | 1998 |
| Area male unemployment | | | | |
| <5% | 8.3 | 11.9 | 13.2 | 27.3 |
| 5-7% | 11.1 | 13.9 | 18.3 | 32.6 |
| 7-9% | 12.9 | 15.1 | 23.1 | 33.6 |
| >9% | 14.9 | 18.7 | 26.3 | 43.4 |

Source: Gregg and Wadsworth (1999) (based on Labour Force Survey, spring quarters)

As for the status of the inactive, many are declared as long-term sick or incapacitated. Since the early 1980s there has been a substantial increase in sickness rates in Britain, reaching 7 percent by the end of the 1990s which was the highest rate of working age sickness in the EU at the time (2.1 percent in Germany; 0.3 percent in France). Some areas with high levels of open unemployment (e.g. Glasgow, Liverpool or Manchester) have even higher rates with between 15 and 20 percent of the working age population registered as sick (Webster, 2001). In the early 1980s there were about 600,000 persons registered as long-term sick. By 2001 the number had grown to 2.6 million, the majority of whom are men. Table 5.6 illustrates both the growing number of men in receipt of incapacity benefits, as well as the increase in the average spell of incapacity related benefit receipt. Both trends explain why labour market inactivity, and incapacity in particular, has caused British policy makers much more concern than unemployment in recent years, both in relation to numbers of claimants and financial outlays (see Table 5. 12 and 5.15), and in terms of the design of active labour market policies.

Table 5.6: Average duration of claims for Invalidation/Incapacity benefit (x 1,000), 1990-2002.

| Year | Number of male claimants* | Average duration in years |
|------|---------------------------|---------------------------|
| 1990 | 1,085.8 | 4,01 |
| 1992 | 1,372.1 | 3,96 |
| 1994 | 1,544.4 | 4,71 |
| 1996 | 1,672.5 | 4,92 |
| 1998 | 1,551.6 | 5,24 |
| 2000 | 1,391.5 | 5,64 |
| 2002 | 1,468.0 | 5,90 |

*Figures pre 1995 refer to invalidity and sickness benefit. Figures 1995 to 2002 refer to Incapacity benefit only.

Source: DWP, internal data

In short, a focus merely on unemployment would create a distorted image of what has happened in the British labour market. A geographically uneven distribution of labour market disadvantages, with high levels of inactivity affecting unskilled middle aged men in certain regions continues to be a major problem within a generally favourable employment situation.

5.2.3 HIRING AND FIRING

Statistics on the occupational background of JSA claimants (Table 5.7) show the large proportion of persons with 'elementary occupations' for both men and women. However male unemployed persons have occupational backgrounds in the skilled trades sector as well as 'process, plant and machine operations', while many female unemployed benefit claimants originate from sales and customer services and administrative and secretarial work.

Table 5.7: Distribution of usual occupations amongst JSA claimants (in %), June 2005.

| | All | Men | women |
|---------------------------------------|------|------|-------|
| Professional | 3.4 | 3.5 | 3.2 |
| Associate professional and technical | 6.2 | 6.4 | 5.6 |
| Administrative and secretarial | 10.2 | 6.4 | 21.1 |
| Skilled trades | 11.4 | 14.7 | 1.6 |
| Sales and customer services | 13.4 | 9.4 | 25.2 |
| Process, plant and machine operatives | 10.2 | 12.5 | 3.6 |
| Elementary occupations | 35.6 | 40.4 | 21.9 |

Source: Machin, A. (2005)

Similarly, the distribution of redundancy by sector shows that employees in manufacturing and construction are disproportionately affected by job losses, although annual figures vary somewhat, depending on business conditions (Table 5.8). Research covering the late 1990s and subsequent year found that men are almost twice as likely to be affected by redundancy as women, with 8.3 employees per thousand in 2003 (4.5 for women), and the risk of redundancy is somewhat higher for older age groups (over 50) than for younger ones (Heap, 2004).

Table 5.8: Redundancy rates by industry group (spring quarters, per thousand employees), 1999-2003.

| | 1999 | 2001 | 2003 |
|-----------------------------------|------|------|------|
| Manufacturing | 16.3 | 13.2 | 13.7 |
| Construction | 20.2 | 11.9 | 12.7 |
| Distribution, hotels, restaurants | 5.8 | 7.2 | 5.9 |
| Transport and communication | 8.7 | 7.2 | 6.4 |
| Banking, finance and insurance | 7.2 | 7.4 | 7.7 |
| Public administration | 1.5 | * | * |

* sample size too small

Source: Heap, 2004.

As for re-employment rates, almost half of all those made redundant in 1999 found a job within three months. Since then re-employment rates have declined somewhat (Table 5.9). Table 5.9

suggests that over time, there is no consistent pattern of re-employment following redundancy according to gender, but older age groups find it consistently more difficult to get back into a job than core-aged employees and re-employment in manufacturing is less likely than in services.

