

Series N°1

Labour Market Studies UNITED KINGDOM



Employment & social affairs



Labour Market Studies

United Kingdom

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December 1996

This report was financed by and prepared for the use of the European Commission, Directorate-General for Employment, Industrial Relations and Social Affairs. It does not necessarily represent the Commission's official position.

A great deal of additional information on the European Union is available on the Internet.
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Cataloguing data can be found at the end of this publication

Luxembourg: Office for Official Publications of the European Communities, 1997

ISBN 92-827-8751-6

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Printed in Belgium

This study was prepared by Peter Robinson, Research Officer at the Centre for Economic Performance. Senior Adviser on the project was Richard Jackman, Director of the Human Resources programme at the Centre for Economic Performance. Research assistance was provided by Donna Brown and assistance with constructing the tables by Caroline Travers and Helen Durrant.

Study on the labour market in the United KingdomExecutive Summary

The UK Government's labour market reforms since 1979 have often been described as constituting a policy of 'deregulation' designed to foster a more 'flexible' labour market. The UK already had a less regulated labour market than many other European countries in 1979 and it is by no means obvious that all labour market policy since then has been in the direction of 'deregulation'.

The experience of the UK labour market is perceived to be out of line with the experience of other member states of the EU, as such this study may be particularly illuminating with regard to the debate in the EU over the directions in which labour market policy should go.

I. Labour market analysis and forecasts**Employment trends**

Employment and unemployment in Britain have fluctuated markedly since 1979 with two major recessions in the early 1980s and early 1990s punctuated by a sharp upturn in employment in the late 1980s. On a peak-to-peak basis (1979-90) employment rates rose marginally. Employment-population ratios are significantly higher in the UK than in most of the other member states of the EU. However, this was already apparent in 1979.

Labour force participation rates for women have been on a strongly rising trend over the whole post-war period. The increase in female participation rates between 1979-96 did not represent any sharp change in trend. Male participation rates have been on a declining trend over the post-war period, but the decline since 1979 has been somewhat faster than in earlier decades. Since 1993 employment has been rising at a slightly faster rate for men than for women.

Growth in 'atypical' employment?

It is frequently asserted that a distinctive feature of the post-1979 UK labour market is the growth in so-called 'atypical' or 'flexible' forms of employment. This is usually defined as any kind of job which is not full-time and permanent.

The share of part-time employment in the UK has been rising steadily since 1951, when it stood at just four per cent of total employment. The fastest rate of growth in part-time employment occurred in the 1960s when its share in total employment rose by seven percentage points. Between 1984 and 1996 the share of part-time employment increased by just over four percentage points. The steady increase in the share of part-time employment over the post-war period largely reflects the growth in female labour force participation. Most part-time work in the UK is voluntarily entered into although the incidence of involuntary part-time work has increased since 1990. Part-time employment has long represented a higher share of total employment in the

UK than in most other EU countries, but the incidence of involuntary part-time employment as a proportion of the labour force has not been higher.

Between 1984 and 1991 there was no increase in the proportion of employees in temporary jobs. Between 1991 and 1996 there was an increase in the share of temporary employment. The share of temporary employment in the UK in the mid-1990s was still low in comparison with other EU nations despite the UK having a relatively deregulated labour market. Firms may have the incentive to employ workers on non-standard contracts if the regulations covering standard contracts are perceived as burdensome. The fact that the share of temporary employment is so low in the UK and has not increased significantly is indirect evidence that the burden of employment protection on regular forms of employment in Britain is not heavy.

One break in trend in the structure of employment in Britain after 1979 was the sharp increase in the share of self-employment. This share had been broadly flat over the post-war period, but between 1979 and 1989 the share of self-employment rose from 7.3 per cent of total employment to 13.1 per cent. However, in the recession of the early 1990s the share of self-employment fell slightly and has been flat since.

The shift from manufacturing to services

Between 1979 and 1984 there was an unprecedented and precipitous decline in the share of manufacturing employment. However, this is the only example of a significant acceleration in the pace of change in the structure of employment by industry. In more recent years the decline in the share of manufacturing employment has slowed down markedly. Within the 'service' sector it is the business and financial services and the public and social services which have increased their shares of total employment rather than distribution, hotels and catering. This means that the growth in service sector employment has been concentrated in those sectors where relatively well paid managerial, professional and technical jobs are concentrated and not in the sector where less skilled and lower paid service jobs are concentrated.

Over the whole post-war period there has been an ongoing decline in the share of manual jobs in total employment and a rise in the proportion of jobs falling into the managerial, professional and technical category. The only less skilled occupations to have increased their share more recently have been the personal services. The decline in the share of skilled manual employment has been as rapid as the decline in the share of unskilled manual employment. The share of semi-skilled manual occupations has declined more slowly. It is strictly incorrect to talk about the decline in unskilled employment rather than the decline in manual employment.

Trends in unemployment

In 1979 the unemployment rate in Britain, as measured by the number of people registered for unemployment benefit, consistent with current coverage, stood at four per cent of the workforce. In the first half of 1996 the claimant unemployment rate stood at just under eight per cent of the workforce. The difference

between the ILO unemployment rate derived from the Labour Force Survey and the unemployment rate as measured by the claimant count seems to move over time in a predictable fashion consistent with an added/discouraged worker effect.

When aggregate unemployment as measured by the claimant count or the ILO measure, is on a firmly downward (upward) trend all other measures of un- or underemployment are also on a firmly downward (upward) trend. Most significantly, when aggregate unemployment is on a firmly downward trend the unemployment rates for all the most disadvantaged groups in the labour market also fall, at rate which is at least as fast. The argument that there is some asymmetry in that unemployment rates for disadvantaged groups rise sharply in recessions but do not decline in the same way during recoveries is not borne out by the evidence in the UK. This applies to youth unemployment, ethnic unemployment and most notably to long-term unemployment. If we could be confident that aggregate unemployment could be reduced to a reasonably low level we could be reassured that unemployment rates amongst these disadvantaged groups would also fall significantly.

In the first half of the 1990s regional differences in unemployment rates in the UK were narrower than at any time in the last 70 years. There is also no clear sign that the relative unemployment rates of the less well qualified have deteriorated significantly.

Greater employment insecurity?

There is little evidence to sustain the assertion that there has been a significant decline in permanent or 'lifetime' employment. Since 1975 there has been a decline in the average job tenure of men, but a slight increase in the average job tenure of women, with much of the secular change for men associated with the effects of the 1979-83 recession which saw the elimination of many long-tenure manual jobs in manufacturing. By contrast, the early 1990s recession did not see any further decline in average job tenure. There is also no obvious trend towards a greater proportion of the working age population experiencing spells of unemployment.

Wage inflation

The experience of the early 1980s in the UK when wage inflation was steady with unemployment at over 10 per cent, and the experience of the late 1980s when wage inflation began to creep up as the unemployment rate fell rapidly below 10 per cent, led to considerable pessimism about the nature of the trade-off between unemployment and inflation. The increase in unemployment required to reduce wage inflation by a given amount was the same in the early 1990s as it was in the early 1980s. However, the subdued rate of wage inflation in the recovery of the mid-1990s has led to a degree of optimism that the nature of that trade-off might have improved.

The rapid fall in unemployment between 1986 and 1990 produced only a modest upward creep in wage inflation. During the first six months of 1990 there was little direct evidence that unemployment (then below six per cent) was below the level at which inflation might accelerate. The upward creep in

inflation in the late 1980s may have been a response to too rapid an expansion in demand and fall in unemployment with capacity constraints and skill shortages leading to some inflationary pressure.

Wage inequality

One unambiguous trend in the labour market in Britain since the late 1970s has been the ongoing increase in wage inequality, following a short period in the mid- to late 1970s when overall wage inequality narrowed modestly. Although real wages grew for all groups of workers after 1979, the dispersion of wages increased dramatically in a fashion which was out of line with historical experience and with the experience of other European countries, though not the United States. This increase in wage inequality is ill-understood. Two main hypotheses have been put forward, one focusing on changes in the demand for labour biased against unskilled workers and the other on changes to the institutions which determine pay and the attitudes which underlie that institutional framework.

The causes of unemployment

Much discussion of the causes of unemployment revolves around the concept of the natural, equilibrium or non-accelerating inflation rate of unemployment which is determined by structural factors.

The average and the range of estimates for the natural rate of unemployment in Britain in the mid-1990s are almost identical to the average and the range of estimates in the late 1980s. This illustrates that there is still no consensus amongst economists that the Government's structural reforms have improved the trade-off between unemployment and inflation. There is also no agreement amongst economists over the weight to be given to different labour market and other factors which might lead to a high natural rate. This lack of consensus in turn leads to widely diverging forecasts for the future path of unemployment and other macroeconomic variables.

The UK and the Maastricht criteria

The UK Government has reserved the right to opt-out of the single currency. The UK seems likely to meet the convergence criteria with respect to inflation and interest rates. However, it seems unlikely that the budget deficit in 1997 will be below three per cent of GDP and Britain will not have rejoined the ERM before 1997. The UK Government's fiscal objectives are in principle actually tighter than those in the Maastricht criteria. For the UK the Maastricht criteria represent quite sensible rules of thumb for the stance of fiscal policy during an upturn. However, since Autumn 1992 the British Government has been able to offset a significant tightening of fiscal policy with a loosening of monetary policy including a significant depreciation of the exchange rate. Concerns about the possible negative impact of the Maastricht fiscal criteria on growth and employment are misplaced provided that monetary policy is available as an instrument to maintain growth in aggregate demand.

II & III Labour Market Institutions and Legislation

There have been four specific aspects to Government reforms since 1979 in the area of collective and individual employment rights:

1) Reforms have proceeded incrementally. The legal framework governing unions and collective bargaining was changed over the period from 1980-93 in specific legislative steps. The scope of minimum wage regulation through the Wages Councils was first reduced in 1986 and the Councils were not abolished until 1993.

2) In the field of collective industrial relations and collective bargaining there have been very significant changes which might be described as a decisive shift towards a more 'deregulated' labour market. However, in relation to collective institutions it would be more accurate to say that the law now plays a more significant role, with the legislation seeking to limit some of the legal immunities which traditionally covered trade union activities, to erode some of the union institutions which promote or consolidate union influence, to reform the internal organisation of the unions with the perceived aim of increasing the rights of individual members, and to undermine the role of collective wage-setting. Union membership has fallen significantly from covering nearly three-in-five employees in 1979 to just one third in 1994. The number of working days lost through strikes has fallen significantly in the UK as it has elsewhere in the industrialised world.

3) In the field of minimum wage regulation there has been almost complete deregulation which has matched the attempt to reduce the role of collective bargaining in wage determination. Collective pay setting by the early 1990s affected a smaller proportion of employees than at any time since before the second world war. However, it would not be correct to say that wage determination in the UK has become completely decentralised, rather the sharp decline in collective bargaining and pay-setting at an industry level has been matched by firms taking a much tighter grip on pay at the centre.

4) In the field of individual employment rights there has been no overall shift to greater deregulation. The relationship between the individual employee and the employer was relatively less regulated in the UK in 1979, but with a strong trend towards codifying rights. This trend continued after 1979, often in response to EU Directives and the Courts' interpretations of EU Treaties. The only significant act of deregulation in this field was the lengthening in the required period of employment from 6 months to two years before individuals could qualify for rights to redundancy pay and protection against unfair dismissal. However, in the fields of health and safety and equal opportunities the UK labour market is as regulated as any in Europe.

Working time, however, has never been subject to significant regulation in the UK which has a very wide distribution of hours

worked. There is also no legislative backing for institutions to promote greater employee involvement in UK firms. This explains the hostility of the UK Government to EU Directives in these fields.

In terms of the impact of the reform agenda we can make three points:

i) There is evidence that the rate of growth in productivity, especially in manufacturing, has improved and this may in some part reflect the reforms in the field of collective industrial relations. However, it was probably the recession of the early 1980s which provided the most important shock to management and lowered the ability of labour to resist attempts to eliminate over-manning and restrictive practices. Increased product market competition may also have played an important supporting role.

ii) Unambiguously the decline in union density and collective bargaining and the abolition of the Wages Councils have been one set of factors associated with the significant increase in wage inequality.

iii) There is no consensus that the reforms have improved the overall trade-off between unemployment and inflation as reflected in the wide range of estimates for the natural rate of unemployment which continue to exist.

It is worth thinking about this experience in the light of the wider debate in the EU over the role of labour market regulation and deregulation. The specific measures which have been brought forward under the Social Chapter of the Maastricht Treaty are likely to have very little effect on the UK labour market. The most significant aspects of 'deregulation' in the UK have occurred in the fields of collective industrial relations and pay determination. In practice the European Commission has put forward no Directives which would materially affect these areas or require the UK to roll back any of the legislative changes made since 1979. Most EU Directives have had effects in the field of individual employment rights, have had nothing to do with the Maastricht Treaty, and have generally reinforced the tendency to codify these rights in the UK anyway in an area which has not seen any net deregulation.

'Excessive' regulation is likely to have adverse consequences for employment and productive efficiency. A complete lack of regulation is likely to have adverse distributional consequences. It is always a question of striking the right balance and striking that balance is always an empirical matter. There is no evidence that the employment protection legislation which was in place in 1979 had any significant adverse impact on employment and there is no evidence that the modest wage rates set by the Wages Councils had a significant adverse impact on employment.

IV Labour Market Policies

Striking the right balance between the 'assistance' role of the Employment Service in providing income for unemployed people while helping them in their attempts to re-enter the labour market, and the 'policing' role of checking on their eligibility for benefit and whether they are effectively searching for work, is always a difficult one. Since the mid-1980s the UK Government has significantly tightened the administration of benefit and reduced the value of benefits in relation to average earnings, while offering greater assistance to jobseekers through various Employment Service programmes.

By the mid-1990s the Employment Service in Britain was administering a battery of measures designed to improve placement services, assist job search and provide enhanced counselling for the unemployed, providing a series of nets to catch the unemployed as they approach different durations of unemployment. These measures are as extensive as anywhere in the OECD.

Resources in Britain have moved away from training and work programmes towards the initiatives run by the Employment Service. This move is generally backed by the results of research in the UK. Simple initiatives which offer improved placement services or assistance with job search can be shown to significantly boost participants' job prospects. The evidence for the effects of training and work programmes is much more mixed. Work programmes can help tide people over while the regular jobs market improves but there is no evidence that they significantly improve the chances of participants finding regular jobs. Only small scale and relatively expensive training programmes seem to deliver clear positive results in terms of higher earnings for participants. Wage subsidies do not create many new jobs, but can tilt recruitment towards disadvantaged jobseekers.

Given the significant tightening in the regime since 1986 it is not clear that lax administration of unemployment related benefits can any longer be blamed for keeping unemployment at a high level in the UK. The policies introduced since 1986 have probably made a contribution to reducing unemployment, though how far this is due to the greater 'assistance' offered by the Employment Service and how far to the tighter 'policing' of the benefits system is a matter of continuing controversy.

V Other policies

Education and training

Since 1986-87 the proportion of the age cohort entering full-time further education after compulsory schooling has increased significantly. This has been matched by a doubling in the proportion of the age group entering higher education. The introduction of the new GCSE examination is closely linked with this increase in enrolment. Very few young people now enter directly into jobs without training, but the quality of training available through Government training programmes and employers remains variable.

The Government has introduced a new set of vocational qualifications. The majority of National Vocational Qualifications have been attained at low levels and in the sales, clerical and secretarial and personal service occupations. General National Vocational Qualifications, available in schools and colleges, have not increased the proportion of the age cohort taking full-time qualifications, which was rising strongly before GNVQs were introduced nationally. Successful completion rates for GNVQs are lower than for the traditional qualifications they have displaced.

There is no evidence that Britain's relatively less regulated labour market leads to a lower incidence of training compared with other countries or has prevented an increase in the incidence of training over the last decade. On the other hand the increase in training incidence does not seem linked to any specific government policies. In 1996 reported skill shortages were running at historically low levels in the UK economy.

The tax and benefits system

There are always trade-offs to be addressed with respect to any changes in the tax and benefits system as they affect low income households. The Conservative Government since 1979 has put great emphasis on containing the costs of the UK welfare state and on creating incentives to work. By definition these two objectives imply that the alleviation of poverty and income inequality has not been made a priority. Since 1979 income inequality has increased significantly in the UK. This reflects both changes in the labour market and in the tax and benefits system.

The value of unemployment related benefits relative to average earnings has fallen significantly since the early 1980s. In practice the 'unemployment trap' (where income out of work might be higher than income in work) only affects a small number of specific groups. The main in-work benefit designed to alleviate the unemployment trap is Family Credit. Households on Family Credit and other means-tested benefits can find themselves in the 'poverty trap', where extra earnings produce only limited gains in net income. The actual impact of the poverty trap on hours worked is hard to discern, but may be small. Given that some of the changes in the primary distribution of income are ill-understood, a strategy of attempting to offset these changes through in-work benefits may be the only viable, second best, option.

The difficulties posed by the ever present trade-offs, the complexity of the system, and the uncertainty about the causes of the trends in the primary distribution of income, all argue for an incremental approach to reform. Uncertainty about the exact scale of the disincentive problems also counsels caution. In addition there is an argument for not allowing this debate over the possible impact of work disincentives to crowd out the more fundamental issue for the UK of ensuring that those who are not expected to work - the elderly and disabled - and who are dependent on state benefits do not get left further behind as their benefits are indexed only in line with inflation while the real incomes of most of the population increase over time.

Industrial policy

Government policy since 1979 can best be characterised as consisting of a clear commitment to the promotion of private ownership, product market competition and free trade, tempered by a pragmatic approach to providing direct assistance to firms when such assistance can be shown to work and provided it does not cost too much. It is very difficult to find measures which can show how far product market competition has increased since 1979 but it is possible to infer from the evidence that the UK's productivity performance has improved since 1979 that increased product market competition has played a role and some limited direct evidence exists of the beneficial effects of certain policies.

VI Conclusions

Given the very wide range of estimates of the natural rate of unemployment it would seem unwise to base macroeconomic policy on any one estimate of where the NRU might be. Rather macroeconomic policy has to be robust to different estimates of where the NRU is. In addition the rate at which unemployment falls towards the NRU may be important. Rapid reductions in unemployment may result in short term capacity constraints or skill shortages emerging which can put upward pressure on inflation. Putting these two factors together suggests the case for a modestly expansionary macroeconomic policy which pushes the actual unemployment rate down slowly towards whatever the NRU might be. Since 1992 Britain has had just such a modestly expansionary policy.

Even when it is difficult to assess directly the impact of some of the supply side reforms, all the structural factors relevant to UK economic performance have been moving in the right direction. It may be that the combined contribution of some of the Government's supply side reforms has been greater than the measurable contribution of the individual parts. It is hard to believe that the NRU is not lower than in 1979, but it is not possible to judge how low it might be. In terms of further supply side reform, the uncertainty about where the NRU might be coupled with the analysis that all the factors have been moving in the right direction should counsel a cautious approach. There seems little rationale for further drastic changes.

A market based economy on its own will almost certainly not deliver a desirable outcome in terms of the overall distribution of income. The main objective of the tax and benefits system is to ensure that those households which have little or no market income can nevertheless enjoy a standard of living acceptable to society as a whole, and can enjoy rising real incomes along with the rest of society. Given the ill-understood nature of the increase in wage inequality and the relative weakness of the instruments available to directly affect the primary distribution such as a minimum wage and training, a strongly redistributive tax and benefits system is the only sure instrument available to offset these changes in the primary distribution and is the only instrument of any relevance to the elderly and disabled on state benefits.

The UK's experience of falling unemployment since 1993 is

the product of the success of some supply side reforms and of a macroeconomic policy which since the end of 1992 has been supportive of an expansion in employment. A reasonably optimistic assessment would be that by the year 2000, in the absence of any shocks, a continuation of such policies may see unemployment in the UK fall on a sustainable basis to around 5-6 per cent of the workforce. This would be approximately half the unemployment rate in 1993, when the European Commission's White Paper advocated the objective of halving unemployment in Europe by 2000. The UK may well come close to fulfilling that objective. One of the main unresolved issues in the UK will be how to address the widening gap in the distribution of income which emerged in the 1980s.

Study on the labour market in the United Kingdom

Introduction

This study is one of 15 looking at the labour markets of the member states of the EU. The report is structured in order to make it comparable with the others. The first section presents descriptive material on the evolution of the UK labour market since 1979 and an analysis of trends in employment, unemployment and earnings. It includes an analysis of estimates of the 'natural rate of unemployment' and of the role of macroeconomic policy. The second section looks at labour market institutions in the UK, and at the Government's agenda for the reform of industrial relations and the impact of those reforms. The third section looks at the impact of legislation relating to individual employment rights and minimum wage regulation. The fourth section looks at active and passive labour market policy and the fifth section at other policies which have an impact on the labour market, specifically education and training, the tax and benefits system and industrial policy. The final section presents some conclusions and discusses the position of the 'social partners'.

Three key dimensions of economic performance will be influenced to a large extent by the performance of the labour market:

- a) The rate of productivity growth (which in turn is a major determinant of the underlying rate of economic growth).
- b) The rate of unemployment which can be sustained without accelerating inflation.
- c) The distribution of wages (which in turn is a determinant of the final distribution of income).

In practice the first two dimensions of performance are often confused in the debate by references to the need to maintain 'international competitiveness'¹. However, it is vitally important to be clear about the precise measurable objectives at which policy is aimed, especially given that there might well be trade-offs between those objectives, as this study makes clear.

The priority given to these different dimensions of economic performance will vary across the political spectrum. Since 1979 the UK Government has given greatest priority to improving productivity growth and to the reduction of inflation. It has believed that achieving a low and stable inflation rate will in itself lead to a better outcome for the real economy, including unemployment. The UK Government has not believed that inequality should be addressed through direct intervention in the labour market.

In terms of the instruments of policy, macroeconomic policy has in principle been geared solely to the achievement of a low rate of inflation. Supply-side policies have been geared to improving the efficiency of the labour market with the aim of boosting productivity growth on the one hand, and also of lowering the sustainable rate of unemployment. A commitment to free trade and increased product market competition has been geared to the same two objectives.

The labour market reforms have often been described as constituting a policy of 'deregulation' designed to foster a more 'flexible' labour market. However, it is by no means obvious that all labour market policy since 1979 has been in the direction of 'deregulation', and the term 'flexibility' is frequently used in such a wide context as to render its meaning unclear. It should be stressed that in 1979 the UK already had a less regulated labour market than many other European countries.

The experience of the UK labour market is perceived to be out of line with the experience of other member states of the EU. In some respects this is indeed the case and as such this study may be particularly illuminating with regard to the debate in the EU over the directions in which labour market policy should go.

The European Council meeting in Essen in December 1994 came to a set of conclusions about the action which EU countries needed to take if the objective set out in the European Commission's White Paper of 1993 to halve unemployment in Europe by the year 2000 was to have any chance of being met². Five areas for action were outlined:

- promoting investment in vocational education
- increasing the employment intensity of growth
- reducing non-wage labour costs
- improving the effectiveness of labour market policy
- improving measures to help groups particularly hard hit by unemployment.

In this study public policy in the UK in these areas is addressed and in the concluding section some lessons are drawn about the appropriateness of these recommendations for policy in the UK and indeed in the rest of the EU.

I. Labour market analysis and forecasts

I.1 Demographic and labour force trends

Demographic trends

In a strict arithmetic sense labour market outcomes such as the rate of unemployment will be affected by demographic trends, at least in the short run. It may take time for the labour market to react to and absorb a sharp increase in the rate of growth of the adult population or changes in the make up of that population. However, over time the labour market should adjust to such demographic changes. Countries with fast population growth (such as the United States, Canada and Australia) tend to have more rapid growth in aggregate employment to match.

The post-1979 recession in Britain coincided with a period of quite high natural growth in the adult population (Table 1). Between 1979-84 the adult population increased by over 1.5 million. Employment was falling sharply at this time. In a strict arithmetic sense it might seem possible to 'blame' part of the increase in unemployment in the early 1980s on these demographic trends, though this would be a diversion from asking the more fundamental questions to do with why the labour market and economic policies were not delivering employment growth.

The natural rate of increase in the adult population has been slowing. In contrast to the annual increase of 0.77 per cent between 1979-84, in the period 1990-95 the adult population has been growing at only one quarter of that rate (Table 1).

Women have represented a slightly declining proportion of the adult population. Of more interest is the changing age distribution, with the sharp decline in the share of the younger age groups. In 1984 18.7 per cent of the adult population was aged between 16-24. By 1995 the share of the younger age groups had fallen to 14.4 per cent. In the late 1980s this so-called 'demographic time bomb' excited great concern. One fear was that the fall in the supply of young labour might push up their wage rates and lead to a higher proportion entering directly onto the labour market at the age of 16. However, as will be discussed in section V.1, the exact opposite happened and educational enrolment rates increased sharply.

It should be noted from Table 1 that it is the prime age category (25-49) with the highest attachment to the labour market which has seen its share of the total adult population steadily rise.

The trends in Table 1 overwhelmingly reflect changes in the natural population. Net migration plays little role in explaining demographic trends in Britain (Table 2). Between 1981-87 there was a positive net migration into the UK of some 30,000 people annually, equivalent to about 0.05 per cent of the total population. Net migration rates ran at half this level between 1988-92, though this masks an increase in gross migration rates. In terms of destinations, gross flows between Britain and the countries of the EU (excluding Ireland) remain only about a quarter of the total and are not increasing their share of total flows to any great extent. These flows with the rest of the EU are still strongly outweighed by those between the UK and the

Commonwealth.

Labour force trends

The strong rate of increase in the adult population in the early 1980s meant that the labour force was growing strongly at this time when employment was shrinking (Table 3). In the period 1984-90 the labour force grew at a slightly faster rate reflecting higher labour force participation rates. Between 1990-93 the labour force actually fell reflecting declining labour force participation rates. Since 1993 the growth in the labour force has remained muted.

The proportion of the labour force which is female has been on a steadily rising trend over the whole post-war period and this continued in the 1980s and 1990s. The fall in the labour force share of the younger age groups is more significant than their fall in the share of the total adult population reflecting increased educational enrolment.

Labour force participation rates are reported in Figures 1 and 2. In terms of the overall participation rate there was little change between 1979-96. In 1979 about 78 per cent of the adult population was active in the labour force and in 1996 this figure was largely unchanged. It should be noted that after 1984 a slightly wider definition of labour force activity was in use. This flat overall trend disguises the pro-cyclical nature of labour force participation rates. Between 1979 and 1983 the overall participation rate fell by just under two percentage points. Between 1990 and 1994 the fall in the overall participation rate was almost identical. Between 1984 and 1990 labour force participation rates rose by 2.6 percentage points. Comparing peak-to-peak (1979-90) and bearing in mind the slightly different measurement of labour force activity in these two years, overall labour force participation rates were on a slightly upward trend.

Of course these overall trends also mask significant differences by gender. Labour force participation rates for women have been on a strongly rising trend over the whole post-war period. The increase in female participation rates between 1979-95 reported in Figure 1 does not represent any sharp change in trend³. Male participation rates have been on a declining trend over the post-war period, but the decline since 1979 has been somewhat faster than in earlier decades.

Both male and female participation rates are pro-cyclical. The small decline in female activity rates between 1990-93 is in slight contrast with the flat trend between 1979-83. Moreover, by 1996 female activity rates had not yet shown any strong signs of recovery from their cyclical trough, whereas female activity rates were on a firmly rising trend after 1983. The decline in male economic activity rates between 1990-94 was slightly less than the decline between 1979-83.

By age group the clearest trend is the sharp decline in the participation rates for the younger age groups (Figure 2). This started before the recession and mirrors the rise in enrolment in full time education which started in 1987-88 at the height of the recovery and which is discussed in section V.1.

Table 4 presents labour force projections covering the

period 1996-2006. On the critical assumption of no change in unemployment, the labour force is projected to grow at a rate of 0.5 per cent per annum between 1996-2001. This will largely reflect growth in the working age population. The overall labour force participation rate is expected to increase only marginally over the period, masking a further slight fall in male participation rates and a modest rise in female activity rates. Of course if unemployment fell significantly over this period, labour force growth would be higher. Overall these projections do not represent any significant change in the underlying trends in labour force participation, which is not surprising as by definition there are merely extrapolations of past trends.

I.2 The structure of the workforce

Employment - Overall trends

According to the Labour Force Survey (LFS) total employment fell by 1.27 million during the recession of 1979-83 (Figure 3). Between 1990-93 the fall in absolute employment was even sharper at 1.47 million. However, the same source showed an increase in employment of 3.32 million between 1983-90.

These sharp fluctuations in employment are starkly illustrated in Figure 3, which also shows the trends in employment from the Workforce in Employment series derived from employers. Between 1983 and 1992 the aggregate figure from these two series matched each other closely, but diverged after 1992, with the LFS showing a sharper recovery in employment. The two series were also not closely aligned before 1983. Moreover, the differences between the two series with respect to aggregate levels of employment mask considerable discrepancies with respect to various categories of employment. The analysis which follows focuses mainly on the LFS as the likely more accurate source, except for consideration of regional employment trends where the small sample size of the LFS poses problems.

In itself a measure of total employment is less interesting than a focus on employment rates, that is the proportion of the adult population in employment, often referred to as the employment-population ratio (Figure 4). This allows one to look at employment trends in the light of the demographic trends discussed in the last section.

Between 1979-83 the employment rate for all adults of working age fell by nearly six percentage points. Between 1990-93 the fall was just under five percentage points. So on this employment measure the early 1990s recession was slightly less severe than the early 1980s recession. Over the period 1983-90 the employment-population ratio rose by over seven percentage points, so that peak-to-peak (1979-90), employment rates rose marginally.

Again this masks significant differences by gender. Peak-to-peak the employment-population ratio for men was on a declining trend and the employment-population ratio for women on a sharply rising trend. Employment-population ratios are significantly higher in the UK than in most of the other member states of the EU, with Denmark and Sweden the only clear exceptions⁴. However, this relatively higher employment-

population ratio in the UK was already apparent in 1979.

Between 1993 and 1996 the employment-population ratio for those of working age recovered modestly from 70.4 per cent to 71.8 per cent. Interestingly this masks a slightly faster recovery for men, from 75.0 to 76.5, than for women, from 65.4 to 66.7. This means that the female share of total employment fell slightly over this period (Table 5). This is in contrast to the trend over the period between 1979-93, when the female share of total employment rose steadily, though again it must be emphasised that this was a continuation of a more or less steady post-war trend⁵.

Table 5 also shows the sharp decline in the share of the younger age groups in total employment after 1988-89. This is better illustrated in Figure 5, which shows employment rates by age over the period 1984-96. Employment rates rose most sharply for the younger age groups between 1984-89, an illustration that traditionally employment for these age groups is especially procyclical, declining most rapidly during recessions but also rising most rapidly during recoveries.

Table 6 shows employment trends in the 11 standard regions of the UK. This points out a sharp contrast in the regional bias of the recession of the early 1990s when compared with the early 1980s. Between 1990 and 1993 employment in the South East region (including London) fell by over 10 per cent compared with a fall of less than four per cent between 1979-83. Employment also fell more sharply in the latter recession in the other southern regions (the South West and East Anglia) and in the East Midlands. By contrast all the other regions saw much sharper falls in employment in the early 1980s recession. However, the southern regions have seen greater increases in employment again since 1993, which is a reversion to the pattern of 1983-90.

Employment - changes in structure

It is frequently asserted that a distinctive feature of the post-1979 UK labour market is the growth in so-called 'atypical' or 'flexible' forms of employment. This is usually defined as any kind of job which is not full-time and permanent. As such the categorisation is applied to a wide range of disparate forms of employment which show different trends over time. Such a categorisation is unhelpful and in this section each of the main types of 'flexible' employment is assessed separately.

Figure 6 shows the trend in part-time employment. Over the period 1984-96 the share of part-time employment in total employment increased from 20.5 per cent to 24.9 per cent. Nearly all of this growth in share occurred during the recession, 1990-93, and reflected the loss of full-time jobs. During the period 1984-90 the share of part-time employment rose by only one percentage point. In the early stages of recovery between 1993 and 1996 the share of part-time employment showed a modest upward movement.

The increase in the share of part-time employment over the period 1984-96 was not out of line with post-war experience⁶. The share of part-time employment has been rising steadily since 1951, when it stood at just four per cent of total employment. By 1961 this had risen to nine per cent, by 1971 to 16 per cent,

and 19 per cent by 1981. The fastest rate of growth occurred in the 1960s when the share rose by seven percentage points, compared with the increase of just over four percentage points shown in Figure 6 over the period 1984-96.

This steady increase in the share of part-time employment over the post-war period largely reflects the growth in female labour force participation. Figure 6 shows that between 1984-96 the proportion of all women working part-time did not change significantly. However, the proportion of all men working part-time more than doubled, with most of this occurring since 1991. Overall then, the increase in the share of part-time employment between 1984-96 is a function of more women entering employment, but with no change in the propensity of women to work part-time, and a rising incidence of part-time working amongst men, with the first of those factors being of more importance.

Most part-time work is voluntarily entered into, with only 13 per cent of those in part-time employment in 1996 saying that this was because they could not find full-time work. However, the incidence of involuntary part-time work has increased since 1990 and this is discussed further below. Part-time employment has long represented a higher share of total employment in the UK than in most other EU countries, but the incidence of involuntary part-time employment as a proportion of the labour force has not been higher⁷.

Between 1984 and 1991 there was no increase in the proportion of employees in temporary jobs (Figure 7). Between 1991 and 1996 there was an increase in the share of temporary employment, from 5.3 per cent of all employees to 7.1 per cent. There is no information on temporary employment before 1984, so that it is not possible to know whether there was a similar increase in the share of temporary employment in the early 1980s. It is also not possible to know whether this trend will continue or is a one off, though by 1996 the growth in temporary employment appeared to be slowing down.

The increase since 1991 has been particularly sharp amongst men (Figure 7) where the share of temporary employment has increased from 3.9 per cent of all employees in 1991 to 6.0 per cent in 1996. The growth in temporary employment for female employees came later and has been more muted. As a result whereas in 1991 there was a much higher incidence of temporary employment amongst women employees, by 1996 the gender gap was much narrower.

The growth in temporary employment which occurred between 1991-96 was concentrated in manufacturing, business services and especially the public services sector of the economy. Manufacturers may have responded cautiously to the economic recovery, preferring to recruit workers on fixed term contracts rather than take on permanent staff. Within the public sector, schools and health service trusts have been given greater freedom to determine their own recruitment practices at a time of budget constraints. Many seem to have responded by expanding their use of fixed term contracts. In business services the increase reflects the greater use of agencies to provide clerical staff.

The share of temporary employment in the UK in 1994 was still low in comparison with other EU nations despite the UK having a relatively deregulated labour market⁸. The United

States too has a relatively deregulated labour market and also has a very low incidence of temporary employment. This apparent paradox is discussed further in section III.2.

The only sharp break in trend in the structure of employment in Britain after 1979 was the sharp increase in the share of self-employment (Figure 8). This share had been broadly flat over the post-war period, but between 1979 and 1984 the share of self-employment rose from 7.3 per cent of total employment to 11 per cent. This share had increased further to 13.1 per cent by 1989. However, in the recession the share of self-employment fell slightly and has been flat since. It is too early to say whether the rise in the share of self-employment has come to a halt, though 1989-90 may represent another break in trend.

It is not clear that the rise over the period 1979-89 was largely the result of Government policies designed to encourage 'enterprise' (see section V.3). The biggest increase occurred during the recession between 1979-83 before specific Government policies could have had any significant effect.

A more fruitful avenue of approach might be to look at the sectors where self-employment has increased. The construction industry accounted for about one-third of the increase in self-employment in the 1980s and more than two-fifths of the decline between 1990-93. The relatively depressed state of the construction industry in the period from 1993-96 may help account for the flat trend in self-employment in that period. The decline after 1990 was also disproportionately concentrated in the distribution, hotels and catering sector. In the 1980s the incidence of self-employment rose in nearly all industries. Since 1990 the incidence of self-employment has stopped rising in nearly all industries.

Table 7 shows the changes in the industrial structure of employment since 1979, utilising the Labour Force Survey from 1984, but the workforce in employment series before this⁹. The distinguishing feature of the period from 1979-84 was the unprecedented and precipitous decline in the share of manufacturing employment from 29.5 per cent of the total to 23.5 per cent. It was this sector which suffered disproportionately from employment loss during the early 1980s recession. Between 1984-90 manufacturing continued to lose share but at a much reduced rate and, significantly, this rate of decline did not pick up in the period after 1990. This less sharp fall in manufacturing employment in the early 1990s is another sharp contrast between the two recessions. It is the construction sector which lost share in this last period when compared with the 1980s. The share of employment in the primary industries has been declining steadily.

The 'service' sector has increased its share of employment from under 60 per cent of all employment in 1979 to over 70 per cent in 1996. However, this sector is so diverse that to refer to it as a whole is not very illuminating. It is the business and financial services sector which has increased its share most sharply with the share doubling between 1979 and 1996. There has also been strong growth in the share of the public and social services. However, the share of the distribution, hotels and catering and the transport and communications industries, having grown modestly between 1979-84, has been flat since.

Critically then the growth in service sector employment has been concentrated in those parts of the services sector where relatively well paid managerial, professional and technical jobs are concentrated (business and financial and public and social services) and not in the sector where less skilled and lower paid service jobs are concentrated (distribution, hotels and catering). For example, within the public and social services sector (including health and education) three-fifths of the net gain in employment between 1981-91 was in the managerial, professional and technical occupations. So the shift from manufacturing to 'services' has been associated overall with a net gain in employment in the higher occupations.

This is illustrated in Table 8 which outlines changes in the occupational structure of employment. This analysis is complicated by the change to the occupational classification of employment in 1991. A consistent time series covering the period 1984-96 can be constructed, but the data from 1979 can only be partially matched to the new classification.

The overall pattern is easy to discern. A decline in the proportion of jobs falling into the manual category and a rise in the proportion of jobs falling into the managerial, professional and technical category. The share of employment falling into the middle 'service' category shows a modest rise, with some decline in the share of routine clerical and secretarial jobs offset by a significant increase in the share of the personal services sector covering such jobs as care assistants and hairdressers. These are the only less skilled occupations to have increased their share, and mainly since 1990. It is not the case therefore that less well paid 'service' jobs have dramatically increased their share of total employment. Rather the main trend is the sharp increase in the share of the top managerial, professional and technical occupations.

Within the manual occupations the three categories in Table 8 roughly coincide with the distinction between the skilled manual (craft), semi-skilled manual (operatives) and unskilled manual (other) occupations. Table 8 shows that the decline in the share of skilled manual (craft) employment has since 1984, and especially since 1990, been more rapid than the decline in the share of unskilled manual (other) employment. The share of semi-skilled manual (operatives) occupations has declined more slowly. Observers often talk about the decline in 'unskilled' employment. In occupational terms this is strictly incorrect. Rather there has been a decline in the share of 'manual' employment with skilled manual employment declining at least as fast as unskilled manual employment.

This is part of an ongoing trend. The share of manual employment has been on a declining trend and the share of managerial, professional and technical employment on a rising trend over the whole post-war period¹⁰. There is no evidence that this shift has accelerated. Neither is there any evidence that the shifts in the industrial structure of employment have accelerated, with the exception of the one-off shock to manufacturing employment in the early 1980s. In 1979 it could have been argued that Britain was out of line in having an abnormally high share of employment in manufacturing, reflecting over-manning. With employment in this sector having by the early

1990s converged on the OECD average there was less scope for further dramatic shifts in the industrial structure of employment.

Employment - the implications of changes for the demand for qualifications

The ongoing shift in employment away from the manual occupations primarily to the managerial, professional and technical occupations unambiguously implies an increase in the demand for skills, for which in most occupations, education qualifications provide the necessary formal basis. Manual jobs have a much lower demand for formal qualifications than the managerial, professional or technical jobs which have largely been replacing them. How has the increase in the attainment of qualifications by the adult population compared?

Table 9 reports the highest qualifications held by the population of working age in 1984, 1989 and 1995. Over time the working age population becomes better qualified primarily as older less well qualified people leave this population and are replaced by younger age groups which increasingly hold better formal qualifications. The changes over a decade outlined in Table 9 are very substantial. Between 1984 and 1989 the proportion of the working age population without any qualifications fell from 40 per cent of the total to 32 per cent. Over the next six years the proportion fell more sharply to just 21 per cent. The proportion of the working age population lacking any qualifications approximately halved in the space of about one decade.

Between 1984 and 1989 most of the growth in the holding of formal qualifications occurred for various types of intermediate qualifications, including lower level and intermediate vocational qualifications and O level and A level qualifications. These different qualifications are discussed in section V.I. In the second period, 1989-95, there has been much stronger growth in the share of higher education qualifications. Over the whole period the share of these higher qualifications has increased by over three-fifths.