Table 5.9: Re-employment rates of people made redundant in previous 3 months (spring quarters, %), 1999-2004.

| | 1999 | 2001 | 2003 |
|---------------|------|------|------|
| Aged: | | | |
| 25-49 | 51 | 56 | 44 |
| 50 plus | 38 | 27 | 33 |
| Sex: | | | |
| Men | 47 | 47 | 42 |
| women | 50 | 55 | 40 |
| Sector: | | | |
| Manufacturing | 43 | 42 | 37 |
| Services | 51 | 53 | 45 |

Source: Heap (2004)

5.2.4 FLOWS BETWEEN EMPLOYMENT AND UNEMPLOYMENT

Based on a longitudinal labour force data set, Table 5.10 shows that for more than 90 percent of working-age adults there was no change in status during autumn and winter 2004, with 73 percent being employed, 19 percent being inactive and 1.9 percent being unemployed in both quarters (Brook & Barham, 2006). About 6 percent of respondents experienced a transition, with the largest groups moving from inactivity to employment and vice versa. Over time, the proportion of those who remained employed in two quarters rose steadily from about 65 percent in 1993 to about 73 percent in 2004. However, inactivity remained rather stable throughout this period, with close to 20 percent of the adult working age population, suggesting that the share of those who were unemployed in both quarters dropped considerably, which it did from about 6 percent in the early 1990s to below 2 percent in 2004 (Brook & Barham, *ibid.*).

Table 5.10: Categories of labour market flows in the UK (autumn to winter 2004)

| From | To | Flow (%) |
|------------|------------|----------|
| Employed | employed | 72.7 |
| Employed | unemployed | 1.0 |
| Employed | inactive | 1.3 |
| Unemployed | employed | 1.1 |
| Unemployed | unemployed | 1.9 |
| Unemployed | inactive | 0.8 |
| Inactive | employed | 1.3 |
| Inactive | unemployed | 0.9 |
| Inactive | inactive | 19.1 |

Source: Brook, K. & Barham, C. (2006)

This is in line with the drop in long-term unemployment (Table 5.11). However, this aggregate picture hides important sociological differences in labour market inactivity. For example, the fairly stable rate of inactivity is due to the trend of rising male and declining female inactivity since the

1980s. Secondly, the positive correlation between low skill and inactivity has already been discussed (see Table 5.3 and 5.4). Finally, there are important differences in accordance to age. For example, while inactivity rates of men over 50 are significantly lower than those under 50, longitudinal data show that inactivity among older age groups declined when employment prospects improved in the mid 1990s, while inactivity amongst younger cohorts of men continued to rise. Recent research shows that one cause for the latter was the introduction of the Jobseekers Allowance in 1996, which reduced flows from employment into unemployment but reinforced flows into inactivity for this age group (see Clasen *et al.*, 2006; also Manning, 2005).

Table 5.11: Long-term unemployment, 1997-2005.

| | X 1,000 | % of unemployed |
|------|---------|-----------------|
| 1997 | 731 | 36 |
| 1998 | 545 | 31 |
| 1999 | 482 | 28 |
| 2000 | 433 | 27 |
| 2001 | 371 | 25 |
| 2002 | 313 | 21 |
| 2003 | 305 | 21 |
| 2004 | 277 | 20 |
| 2005 | 300 | 21 |

Source: Labour Market trends, various years

5.2.5 THE COST OF UNEMPLOYMENT BENEFITS AND ALMP

Table 3.5 (section 3.5) has already illustrated the relative small amount of benefit expenditure devoted to both means-tested and insurance based JSA, compared with incapacity benefit or housing benefit for people of working age. Thus, as discussed in section 3, the exclusive focus on unemployment insurance would provide only a partial and distorted image of social security expenditure on unemployed and other people of working age in the UK. However, given the decline of unemployment since 1993 also total social security spending on unemployed people, i.e. on income support (later income-based JSA) and previous unemployment (insurance) benefit (later contributory JSA) is fairly low and has declined since its peak in 1993/4, both in the total amount spent and as a share of total social security expenditure in the UK (see Table 5.12).

The cost of active labour market spending in the UK has already been discussed in section 4.4 and its development over time is illustrated in Table 4.1. Table 4.2 indicated the decline of subsidised employment and the continuous relevance of spending on job search support in particular and table 4.3 shows the concentration on the New Deal for Young People, with about 70 percent of total New Deal funding. There are no statistics on the costs on the administration of JSA only. However, Table 5.13 provides information about the costs of programme expenditure and administrative costs

for all working age benefits in the past three years. Once again it illustrates the relatively minor role of JSA.