Table 10 reports the highest qualifications held by employed people of working age. The better educated groups make up a much higher proportion in this table reflecting the lower labour force participation rates and higher unemployment rates amongst the less well qualified. The same trends over time are observed in terms of the growing share of those with higher and a range of other qualifications and the very sharp fall in the proportion of the employed workforce who are unqualified, down from 35.2 per cent in 1984 to 15.6 per cent in 1995.

Table 11 presents the results of a simple shift-share analysis designed to see how far this increase in the share of better qualified people in the employed workforce reflects the changes in the occupational structure of employment outlined in Table 8¹¹. This is done by holding constant the share of different qualifications within each occupation at their 1984 levels and then multiplying these shares by the change in the structure of employment over the period 1984-94. The growth in

the managerial, professional and technical occupations would in itself have required only an extra three percentage points of the workforce to hold higher qualifications by 1994 (compare the first and second columns of Table 11). In fact the proportion increased by eight percentage points. The decline in the manual occupations would have required only three percentage points less of the workforce to be unqualified. In fact the proportion fell by 18 percentage points.

This analysis makes the point that only a small part of the increase in the holding of formal qualifications can be accounted for by changes in the occupational structure of employment. Most of the increase in the holding of qualifications has occurred within each occupation. Moreover, this increase in the holding of qualifications within each occupation has occurred in a very predictable fashion, with the growth broadly proportionate to the holding of qualifications within each occupation in 1984.

Table 11 leaves the impression that the increased holding of qualifications within the UK workforce has more than kept pace with changes in the demand for qualifications brought about by the changing occupational structure of employment. This seems to contrast with the messages coming from some analyses of trends in unemployment and wage inequality and these contrasts are explored in the next section and in section I.4.

Unemployment - measurement and overall trends since 1979

In 1979 the unemployment rate in Britain, as measured by the number of people registered for unemployment benefit, consistent with current coverage, stood at four per cent of the workforce (Figure 9). In the first half of 1996 the claimant unemployment rate stood at just under eight per cent of the workforce, double the level 17 years earlier.

Between these two dates the claimant unemployment rate has fluctuated from a peak of 11 per cent in 1986 to a trough of just over 5 per cent in 1990 to another peak of just over 10 per cent at the start of 1993. These fluctuations in unemployment (and the associated fluctuations in output) have been sharper than in most other industrialised countries, reflecting the UK experience of two very sharp recessions punctuated by a very sharp recovery in the second half of the 1980s.

Figure 9 also contains an alternative measure of unemployment drawn from the Labour Force Survey. Since 1984 this measure has conformed with the ILO definition of unemployment, that is anyone who is not employed, has searched for work in the last four weeks and is ready to start employment within two weeks.

This measure of unemployment has been consistently above the claimant count measure for the whole of this period, with the exceptions of the peaks in unemployment in 1986 and 1993 when the two measures were almost identical.

In fact the two series seem to follow a stable pattern between these two dates consistent with an added worker/discouraged worker effect. During the upswing between 1986 and 1990, the claimant count fell faster than the ILO measure, because the sharp improvement in employment prospects brought more people back into active job search in the labour market thus swelling the ILO measure. During the recession, 1990-93, the deteriorating employment situation resulted in some discouraged jobseekers giving up active job search so that the ILO measure rose less sharply than the claimant count. The assessment of the relationship between these two measures in the early 1980s is problematic because of the different measure of unemployment used in the LFS before 1984. However, the differential between the two series appeared to narrow between 1979 and 1984 in a manner consistent with the pattern observed between 1990 and 1993.

Since 1979 a number of changes have been made to the calculation of the claimant count which have undermined confidence in it as an accurate measure of the level of unemployment¹². The claimant count series used in Figure 9 represents the attempts of Government statisticians to produce a consistent series which takes all the changes into account. As its relationship with the ILO measure appears consistent and as both measures show the same trend in unemployment through time the adjusted claimant count seems to remain a perfectly useful measure from the point of view of analysing labour market trends.

Giving greater prominence to a measure of unemployment based on the LFS would raise a very important policy issue. During the immediate post-war period the level of frictional unemployment considered compatible with full employment was often said to be in the range of 2-3 per cent, as defined by the claimant count. However, Figure 9 makes it clear that a claimant count figure at

this level would be compatible with an unemployment rate as measured by the LFS which was much higher, at perhaps 4-5 per cent or so, reflecting the fact that at full employment the LFS measure would be swelled by many non-claimants attracted by better employment prospects to engage in active search in the labour market. In 1979 a claimant unemployment rate of four per cent was accompanied by an LFS unemployment rate of 5.7 per cent. At the cyclical peak in 1990 the gap between the two figures was also in the order of 1.5 percentage points. Giving greater prominence to the LFS measure of unemployment would alter the acceptable benchmark for the full employment rate of unemployment.

A great deal has been made of what appears to be a much shorter lag between the recovery from recession in 1992 and the fall in unemployment after 1993, when compared with the recovery from the recession of the early 1980s when it was not until 1986 that the claimant count began falling. This has been ascribed to the enhanced 'flexibility' of the UK labour market. Between 1994 and 1996 employment increased at an annual rate of one percent, compared with a annual rate of increase of 1.7 per cent between 1983 and 1985, so that in employment terms the recovery in the 1990s has been weaker not stronger (Table 5 and Figure 3). However, between 1983-85 the labour force was on a strongly upward trend with labour force participation rates rising, compared with muted labour force growth and a rather flat trend in participation rates between 1994-96 (Table 3 and Figure 1). It is these differences in labour force trends which seem to account for the earlier downturn in unemployment after 1993.

There is some evidence that employment does now respond more quickly to output, with the lag down to one year or less¹³. This again is explained rather vaguely by reference to greater labour market 'flexibility'. More plausibly the longer lag in evidence before 1979 was probably related to the expectations of employers that recessions were generally short-lived, so that hoarding labour in expectation of an upturn made sense. The early 1980s recession blew away the rationale for such behaviour. Employers now adjust labour more quickly to changes in output possibly out of fear of holding on to labour when a recession could last for many quarters. As a response to the experience of two sharp recessions this does not seem irrational. However, it means that employers have to recruit again a little more quickly when a recovery does arrive.

Unemployment - incidence across groups

The claimant count and Labour Force Survey measures of unemployment have different strengths and weaknesses. One advantage of the LFS measure is that it gives a clearer picture of unemployment rates by gender, as the claimant count excludes a large number of women who are actively searching for work but who are not entitled to claim benefit. Figure 10 is complicated by the discontinuity introduced in 1984 by the shift to the ILO criteria for determining the level of unemployment as reported in the LFS. Nevertheless, a striking fact is that in 1979 the LFS measure of unemployment showed the female unemployment rate to be higher than the male unemployment rate.

The early 1980s recession led to disproportionate job losses in the male dominated industries, especially manufacturing, so that by 1984 male rates of unemployment were, on the new ILO measure, marginally higher. However, the differences between the male and female unemployment rates were modest up until 1990, at which point they diverged significantly. The pattern of job loss in the early 1990s was again concentrated in male dominated industries such as construction. However, the very modest rise in female unemployment rates in the early 1990s seems to have much to do with the different demographic and labour force trends discussed earlier. That is to say that a high rate of increase in the female labour force in the context of falling employment was a key factor leading to the sharp increase in female unemployment rates in the early 1980s. These demographic and labour force trends were of lesser importance in the early 1990s.

Figure 11 reports unemployment rates by age. The main point to note is the higher unemployment rates experienced by the younger age groups, but also the pronounced cyclicity of unemployment rates for these age groups. Their unemployment rates decline most quickly during recoveries (1984-89) but rise most quickly during recessions (1990-93). However, the reliability of the ILO unemployment rate as a measure of the unemployment rate for the youngest age group (16-19) is questionable. In Figure 2 it was observed that the labour force participation rates for this age group had declined sharply since the late 1980s as a result of increased educational enrolment. Thus the denominator for the calculation of the ILO unemployment rate has shrunk, which for any given proportion of the total age group out of work will imply an increase in the ILO unemployment rate. Moreover, by Spring 1996 one-third of those 16-19 year olds classified as ILO unemployed were full-time students looking for part time jobs, which does not perhaps represent the same social problem as individuals who are not involved in any kind of further education, training or employment. This issue is explored further in section V.I.

Long-term unemployment (typically defined as a duration of unemployment of over one year) is a particularly important issue across the European Union. This is motivated by obvious concern for the social and personal costs associated with long periods of joblessness. It is also motivated by a belief that the long-term unemployed face particular problems in re-gaining access to employment. It has been argued that a period of prolonged joblessness results in an individual losing motivation and skills. The long-term unemployed may also face discrimination in the recruitment process. As a result the long-term unemployed may become disconnected from the labour market and play no role in terms of placing downward pressure on wage inflation. A high level of long-term unemployment can then have adverse macroeconomic consequences worsening the trade-off between unemployment and inflation¹⁴.

Figure 12 reports the trend in the long-term unemployment ratio, that is the proportion of all the unemployed who are out of work for over one year, from the LFS and the claimant count over the period since 1979. The long-term unemployment ratio is generally higher on the LFS measure, though between 1987 and 1991

the two measures are very close.

What is striking is the clear cyclical nature of this ratio. During the first year of a recession (1979-80 and 1990-91) the ratio falls as large numbers of people flow into unemployment thus swelling the ranks of the short-term unemployed. However, after this first year the long-term unemployment ratio climbs steeply. It continues to climb during the first year of the fall in unemployment (1986-87, though not for the LFS measure, and 1993-94) and then falls quickly. Or to put it another way, during periods of sustained falls in unemployment long-term unemployment falls faster than short-term unemployment so that the long-term unemployment ratio falls.

Figure 13 plots the long-term unemployment rate as a proportion of the labour force against the aggregate unemployment rate. In 1986-87 and again in 1993-94 the long-term unemployment rate fell just as soon as the aggregate unemployment rate fell. There was no significant lag and the long-term unemployment rate was on a firmly downward path as soon as there was any improvement in the aggregate labour market. In fact the relationship between the unemployment rate and the long-term unemployment rate reported in Figure 13 is almost a linear one. When unemployment rises long-term unemployment rises. When unemployment falls long-term unemployment falls. It does not seem that long-term unemployment represents any special case in the sense that a recovery in employment passes the long-term unemployed by.

The sharp fall in unemployment and in long-term unemployment in the late 1980s took many people by surprise. The fall in long-term unemployment was the result both of a reduced inflow into long-term unemployment as fewer people became long-term unemployed and also a sharply increased outflow from long-term unemployment¹⁵. Part of this fall might have been the result of certain labour market measures (discussed in sections IV.2 and IV.3) introduced from 1986, though the main part of it reflected the improvement in the aggregate labour market. The consistency of the relationship between the unemployment and the long-term unemployment rates before and after 1986 outlined in Figure 13 argues for the importance of the aggregate labour market in determining long-term unemployment¹⁶.

Unemployment amongst the ethnic minority population in the UK has generally been much higher than for the majority population (Figure 14). Like youth unemployment it is also much more pro-cyclical. During recessions (1974-76, 1979-84, 1990-93) ethnic unemployment rates rise faster than unemployment rates for whites and the two series in Figure 14 diverge significantly. But during recoveries (1976-79, 1984-90) ethnic unemployment rates fall faster and the two series converge. This may now be happening in the current recovery (1993-96). Ethnic unemployment rates respond especially sensitively to the aggregate unemployment rate. At times of full employment (1973-74) the differences in unemployment rates disappear and racial disadvantage is manifested in other ways, most notably in the gap in earnings between men of ethnic origin and their white counterparts¹⁷.

In the 1980s there was much concern about the uneven regional spread of unemployment (Table 12). This not only

reflected concerns over equity but the fear that there might be consequences for inflation if unemployment rates fell to low levels in some regions while in other regions unemployment remained high. Historically, the ranking of the regions in the UK by unemployment rates has been stable, with unemployment lower in the southern regions of England and higher in the northern regions and in Scotland, Wales and Northern Ireland.

It is not clear whether an assessment of the size of the differences in regional unemployment rates should focus on the absolute differences in the unemployment rates between regions or the ratio of unemployment rates. Table 12 reports both the absolute differences between the unemployment rates of the two regions with the highest and lowest unemployment rates respectively and the ratio of those rates. Comparisons between years with a similar national unemployment rate are most useful, so the regional unemployment rates in 1981 and 1988 are reported to compare with 1995.

Between 1979 and 1986 absolute differences in unemployment rates widened but the ratio fell. By 1990 it seems clear that regional unemployment rate differentials had widened. This is seen most clearly by comparing 1981 with 1988 when the national unemployment rates were almost identical. In 1988 on both measures regional unemployment differentials had widened. However, in the early 1990s recession these differentials narrowed significantly as the recession impacted especially hard on the southern regions of England. A comparison of 1995 with 1988 or 1981 reveals a much narrower dispersion of regional unemployment rates. Of particular note is the fall in unemployment in Northern Ireland between 1990 and 1995, and the rates in Scotland and Wales being close to the national average by 1995. In the first half of the 1990s regional differences in unemployment rates were narrower than at any time in the last 70 years¹⁸.

This focus on regional unemployment is not necessarily very helpful. Intra-regional unemployment rates are much more uneven than inter-regional rates and a more useful concept than any 'North-South' divide is the urban-rural divide between those local labour markets in urban areas where unemployment is heavily concentrated and the local labour markets away from the major conurbations where unemployment is relatively lower¹⁹. This division occurs within all regions. Moreover, the high unemployment areas are not correctly described as 'inner-city' as many of the heaviest concentrations of unemployment occur on the peripheries of major conurbations.

There is considerable concern about the position of less well qualified people in the labour market, following on from the decline in manual employment outlined earlier. It is believed that unemployment has become much more concentrated on the less well qualified. Table 13 reports the distribution of unemployment by qualification group over the period 1984-95. Whereas in 1984 nearly half the unemployed were wholly unqualified, by 1995 this had fallen to just over one quarter. At the same time the proportion of the unemployed holding some form of higher education or A-level or equivalent qualifications increased from just under one quarter in 1984 to over one third in 1995.

These changes of course mirror the changes in the qualifications held by the working age population outlined in Table 9. Table 14 reports unemployment rates by highest qualification held. Looking at either the ratio of the unemployment rates between those with no qualifications and those with higher education, or the absolute differences in the unemployment rates, there is no sign of any significant deterioration in the relative unemployment rates of the unqualified over this period.

Table 15 reports the results from a slightly longer time series drawn from the General Household Survey. An assessment of the relative position of the less well qualified is sensitive to the time period chosen, to the database used, to how qualification categories are arrived at, and to whether one looks at the ratio of unemployment rates or the absolute differences. Comparing 1983-86 with 1991-93 in Table 15 reveals no deterioration in the relative position of less well qualified men. Whether their position has deteriorated between the mid-1970s and the early 1990s depends on whether one focuses on the ratio of, or the absolute differences between, the unemployment rates of the different qualification groups.

Unemployment - Its adequacy as a measure of labour market slack.

There is some concern that regular measures of unemployment, whether the claimant count or the ILO measure derived from the LFS, may understate the true amount of un-utilised or under-utilised labour.

Figure 15 shows the trend in the ILO unemployment rate over the period 1984-96 along with two extra indicators. These are the number of discouraged workers (defined as those who say they want a job but have not looked for one in the last four weeks because they believe none are available) and the number of part-time workers who say that they are working part-time because they are unable to find a full-time job. Both are expressed as a proportion of the total labour force.

The incidence of discouraged workers in Britain is low by international standards at consistently less than one per cent of the labour force²⁰. The incidence of discouraged workers has declined over the period. It is also counter-cyclical in the same way as the ILO unemployment rate. The incidence of involuntary part-time employment in the UK is significantly higher than the incidence of discouraged workers though not out of line with the experience of other countries. Its incidence is also counter-cyclical but the level of involuntary part-time employment has risen over the period, from just over one-and-a-half per cent of the labour force in 1984 to nearly 3 per cent of the labour force in 1996. However, the addition of these two measures does not alter the trend in unemployment/underemployment over this period.

A key factor in assessing the problem of involuntary part-time (or temporary) employment is to consider where these forms of employment lead. If they are stepping stones to more acceptable forms of employment, voluntarily entered into, then this makes their existence less troublesome than if individuals

fail to escape this status and remain in forms of employment which they do not consider optimal, or indeed proceed from part-time or temporary jobs back into unemployment. The OECD has suggested on the basis of research in other countries that involuntary part-time employment is often a stepping stone to more acceptable forms of employment²¹. Research on these issues in the UK is still at an early stage. However, the OECD has reported data from the British Household Panel Survey which suggests that of those employed on a temporary basis in 1991, by 1993 only 29 per cent were still in temporary jobs while 39 per cent had moved into permanent jobs²².

Many observers have argued for looking at the non-employment rate, which is the obverse of the employment rate reported in Figure 4, as a better measure of labour slack. Others have argued for looking at the pattern of work across households rather than focusing solely on individual employment and unemployment rates²³.

Figure 16 brings together three series - the standard ILO unemployment rate, the non-employment rate and the workless household rate. The last is a measure of the proportion of all households where no adult is in work.

The workless household rate fell between 1987 and 1990 in the context of a significant tightening of the aggregate labour market. However, the increase in the workless household rate between 1987 and 1993, when the ILO unemployment rate was approximately the same at these two points in time, might suggest that the distribution of work has become polarised between these 'work-poor' households and the growing number of 'work-rich' two-earner households. In fact this rise in the incidence of workless households between these two dates is largely a compositional effect to do with the rise in the proportion of single adult households which have an especially high incidence of joblessness. The rise in the incidence of worklessness amongst different types of households was largely confined to the period between 1979 and 1983 and is thus coincidental with the recession. The rise in the proportion of two-earner households is ongoing and reflects the growing rate of female labour force participation over the post war period. However, this focus on workless households does put a spotlight on the role of the possible disincentives created by the benefits system for the partners of unemployed people and this is explored further in section V.2.

Those who focus on the non-employment rate, which brings together the unemployed with the inactive, appear to be suggesting that all the inactive should be considered to represent a form of unutilised labour equivalent to those recorded as ILO unemployed. This is in spite of the observation that most of the inactive in the LFS report that they do not want a job. Most inactivity is voluntary, whereas by definition ILO unemployment is involuntary in that people have reported that they want a job and are looking for one. There is a large intermediate category of inactive individuals who say that they want a job but are not looking for one. Discouraged workers, defined above, are only a small part of this category. The largest group are women who say that they are looking after the home and would like a job but have not looked for one. The

second largest group are men and women who say that they are long term sick and disabled and would like a job but have not looked for one.

This latter group has received considerable attention²⁴. A significant part of the trend fall in labour force participation rates amongst men reported in Figure 1 is due to an increase in inactivity due to sickness or disability. Table 16 shows this increase in inactivity for men aged 25-54 between the dates of the Censuses of 1971, 1981 and 1991. Between 1981-91, three-quarters of the increase in male inactivity was due to sickness and disability. However, Table 16 also reveals a similar increase in inactivity due to sickness and disability amongst women, a trend disguised by the overall rise in female labour force participation rates. How far this increased inactivity is a response to changes in labour market conditions, easier entitlement to benefits and a more relaxed interpretation of the rules on what defines long term sickness and disability, and a genuine increase in sickness and disability, is discussed further in section IV.1.

As discussed earlier, during periods of declining (increasing) aggregate unemployment inactivity rates fall (rise) as workers are added to (discouraged from) participation in the labour market. The overall non-employment rate follows the aggregate unemployment rate in a very predictable manner across the cycle (Figure 16). This suggests that looking at the overall non-employment rate adds little to our understanding of the trend in the overall level of joblessness. As to the level of unemployment it does not seem helpful to add to ILO unemployment every form of economic inactivity. The virtue of the ILO unemployment rate is that it is based on an internationally agreed definition of unemployment and conforms closely to the notion of involuntary unemployment. Many categories of inactivity are voluntary states and others represent only marginal attachment to the labour force. On the other hand investigation of inactivity amongst certain sub-groups, such as the long term sick and disabled, do raise legitimate issues of social concern.

Unemployment - conclusions

The ILO unemployment rate derived from the LFS seems an adequate measure of involuntary unemployment, though analysis of some forms of inactivity are complimentary to a focus on the ILO measure. This measure and the claimant count (consistent with current coverage) seem to move over time in a predictable fashion consistent with an added/discouraged worker effect.

When aggregate unemployment as measured by the claimant count or the LFS measure, is on a firmly downward (upward) trend all the other measures of un- or underemployment are also on a firmly downward (upward) trend. Most significantly, when aggregate unemployment is on a firmly downward trend the unemployment rates for all the most disadvantaged groups in the labour market also fall, at rate which is at least as fast. The argument that there is some asymmetry in that unemployment rates for disadvantaged groups rise sharply in recessions but do not decline in the same way during recoveries is not borne out by the

evidence in the UK. This applies to youth unemployment, ethnic unemployment and most notably to long-term unemployment. If we could be confident that aggregate unemployment could be reduced to a reasonably low level we could be reassured that unemployment rates amongst these disadvantaged groups would also fall significantly. If aggregate unemployment does not fall then further special assistance would be required for these groups.

I.3 Main trends in job creation and job loss

The main trends in employment and the issue of job insecurity

Table 17 presents a summary of the changes in the composition of employment in Britain over the period 1979-96. Data from 1979 is incomplete. Table 17 illustrates the rapid growth in the share of self-employment in the early 1980s and the more modest trend since. It shows the steady rise in the share of part-time employment, with most of the increase since 1985 consisting of permanent part-time employment. It shows the decline in the share of full-time employees which was concentrated in the early 1980s, with some growth in the share of full-time temporary employment in more recent years. Most importantly it shows that the decline in the share of employment for full-time employees was sharpest in the early 1980s, since when the rate of change has been more modest.

In the public debate in the UK a great deal of attention is placed on the alleged widespread 'collapse' of permanent or lifetime employment. The evidence does not really sustain this assertion. Table 18 reports the length of time that employees of working age had spent in their job at the time of interview over the period 1975-93. Over this period of time there has been a decline in the average job tenure of men, but a slight increase in the average job tenure of women. Much of the secular change for men is associated with the effects of the 1979-83 recession which saw the elimination of many long-tenure manual jobs in manufacturing. By contrast, the early 1990s recession did not see any further decline in average job tenure. This evidence from the Labour Force Survey is backed up by evidence drawn from the General Household Survey²⁵. Although the changes in the average tenure of employment have been modest, this average conceals a deterioration in the stability of employment for low paid men in the labour market.

The changes which have occurred in the duration of employment are connected to the changing composition of employment outlined in Table 17. Table 19 reports the duration of different forms of employment. All forms of employment other than full-time permanent jobs have a shorter average duration. Within any particular type of employment the differences in average job tenure between men and women are modest, with the exception of part-time permanent employment where women have a significantly higher average tenure, and full-time self-employment where the

reverse is true. The shorter average duration of employment for women is primarily a function of their greater concentration in part-time jobs. Figure 6 showed that the proportion of all women in employment working part-time had not increased and this is consistent with the absence of any significant change in the average duration of employment for women.

The analysis presented so far does not seem to provide much evidence for why there was in Britain in the mid-1990s so much commentary about the existence of greater job insecurity when compared with the mid-1980s or earlier periods. Many of the more traumatic changes in employment took place in the early 1980s and the changes since this time have been more modest. Greater instability in employment seems confined more to the bottom end of the labour market.

Table 20 presents estimates of the proportion of the working age population who made at least one claim for unemployment related benefits over the period 1985-95. It thus gives some idea of the proportion of the population touched by some direct experience of unemployment. Again there is no obvious trend towards a significantly greater proportion of the working age population experiencing spells of unemployment. The direct experience of unemployment remains confined to just over one quarter of the working age population.

The relationship between unemployment and vacancies

The number of unfilled vacancies is often taken as an indicator of the level of labour demand and the relationship between vacancies and unemployment as an indication of the level of structural unemployment. This is formalised in terms of a 'Beveridge curve' and the relationship between unemployment and vacancies for the UK over the period 1979-95 is shown in Figure 17.

This Figure is hard to interpret. In the early 1980s recession the vacancy rate (the number of unfilled vacancies expressed, like the unemployment rate, as a proportion of the workforce) fell sharply as unemployment increased rapidly. As soon as output began to recover (1982-83) so did the vacancy rate. By 1986 the vacancy rate had risen significantly even though unemployment remained on an upward trend. It was suggested that the 'Beveridge curve' had shifted outward so that a given level of unfilled vacancies (said to proxy labour demand) was now consistent with a much higher level of unemployment. Most of this unemployment had to be structural in nature as vacancies (labour demand) had recovered almost to 1979 levels²⁶.

The fall in unemployment after 1986 was initially associated with a further rise in the vacancy rate. However after 1988 unemployment continued to fall even as the vacancy rate fell. Between 1990-92 the relationship is similar to that between 1979-82. After 1993 the unemployment rate began to fall at a much lower level of vacancies than after 1986. In the conventional analysis this might indicate an inward shift in the 'Beveridge curve' and thus an improvement in the 'structural' rate of unemployment.

An alternative perspective might be that changes in the vacancy rate proxy changes in the rate of growth of output and

labour demand. Most vacancies occur as a result of job-to-job moves and this voluntary quitting of one job to move to another is heavily pro-cyclical, as are unfilled vacancies. Between 1988 and 1990 the rate of output growth was slowing down, though it was still above the trend rate of growth in productivity so that a continued fall in unemployment was consistent with a falling vacancy rate.

It has been argued that historically periods of demand driven inflation have been associated with vacancies well in excess of 200,000 which would correspond to a vacancy rate well above 0.7 per cent of the workforce²⁷. In 1987-88 output was growing and unemployment was falling at a fast enough rate to push the vacancy rate to such levels and at this point there was some upward creep in wage inflation (section I.4 below). However, by 1990 unfilled vacancies were well below this level so that, with the unemployment rate at just over five per cent, at this time there was no indication of any excess demand for labour.

One issue of concern is whether the vacancies which are available to unemployed people look significantly different from the vacancies which are available to those moving from job-to-job²⁸. Table 21 shows the composition of the types of employment which are entered by people moving from unemployment and can be contrasted with Table 17 showing the overall stock of employment. A much higher proportion of the employment openings available to unemployed people are part-time and temporary. This is the flip-side of the pattern reported in Table 19: part-time and temporary jobs last for a shorter period of time and are therefore over-represented in the flow of vacancies to which the unemployed have access. The proportion of all 'entry jobs' which are for full-time permanent employees has declined since 1979, though much more slowly than their representation amongst the stock of all jobs (Table 17). The slack has been taken up by a greater proportion of the unemployed entering self-employment. The proportion of the unemployed entering part-time and temporary jobs has altered little. However, the nature of the vacancies open to unemployed people again raises the question of how far the benefits system might disadvantage people from unemployed households in taking up the vacancies which are available, discussed further in section V.2.

I.4 Wage and salary trends

Wages, inflation and unemployment

The British economy has suffered from two episodes when wage inflation has risen above an annual rate of 20 per cent. These episodes coincided with the two oil shocks in the mid- and late 1970s.

Figure 18 shows the nature of the relationship between unemployment and wage inflation over the period 1981-96. By 1981 inflation was already falling rapidly as unemployment increased sharply. By 1983 the underlying rate of wage inflation²⁹ had

plateaued out at an annual rate of around 7.5 per cent, a rate which was to persist over the next three years as unemployment continued to creep up to 11 per cent by early 1986. With wage inflation stable it was possible to argue that the UK was at its natural rate of unemployment at this time, with the natural rate at around 11 per cent of the labour force.

Between 1986 and 1990 the rate of growth in output and employment accelerated and claimant unemployment halved from 11 per cent to nearly 5 per cent. Wage inflation began to creep up in 1987 when unemployment fell rapidly below 10 per cent. Wage inflation peaked at an annual rate of just over 10 per cent in 1990 just after the economy slid back into recession and unemployment began to increase again. By 1993 the claimant unemployment rate had risen back to over 10 per cent and wage inflation had fallen to just four per cent. Between 1993 and the first half of 1996 the claimant unemployment rate had declined to under eight percent but wage inflation did not pick up at all.

The experience of the early 1980s when wage inflation was steady with unemployment at over 10 per cent, and the experience of the late 1980s when wage inflation began to creep up as the unemployment rate fell rapidly below 10 per cent, led to considerable pessimism about the nature of the trade-off between unemployment and inflation. The subdued rate of wage inflation in the recovery of the mid-1990s has led to a degree of optimism that the nature of that trade-off might have improved.

The data in Figure 18 refer to nominal earnings growth. Figure 19 shows the movement in real earnings growth, with the trend in nominal earnings compared with the British Government's target measure of consumer price inflation, the Retail Price Index minus mortgage interest payments. In the mid-1980s real earnings grew very strongly, at an average annual rate of over three per cent between 1983 and 1989. With the onset of the recession in 1990 the growth in real earnings fell to an annual rate of 1.5 per cent between 1990 and 1992. Real wage growth averaged less than one per cent over the initial period of the recovery from 1993 to 1996. By contrast between 1983 and 1985 real wage growth was an average two percentage points faster. So nominal earnings restraint in the mid-1990s has been matched by real earnings restraint.

The restraint in real take-home pay in the mid-1990s has been even more significant. 1995 was the first year since 1982 that average real take home pay (as measured by average earnings deflated by the tax and prices index) actually fell (Figure 20). In the period 1983 to 1989 average real take home pay rose at an annual rate of around four per cent, with the rate of increase accelerating to nearly six per cent between 1986 and 1988. In 1992, at the trough of the recession, people in work saw gains in average real take home pay of over three per cent. In sharp contrast in each year of the recovery after 1992 the rate of growth in real take home pay decelerated as a result of subdued growth in average earnings and increases in taxation designed to reduce the budget deficit.

Figure 20 might represent more striking evidence for why feelings of 'insecurity' might exist in the British labour market in the mid-1990s. These feelings may be as much a function of stagnation in average real take home pay as to alleged dramatic

recent changes in the composition of employment or an increased risk of unemployment for which there is little evidence, as suggested in the last section.

Aside from the restraint in nominal and real earnings and in real take home pay, the share of income from employment in GDP has also been on a declining trend (Figure 21). This Figure presents a slightly longer time series so as to illustrate the sharp increase in the share of employment income in GDP following the first oil shock. However, the share of employment income fell very sharply after 1975 during the period of the 'Social Contract' (the last example of concerted action involving the 'social partners' in Britain), so that by 1977 it had fallen back to its 1973 level. Both subsequent cycles have seen an increase in the share of employment income during the recession followed by a fall in the recovery, with this cyclical pattern occurring around a steady downward trend in the share of employment income in GDP. Between 1992 and 1995 the share of income from employment in GDP fell by four percentage points. However, this fall is in fact similar to the fall of around four percentage points in the share of employment income which took place between 1981 and 1984, and is less sharp than the fall which occurred between 1975 and 1978 when the share of employment income fell by nearly six percentage points. So the decline in the share of income from employment from the trough of the early 1990s recession is not out of line with the experience of recoveries from previous cyclical troughs.

Rather what is clear from Figure 21 is the trend decline in the share of income from employment in GDP from its unprecedented spike in 1975 following the first oil shock. This trend decline is also apparent if income from self-employment is added in (Figure 22), though in this case the decline after 1991 is slightly steeper than the decline after 1981, though not as sharp as the decline after 1975.

In the mid-1970s and into the early 1980s the 'excessive' share of labour in GDP and the associated 'depressed' share of profits were often the focus for concern and were held to be part of the explanation for the growth in unemployment following the two oil shocks. However, the trend decline in the share of income from employment (and self-employment) in GDP from 1975 makes this focus of increasingly less relevance. By the mid-1990s the share of employment income had fallen to levels lower than in the 1960s and the share of gross trading profits had recovered to the levels of the 1960s. This also implies that the advice given in the European Commission's White Paper that the growth in real earnings be kept at one percentage point below the growth in whole economy productivity so as to allow for a recovery of the share of profits seems to have little relevance for the UK in the mid-1990s³⁰.

In the early 1980s significant increases in unemployment appeared to be required to bring down inflation. Between 1981 and 1983 an increase of two percentage points in unemployment was required to shave four percentage points off the rate of increase in average earnings. This gives a 'sacrifice ratio' of 0.5, that is to say an extra 0.5 per cent on the unemployment rate was required to reduce wage inflation by one per cent.

In the early 1990s the process of disinflation was just as

painful. Between 1991 and 1993 an increase of two percentage points in unemployment was again required to shave four percentage points off the rate of increase in average earnings. So the sacrifice ratio was unaltered at 0.5. There was no sign that any increase in labour market 'flexibility' had made the process of reducing inflation any less costly in the early 1990s when compared with the early 1980s.

Figure 23 graphs the same data which was used to construct Figure 18 but this time plots a Phillips curve. One can confirm from comparing the slope of the Phillips curve between 1981 and 1983 with the slope between 1991 to 1993 that the experience of disinflation in these two periods was similar in terms of the cost of higher unemployment. By 1993 both unemployment and inflation were lower than in 1983, but this is because the inflation problem which had to be dealt with in the early 1990s was much less serious than in the early 1980s.

The rapid fall in unemployment between 1986 and 1990 produced only a modest upward creep in wage inflation. A reduction in the unemployment rate of nearly six percentage points added less than three percentage points to wage inflation. During the first six months of 1990 there was little evidence that unemployment (then below six per cent) was below the level at which inflation might accelerate. If this had been the case then forecasters would have been projecting either a rapid acceleration of inflation or a sharp increase in unemployment to contain wage inflation³¹. In fact none of the forecasters were predicting this and other labour market indicators, such as the vacancy rate (see section I.3), were not providing conclusive evidence that the labour market was in a state of excess demand. The sharp blip in headline consumer price inflation in 1990 had much to do with increases in mortgage rates and indirect taxes feeding directly into retail prices, which serves as a reminder that inflation can increase temporarily due to factors which are nothing to do with the labour market.

The upward creep in inflation in the late 1980s may have been a response to too rapid an expansion in demand and fall in unemployment. Capacity constraints and skill shortages did lead to some inflationary pressure even though unemployment was almost certainly still significantly above its natural rate³². A more steady, balanced recovery in employment might have placed fewer strains on the economy. Arguably such a steady recovery is precisely what the British economy experienced between 1993 and 1996 and this explains why there was no real additional inflationary pressure at all at this time. Over the period 1993-96 the Phillips curve is basically flat as the reduction in unemployment brought about no increase in wage inflation.

The underlying rate of growth in whole economy productivity in the British economy over the last complete economic cycle (1979-90) was 1.9 per cent. So real wage growth of around two per cent per annum would be consistent with a constant share of income from employment in GDP. Growth in average earnings of around 4.5 per cent would be consistent with a target for underlying inflation of 2.5 per cent. With average earnings growth running at around 3.5 per cent in the first half of 1996, some modest upward creep in wage inflation could be tolerated without placing the British Government's inflation target at

risk.

The growth in wage inequality

So far the discussion of wage trends has focused on wages as a macroeconomic variable. However, one unambiguous trend in the labour market in Britain since the late 1970s has been the ongoing increase in wage inequality, following a short period in the mid- to late 1970s when overall wage inequality narrowed modestly.

This is shown in Figures 24 and 25 which report the growth in real hourly earnings at the median and the highest and lowest deciles for men and women respectively over the period 1973-93.

In the period 1973-79 the real wages of all men were relatively stagnant, though the real wages of all women rose significantly. There was a modest narrowing in wage inequality. The most striking feature of this period was the narrowing male-female wage gap associated strongly with the equal pay and sex discrimination legislation of the mid-1970s.

After 1979 significant real wage growth resumed for male workers but the dispersion of wages increased dramatically in a fashion which was out of line with historical experience and with the experience of other European countries, though not the United States. Real hourly wages for men at the lower decile did increase over the period from 1979-93 but at a significantly slower rate than for men at the median and at the higher decile. The increase in wage inequality amongst women was just as great. However, the male-female wage gap narrowed further, so that the real hourly wage gains for women at the lower decile were higher than the wage gains for men at the lower decile. It is noticeable that wage inequality continued to grow in the late 1980s even when aggregate unemployment fell sharply.

Between 1974 and 1992-93 the female/male wage gap for full-time workers narrowed significantly³³. In 1974 full-time women were on average receiving 66 per cent of their male counterparts' wage. By 1992-93 the female/male earnings ratio was 80 per cent. Of this narrowing of the wage gap only three percentage points was due to the narrowing of the gap between men and women in terms of their skills and employment characteristics. The rest was due to a reduction in 'discrimination'. On the other hand there had been little reduction in the earnings gap between male and female part-timers with the low pay of female part-timers being to a much greater extent the result of their skill and employment characteristics.

The modest real wage gains for men at the lower decile are matched by limited increases in real wages for those jobs entered by the unemployed³⁴. This means that the trend in 'replacement ratios' calculated using average earnings may understate the problems associated with the 'unemployment trap', an issue discussed further in section V.2.

The growth in wage inequality in the UK (and the US) has produced a large literature³⁵. Two main hypotheses have been put forward, one focusing on changes in the demand for labour biased against unskilled workers and the other on changes to the institutions which determine pay and the attitudes which underlie that institutional framework. Amongst those who have focused on

changes in the demand for labour there is a further sub-division between those who blame skill-biased technological change and those who blame increased competition from developing countries. This latter division of opinion is of second order importance as both put the focus on the problems faced by the less skilled and make the same recommendations about the need to enhance skills.

One problem is that the term 'skills' is a very widely defined term covering all aspects of an individual's personal characteristics, including their motivation and personal skills, as well as their qualifications. Most of these characteristics cannot be measured directly. Rather variables such as educational qualifications, experience or the occupational classification of an individual's job are used as a proxy for whether that individual is 'skilled' or not.

Table 22 shows the ratio of hourly wages for men with higher educational qualifications to men without qualifications over the period from 1974 to 1994. This shows that the modest increase in the 1980s in the pay premium attached to holding higher qualifications just matched the decline in the 1970s, leaving the ratio largely unchanged over the two decades. The equivalent ratio for women did increase modestly over this period. However, these changes in the premia attached to qualifications appear to explain only a small part of the increase in inequality since 1979. Growing returns to experience have been a far more important feature and there has been significant growth in the dispersion of wages between manual and non-manual workers³⁶. However, most of the literature on the problems faced by the unskilled refers to the increased return to 'unobserved' skills, that is the return to personal characteristics which cannot be measured. This may be a correct interpretation of the causes of increased wage inequality but it seems to beg more questions than it answers and offers no clear policy implications.

There is little doubt that institutional changes have played a role. The decline in unionisation in the UK might account for about 20 per cent of the increase in wage inequality in the 1980s³⁷. Other changes in labour market institutions, which are discussed in sections 11 and 111, such a reduction in minimum wage rates and the eventual abolition of most minimum wage protection in 1993, the abandonment of incomes policies for the private sector after 1979, and the increased decentralisation of pay bargaining, will all have played a role. However, there is no full accounting for the increase in wage inequality. In particular one of the most difficult features of the growth in wage inequality to explain is that the greater part of that growth has occurred within occupational or educational groups.

The increase in wage inequality has played an important role in the overall growth in income inequality since 1979 (see section V.2). It might be argued that this increase in wage inequality if driven by market forces could bring with it efficiency gains. An increase in the returns to 'skills', for example, might lead individuals to invest more in education and training. However, as has been noted, in practice in the UK little of the increase in wage inequality is explained by increased returns to qualifications. Internationally there appears to be little solid evidence that countries where earnings inequality is lower have lower levels of employment or higher

levels of unemployment for more vulnerable groups in the labour market³⁸. It is not obvious, therefore, that the increase in wage inequality has enabled the UK to 'buy' higher levels of employment of lower levels of unemployment.

I.5 Analysis of the principal causes of the trend in unemployment since 1980

Estimates of the natural rate of unemployment in the UK

Much discussion of the causes of unemployment revolves around the distinction between 'structural' and 'cyclical' unemployment. This distinction is based on a model of the labour market centred around the concept of the existence of a level of unemployment which is consistent with stable inflation - the natural, equilibrium or non-accelerating inflation rate of unemployment. If unemployment is above this level inflation will be on a downward path and with a given rate of growth in nominal demand, real demand will increase and unemployment will fall until the natural rate is reached. If unemployment is below the NRU, inflation will accelerate, real demand will be squeezed and unemployment will rise. More precisely the proposed relationship is between the level of unemployment and the rate of wage inflation, making it clear that it is the labour market which is the primary focus for analysis.

The excess of unemployment above the NRU is referred to as 'cyclical' unemployment. The NRU is not the same as the full employment rate of unemployment (FERU). Full employment exists when the only unemployment is frictional in nature. The term 'structural' unemployment is often used to refer to the unemployment which exists between the NRU and the FERU.