Table 5.12: Total social security expenditure and spending on unemployed (1998/9 prices, £billion), 1990-2001/2

| | Total benefit spending | On unemployed people | | Unemployment rate (1) |
|---------|------------------------|----------------------|------|-----------------------|
| | | £billion | % | |
| 1990/91 | 72.3 | 6.8 | 9.4 | 7.1 |
| 1991/92 | 79.9 | 9.1 | 11.3 | 8.9 |
| 1992/93 | 87.8 | 10.9 | 11.5 | 10.0 |
| 1993/94 | 93.6 | 11.5 | 12.3 | 10.5 |
| 1994/95 | 95.0 | 10.4 | 10.1 | 9.6 |
| 1995/96 | 96.5 | 9.4 | 9.7 | 8.7 |
| 1996/97 | 97.6 | 8.1 | 8.3 | 8.2 |
| 1997/98 | 95.7 | 6.1 | 6.4 | 7.0 |
| 1998/99 | 95.6 | 5.4 | 5.6 | 6.3 |
| 1999/00 | 97.3 | 5.1 | 5.2 | 6.1 |
| 2000/01 | 96.2 | 5.2 | 5.4 | 5.5 |
| 2001/02 | 98.3 | 5.2 | 5.3 | 5.2 |

(1) ILO, first rate is for 1990

Source: DSS (2000) *The Changing Welfare State: Social Security Spending, Appendix B; and own calculations; from 1999/00 forecasts;*

Table 5.13: Working age benefit spending and administrative costs (£ billion), 2003-2005

| | 2003/4 | 2004/5 | 2005/6 (planned) |
|--|--------|--------|---------------------|
| Working-age benefits | 15.89 | 15.33 | 14.70 |
| JSA contribution based | 0.51 | 0.44 | 0.46 |
| JSA income based (adult element) | 1.78 | 1.56 | 1.59 |
| Total working-age administration costs | 2.47 | 2.95 | 2.10 |

Source: DWP Annual Report 2005, chapter 6

Finally, Table 5.14 shows the administrative costs of New Deal programmes. Due to some changes in the ways expenditure is allocated regarding, for example, the allowances paid to New Deal participants or the definition of administrative costs, figures are not comparable over the entire period (see notes in table). Nevertheless, relatively high share of the administrative costs is striking, underlining the focus on the gateway period in NDYP and ND25+ clients, i.e. intensive job search support and other tailor-made case management compared with training or work experience elements. The relevance of job integration efforts was also visible in the distribution of New Deal participants at any one particular point of time (see Table 4.5).

Table 5.14: Expenditure on New Deals and administrative costs, (£ million), 1999-2004

| | 1999/00 | 2000/01 | 2001/2 | 2002/3 | 2003/4 | 2004/5 |
|------------------------------|---------|---------|--------|--------|--------|--------|
| Programme expenditure* | 381 | 402 | 456 | 501 | 546 | 490 |
| Administrative expenditure** | 155 | 194 | 216 | 233 | 111 | 113 |

*from 2002/3 onwards includes allowance payments for NDYP and ND25+ participants and thus not comparable with earlier years when allowances were paid from other current expenditure; **from 2003/4 onwards staff costs only and thus not comparable to earlier years

Source: DWP Annual Report 2005, chapter 6, table 10; 2004/5 is forecast outturn;

5.2.6 WORKING AGE PERSONS ON DIFFERENT BENEFITS

The number of claimants of JSA rose during 2005 and 2006 and currently (July 2006) stands at 957,000, which represents the highest number since January 2002. As a proportion of the resident working-age population this represents 2.4 percent for the 12 months ending December 2005 (ONS, Labour Market Trends, September 2006: 313). Within a longer time frame, Table 5.15 underlines both the fairly stable number of JSA claimants in recent years, and their relatively small magnitude when compared with claimants of incapacity benefits. The number of lone parents in receipt of Income support is not much smaller than the number of unemployed people.

Table 5.15: Working age benefit claimants (million), 2002-2006

| | Total (million) | JSA | Incapacity benefit | Lone parent* | Carer ** | Other *** |
|------|--------------------|------|-----------------------|-----------------|----------|-----------|
| 2002 | 5.48 | 0.91 | 2.77 | 0.87 | 0.34 | 0.60 |
| 2003 | 5.54 | 0.97 | 2.78 | 0.85 | 0.35 | 0.60 |
| 2004 | 5.45 | 0.90 | 2.78 | 0.83 | 0.36 | 0.59 |
| 2005 | 5.36 | 0.85 | 2.76 | 0.79 | 0.36 | 0.59 |
| 2006 | 5.42 | 0.97 | 2.70 | 0.78 | 0.37 | 0.61 |

*single parent with child under 16 in receipt of Income Support; **in receipt of Carers Allowance; ***various other benefits, excluding housing benefit

Source: National Statistics (2006), DWP quarterly statistical summary; February count except 2002 (May).

5.2.7 DURATION OF BENEFIT SPELLS

Table 5.16 provides information about benefit spells since 1997. It indicates a declining average period of claiming Jobseekers Allowance of either kind, with close to half of all of all claims ending within three months, and almost 70 percent within six months, by February 2005. The proportion of claims lasting for more than one year decreased from about one third to less than a fifth of all. However, official statistics also show that it is the older groups, and men in particular, who remain in benefit receipts for longer durations. For example, more than one third of men over 50 (a quarter of women) had received JSA for more than one year in February 2005, and about 20 percent of all unemployed persons aged 25 to 49 were long-term unemployed, i.e. in receipt for JSA for over one year (DWP, 2005). Transitions rates out of unemployment into employment and inactivity have already been provided (see Table 5.10 above).

Table 5.16: JSA claimants by duration of current claim (% of all claimants), February each year 1997-2005.

| | 1997 | 1999 | 2001 | 2003 | 2005 |
|--------------------|------|------|------|------|------|
| Under 3 months | 32 | 39 | 44 | 46 | 46 |
| 3 to 6 months | 19 | 20 | 21 | 22 | 22 |
| 6 to 12 months | 15 | 15 | 15 | 15 | 15 |
| More than one year | 34 | 27 | 21 | 17 | 18 |

Source: DWP (2005)

5.2.8 INCOME DISPARITIES AND THE INSIDER-OUTSIDER SPLIT

Given the short duration of low coverage of the insurance-based Jobseekers Allowance and the low level of Jobseekers Allowance of either type, it can be expected that households which have to rely on state support during unemployment are to be found in the lower income brackets. Indeed, official statistics confirm that about 70 percent of all workless households where the head of household or the spouse is unemployed have an equivalised net disposable income which puts them in the bottom quintile of the income distribution, and close to 90 percent of these type of households are found in the bottom 40 percent of the income distribution (see Table 5.17).

Table 5.17: Quintile distribution of income by economic status of adults in the family (percentage of individuals, net equivalised disposable income, after housing costs), 2004/5

| | Bottom quintile | Second quintile | Top quintile | All individuals (millions) |
|--|-----------------|-----------------|--------------|----------------------------|
| Single or couple, all full-time work | 4 | 9 | 37 | 14.1 |
| Couple, one full-time, one part-time work | 6 | 18 | 20 | 8.3 |
| Couple, one full-time work, one non-employed | 18 | 26 | 16 | 6.8 |
| One or more part-time work | 27 | 25 | 12 | 5.4 |
| Workless, head or spouse unemployed | 71 | 16 | 1 | 1.4 |
| Workless, other inactive | 59 | 22 | 3 | 6.0 |

Source: DWP (2005)

In other words, unemployment and redundancy tend to have a major impact on living standards in the UK and the distribution of unemployment is skewed. Moreover, there are certainly some groups who are more affected by unemployment and redundancy than others, such as those with lower and elementary skills, older men, men with a background in manufacturing and women who work in administrative and secretarial positions (see previous Tables 5.7, 5.8, 5.9). On the other hand, almost 20 percent of those who had left a job in the above mentioned survey of job separations (Corbin, 2004) were managers or senior officials and the redundancy rates of this group is above the average across all occupational groups (Heap, 2004).

The difference here is between those who resort to statutory support and others can rely on non-statutory redundancy pay and other forms of compensation for job loss, rather than social security benefits. Otherwise it would not be plausible why only a third of all those who had been made redundant in of the above mentioned respondents within the survey of job separation (Corbin, 2004) reported to have claimed JSA. Of course, some job leavers receiving redundancy pay might have refrained from claiming income-based (not contributory) JSA because their benefit entitlement would have been affected or ceased altogether. However, it can be assumed that at least some job leavers did not claim because they relied on non-statutory forms of redundancy pay and other employer-based compensation payments for job loss.

Thus, analysing the situation of job loss in the UK a distinction can be made between those who rely on JSA and related benefits (and/or some statutory redundancy pay), and others who might be out of work for shorter periods and have access to non-statutory payments from employers in case of redundancy (see section 2.5), contributory JSA and, in some cases, additional private insurance in the form of mortgage payment protection policies (see section 3.2).

5.2.9 PUBLIC ATTITUDES

As far as public attitudes are concerned, two important aspects help to explain the relatively smooth policy development towards a more mandatory, individualised and work-first benefit regime within unemployment insurance: a growing public acceptance of a more prescriptive and conditional support for unemployed persons and, secondly, the ambiguity and indifference towards the insurance principle within unemployment protection.