The speed of adjustment of unemployment to the natural rate might also have consequences for inflation. If unemployment falls too fast this might generate inflationary pressure even if unemployment is above the natural rate, as a result of short-term bottlenecks arising due to constraints relating to shortages of capital or skilled labour.

Related to this is the concept of hysteresis. A rise in the actual rate of unemployment might in turn lead to an increase in the NRU, at least in the short run. This is because a recession might lead to the scrapping of capacity and the unemployed might lose skills or motivation. This could make it more likely that any significant recovery might run into capacity or skilled labour shortages which in turn might cause upward pressure on prices and pay. However, the corollary of this is that the recovery will eventually lead to an expansion of capacity and the unemployed who find jobs will recover their motivation and develop their skills. So the short run NRU will fall back again.

The natural rate itself can only be reduced through supply side reforms designed to overcome the structural problems in the labour or product markets which are held to be responsible for the adverse trade-off between unemployment and inflation.

This model of analysis has dominated policy making in Britain since the mid-1970s and seemed to carry with it

straightforward policy prescriptions. Macroeconomic policy should aim to keep the growth in nominal demand steady allowing unemployment to fall gradually to its natural rate if unemployment is above the NRU. At the same time microeconomic reforms have to be instituted to eliminate the structural problems which lead to a high natural rate in the first place.

The clarity of the economic debate is sometimes spoilt by the tendency to conduct the discussion in terms of estimates of the 'output gap' rather than estimates of the NRU. The term 'output gap' may be preferred because it sounds like a more technical and neutral term which does not carry with it the emotive connotations of the term the natural rate of unemployment.

In fact the two concepts are intimately linked. Depending on the value of the 'Okun coefficient' linking the growth rate in output to the change in unemployment, one should be able to infer from any estimate of the output gap what the associated level of the NRU is. Saying that the output gap is four per cent, with an Okun coefficient of 2, is equivalent to saying that the actual rate of unemployment is two percentage points above the NRU. So when an economist remarks that they think that the output gap is close to being eliminated, it is equivalent to saying that unemployment is close to the natural rate.

Table 23 presents a range of estimates for the NRU in Britain in the mid-1990s drawn from six of the seven original members of the UK Treasury's panel of independent forecasters. The wide range of estimates illustrates the division of opinion between the pessimists and optimists in relation to Britain's medium term prospects.

At one extreme in Table 23 is Minford's estimate that the NRU in Britain has now fallen to just 3.5 per cent of the workforce, or about the one million mark. In the late 1970s Minford argued that the high NRU in Britain at that time was a consequence of excessive trade union power, over-generous unemployment benefits and high levels of taxation. As in the 1980s all of these structural problems are seen to have been effectively tackled by Government supply side reforms, Minford has argued consistently for many years that unemployment could continue to fall without any acceleration in inflation provided that monetary policy was relaxed sufficiently. The upward blip in inflation in the late 1980s is put down to an excessively rapid decline in unemployment running into short term capacity constraints.

At the other extreme are the inflation pessimists (Davies and Brittan) who in 1995-96 were still concerned that the NRU was in the range of 7-8 per cent. At the end of 1995 claimant unemployment fell below eight per cent so that the actual rate of unemployment was not far from the estimated natural rate. However, it is worth noting that in 1993 these two economists plus a third (Currie) were talking about a natural rate of nine or ten or even eleven per cent. They expected inflation to begin accelerating soon after any fall in unemployment from its cyclical peak.

These economists have been deeply sceptical that any of the Government's supply side reforms have succeeded in significantly lowering the natural rate. As an ad-hoc response to the fall in

unemployment without any sign of accelerating inflation there may have subsequently been an acceptance of at least partial success on the part of the structural reforms of the 1980s.

Other economists have consistently stuck to 7-8 per cent as their best estimate of the NRU and so in 1996 were also waiting to see if wage inflation would indeed accelerate if unemployment fell through this barrier³⁹.

A fifth member of the original panel (Congdon) has held views similar to those of Minford over the necessity for and the success of Conservative supply side reforms in the 1980s. However, his estimate of the natural rate is significantly higher than Minford's.

A former panel member (Sentance) holds the view that the NRU probably never rose as sharply in the 1970s as others have claimed, but that some supply side reforms have helped to bring it down. However, the main feature of his analysis is that a series of inflationary shocks and the subsequent sharp disinflations have appeared to deliver an adverse trade-off between unemployment and inflation. With these shocks out of the way there is no reason why unemployment could not decline at a modest and steady rate to levels significantly lower than were experienced in the 1980s and early 1990s.

The final original panel member (Godley) has specifically rejected the natural rate hypothesis as a framework for analysis, a reminder that this orthodox approach is not universally accepted. In common with some other traditional Keynesians he sees Britain's economy as facing a fundamental balance of payments constraint. This group of economists are therefore even more pessimistic about the future path of unemployment than are those who believe in the NRU. They come to the same conclusions about the inability of any significant increase in aggregate demand to in itself bring about a sustained reduction in unemployment, not because the increase in demand might reduce unemployment below the NRU and result in accelerating inflation, but because the increase in aggregate demand would quickly run into capacity constraints and lead to an unsustainable increase in the current account deficit.

One feature of the debate over unemployment in Britain is that the most clear advocate of the natural rate hypothesis is the most sanguine about the scope for further significant falls in unemployment, while an economist who rejects the natural rate hypothesis is amongst the most pessimistic. Another economist closely associated with the hypothesis also remained pessimistic, believing that the NRU was higher in the 1990s than in the late 1970s⁴⁰. His estimate of 8.9 per cent (on the LFS measure) would imply that the UK in 1996 faced an imminent acceleration of inflation as unemployment had fallen below that level in late 1994.

Official bodies such as the Bank of England and the OECD tend, unsurprisingly, to be cautious about estimates of the NRU and therefore the scope for monetary policy to reduce unemployment. The OECD has revised down its estimate of the NRU in Britain to seven per cent⁴¹. The Bank of England concluded that the unemployment rate in Britain in early 1996 (at 7.9 per cent) was above the NRU on the unobjectionable grounds that the rate of growth in average earnings was still stable⁴². However,

over the period from 1993 the Bank was consistently worried about the re-emergence of wage inflation. The UK Treasury makes no comment about the level of the NRU, consistent with its position that it makes no specific comment about the prospects for unemployment at all.

The six estimates of the NRU derived from the six original members of the Treasury's panel of independent forecasters, plus the OECD's estimate, the estimate of one further set of economists⁴³ plus the most pessimistic estimate⁴⁴, give an average estimate for the NRU in the mid-1990s in Britain of 6.7 per cent, with a range from 3.5 to 8.9 per cent (Table 24). These estimates are placed alongside estimates of the NRU covering the period from 1969-73 to 1988-90.

The average and the range of estimates for the NRU in the mid-1990s are almost identical to the average and the range of estimates in the late 1980s. The fact that the estimates of the NRU for the mid-1990s are no different from those arrived at during the Lawson boom seems to signal that there is still no consensus that the Government's structural reforms have in fact improved the trade-off between unemployment and inflation.

Estimates of the NRU are pro-cyclical. Estimates of the NRU appear to go up when actual unemployment rates rise and then fall again when actual unemployment falls. This seems to indicate hysteresis at work, at least in the models of the forecasters.

The average mid-1990s estimate of the NRU is little different from the average estimate from the early to mid-1980s, when pessimism over the performance of the British economy was at its height. The mid-1990s estimate is still higher than the average estimate of the NRU for the late 1970s. Despite significant supply side reforms since 1979 only one economist (Minford) clearly believes that the sustainable rate of unemployment is lower than that inherited by the Conservative Government in 1979.

The NRU and 'cyclical' and 'structural' unemployment

The wide range of estimates for the NRU also implies a wide range of estimates for the 'cyclical' and 'structural' components of unemployment. In early 1996 the actual rate of unemployment in the UK economy stood at just under eight per cent. Most or all of this unemployment in excess of the level associated with full employment could be considered structural in nature, which would be consistent with the views of Davies, Brittan and Currie. Alternatively most or all of this unemployment could be regarded as cyclical, which would be consistent with the views of Minford.

Causes of the trend in the NRU

Given that there is no consensus as to the level of or the trend in the NRU and therefore the division of unemployment into its 'structural' and 'cyclical' components it is not surprising to find little consensus over the possible causes of the rise in the NRU from the late 1960s onwards outlined in Table 24 or the possible causes of any subsequent fall in the NRU, if indeed any fall has occurred.

The main causal factors which have been put forward to

explain the path of the NRU include:

1. The oil and commodity price shocks of the 1970s.
2. Labour market mismatch in terms of skills or the regional distribution of unemployment.
3. Excessive trade union power.
4. Forms of pay determination which are either not fully decentralised or fully coordinated.
5. Minimum wage regulations.
6. Employment protection legislation
7. High levels of taxation, including taxes on employment.
8. The benefits system.
9. Demotivation and loss of skills amongst the long-term unemployed.
10. Lack of product market competition.
11. Lack of effective industrial capacity.

The first nine of these factors relating primarily to the labour market are extensively discussed in one of the most influential contributions to the debate, with the conclusion that the oil/commodity price shocks, trade union power, lack of coordinated pay determination, the benefits system and the demotivation and loss of skills of the long term unemployed were the factors to be blamed for the rise in the NRU through the 1970s and the early 1980s⁴⁵. Clearly many of these causes had been reversed to a greater or lesser extent by the early 1990s, but the authors of that influential contribution to the debate still emphasise the lack of coordinated pay determination, the operation of the benefits system and the demotivation and lack of skills of the unemployed as key determinants⁴⁶. The focus on the benefits system and on the characteristics of the unemployed is also common to many other interpretations of why the NRU might have increased. These interpretations concentrate on the labour market.

An alternative hypothesis is that it is the lack of effective productive capacity which leads to a high NRU⁴⁷. High levels of investment in fixed capital would, by raising labour productivity, help to reduce inflationary pressure and allow the economy to operate with lower unemployment. However, such capital shortages are probably only a short term constraint on the expansion of the economy⁴⁸. If unemployment is falling too fast, capacity constraints will lead to upward pressure on inflation. Firms do, however, respond quite quickly to capacity constraints by investing in extra capacity. So the possibility of capital shortages implies that there is a limit to how far unemployment can adjust to the NRU, but capital shortages might not influence the NRU itself.

Understanding to what extent the labour market factors listed above are important in explaining a high NRU will be the focus for much of the report. Already in section I.2 some doubts about the focus on the long-term unemployed and on the 'skills' or rather qualifications of the unemployed have surfaced. Judgement on the relative importance of all the different factors is reserved to the conclusions in section VI.

However, to re-iterate the main point of this section again, estimates of the NRU vary significantly. There is no agreement amongst economists over the weight to be given to different

factors which might lead to a high NRU. Some economists are increasingly doubtful about the usefulness of the concept in theory⁴⁹, and the wide variations in estimates of the NRU severely qualifies the usefulness of the concept in practice.

I.6 Macroeconomic policies and forecasts

The current framework for macroeconomic policy in the UK

The framework for macroeconomic policy in the UK changed dramatically after the events of Autumn 1992 when sterling left the Exchange rate Mechanism (ERM) of the European Monetary System. Between 1990-92 the commitment to maintain the pound's parity within the ERM provided the main anchor for monetary policy. From October 1992 the Government put in place a new framework for the conduct of macroeconomic policy.

At the heart of that policy is an explicit target for the level of underlying inflation (as measured by the Retail Price Index excluding mortgage interest payments). The aim is to keep underlying inflation within the range 1-4 per cent and to get it down to the lower half of that range, that is 2.5 per cent or less. This inflation target is set by the Government. Monetary policy is the sole instrument geared to the achievement of this target. Monetary policy is geared only to the achievement of the inflation target. There is no separate target for the growth in output or any other real variables. As such there is of course no target for employment or the level of unemployment. Rather it is believed that the achievement of low inflation will in itself lead to satisfactory outcomes for the real economy. And, whereas the Treasury provides forecasts for the path of inflation, output, the current account, the budget deficit and many other variables, it does not provide any forecasts for the path of unemployment.

Decisions over the current stance of monetary policy are reached following deliberations between the Bank of England and the Treasury. However, the Treasury has the final say over interest rate decisions. The Bank of England does not have independent control of monetary policy.

Fiscal policy is determined by a commitment to 'sound public finances' defined as a balanced budget over the medium term. The Government's stated aim is to reduce the Public Sector Borrowing Requirement (PSBR) to zero by the turn of the century. Discretionary fiscal policy has no role to play in demand management, though the automatic stabilisers would be allowed to function during recessions.

Monetary policy is based on a forward looking assessment of the prospects for inflation. If inflation is expected to be above the Government's central target of 2.5 per cent over a two year horizon, the Bank of England will recommend a tightening of monetary policy. In determining the likely path of inflation the Bank looks at a wide range of indicators, including direct indicators of cost pressures such as the growth in input prices and average earnings, financial indicators such as the growth in narrow and broad measures of the money supply, the exchange rate and asset prices, and indicators of real activity such as

measures of spare capacity and skill shortages. However, there are no specific targets for any of these indicators.

It should be noted that taking into account indicators of real activity means that in practice the Government does not completely ignore the real economy when determining monetary policy. This opens up the likelihood that pragmatic judgements about the compatibility of real objectives with the inflation target will play a role in the policy process.

The Government has since 1992 introduced greater transparency into the policy making process by publishing with a lag the minutes of the monthly deliberations of the Chancellor and the Governor of the Bank of England over monetary policy. The Bank of England publishes an independent inflation report every quarter. The Government also established the panel of independent forecasters whose estimates of the NRU were discussed in section I.5.

Medium term forecasts for the UK economy

Table 25 outlines the main medium term forecasts for the British economy to 1998 as provided by six of the original members of the panel of independent forecasters in November 1995. The forecasts for unemployment in 1998 diverge widely, ranging from 1.11 million (Minford) to 2.1 million (Godley). This of course reflects the fundamental divergence in opinion between those who believe that Government supply side reforms have significantly reduced the NRU, those who believe that the NRU is still very high and those who reject the NRU hypothesis altogether.

Forecasts for underlying inflation show more apparent consistency, with estimates for the Government's preferred measure of underlying inflation ranging from 2.2 per cent to 3.2 per cent in 1998. There was also some degree of consensus (excluding Godley) that the current account of the balance of payments would not prove to be a significant constraint over the medium term with forecasts of the current account deficit in 1998 at one per cent of GDP or less. However, Minford's forecast of low inflation and a current account balance have to be seen in the light of his forecast that unemployment will fall to 1.1 million or four per cent of the labour force by 1998. The forecasts of Brittan, Currie and Davies of relatively low inflation and small current account deficits have to be seen in the light of their belief that unemployment will remain at around seven per cent of the labour force in 1998.

Table 25 also gives forecasts for the PSBR to 1998-99. Again with the exception of Godley, there was a consensus at the time of these forecasts that the budget deficit would be below three per cent of GDP by 1997-98, with a range from 1.8 to 2.7 per cent of GDP.

Budget deficits are often broken down into their cyclical and structural components. This parallels the distinction between cyclical and structural unemployment. Estimates of the cyclical and structural components of budget deficits also depend on estimates of the NRU. As Minford believes that the NRU is 3.5 per cent, and that by the time unemployment falls to its natural rate the budget deficit will have been eliminated, he believes

that all the current budget deficit is cyclical in nature. By contrast, Brittan, Currie and Davies believed that unemployment in Britain in early 1996 was close to the NRU, so that the budget deficit at this point in time was largely structural in nature. Estimates of the cyclical and structural components of the budget deficit depend on estimates of the NRU, which means that they vary as dramatically as estimates of the NRU.

Regional forecasts for unemployment

Table 26 gives forecasts for unemployment in the regions of the UK. These forecasts were made in 1994. By the end of 1995 the forecast national unemployment rate for 2001 had already been attained and the regional spread of unemployment at this time was close to the forecast spread in 2001. The main exceptions were the West Midlands and the North West where unemployment turned out to be slightly lower than forecast. These results serve to illustrate that correct regional forecasts of unemployment are largely dependent on correct national forecasts. No forecasters in 1990 were predicting any sharp increase in national unemployment and none forecast the significant convergence in regional unemployment rates which took place in the early 1990s. As the national forecasts for unemployment in 1998 diverge so widely any forecasts for regional unemployment rates by the end of the decade are also likely to vary widely.

Macroeconomic targets and forecasts in relation to the Maastricht criteria.

The Maastricht treaty outlined four criteria which national economies will have to meet in order to satisfy the conditions for joining the single currency. As Britain has reserved the right to opt out of the single currency, comparing current macroeconomic targets and forecasts in Britain to these criteria might seem academic. Nevertheless it is useful as a way of thinking further about the framing of macroeconomic policy in the UK.

1) The Government's target for consumer price inflation is to hold it at or below 2.5 per cent. In November 1995 the average of the forecasts for inflation in 1997 offered by the independent forecasters was slightly above that at 2.7 per cent (Table 25). Inflation forecasts had not significantly changed by Spring 1996. The European Commission's measure of consumer price inflation differs slightly from the Government's target measure. So long as the inflation rate of the three best performing states in 1997 is not significantly below 1-1.25 per cent the UK should just about satisfy the criterion of having an inflation rate within 1.5 per cent of that benchmark.

2) The Public Sector Borrowing Requirement (PSBR) in Britain does not equate exactly with the European Commission's definition of the General Government Financial Deficit. In 1995-96 the outturn for the PSBR was 4.5 per cent of GDP, about half a per cent above the Government's target for that year. Taking this

slippage into account, forecasts which were available in the first half of 1996 for the PSBR in 1997-98 ranged from 2.1 to 3.5 per cent of GDP. In July 1996 the UK Government forecast that the PSBR in 1997-98 would be three per cent of GDP. The Government deficit defined under the Maastricht Treaty will be about half a percentage point above the PSBR in that year⁵⁰. It therefore seems unlikely that the UK will meet the criterion of having a budget deficit below three per cent of GDP in 1997. Government policy is geared towards eventually achieving a budget deficit which is comfortably within the Maastricht criterion, but this will not be achieved in 1997, though it might be in 1998.

In 1995 the ratio of Government debt to GDP in the UK was 54 per cent and by 1997 it is still certain to be below 60 per cent, so the UK will succeed in satisfying the Maastricht criterion in having a debt-GDP ratio below that level⁵¹.

3) In the first half of 1996 long term interest rates in the UK were about 1.5 percentage points above those in Germany. This gap was 1.2 percentage points in the first half of 1995. Provided that there is no deterioration in inflation expectations the UK will probably meet the criterion of having long term interest rates which do not exceed by more than two per cent the rates in the three best performing countries.

4) Britain will not rejoin the ERM before 1997 and so will not have maintained a normal ERM parity for at least two years before 1999. As a result of policy decisions the UK will clearly not satisfy the last of the Maastricht convergence criteria. This could render the question as to whether or not the UK will hit the criterion relating to the budget deficit academic.

It should be noted that the UK Government's fiscal objectives are in principle actually tighter than those in the Maastricht criteria. The Government's aim is to achieve a balanced budget by the turn of the century. There is some concern that the UK Government's fiscal objectives may be too tight just as there are concerns that the Maastricht fiscal criteria are too tight. With nominal demand growth at five per cent, maintaining a stable debt-GDP ratio of around 50 per cent would require a budget deficit of around 2.5 per cent of GDP rather than a balanced budget.

However, the practical argument for aiming for a budget deficit of less than 2.5 per cent of GDP and a falling debt-gdp ratio when the economy is growing robustly, is precisely that the budget deficit can then be allowed to increase significantly during a recession, with the automatic stabilisers being allowed to operate unhindered by concerns over an unsustainable trend in the debt-GDP ratio. Erring on the side of caution during a recovery could also allow a Government to indulge in discretionary counter-cyclical fiscal policy in the context of a severe recession, though this is not part of current Government thinking.

This is all tantamount to saying that for the UK the Maastricht criteria represent quite sensible rules of thumb for the stance of fiscal policy during an upturn. However, since Autumn 1992 the British Government has been able to offset a

significant tightening of fiscal policy with a loosening of monetary policy including a significant depreciation of the exchange rate. Concerns about the possible negative impact of the Maastricht fiscal criteria on growth and employment are misplaced provided that monetary policy is available as an instrument to maintain growth in aggregate demand. The lesson of UK experience in the early 1980s and again in the early 1990s is that a combination of a tightening of fiscal policy to consolidate the budgetary position and a loosening of monetary policy including exchange rate depreciation can deliver a reasonable rate of growth of demand, output and employment.