In the 1980s and 1990s conservative governments had been reluctant to embark on anything which could have been construed by critics as a move towards a US-imported 'workfare' strategy. This caution seemed justified given that since the early 1980s more than half of the British population had consistently regarded unemployed people as victims of external circumstances (British Social Attitudes, various years). However, this perception changed dramatically after 1997 with a steep rise in the proportion of those who perceived benefits as too generous and as discouraging active job search (Hills, 2001; 2002). More generally, between 1998 and 2003 public opinion towards the unemployed was less favourable than in the 1980s and first half of the 1990s (Taylor-Gooby, 2004), with a higher percentage stating that people were 'learning to stand on their own feet if benefits were less generous' (42 percent in 2003) and a lower percentage considering benefits as too low (34 percent in 2003). In other words, imposing more obligations on unemployed people seemed much less of a political gamble than in the first half of the 1990s. In addition, concentrating on young unemployed and explicitly keeping public expenditure low were political tactics which helped prevent accusations of fiscal imprudence or lack of targeting. Last but not least the continuously improving labour market facilitated a portrayal of the New Deal as successful. In short, the second half of the 1990s provided several opportunities which aligned favourably with Labour's more prescriptive and work-oriented unemployment benefit system (Clasen, 2000).

At the same time, the erosion of the principle of insurance within unemployment protection did not encounter any significant public protests or opposition. Surveys at the end of the 1990s confirmed both the lack of a distinction the British public makes between paying contributions and taxes and an unclear understanding of what National Insurance contributions actually pay for (Stafford, 1998;

Fabian Society, 1998). This made Labour government's subordination of the contributory principle under the principle of targeting and selectivity relatively straightforward. As Alistair Darling, a former Secretary of State for Social Security, underlined, 'today, the important difference in social security systems is not whether they are insurance based or means tested, but whether or not they provide enough help to get people back to work and improve their lives' (The Guardian, June 16, 1999). Consequently, the justification for maintaining the National Insurance system was reduced to its revenue raising capacity and its relevance in the area of pensions. In other words, the abolition of National Insurance might have been in accordance with Labour's indifference towards the contributory principle, but fiscally counterproductive and politically risky because of the broad public support of the contributory state pension. This has recently been illustrated when, after a lengthy review period, the government announced its intention to re-connect the level of the basic state pension to changes in earnings rather than merely price inflation.

5.2.10 INDUSTRIAL RELATIONS

After a peak of 13 million union members in 1979 and a subsequent steep the number of employees organised in trade unions has hovered around the seven million mark since about the time the Labour government came into power in 1997. This represents a density (percent unionised) figure of about 29 percent (Metcalf, 2005). A recent survey of workplaces with ten or more employees indicate that about one third (34 percent) of all employees were members of a trade union in 2004 (Kersely *et al.*, 2005). In the private sector the figure was lower (22 percent) but considerably higher in the public sector (64 percent). Almost two-thirds of all workplaces (64 percent) had no union members (up from 57% in 1998). In the private sector this applies to 77 percent of all workplaces. Only 18 percent of all workplaces had employees who represented the majority of the workforce, which was down from 22 percent in 1998 (Kersely *et al.*, 2005: 12).

Since the mid 1980s the proportion of workplaces setting pay through collective bargaining has declined and this trend continued in recent years. The share of workplaces engaged in collective bargaining dropped from 30 percent in 1998 to 22 percent in 2004 (Kersely *et al.*, 2005: 19).

However, the decline was largely due to the private sector where the respective figures were 17 percent in 1998 and 11 percent in 2004. By contrast, the public sector all but maintained its position, with 77 percent of all workplaces covered by some form of collective bargaining.

The proportion of employees covered by collective bargaining represented 35 percent in 2004 (in workplaces with more than 10 staff), a decline from 1998 when the figure was 38 percent. However, there is strong variation across sectors. In private manufacturing, for example, one third of the

employees had their pay set through collective bargaining in 2004 (43 percent in 1998). In private services the respective figure was 18 percent (20 percent in 1998). By contrast, coverage in the public sector rose from 66 percent in 1998 to 75 percent in 2004 (which has to do with the bargained settlement for health professionals under 'agenda for change').

Overall, the most common form of pay determination in 2004 was unilateral pay setting by management, either at the workplace or at a higher level of the organisation. In recent years there has been a clear trend towards pay setting at the workplace level, rising from 25 percent of all workplaces (32 percent in the private sector) in 1998 to 35 percent (43 percent in the private sector) in 2004 (Kersley *et al.*, 2005: 19). Even in the public sector, management pay setting has increased, from 21 percent of all workplaces in 1998 to 28 percent in 2004.

Table 5.18: Relevance of trade union representation in the private and public sector

| | Private sector | Public sector |
|--|----------------|---------------|
| Trade unions members as % of employees* | 17 | 59 |
| Covered by collective agreement | 21 | 71 |
| Recognition of at least one trade union for negotiating pay (% workplaces) | 16 | 90 |

Source: *Labour Force Survey (2005); Kersley *et al.* (2005)

5.2.11 STUDIES ON SECOND ORDER EFFECTS

There are no studies which jointly examine the development of the policy domains covered in this report. Research on the development of employment protection, or Labour Law in UK parlance, from a legal perspective is covered comprehensively by Deakin and Morris (2005), while Dickens and Hall (2005) review research into the impact of employment relations legislation. The eroding contributory of unemployment protection since the early 1980s has been discussed by Clasen (2005) and legislation in this field is extensively covered by Wikeley *et al.* (2002). As far as the impact of JSA, there has been a growing interest in labour market inactivity and labour market transitions, as well as ways in which welfare reform legislation has impacted on flows. For example, using panel data analysis, Clasen *et al.* (2006; see also Manning, 2005) found that the introduction of the JSA has led to reduced flows from employment into unemployment but increased flows into non-employment, particularly amongst men of prime working age. Effects of the New Deal programmes are discussed in several chapters in Card *et al.* (2005) and in a meta-analysis by Hasluck and Green (2006) who showed that the NDYP and employment zones have had the clearest positive net effects on employment growth. Intensifies job search has been a major factor here. However, the authors also show the need for greater decentralisation and the for better services to those furthest away from the labour market. Kersley *et al.* (2005) discuss the findings of the latest workplace employment relations survey. Their main findings were referred to in several sections above.

6 CONCLUDING REMARKS

It would be easy to dismiss the British model of employment protection and unemployment support as one of the least generous and, potentially, least effective in Europe. As discussed in detail, and echoed in comparative analyses in the field, although recently expanded, the extent of legal employment protection is relatively low. Statutory transfers in case of dismissal or redundancy are not generous and, typically, do not compensate for similarly low levels of unemployment insurance transfers. There is no space for collective labour agreements which could substitute for the residual income protection provided either through unemployment insurance or employment protection. In addition, expenditure on active labour market programmes has increased only relatively little under the Labour government.

However, a closer look reveals some ‘functional equivalents’ which raise the effectiveness of unemployment protection and narrow the gap between the UK and other European countries. This applies to better paid and short-term unemployed persons in particular who rely on private unemployment insurance (e.g. as part of mortgage protection plans) and non-statutory redundancy monies to top-up meagre state support during shorter spells of unemployment. For those out of work for longer, or more frequently, these avenues are less forthcoming. Additional state benefits are thus needed and common, such as housing benefits or help with local tax duties. The ‘package’ of unemployment support thus consists of much more than unemployment benefits, and in monetary terms insurance-based Jobseekers Allowance is rather marginal. Resulting disincentives, which such a system heavily reliant on means-tested support implies, have been counteracted with the introduction and significant expansion of wage subsidies (tax credits) which have mushroomed under the Labour government. Thus, supported by a long spell of job growth, the British model has been relatively successful, albeit at the cost of significant income disparities and concentration of labour market disadvantages.

Policy making and delivery continues to be centralised, with no role for social partners in the formation of policy in any of the three domains covered here. Nevertheless, or perhaps partly because of this, the complex and targeted support system has become more coherent than it was ten or twenty years ago, when, for example, active and passive labour market policies were devised and provided in isolation from each other. Today, the integration of benefit and job search services in the UK, as well as the amalgamation of benefit support for all claimants of working-age has proved to be of great interest to many other European countries. Of course, its relative success has benefited from a long period of economic and labour market expansion. Should the recent rise in

unemployment be more than a blip in this trend, the sustainability of the British model is likely to be seriously tested.

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LIST OF ABBREVIATIONS

| | |
|-------|--|
| ACAS | Advisory Conciliation and Arbitration Service |
| ALMP | Active Labour Market Policy |
| CBI | Confederation of British Industry |
| DTI | Department of Trade and Industry |
| DWP | Department of Work and Pensions |
| EAT | Employment Appeal Tribunal |
| ET | Employment Tribunal |
| EZ | Employment Zone |
| IAP | Intensive Activity Period |
| ITB | Industrial Training Board |
| JSA | Job Seekers Allowance (cb = contribution based, ib=income based) |
| JVP | Joint Venture Partnership |
| LEC | Local Enterprise Council |
| MPPI | Mortgage Payment Protection Insurance |
| MSC | Manpower Service Commission |
| NDDP | New Deal for Disabled People |
| NDPA | New Deal Personal Advisor |
| NDLP | New Deal for Lone Parents |
| NDYP | New Deal for Young People |
| NHS | National Health Service |
| NIF | National Insurance Fund |
| PA | Personal Adviser |
| PSL | Private Sector Lead Partnership |
| TEC | Training and Enterprise Council |
| TfW | Training for Work |
| T&GWU | Trade and General Workers Union |
| TUC | Trade Union Congress |