A further criticism of the Maastricht criteria is that they contain no reference to convergence in terms of real variables, specifically unemployment. If countries can only meet the Maastricht criteria by tolerating a high level of unemployment, it is not clear that their labour market institutions are structured in a way so as to deliver the much greater wage flexibility which will be necessary if the option of using monetary and exchange rate policy is given up. More generally the criticism could be levelled that the commitment of the EU to the objective of lower unemployment is clearly subservient to the goal of EMU. The single currency project involves member states giving up powerful instruments of policy which can have a significant impact on unemployment when used to complement supply side reforms.

II Labour market institutions

II.1 Public Institutions

The new Department for Education and Employment (DfEE)

In 1995 the institutional framework relating to labour market policy in England and Wales was dramatically altered. The Department of Employment was merged with the Department for Education, with some of the labour market responsibilities of the Employment Department transferred to two other Departments, Trade and Industry and the Environment. A separate Department to deal with labour market issues had existed under various names through most of the twentieth century and the merger left Britain in a unique position amongst the advanced industrial countries in having no separate Ministry with responsibility for the labour market.

The structure of the new Department for Education and Employment is outlined in Figure 26. There are four major policy Directorates, one of which has responsibility for employment (and 'lifetime learning'). The Schools Directorate deals with all education matters up to the compulsory school leaving age of 16. The Further and Higher Education and Youth Training Directorate has responsibility for post-compulsory general and vocational education and training. This includes responsibility for the so-called 'tripartite' system of post-16 education and training which is discussed in section V.1.

The Employment and Lifetime Learning Directorate takes care of employment issues. This Directorate has the main link with the Employment Service which is responsible for the delivery of active labour market policy and jointly responsible with the Benefits Agency (under the control of the Department for Social Security) for administering unemployment related benefits. This Directorate is responsible for policy in relation to training for the unemployed and for employer based training. It also has responsibility for equal opportunities issues and for the agencies, the Commission for Racial Equality (CRE) and the Equal Opportunities Commission (EOC), active in this area of policy (see section III.1).

Finally the Strategy, International and Analytical Services Directorate has responsibility for analysis, research and information and the development of overall strategy, and for links with international organisations. One key responsibility of this Directorate is the development of strategy in relation to the National Education and Training Targets discussed in section V.1 and the associated National Advisory Council for Education and Training Targets (NACETT).

With the merger of the two Departments, responsibility for industrial relations and pay matters, including sponsorship of the Advisory, Conciliation and Arbitration Service (ACAS), was passed over to the Department of Trade and Industry (DTI). The DTI's central responsibilities for industrial and competition and trade policy are of course of key importance for labour market outcomes. Responsibility for health and safety matters (except for food safety, the responsibility of the Ministry of Agriculture, Fisheries and Food or MAFF), including oversight of the Health and Safety Executive (HSE) was passed to the

Department of the Environment. This Department already had responsibility for urban policy. Moreover, the Government's programmes for boosting self-employment had also come under this Department's Single Regeneration Budget.

Finally, responsibility for the collection and dissemination of labour market statistics was passed to a new agency, the Office for National Statistics, itself the amalgamation of the Office of Population Censuses and Surveys and the Central Statistical Office. The agency's independent status is heavily emphasised and a key aim of giving it responsibility for labour market statistics was to try and raise public confidence in the reliability of those statistics, especially relating to unemployment, an issue discussed earlier.

These institutional changes have been mirrored in Scotland, where the separate Education and Industry Departments of the Scottish Office have been merged.

The merger of the Employment and Education Departments in England and Wales was driven primarily by the perceived need to overcome divisions in the delivery of post-16 education and training. In this sense it is the Further and Higher Education and Youth Training Directorate which is the most important new feature of the merged Department. Up until merger the Employment Department had responsibility for vocational education and training, while the Education Department had responsibility for general education. The education and training lobby argued forcefully that this division of responsibility meant that post-compulsory education and training policy lacked cohesion and that the divided responsibilities mirrored an unhelpful 'academic-vocational divide' in the provision of post-16 education and training. The new arrangements were held to open the possibility for more cohesive policy making and the bridging of the 'academic-vocational divide'.

Thus the merger was probably driven primarily by education and training issues and not labour market issues. This leaves open the argument that transferring responsibility for vocational education and training to the Education Department did not necessarily imply the abolition of the Employment Department which would still have had a considerable portfolio of responsibilities even with vocational education and training taken away.

The Training and Enterprise Councils

82 TECs were set up in England and Wales in 1990 as employer-dominated local area based private companies with responsibilities in five main areas of policy:

- 1) Training for the unemployed (as of 1993 the Training for Work programme)
- 2) Vocational training for young people (Youth Training or YT and from 1994 'Modern Apprenticeships') and some aspects of vocational education.
- 3) Employer based training.
- 4) Support for enterprises.
- 5) A more general area economic development remit.

In Scotland Local Enterprise Companies perform a similar range of functions under the overall umbrella of an agency,

Scottish Enterprise. However, Scottish Enterprise has a much wider remit with respect to economic development and urban regeneration.

In 1994-95 the 81 surviving TECs in England and Wales (one having gone out of business) were responsible for about two-fifths of the Employment Department's budget, with 90 per cent of this paid over to the TECs for running Training for Work and Youth Training. These two programmes dominate TEC funding but not necessarily the attention and enthusiasm of the employers involved who, not unnaturally, are most interested in their responsibilities for helping firms with their training and with the economic development role⁵².

This potential tension is reflected in concerns over the procedures which accompany funding. As the vast bulk of funding is for the running of programmes for the adult unemployed (TfW) and young people (YT), it comes attached with clear rules about the use of such funding which to private sector organisations seem inflexible. However, that is inevitably the nature of such public programmes. Organisations which spend large amounts of public money for the delivery of public programmes must expect very tight controls on the disbursement of such funds.

TECs used to have separate relationships with the Employment and Education Departments. They now have relationships with the various Directorates of the Department for Education and Employment. In addition the TECs also have links to the DTI with its responsibilities for programmes to assist enterprises, and to the Department of the Environment with its responsibilities for urban policy and self-employment. Government Offices for the regions provide a single point of reference for TEC's contractual relations with these Government departments. The economic development function of TECs overlaps with the work of the local elected authorities and other central Government agencies such as the urban development corporations, as well as with other private sector organisations, notably the Chambers of Commerce and Enterprise Agencies.

The Employment Service

The Employment Service (ES) is one of the Government's most important executive agencies, established in 1987 to bring together the Unemployment Benefit and Jobcentre Services to create an integrated network of offices with the aim of linking more effectively the payment of benefit to the operation of the services offered to the unemployed. The costs which the ES incurs in administering unemployment benefits are 'reimbursed' by the Department of Social Security. The relationship of the ES to the Benefits Agency is a close one, and in the light of the new Jobseekers Allowance (see section IV.1), an evolving one.

The ES integrated network of offices are responsible for the placement services for unemployed people and for assisting jobseekers with job search skills and counselling, while checking their eligibility to benefit. The ES can refer unemployed people to the Training for Work programme, though placements are sponsored by TECs which in turn sub-contract delivery to a range of private, public and voluntary organisations. The ES also runs itself, or contracts with providers to deliver, a number of

initiatives to help disadvantaged jobseekers, including responsibility for a wage subsidy programme (Workstart, see section IV.2). The ES and the TECs therefore share responsibility for providing opportunities for the unemployed.

The Employment Service does not and never has had a monopoly on job placement services, as is the case in some European countries. Private employment agencies have long existed and without significant controversy as part of a 'mixed' economy. The compulsory notification of vacancies to the ES to improve flows of labour market information has been suggested, but never taken up. It has usually been estimated that only one-third of vacancies are reported to the ES.

The new arrangements - an analysis

It can be seen from Figure 26 and the preceding discussion that the administration of labour market policies remains somewhat fragmented. The future of the TECs is not entirely clear especially given the arguments for bringing all enterprise support functions at area level under one umbrella, which would involve the merging of TECs with Chambers of Commerce.

It has been suggested that the disappearance of a Department of State with sole responsibility for labour market issues is a response to the Conservative Government having successfully pushed through a wide-ranging set of reforms to the labour market which have 'solved' many of the labour market's problems. A separate Department with responsibility for labour market issues is not seen to fit with a 'deregulated' labour market. It is noticeable that in the US, however, where the labour market is seen to be even more 'deregulated' a separate Labor Department remains. In the US the federal role in education is heavily proscribed, whereas in the UK the central state's role in education has in the past decade increased significantly. This section has argued that it is this focus on education policy which has led to the setting up of a Department for Education and Employment.

II.2 The system of industrial relations - collective institutions

The agenda of reform since 1979

In terms of legislation this is one of the areas of the labour market to have witnessed the most significant changes since 1979. However, those legislative changes were phased in over the period from 1980 to 1993 with the Conservative Government proceeding cautiously, seeking to pass legislation only if there was a reasonable chance of compliance with that legislation.

In 1979 the incoming administration placed a large degree of responsibility for Britain's economic problems on the trade unions. It was believed that strikes and restrictive practices were a major constraint on productivity. It was also believed that the unions played a major role in keeping wages above market clearing levels with adverse consequences for unemployment. However, the reform agenda after 1979 was influenced as much by political as economic considerations⁵³. It was widely believed that the Conservative administration of 1970-74 had been brought down by the unions. A period of industrial unrest in the winter of 1978-79 had also seemed to signal to the incoming Government that union power posed a threat to the orderly government of the nation. Complementary to this, the strand of Conservatism which emphasised individual rights saw the unions as constraining those rights. Thus a range of motives lay behind the Government's approach to the unions after 1979. It should also be stressed that at this time there was much popular support for this agenda, influenced not least by the industrial unrest of the Winter of 1978-79.

It is not clear that these motives for reform meant that the incoming Government in 1979 had any kind of 'grand strategic design' for the reform of collective industrial relations⁵⁴. Rather the legislative changes proceeded incrementally, with each step building on the one before. In large part this was a response to the experience of the Conservative administration of 1970-74 which had passed a comprehensive Act of Parliament to reform industrial relations in 1971, but this legislation had been rejected by the unions and not enthusiastically embraced by employers either. This in itself counselled caution the second time around. Thus from 1980 to 1993 six major Acts of Parliament were passed at intervals to slowly 'redress the balance' between employers on the one hand, and on the other employees acting collectively through their unions. This use of the language of 'redressing the balance' does not seem to suggest wholesale opposition to collective industrial relations, a position which might have been urged by the more laissez-faire supporters of the Government approach. It suggests a Government view that in the 1970s employees acting collectively through their unions had too much power and that the aim was to move the balance back in the direction of the employers.

The evolving legal framework governing unions and collective bargaining since 1979

The traditional system of British industrial relations has often been described as 'voluntaristic' in nature. This was meant to imply that the role of the law was circumscribed. The unions since 1906 had been granted a range of immunities from civil or criminal action arising from industrial disputes. In other words employers could not easily use the law to counter industrial action. This granting of immunities was also seen as necessary in order to 'redress the balance' between powerful employers and relatively powerless individual employees, who could only hope to match the power of the modern firm by acting collectively, relatively free from the threat of legal action.

The set of reforms enacted by the Conservative Government has not overturned this basic structure⁵⁵. The law has played a much greater role since 1979, with the legislation seeking to limit some of the immunities, to erode some of the union institutions which promote or consolidate union influence, to reform the internal organisation of the unions with the perceived aim of increasing the rights of individual members, and to undermine the role of collective wage-setting. However, a group of workers still have the right to undertake lawful strike action and when they do still have access to the traditional legal immunities from civil and criminal action by the employer. Hence the claim of the Government to have merely 'redressed the balance'.

Another critical point to note is that the Government has acted to 'regulate' the relationship between the employers and the unions, with the law now playing a greater role in an area where previously its role had been circumscribed. It is strictly inaccurate therefore to talk about 'deregulation' in this respect.

The reforms can be divided into four strands:

1) The first group of reforms have restricted the types of industrial action which the unions can enter into and still enjoy the traditional immunities. This has been achieved in three ways. Firstly, by limiting the definition of a lawful trade dispute so that secondary action (that is action against a second employer not directly involved in a dispute) and any associated secondary picketing is outlawed. Politically motivated strikes are also not protected. Secondly, any other industrial action has to be preceded by a secret postal ballot of the union's membership and seven days notice must now be given to the employer before action proceeds. Thirdly, union funds have been put at risk from fines and sequestration if they undertake unlawful industrial action. Unions have to endorse or disown any unofficial action and employers can selectively dismiss employees undertaking unofficial action. All of these changes have made unions much more cautious before undertaking any action and have also forced them to take a much tighter grip over their membership.

2) The institutions for promoting or consolidating union influence have been eroded. The most dramatic example is the eventual abolition of the closed shop, whereby individuals have

to join a union either before or after obtaining a particular job. The fate of the closed shop also best illustrates the incremental nature of the legislation. An Act in 1980 had begun the process of restricting the operation of the closed shop but it was not until 1990 that the institution was effectively rendered unlawful. Related changes include the abolition of machinery designed to facilitate union recognition and abolition of the right of public authorities to award contracts only to firms which are unionised. Employers can now offer more favourable terms to non-union members as an incentive to employees to opt out of collective bargaining.

3) Another set of reforms has sought to alter the relationship between unions and their individual members. Senior union officials must now be elected by secret postal ballot. Ballots also have to be held every ten years to legitimise the political funds which some unions hold. A Commissioner for the Rights of Trade Union members was established to assist individuals taking legal action against their unions. Unions can no longer discipline members who refuse to take part even in lawful industrial action, and members now have a right to confirm periodically the deduction of union dues from their pay packets.

Individuals have a right not to be refused employment on the grounds of trade union membership or non-membership, and the right to belong or not to belong to a trade union. Individual employees have the right not to be dismissed or chosen for redundancy for being, or not being, members of a trade union.

4) Finally the legal supports for collective bargaining and statutory wage setting have been removed. Of particular importance here is the eventual abolition of the Wages Councils (outside of agriculture) which until 1993 set minimum pay rates in a number of industry sectors. This is discussed in section III.3. In addition the long standing Fair Wages Resolution which had allowed public authorities to award contracts only to firms which set pay and conditions in accordance with collective agreements was abolished. More generally the Conservative Government has eschewed any role for incomes policies in the private sector and has instead encouraged the decentralisation of pay bargaining and the spread of newer forms of performance related pay. All of this is geared towards undermining the role of collective bargaining in pay determination.

Again it needs to be stressed that these legal changes have occurred incrementally. Their possible general impact is discussed below, but some specific results of the legislation are worth outlining. The ballots on unions' political funds did not result in any of these funds being abolished or the funds diverted away from the Labour Party. In 1990 ACAS reported that of 1023 strike ballots held up until 1989, 908 had been in favour of action, with the employer usually settling the dispute soon after⁵⁶. This probably reflects the fact that unions only hold ballots when they are reasonably sure of victory. Elections for union officials have not led to any obvious change in the make-up of union leadership. On the other hand the closed shop has collapsed and secondary action has been eliminated.

Trends in union membership and the evolving structure of union organisation since 1979

Union membership has been in sharp decline since 1979 (Figure 27). The peak in union membership in that year at over 13 million was equivalent to some 59 per cent of all employees, though this will be an overestimate of union density as membership data includes the retired and unemployed⁵⁷. By 1994 union membership at over eight million was equivalent to some 38 per cent of all employees. Separate data from the Labour Force Survey which excludes retired and unemployed union members would put union density at just 34 per cent of all employees in 1994. This decline in union density has been sharper than in many other industrial countries⁵⁸.

It would be tempting to associate this decline in union membership with the legislation discussed above. However, the role of the legislation has to be seen alongside other changes. These include higher unemployment, and changes in the structure of employment with the decline in manufacturing and the relative growth of female, part-time and service sector employment where unionisation rates have traditionally been lower. However, aside from the traumatic decline in manufacturing jobs in the early 1980s, in section I.2 doubts were cast on how far these trends in the structure of employment do represent significant breaks with the trends before 1979. Moreover, pointing to these factors merely begs the question as to why the unions have been less successful in organising workers in these growing parts of the workforce? Employers have been very reluctant to grant union recognition in new workplaces, but although changes in the law have made this easier, employers had always been in a position to limit union recognition if they felt the need to do so. It is the changed circumstances of a more harshly competitive product market environment which seem to have given them the incentive to do so⁵⁹.

The public sector remains much more highly unionised. In 1990 72 per cent of workers in public sector establishments with more than 25 workers were union members, down from 80 per cent in 1984⁶⁰. The single largest union in Britain, formed in 1993 from the merger of three unions, represents public sector workers. Indeed one-in-six of all union members in 1994 belonged to this one union and the top five unions accounted for over half of all union membership⁶¹. So alongside declining union membership there has been a trend towards the merger of unions so that by 1994 there were only 243 registered unions, down from 453 in 1979.

Many trade unions belong to the Trades Union Congress (TUC) which is the peak organisation for labour in the UK. However, the TUC has never had the authority which is invested in many of its counterparts elsewhere in Europe and its formal role has been undermined as the Government has abolished many of the institutions which brought together the 'social partners' for collective discussions.

The decline of such institutions was best symbolised in 1992 when the National Economic Development Council was abolished, an institution which had been set up in 1962 by a previous Conservative Government. This serves as a reminder that the

institutions designed to foster 'concerted action' in the UK evolved as pragmatic responses under different Governments. However, there was never a formalisation of the role of the 'social partners' in the manner of some continental systems. The 'social contract' between 1974-79 was an ad-hoc Government and union response to the post oil shock crisis to which the employers were asked to contribute, but it never involved the establishment of any formal machinery for 'concerted action'.

Employers' organisations

The decline after 1979 of those 'tripartite' structures which had existed also undermined any role which the employers' main peak organisation the Confederation of British Industry (CBI) might have played in such arrangements. In the early 1980s the influence of the CBI was barely more substantial than that of the TUC and the effects of the recession on the CBI's members, heavily concentrated in manufacturing, lead to considerable friction with the Government.

The CBI has never participated in collective bargaining. It has always been essentially a pressure group lobbying on behalf of employers. In this role it has been matched by the Institute of Directors (IoD), which has been more directly supportive of the Conservative Government in contrast to the perceived 'woolliness' of the CBI. The employers' industry organisations, such as the Engineering Employers' Federation, are also now essentially lobby groups, given that their role in collective bargaining has declined sharply. This was symbolised by the collapse of industry level negotiations in the engineering industry in 1990. By 1990 only 13 per cent of establishments belonged to employers' associations compared with one quarter in 1980⁶².

It should be noted that the fragmentation of employer representation at national level is mirrored at local level where the Training and Enterprise Councils (TECs), the Chambers of Commerce and the Enterprise Agencies, amongst other, compete for employer membership and support.

The employers' organisations and the TUC have responded increasingly warmly to the possible role offered to them within the organisations of the European Union. Their participation in EU-wide tripartite deliberations is partial compensation for the decline of such arrangements in the UK. Of particular interest is the role of the TUC and the CBI in discussions over the UK's opt out from the Social Chapter of the Maastricht Treaty and more generally the impact on the UK labour market of employment policies emanating from the EU. This is taken up further in section 111.

The impact of reforms on changes in private and public sector pay determination since 1979.

Another stark trend in the UK labour market has been the sharp erosion of the role of collective pay setting institutions. In 1975 between 84 and 86 per cent of employees had their pay determined either by collective bargaining and/or statutory machinery (the Wages Councils). With the abolition of the Wages Councils in 1993 this proportion fell to significantly less than half so that collective pay setting by the early 1990s affected a smaller proportion of employees than at any time since before the second world war⁶³. The decline in the coverage of collective pay setting has of course been associated with the decline in union density but has proceeded at a much faster pace.

Of particular note is the sharp decline in multi-employer and industry wage setting, which explains the declining influence of industry organisations such as the Engineering Employers' Federation. Pay determination increasingly takes place at the level of the establishment. However, this does not represent complete decentralisation. Rather at the same time that industry level bargaining has declined in importance, management at firm level has taken a much tighter central grip on the determination of pay within the firm⁶⁴. Even where some autonomy is granted to individual establishments to determine some aspects of pay and conditions this is in the context of tight financial controls exercised centrally. The decentralisation which has taken place has been along product market lines rather than on a geographic basis. Local pay bargaining is set firmly within a national corporate framework.