APPENDIX

AI MAJOR REFORMS IN INDIVIDUAL EMPLOYMENT RIGHTS LEGISLATION*

| Year | Measure |
|-----------|---|
| 1980-1985 | Minimum period of continuous employment needed to qualify for unfair dismissal raised in stages from 6 months to two years. |
| 1983 | EU law (equal pay for work of equal value) introduced |
| 1986 | Restrictions on the regulatory powers of the Wages Councils to set floor to wages for specific groups (young workers and the low paid). |
| 1989 | Employment Act 1989 repeals protective legislation governing the employment of young workers. Diminution of value of statutory rights by imposition of 'procedural obstacles' (e.g. having to pay a pre-hearing deposit; freezing of statutory upper limit on dismissal compensation award). |
| 1990 | Refusing to hire individuals on the grounds of membership (or non-membership) in trade union becomes unlawful. |
| 1993 | Trade Union Reform and Employment Rights Act abolishes Wages Councils. |
| 1995 | Exclusion of dismissal protection for part-time workers abolished. |
| 1998 | Working Time Directive (of 1993) finally introduced. |
| 1998 | Introduction of comprehensive statutory minimum wage. |
| 1999 | Employment Relations Act 1999: Shortening of the qualifying period for unfair dismissal from 2 to 1 year. Unfair dismissal protection extended to employees on fixed-term contracts (option of waiving right to claim unfair dismissal abolished). Upper limit on unfair dismissal compensation awards raised from £12,000 to £50,000 (and indexed with price inflation). The ERA 1999 enacts a right for a worker to be accompanied by a union representative in grievance and disciplinary hearings. The ERA 1999 also enables a trade union to obtain recognition for collective bargaining if supported by majority of workforce (in force in 2000). |
| 2000 | Part-time workers can no longer be treated less favourably than comparable full-time workers |
| 2001 | 'Arbitration alternative' introduced. In unfair dismissal cases both parties can agree (via ending the right to a tribunal hearing) to go before a single arbitrator to have the case decided. |
| 2002 | Employment Act: requires employees to institute internal grievance procedure prior to bringing a tribunal claim in respect of wide range of employment rights (e.g. employers required to set out in writing the employee's alleged conduct or characteristics which led it to contemplate dismissal). Failure to exhaust this procedure implies substantial reduction of maximum dismissal compensation. Protection for employees on fixed-term contracts comes into force. |
| 2004 | Basic statutory dispute resolution procedures and revised employment tribunal regulations introduced. New rights for temporary workers and responsibilities for employment agencies introduced. |

* not covered are rights in relation to discrimination (sex, race), maternity and parenthood (leave, flexible work), and working time.

Source: Dickens & Hall (2005); Deakin & Morris (2005);

A2 MAJOR REFORMS IN UNEMPLOYMENT PROTECTION

| Year | Measure |
|------------------------|---|
| 1981 | Higher means-tested Supplementary Benefit (SB) for unemployed over-60 year olds who chose to retire early. |
| 1982 | Abolition of Earnings Related Supplement (ERS) to UB. Unemployment Insurance Benefit (UB) made subject to income taxation. |
| 1984 | Abolition of child additions (except for claimants over pension age) in UB. |
| 1985 | Exemption from disqualification provisions in UB for those accepting voluntary redundancy. |
| 1986 | Increase in maximum disqualification period in UB from 6 to 13 weeks. Abolition of $\frac{1}{4}$ and $\frac{1}{2}$ UB rates for those with incomplete contribution records. With introduction of Income Support (IS), as replacement of SB, introduction of a lower benefit rates for under 25 year-olds (18-25). |
| 1988 | Tighter contribution requirement for UB. Increase in disqualification period for UB from 13 to 26 weeks. Exclusion of 16 and 17 year-olds from IS, except in special circumstances. |
| 1989 | Introduction of 'Actively Seeking Work' test (see Appendix 3) |
| 1990 | Introduction of Employment Service 'back to work plans'. Reductions in IS made possible for unemployed claimants failing to attend Restart interviews. |
| 1992 | Further tightening of disqualification conditions in UB. Reduction of UB for recipients of occupational pensions over 55. |
| 1996 | Merger of UB and IS for the unemployed into Jobseekers Allowance (JSA), consisting of 'contributory JSA' and 'income-related JSA'. Reduction of maximum duration of contributory (insurance) benefit from 1 year to 6 months. Reduction of benefit rate for claimants aged 18 to 24 (by 20%). Removal of all remaining dependant additions which existed under UB. Reduction of contributory benefit rights for unemployed recipients of occupational pensions of all ages. |
| 1998 Labour Gov. | With introduction of New Deal programmes for young people under 25 (NDYP) and long-term unemployed (NDLTU) obligatory transfer of benefit claimants into 'options' (see Appendix 3) |

Source: *Journal of Social Policy 'Social Policy Review'*; CPAG 'Welfare Rights Bulletin' (1980-2003); Clasen (2005).