In 1990 two-fifths of workplaces in the trading sector had arrangements where part of the wage bill was paid over in a manner linked in some way to individual performance⁶⁵. This might if anything represent a fall over the 1980s in the proportion of the workforce remunerated in ways other than a straightforward hourly wage or salary. This is because traditional forms of contingent pay such as piece rates have been declining sharply in importance. There has been growth in newer forms of contingent pay such as merit and profit related pay and employee share ownership schemes. However, whereas such arrangements are spread widely they have developed little depth, with such payments accounting for only a small fraction of the total wage bill in any firm which has introduced such schemes. Moreover, the growth in these kinds of schemes may have as much to do with the considerable tax advantages associated with them as with any intrinsic merits.

Within the public sector, where unionisation rates remain much higher, about three-quarters of the workforce continue to have their pay determined by collective bargaining. The other quarter have their pay linked by formula to the growth in average earnings (the police and fire services) or determined by review bodies (teachers, doctors and nurses and the armed forces). These groups have seen much greater increases in real pay since 1979 than the three-quarters covered by traditional collective bargaining⁶⁶. Manual workers in the public sector have seen significantly lower increases in pay than their professional counterparts but have done better than their private sector

manual counterparts. There has also been little increase in wage inequality within the occupations dominated by the public sector⁶⁷, in contrast with the sharp within-group increases in inequality outlined in section I.4.

The Government is obliged to have a pay policy for the public sector, even if it rejects having a formal policy for the private sector. The Government's approach to public sector pay mirrors the dilemma faced by the private sector over how to achieve a balance between promoting a greater sensitivity of pay to local conditions and individual performance by decentralising pay determination, and the need to exercise central control, often for financial reasons. Within the health service, for example, structural changes involving the setting up of health trusts have been accompanied by attempts to promote more local bargaining and performance related pay. At the same time national review bodies set pay increases across the board for professional staff and since 1993 the Government has had an explicit pay policy for the public sector in order to hold down public spending and the budget deficit⁶⁸.

Clearly then within the private and public sectors the agenda of promoting greater 'decentralisation' in pay setting has not necessarily produced the outcomes anticipated. Rather the balance between decentralisation on the one hand and on the other hand coordination at a higher level has been difficult to strike. However, whereas the extent and nature of the 'decentralisation' of pay determination since 1979 has been unclear, the overall decline in the influence of collective bargaining is unambiguous.

The impact of this on actual outcomes in terms of pay settlements is unclear. The shift away from multi-employer and industry level bargaining has not lead to any increase in the dispersion of pay settlements in manufacturing⁶⁹. Dispersion of settlements at a given inflation rate was similar in the early 1990s to the early 1980s. The 'going rate' for pay settlements centred around the level of headline inflation still plays an important role in wage determination.

In section I.4 the issue as to whether there has been any improvement in the aggregate trade-off between unemployment and inflation was explored. There is no evidence that the experience of disinflation was any less painful in the early 1990s when compared with the early 1980s. Many authors have reached the broad conclusion that there is no evidence that the decline in union density and in the role of collective bargaining and the greater 'decentralisation' of pay determination has in any sense significantly altered the trade-off between unemployment and inflation⁷⁰. Unambiguously, this aspect of the 'de-regulation' of the labour market has, however, been associated with a sharp increase in wage inequality as section I.4 made clear.

The impact of reforms on workplace industrial relations and productivity

The evidence for an improvement in productivity growth and in certain indices of industrial relations outcomes such as the number of working days lost through strikes, is much clearer⁷¹. The question here is how far this can be put down to the legal reforms and how far they are a result of other factors. In particular the impact of the reforms has to be seen alongside the impact of two traumatic recessions and the associated sharp increases in unemployment, and the impact of policies designed to promote greater product market competition which are discussed in section V.3.

Figure 28 plots the change in the number of working days lost through stoppages over the period 1975-94. The dramatic improvement over time is readily apparent. The upward blip in the figures for working days lost in 1984-85 reflects the miners' strike of that year. A comparison of the early 1990s with the early 1980s or the late 1970s clearly shows that the number of working days lost through strikes has declined significantly.

The timing seems to suggest a role for the legislation which developed incrementally. It was only after the defeat of the miners' strike that employers began to use the legislation and its effects became apparent. It should be noted, however, that the Government's use of its own new legislation played only a modest role during the miners' strike. In 1992 60 per cent of all working days lost were in the public sector where the state is directly responsible for using its own legislation.

A more important piece of evidence which leads to doubts about the weight to be given to the UK legislation in explaining the sharp decline in the number of working days lost through industrial action is to note that this decline has taken place in most industrial countries which have not seen the major legislative changes witnessed in the UK. International comparisons across a long timespan are difficult due to data limitations, but the UK ranked fourth amongst the G-7 countries in terms of working days lost in the late 1970s and this ranking had not altered by the early 1990s⁷². However, the UK's relative ranking in the OECD as a whole in the early 1990s looked significantly better than in the late 1980s⁷³.

Nevertheless the similar trends in most industrialised countries point to changes in the macroeconomic environment playing an important role. Strike activity is positively correlated with inflationary shocks and negatively correlated with unemployment, so that the environment of the early 1990s throughout the industrialised world of subdued inflation and high unemployment should have led to a decline in industrial unrest. The UK's new legislative framework may play an additional role.

The evidence for a trend improvement in the UK's productivity performance has become more compelling over time. Table 27 looks at the trend rate of growth in output per hour in manufacturing and in output per person employed in the whole economy over four time periods. In manufacturing, the rate of growth in output per hour of four percentage points per annum between 1979-89 (and 1979-94) compares very favourably with the meagre growth rates in manufacturing productivity achieved in the 1970s and even

compares well with the growth rates experienced before 1973. In terms of growth rates in output per person employed in the whole economy the rate achieved since 1979 compares well with the 1973-79 period, but is below the rate achieved before 1973.

Britain's comparative productivity performance has improved significantly too. In the period after 1979 manufacturing productivity grew significantly faster in the UK than the average for 11 other major industrial economies. Indeed only Japan, Belgium and Italy matched the UK growth rate in manufacturing productivity over this period. Before 1979 manufacturing productivity grew at a significantly slower rate in the UK relative to the average for these other countries. The better performance since 1979 has meant a significant erosion of the gap in levels of manufacturing productivity between the UK and countries such as Germany, France and the Netherlands⁷⁴.

In terms of whole economy productivity growth rates the UK has done marginally better than the average for the 15 member states of the EU, though the relative improvement when compared with the period before 1979 is marked.

How far can this productivity turnaround be attributed to the legal reforms, as opposed to the impact of the recessions and of increased product market competition? The timing of the productivity breakthrough is of some importance. The increase in productivity occurred from 1980 onwards, which is before the legislation could have begun to have any impact. Rather the turnaround seems clearly associated with the impact of the recession, which shook up management and led to large scale shedding of labour, and to an assault on restrictive practices which in the harsh environment of the early 1980s could no longer be tolerated. However, the sustained improvement over the whole period from 1979-94 suggests that the recession did not have a merely one-off effect but led to a permanent change to the way British firms were managed.

Data from a panel of private sector companies showed that in the early 1980s and again in the period 1988-89 unionised firms registered faster gains in productivity than non-unionised firms⁷⁵. However, between 1984-87 there was no differential in productivity growth between union and non-union firms. This is precisely the time frame when the legislation would have been expected to have had its impact in enabling management in unionised firms to take a tighter grip on manning. Rather the interpretation seems to be that in the early 1980s the recession enabled management to re-assert its prerogatives, with management moving to eliminate over-manning and restrictive practices in all firms, but unionised firms especially. This effect persisted for all firms through the mid-1980s, but increased product market competition in the late 1980s added a further extra spur, especially in unionised companies. The specific role of the legislation is hard to discern. There is evidence that the negative impact of multi-union bargaining on productivity has disappeared⁷⁶.

This micro data seems to match an interpretation based on the aggregate data. It is the recession of the early 1980s which provided the shock to management and lowered the ability of labour to resist attempts to eliminate over-manning and restrictive practices across all companies, unionised and non-

unionised. Increased product market competition has played an important supporting role in maintaining the pressure for improvement, and so perhaps has the legislation.

To the extent that the industrial relations legislation has made a contribution to the relative improvement in productivity growth rates in the British economy, this suggests an uncomfortable trade-off, in that the decline in the coverage of collective bargaining and in union density has also contributed to the increase in wage inequality (section I.4). If the shock of the early 1980s recession was the primary driving force behind the productivity improvements this suggests an even more troubling trade-off, as that recession heralded the arrival of mass unemployment with all the associated social costs. The 'productivity miracle' was bought at a high price and a legitimate question to ask is whether more could have been done to assist and compensate the losers, a point which will be taken up in section V.2.

III Labour market legislation and individual employment rights

III.1 Individual employment rights

The legislative changes introduced in Britain since 1979 in the field of individual employment rights have not really constituted a significant programme of labour market 'deregulation'. There has been some legislation which has relaxed employment protection. Other legislation, however, has strengthened the rights of individual employees, with much of this legislation implemented in order to comply with European Union Directives and the Courts' interpretations of EU Treaties.

The nature of the employment relationship in the UK in 1979 was already less heavily regulated than in most other EU nations. Traditionally legislation played a limited role in regulating relations between individual employees and their employers as it had in regulating collective relations between employers and unions. However, the modern legislative period of employment protection began in the 1960s and in the 1970s a number of Acts consolidated the piecemeal legislation which had built up in the fields of employment protection, provisions against discrimination and health and safety⁷⁷. The relationship between the employer and the employee was becoming more codified in the period leading up to 1979 and it is not clear that that year represents any significant break in trend.

The one major piece of 'deregulation' which has occurred is in relation to the length of service required before an individual employee is covered by rights relating to unfair dismissal and access to redundancy payments. In 1979 an employee had to have six months continuous employment to gain access to these rights. In 1979, in the first piece of legislation relating to employment law passed by the new Government, this qualifying period was increased to one year. In 1985 it was further extended to two years.

Claims for unfair dismissal can be pursued through the system of industrial tribunals which also deal with many other individual employment issues⁷⁸. These tribunals have a tripartite composition with a legally qualified chair and two lay members drawn from panels appointed by the Government after consultation with the 'social partners'. They are more accessible and informal than the regular courts, though appeals on points of law can be taken to the higher courts. Conciliation is used to resolve a high proportion of cases before the tribunal stage is reached. This is the responsibility of the Advisory, Conciliation and Arbitration Service (ACAS) now under the sponsorship of the Department for Trade and Industry which has responsibility for the whole area of labour relations (see Figure 26).

Other aspects of the relationship between the individual employee and their employer have been more clearly codified since 1979 in response to EU directives. A 1981 Act guaranteed continuity of employment and existing terms and conditions where a change of employer occurred. In 1993 the employee's right to receive written information on the terms and conditions of employment was extended, though in the UK context the codification of this aspect of the relationship between employer

and employee dates back to a 1963 Act which marked the beginning of the modern legislative era of statutory employment protection⁷⁹.

Acts to deal with equal pay and sex discrimination came into force in 1975, with the Equal Opportunities Commission (EOC) responsible for overseeing the impact of the legislation. The provisions of these Acts have been strengthened since 1979 as UK law has been amended on a number of occasions to conform with the interpretations offered by the Courts of the equal treatment provisions of the Treaty of Rome. In 1983 the Equal Pay Act of the 1970s was amended to introduce the notion of equal pay for work of equal value. The coverage of the sex discrimination legislation was extended in 1986 and again in 1989.

The Courts' interpretations of the Treaty of Rome's provisions on equal treatment seem to have been particularly liberal in the field of indirect discrimination, whereby a practice can be outlawed if it impacts adversely on women even if that was not the intention. UK legislation had also recognised the concept of indirect discrimination, but the wider interpretation of that concept by the UK House of Lords resulted in one of the most significant changes in the field of individual employment rights from 1995. Employment protection laws had not applied to many categories of part-time workers before this time. On the grounds that part-timers were overwhelmingly women this was judged to represent unlawful indirect discrimination. As a result, from 1995 there were no longer any requirements on how many hours an individual had to work in order to qualify for protection against unfair dismissal and for redundancy pay. Only the two year length of service requirement remains as a qualification for access to these employment protection rights.

The UK has the most comprehensive legislation outlawing racial discrimination of any EU member, on a par with the Netherlands. This is acknowledged by the Commission for Racial Equality (CRE) which is the statutory body responsible for overseeing that legislation, though the CRE has criticised many weaknesses which it perceives to exist in that legislation⁸⁰. Likewise the EOC has argued for further tightening of the law with respect to equal opportunities across the genders and especially for more effective enforcement of the laws which do exist. In 1989 legislation was passed prohibiting discrimination on ethnic and religious grounds in Northern Ireland, with some features of that legislation going beyond what is in place in the rest of the UK.

People who came from the Commonwealth to settle in the UK in the post-war period and their descendants have full citizenship rights. There is no concept in UK law of the 'guest-worker'. Direct and indirect discrimination on the grounds of race is outlawed in the UK, though there is evidence that the extent of direct discrimination had not fallen significantly between the late 1970s and early 1980s despite the passing of the Race Relations Act of 1976 which extended the legislation originally introduced in the 1960s⁸¹. Nevertheless, this is the one area of individual employment rights where the UK labour market is more and not less regulated than the labour markets in most of its EU partners.

In 1996 the first major piece of legislation designed to

combat discrimination against disabled people was due to come into effect, though its provisions fall short of what pressure groups had been arguing for. This is one field where provision in the UK is significantly less advanced than in some other EU states such as the Netherlands and Sweden.

The field of health and safety legislation is another area where provisions built up piecemeal were codified in a major piece of legislation in 1974, with the Health and Safety Executive (HSE) being set up as an inspectorate. The HSE now comes under the remit of the Environment Department (see Figure 26). Health and safety legislation has not seen major changes since 1979, though a number of EU directives have altered and extended the scope of legislation. In this field too the extent of regulation in the UK seems in line with that seen in other EU countries and the UK has a relatively good safety record.

It is in the field of the regulation of working time that the UK labour market was and is largely deregulated in that there are no statutes which directly intervene in the relationship between the employer and the employee. This is discussed further in the next section.

There is also no legislative backing in the UK for the existence of Works Councils, which offer one institutional mechanism by which individual employment rights might be enforced. Only UK firms employing over 1000 people in other member states and with at least 150 employees in two or more of them are affected by the European Works Councils Directive which stems from the Social Chapter of the Maastricht Treaty. Instead in the UK context there are a range of formal and informal methods which are used by employers to promote employee involvement. These include Joint Consultative Committees which are the nearest UK equivalents to continental works councils and which covered 29 per cent of UK workplaces with over 25 employees in 1990⁸². More informal lines of consultation and communication exist in many workplaces and tend to deal with such issues as major changes in work methods or organisation, health and safety, the terms and conditions of employment, and staffing and manpower plans. Such informal arrangements seemed to be more commonplace in 1990 than in 1980, but the coverage of joint consultative committees has declined.

These arrangements for consultation and communication are sometimes linked with other features such as contingent pay systems and given the label of 'human resource management' (HRM)⁸³. Such HRM practices are often seen as an alternative to collective bargaining over workplace issues, though many of the institutions and practices associated with HRM are actually more prevalent where a union is also recognised. The number of workplaces with neither a union nor the practices associated with HRM is growing rapidly⁸⁴. The 'non-unionised, non-HRM' firm is a relatively under-researched phenomenon.

The diversity of such mechanisms for promoting employee involvement in the UK is seen as a strength by the UK Government and the employers' organisations such as the CBI and IoD. This explains their long standing opposition to attempts by the EU to impose Directives requiring employers to set up Works Councils. The trade unions have become more enthusiastic about such proposals as their membership and power have shrunk. As the

proportion of the workforce who are trade union members has fallen sharply the case for developing other institutions for securing employment rights might appear to have grown stronger.

However, this focus on the institutions which might secure individual employment rights serves to divert attention away from what has happened to those rights themselves. The generalisation that the relationship between the employer and the individual employee in the UK has been extensively deregulated since 1979 cannot be sustained. The list of individual statutory employment rights which applied in the mid-1990s was not significantly different from that which applied in 1979⁸⁵. In some areas, notably the legislative framework in relation to equal treatment across genders, there have been significant extensions to legislation mainly as a result of Court interpretations of EU law. It is important to recognise that in this field of equal opportunities the changes to UK law have resulted from powers as set out in the Treaty of Rome and not the Social Chapter of the Maastricht Treaty from which the UK Government secured an opt-out. These changes have built on UK law: individual employment rights were already in the process of being more extensively codified in the period leading up to 1979.

The impact of employment protection on employment

The one significant example of deregulation is the lengthening period of service required before protection against unfair dismissal and access to redundancy payments is available. The lengthening of this period from 6 months to two years was justified by the UK Government on the grounds that an excessive burden of employment protection had significant adverse consequences for employment. It is an empirical question as to whether the regime which existed in 1979 did have such consequences.

In practice the effect of employment protection legislation on unemployment is ambiguous. It should reduce lay-offs and thus lower the inflow into unemployment. On the other hand restrictions on the ability of employers to fire workers might make them more reluctant to hire thus lowering the outflow from unemployment as well. Empirical analysis before 1979 of the impact of UK employment protection legislation found no unambiguous evidence that it significantly harmed employment⁸⁶. The empirical case for lengthening the period of service from six months to one and then two years was hardly overwhelming.

With the passing of this legislation, survey evidence suggested unsurprisingly that British employers by the mid-1980s were the least worried in the EU about employment protection legislation as an obstacle to employment⁸⁷.

In its opposition to the implementation of equal rights for part-time workers the Government argued that extending employment protection to part-time workers would impact adversely on their levels of employment. Interestingly, the UK House of Lords dismissed such claims as lacking any hard empirical basis. The equal pay legislation of the 1970s appeared to have no discernable impact on women's employment⁸⁸. Neither the UK Government, nor anyone else has tried to investigate the impact of the many other measures of labour market regulation which

evolved over the period up to and after 1979.

III.2 Nature and regulation of working time

This is the one aspect of the relationship between the employer and the employee which is almost completely unregulated in the UK, though it should be stressed that this has always been the case. Before 1979 there was no regulation of working time outside of collective bargaining, indeed hours of work represented the purest example of the traditional UK model whereby the unions and employers collectively bargained over working time arrangements and the role of the state was circumscribed. What few restrictions did exist in relation to the working hours and conditions of young people and women were abolished in 1989.

In common with other advanced industrial economies there was a steady downward trend in the average number of hours worked by employees in the period up to the late 1970s in the UK. However, this decline appeared to come to a halt in the 1980s. If anything the Labour Force Survey suggests that in the period between 1984-96 the average weekly hours worked by full time employees may have risen modestly, especially for men. In 1984 the average male full time employee worked for just over 38 hours a week. In 1996 this had increased to just over 40 hours. Average hours worked by full time employees in the UK are the highest in the EU⁸⁹.

In contrast with other EU countries the UK has a very wide distribution of hours worked and this distribution appears to have widened between 1984 and 1995 (Figure 29)⁹⁰. In 1984 only half of the employed UK workforce worked a 'standard' working week in the sense that weekly hours worked fell in between 36-45 hours. By 1995 the proportion working between these hours had fallen to 43 per cent of the workforce. By 1995 a higher proportion of the workforce were working both longer hours and shorter hours. In part this reflects the growth in the share of part-time and self-employment, with the self-employed on average working longer hours. Amongst 'part-timers' Figure 27 clearly shows the sharp increase in the proportion working between 26-35 hours. Generally the UK labour market exhibits considerable diversity in working time patterns, with a high incidence of overtime and shift working.

The UK also has no legislation governing paid holiday entitlement. There are eight days in the year which are customarily taken as public holidays, a lower number than in other EU states⁹¹. Traditionally the regulation of holiday time has been the preserve of collective bargaining. In Autumn 1993, according to the Labour Force Survey, employees in Britain enjoyed an average of 4-5 weeks paid holiday, an average which compares well with other EU countries and favourably with the US and Japan. Where unions are recognised in the workplace employees receive on average an extra 4.5 days paid holidays⁹². However, 11 per cent of employees had no paid holiday entitlement at all. Most of these were part-timers and/or had been in their job for less than a year. So the absence of any general state

regulation in this area, combined with the declining coverage of the unions and collective bargaining, has its impact not on the average worker but rather on a significant minority.