A3 MAJOR REFORMS IN ACTIVE LABOUR MARKET POLICY

| Year | Measure |
|---------|--|
| 1974 | Implementation of tripartite Manpower Service Commission (MSC) in charge of training and labour exchanges; working closely with 23 sector based Industrial Training Boards (ITBs) with equal trade unions and employers representation |
| 1979 | MSC became involved in management of unemployment; Jobcentres given responsibility for expansion of temporary job creation |
| 1981 | Abolition of ITBs. |
| 1982-85 | Most unemployed continue to 'sign on' fortnightly at UB offices but decision to register at separate Job Centre becomes voluntary. |
| 1986 | Introduction of 'Restart' programme, with compulsory job search reviews after 6 months of unemployment; more regular 'availability for work' testing. |
| 1987 | The role of the MSC to be transferred to newly created Employment Service Executive Agency. Creation of local employer-led network of Training and Enterprise Councils (TECs) in charge of youth and adult training programmes. ES charged with integrating previously separate network of Jobcentres and UB offices. |
| 1988 | MSC dismantled. Creation of modernised ES as 'next steps' executive agency. Separate Benefits Agency (BA) in charge of administering unemployment benefits. |
| 1989 | Introduction of 'Actively Seeking Work' test. After 13 weeks of unemployment, conditions defining suitable work under Clause 9 (i.e. limitation of possibility to place limitations on 'suitable' or 'acceptable' work) abandoned. Introduction of 'Employment Trials', allowing people previously unemployed for more than 26 weeks to leave a new job after between 4 and 12 weeks without loss of acquired benefit rights. |
| 1990 | Introduction of Employment Service 'back to work plans'. |
| 1996 | Replacement of UB and Income Support for the unemployed with Jobseekers Allowance (JSA), consisting of 'contributory JSA' and 'income-related JSA'. Introduction of requirement to sign a jobseeker's agreement. Introduction of obligatory jobseekers' directions, where directions can be given on appearance etc. to job seekers. Introduction of a 'permitted period' of 13 weeks for restriction of job-search. Introduction of 'project work' pilots for long-term unemployed, based on 13 weeks compulsory supervised job-search followed by 13 weeks work experience. |
| 1997 | Labour replaces TECs with broader partnerships (Learning and Skills Councils), contracting with diverse range of public, private and voluntary sector delivery organisations |
| 1998 | Introduction of mandatory New Deal programmes for young people under 25 (NDYP) and long-term unemployed (NDLTU) (out of work for 2 years). New Deal for Lone Parents (NDLP) (voluntary job-related interview). |
| 1999 | Voluntary New Deal for Partners (NDP) introduced; joint claim required for those with partners claiming JSA for over 6 months (for those without children and under 25). Voluntary New Deal for those over 50 introduced. Introduction of front line Personal Advisers (PA), individualising employment assistance. |
| 2000 | Creation of fully private sector model based Employment Zones in 15 of the most disadvantaged labour market areas in which participation in New Deal programmes for over 25 year olds becomes mandatory after 18 months (or 12 months in seven zones). |
| 2001 | NDLTU revamped as ND 25+ (compulsory after 18 months unemployment within past 21 months; gateway period introduced, as well as subsequent 'intensive Activity Period' of 13-26 weeks). Introduction of NDDP – New Deal for disabled people (voluntary). |
| 2002 | Creation Jobcentre Plus, Executive Agency of DWP. Jobcentre Plus replaces previously distinct ES and the Benefit Agency, joining up the administration of the benefit system and the running of employment services (which separated from the Department for Education and Skills and joined the DWP). Independent National Employment Panel (NEP) created, including three (of 25) members nominated by the TUC to advise the DWP on 'welfare to work' issues. NDLP: introduction of compulsory job-related interview and interview with personal adviser every 6 months. NDP mandatory for JSA claimants under 45 years of age (if no children). |
| 2004 | Entry into NDYP and ND25+ already after 3 months of unemployment (piloted in certain areas). |
| 2005 | 'Building on New deal' prototype areas |
| 2006 | Introduction of nationwide Jobcentre Plus. |

Source: *Journal of Social Policy* 'Social Policy Review'; CPAG 'Welfare Rights Bulletin' (1980-2003); Clasen (2005), Finn, 2005.

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