It is in this context that the opposition of the UK Government to the EU Directive relating to working time should be seen. This Directive had suggested limits to maximum hours worked during the week, minimum rest periods and minimum paid holiday entitlements. Although the Directive offered a number of exemptions it will affect a significant proportion of the UK workforce. Its impact on the UK would be disproportionate because of the wider dispersion of working hours reported in Figure 29 and the significant proportion of the UK workforce with no paid holiday entitlement.

The Directive also proposed regulating the one aspect of the relationship between the employer and employee which has not before been subject to any general state regulation in the UK. This is in complete contrast to health and safety or equal opportunities legislation where changes which have been the result of EU Directives and Court interpretations of EU Treaties have been built on the back of existing UK legislation and an increasing tendency to codify rights in such areas anyway.

The Working Time Directive was introduced under the auspices of health and safety legislation. Directives on health and safety issues can be passed by qualified majority voting following on from the Single European Act of 1986. This also serves as a reminder that this legislation too has nothing to do with the Social Chapter of the Maastricht Treaty.

Temporary employment contracts have never been the subject of specific legislation in the UK. The only legal advantage acquired in the UK by offering employment on a temporary or fixed term contract basis is that the employee waives their rights in relation to unfair dismissal. As these rights for permanent workers have been circumscribed since 1979 and as there is little evidence that in 1979 they represented a significant barrier to employment anyway, this explains the paradox that in the relatively 'deregulated' UK labour market the incidence of temporary employment is so low. Firms only have the incentive to employ workers on non-standard contracts if the regulations covering standard contracts are perceived as burdensome. The fact that the share of temporary employment is so low in the UK is indirect evidence that the burden of employment protection on regular forms of employment are not in fact heavy and never have been.

Surveys which ask employers why they use part-time or temporary staff tend to give a range of traditional reasons for their use, to do with the task requiring limited time or the need to provide short term cover. A 1987 survey of employers did not suggest that hourly rates of pay for part-time and temporary staff were significantly lower than for full-time permanent staff⁹³. However, these staff did have less access to sick pay and membership of occupational pension schemes, so that lower non-wage labour costs offered some incentive for the employment of such staff. From 1995 discrimination against part-timers in access to occupational pension schemes will constitute unlawful indirect discrimination. However, many part-timers will not have access to statutory sick pay as such access is only available to

those with wages above the earnings threshold for payment of social security taxes (national insurance contributions). For part-timers this threshold must be an important influence on determining hours worked as we observe a big bunching of part-timers at wages just below this threshold (see section V.2).

The point can be made again that there is no evidence that the share of part-time working in total employment increased at a faster rate after 1979 so that there is no evidence here for a strategy of 'deregulation' having had any significant impact on the structure of employment. Reasons for the trends in self-employment and the more recent increase in the incidence of temporary employment were discussed in section I.2.

The employment impact of reductions in working time

In some EU countries the possible role of reductions in working time in creating more employment opportunities is a significant feature of the debate over unemployment. This is less true in the UK which might seem surprising given the high incidence of long weekly working hours.

Such reductions in working time would presumably have to be collectively bargained. A legitimate question to ask therefore is whether there is evidence on the extent to which employees would be prepared to trade-off lower hours for less pay? A reduction in working hours without a proportional reduction in pay would lead to higher labour costs which could have adverse consequences for employment. Firms might try to offset these higher costs by boosting productivity but then that would defeat the proposed aim of creating more employment. Many of those working long hours are professional and managerial staff so that the unemployed may not be adequate substitutes. Other workers might work long hours in order to offset low hourly wages so that the long hours are the only means by which household incomes can be sustained at a reasonable level.

A 1989 survey asked respondents a question about their preference for working longer or fewer hours (Table 28). 1989 was a year of strong growth in employment and real incomes and preferences may be different when economic activity is less buoyant. A striking feature of the responses is that 84 per cent of part-time workers were happy with their present hours indicating again that the incidence of involuntary part-time working is relatively low (see section I.2). By contrast two-thirds of those working over 50 hours expressed a preference to work fewer hours. However, the majority of these were not prepared to accept lower pay as a consequence. Overall only seven per cent of the sample were prepared to work fewer hours and accept lower pay as a consequence.

If groups of workers wish to bargain for lower hours there is nothing to prevent them from doing so in the UK. This is a benign side effect of there being no state regulation of working hours. Between 1989 and 1991 industrial action in the engineering industry forced engineering employers to offer a lower working week. This is the dispute which resulted in the ending of national bargaining in this industry (see section II.2). Research on the impact of this reduction in working hours, which did not appear to result in any reductions in weekly

pay, suggests that reduced hours generally have no permanent effects on productivity⁹⁴. Rather reduced hours may bring forward productivity improvements which had already been under consideration. There was also no evidence that reduced hours affected output or overtime so that the reduction must have led to higher employment. However, this reduction in hours took place during a recession so that the employment effect was hard to observe as it mainly took the form of job retention. This microeconomic approach also cannot address the issue of to what extent increased costs might subsequently have limited the employment effect.

Overall this experience suggests that collectively bargained reductions in weekly working hours may have beneficial consequences for employment at least in the sense of slowing down the rate of job loss, but if this is true there is nothing to prevent unions from pursuing such a goal. It is not clear, however, that a large proportion of the UK workforce would be in favour of lower hours if it involved reductions in weekly pay.

III.3 Minimum wage regulation

In 1993 the UK Government abolished all minimum wage regulation except that applying to 250,000 employees in the agricultural industry. This is the one area therefore which has seen almost complete deregulation. Britain is now the only EU country without any significant minimum wage regulation, provided either by statute or through collective bargaining. This should be seen in the context of the Government's general approach to pay bargaining which was discussed in section II.2.

The UK has never had a statutory national minimum wage. Rather in 1909 the first sectoral 'trade boards' were established in a number of industries. These were to become the Wages Councils which, by the 1960s covered some 60 specific sectors. In these industries the Wages Councils set a number of minimum wage rates differentiated by age, occupation and region. In 1982 the number of covered sectors had fallen but Wages Councils still set minima for 2.7 million workers which represented 12.8 per cent of all employees.

The Government argued the case for abolition of the Wages Councils through the 1980s, but proceeded incrementally with reform. This is similar to the incremental approach taken to the reform of collective industrial relations (see section II.2). The value of the minima relative to average wages in the covered sectors fell through the 1980s⁹⁵. In 1986 legislation restricted the Councils to setting one minimum rate only and excluded workers under the age of 21 from coverage. Only in 1993 did the Government go ahead with complete abolition, except for the agricultural wages board where the unions and employers argued successfully for its retention.

At the time of abolition 26 Wages Councils covered 2.5 million workers representing 11.9 per cent of all employees. These were mainly concentrated in the sheltered services sector of the economy, including retailing and hairdressing and hotels and catering, though an important exception was clothing

manufacture. Given this industry coverage the Councils mainly affected the pay of women and of part-time workers. It is important to emphasise that the minimum rates set were typically rather low in relation to average earnings.

The Government put forward three reasons for abolition. It was argued that minimum wage rates reduced employment in the industries covered, did little to alleviate poverty, and that the Wages Councils were anachronistic. This last reason appears to carry with it little analytical content. The first two arguments are empirical ones which can be addressed by reference to the evidence.

In a competitive labour market any regulations which hold pay rates above the market clearing level will result in some unemployment. However, if the labour market exhibits any monopsonistic characteristics this finding will no longer hold. If labour supply to the firm is anything other than perfectly elastic firms may have some power to keep wages below market clearing levels. In such circumstances intervention to set minimum pay rates will improve efficiency. However, this is only the case if the minimum is set at the right level. In any labour market model a minimum wage set at too high a level will cause unemployment. This discussion of a possible role for minimum wage regulation neatly encapsulates the argument for any form of intervention in the labour market: the relationship between the employer and the employee is not a symmetrical one in that the employer is likely to hold some labour market power whereas the individual employee usually holds none.

Nevertheless, the impact of minimum pay rates on employment is an empirical issue. Studies of the effects of the Wages Councils in the 1970s produced mixed findings, though this in itself makes it apparent that the empirical case for their abolition was never clear-cut⁹⁶.

Analysis of the effects of the Wages Councils in the 1980s and 1990s suggested that they had no adverse effect on employment. Increases in minimum wages between 1978 and 1990 did not lead to falls in employment⁹⁷. If anything there was a positive relationship between employment and minimum wages. A study of the post-war relationship between employment and minimum wage rates in the agricultural sector was unable to find any adverse employment effects associated with minimum wages⁹⁸. Finally, an initial investigation into the impact of the abolition of the Wages Councils in 1993 suggested that abolition lead to a reduction in wages and a widening of the wage distribution, but could find no evidence of any positive employment gains, though such conclusions necessarily have to be tentative⁹⁹.

This empirical evidence suggests that the modest minimum rates set before abolition were having no significant adverse impact on employment and that abolition of the Wages Councils has not had the hoped for beneficial impact on employment. Further relevant evidence comes from analysis of the effects of the equal pay legislation of the 1970s. There is no evidence that the substantial increases in pay for women secured by this legislation significantly impacted on female employment¹⁰⁰. As the Wages Councils disproportionately benefited women workers this evidence can probably be read across to reinforce the

argument that the rates set by the Councils did not impact adversely on employment.

The rates set by the Wages Councils did tend to compress the distribution of wages¹⁰¹. The reduction of their role in the 1980s and their abolition in 1993 will therefore be one of the institutional changes which will have contributed to the widening in wage inequality discussed in section I.4.

The second argument advanced by the Government for the abolition of the Wages Councils was that minimum wage regulation does little to alleviate poverty. This is because the main beneficiaries of minimum wages tend to be younger people and women, many of whom are secondary earners in the household. The 1986 legislation removed young workers from the scope of the Wages Councils thus making this a less important objection.

There is some evidence, however, to sustain this aspect of the Government's argument. Analysis of the impact of a minimum wage on the distribution of income across all households does suggest that the main beneficiaries would be in middle of the income distribution¹⁰². To a large extent this follows on from the observation that most of the households at the lower end of the income distribution are headed by elderly or disabled people or by the unemployed (and self-employed) for whom a minimum wage has little direct relevance. Heads of households on low pay will tend to receive in-work benefits. Any increase in minimum pay rates would lead to the loss of some of those benefits so that the impact of a minimum wage on its own on the net income of such households would be limited.

This is tantamount to saying that minimum wage regulation on its own can do little to compress the household income distribution even if it does compress the wage distribution. However, this is an argument for seeing the role for a modest minimum wage as one possible instrument of policy whose impact on the household income distribution has to be considered alongside other instruments of policy. This interaction is explored further in section V.2. The evidence, however, does not suggest that the modest rates set by the Wages Councils had any significant adverse impact on employment so that their abolition could not be justified on employment grounds.

Conclusions on the role of labour market legislation and collective and individual employment rights

At this point it is worth summing up the discussion of the role of labour market legislation and individual employment rights set out in this section, setting it alongside the discussion in section II.2 of the impact of legislative reforms in the field of collective industrial relations.

There are four aspects of Government reforms worth summarising:

1) Reform proceeded incrementally. The legal framework governing unions and collective bargaining was changed over the period from 1980-93 in specific legislative steps. The scope of minimum wage regulation was first reduced in 1986 and the Wages Councils were not abolished until 1993.

2) In the field of collective industrial relations and collective bargaining there have been very significant changes which might be described as a decisive shift towards a more 'deregulated' labour market. However, in relation to collective institutions it would be more accurate to say that the law now plays a more significant role in regulating the relationship between unions and employers and unions and their members thus significantly modifying the traditional model whereby these relationships were 'voluntary'. The Government itself has talked about 'redressing the balance' between the employer and employees rather than pressing for a wholesale 'laissez faire' relationship.

3) In the field of minimum wage regulation there has been almost complete deregulation which has matched the attempt to reduce the role of collective bargaining in wage determination. However, it would not be correct to say that wage determination in the UK has become completely decentralised, rather the sharp decline in collective bargaining and pay-setting at an industry level has been matched by firms taking a much tighter grip on pay at the centre.

4) In the field of individual employment rights there has been no overall shift to greater deregulation. The relationship between the individual employee and the employer was relatively less regulated in the UK in 1979, but with a strong trend towards codifying rights. This trend continued after 1979, often in response to EU Directives and the Courts' interpretations of EU Treaties. The only significant act of deregulation in this field was the lengthening in the required period of employment from 6 months to two years before individuals could qualify for rights to redundancy pay and protection against unfair dismissal.

In terms of the impact of the reform agenda we can make three points:

i) There is evidence that the rate of growth in productivity, especially in manufacturing, has improved and this may in some part reflect the reforms in the field of collective industrial

relations.

ii) Unambiguously the decline in union density and collective bargaining and the abolition of the Wages Councils have been one set of factors associated with the significant increase in wage inequality.

iii) There is no consensus that the reforms have improved the overall trade-off between unemployment and inflation as reflected in the wide range of estimates for the NRU which continue to exist.

It is worth thinking about this experience in the light of the wider debate in the EU over the role of labour market regulation and deregulation. In relation to the role of the EU itself, it should be emphasised that the specific measures which have so far been brought forward under the Social Chapter of the Maastricht Treaty are likely to have very little effect on the UK labour market. The UK Government is fearful that further legislation could be brought forward under the provisions of the Social Chapter which, if Britain were a signatory, would require some significant re-regulation of the UK labour market. It is unclear how far this threat is real. The most significant aspects of 'deregulation' in the UK have occurred in the fields of collective industrial relations and pay determination. In practice the European Commission has put forward no Directives which would materially affect these areas or require the UK to roll back any of the legislative changes made since 1979¹⁰³. Most EU Directives have had effects in the field of individual employment rights, have had nothing to do with the Maastricht Treaty, and have generally reinforced the tendency to codify these rights in the UK anyway in an area which has not seen any net deregulation. It is also worth noting that the European Commission has presented evidence that the UK has one of the best records in terms of introducing measures to implement EU Directives in the employment field.

The UK Government opted-out of the Social Chapter in part because of the general support given by the EU to the concept of dialogue between the social partners, a dialogue which the UK Government has heavily circumscribed. The opt-out also appears to pose a sharp dichotomy between the 'heavily regulated' labour markets of continental Europe and the 'deregulated' labour market of the UK. The UK labour market is relatively less regulated but this was already true in 1979. It really is a question of degree. The UK Government accepts the case for regulation in the fields of health and safety, equal opportunities and other aspects relating to individual employment rights, and regulates the relationship between employers and employees acting collectively in order to achieve the right 'balance' in that relationship.

'Excessive' regulation is likely to have adverse consequences for employment and productive efficiency. A complete lack of regulation is likely to have adverse distributional consequences. For example, the absence of minimum wage regulation impacts adversely on the distribution of wages. Minimum wage rates which are set too high will reduce employment

but empirical evidence in the UK does not suggest the Wages Councils reduced employment or that a modest minimum wage would adversely impact on employment. The complete absence of employment protection would leave the most vulnerable workers open to abuse by employers. Excessively burdensome employment protection rules may reduce hiring, but empirical evidence in the UK does not suggest that the modest employment protection which did exist in 1979 had any significant adverse impact. It is always a question of striking the right balance and striking that balance is always an empirical matter.

It should be noted that weak regulation does not necessarily harm the position of the average worker. This can be seen in relation to the issue of paid holiday entitlement. The absence of state regulation in this area in the UK does not mean that the average UK employee enjoys fewer paid holidays than their continental counterparts. Only a minority have no access to paid holidays. The absence of a minimum wage does not impact on the average worker. Indeed the true incidence of a modest minimum wage may fall on the average worker if the costs of minimum wage protection are passed on in the form of slightly higher product prices.

In the past the absence in the UK of state regulation with respect to certain individual employment rights has been justified on the grounds that the trade unions were able to deliver those rights. As the coverage of the unions has declined significantly since 1979 a greater proportion of the workforce may be in a position of having no countervailing power to match that which may be in the possession of the employer. This would suggest a greater role for the state in guaranteeing certain minimum individual employment rights. That role has been developing anyway over the post-war period, including after 1979. The trend towards codifying minimum individual employment rights is likely to continue with or without further stimulus from the EU.

IV. Labour Market Policies

IV.1 Passive labour market policy

The distinction is frequently made between passive and active labour market policies, where passive measures refer to the payment of unemployment and other related benefits, and active measures to work, training or other programmes designed to help the unemployed move back into employment. In practice the distinction is blurred. The administration of unemployment-related benefits involves checks on the eligibility of the recipient including whether they are seeking work, an activity which quickly meshes with programmes designed to help individuals with their job search, which in turn leads to consideration of other programmes designed to help individuals secure work. It would seem better to consider passive and active support for the unemployed as running along a continuum rather than being separate aspects of public policy.

The Employment Service in the UK is responsible both for the administration of unemployment related benefits and for providing placement and other assistance for the unemployed (see section II.1). Striking the right balance between the 'assistance' role of the Employment Service in providing income for unemployed people while helping them in their attempts to re-enter the labour market, and the 'policing' role of checking on their eligibility for benefit and whether they are effectively searching for work, is always a difficult one. Since the mid-1980s the UK Government has been embarked on a strategy designed to significantly tighten the administration of benefit, believing that lax administration was contributing to a higher level of unemployment.

Two aspects of passive labour market policy can be distinguished. The first is the generosity of the benefits themselves, often presented in terms of the replacement ratio where income out of work is expressed as a percentage of income in work. The second relates to the eligibility conditions for receipt of benefit.

In the period between 1979 and 1986 two conflicting developments were at work. Measures were introduced to reduce the generosity of unemployment related benefits. The earnings related supplement to unemployment benefit was abolished. Most importantly all benefits were now indexed to the rate of price inflation rather than to the rate of increase in average earnings. This decision has had huge consequences across the welfare system, but in the labour market it has of course meant that as real earnings have risen sharply (see section I.4), the ratio of unemployment related benefits to earnings has fallen significantly (see section V.2 for some estimates).

However, at the same time the administration of the benefits system was relaxed during this early period. Most notably, as an economy measure, the requirement to register at a Job Centre in order to receive unemployment related benefits was removed in October 1982, though a requirement on the recipient to more clearly demonstrate that they were available for work was also introduced. At the same time the Government persisted with programmes which had been inherited with the aim of reducing

labour supply by encouraging various forms of labour market withdrawal, which runs against the grain of active labour market policy one of whose aims is to maintain labour market attachment. This element of Government strategy was common to many other OECD member states¹⁰⁴.

In 1986 the direction of Government policy underwent a significant shift. From this date a number of initiatives have been introduced to tighten eligibility for unemployment related benefits. At the same time the reduction in the value of those benefits in relation to average earnings has continued. These reforms culminated in the introduction of the Jobseekers Allowance due to come into effect in Autumn 1996.

Table 29 outlines some of the key changes in the regulations affecting the receipt of unemployment benefits since 1979. The change in regime was signalled in 1986 by the introduction of compulsory Restart interviews where individuals availability for work and the steps they were taking to find work were assessed and positive assistance offered to help with job search. The 'assistance' and 'policing' roles were thus combined in one initiative. Restart is also of enormous significance because it has been the most carefully evaluated of all labour market measures (see section IV.3).

Initially Restart interviews were for people reaching their twelfth month of unemployment, but since 1988 they have been held every six months. Over this same time frame the maximum period for which benefit can be disallowed for leaving a job voluntarily or turning down a job offer without good cause was extended from 6 to 26 weeks. Also in 1988 the right of 16-17 year olds to claim unemployment related benefit was withdrawn entirely, the consequences of which are discussed in section V.1. From 1989 new claimants were invited to complete a 'Back to Work Plan' outlining the steps to be taken to find work and specifying a period, usually 13 weeks, after which an individual would have to widen their job search to include employment outside of their normal occupation and previous rate of pay. Claimants were also required to show that they were actively seeking work.

In 1995 legislation was passed to introduce the Jobseekers Allowance (JSA), though its introduction was delayed with the intention to bring it in by the Autumn of 1996. This allowance replaces unemployment benefit and income support for unemployed people. Prior to the JSA, an unemployed individual who satisfied the contribution requirements could claim unemployment insurance benefits for up to 12 months, before transferring to means-tested income support payments. In practice because unemployment insurance benefits were set at a low level, most unemployed people claimed income support well before the 12 month time limit at which unemployment insurance benefits were exhausted. The practical impact of the introduction of the JSA is to lower to six months the maximum period for which people who satisfy the contributions requirements can draw non-means tested benefits. The Government has estimated that this should reduce spending on unemployment related benefits by about £240 million by 1997-98 as against total projected spending on the JSA of £5,600 million (excluding administrative costs) in that year, a saving of about four per cent.

At the same time in order to be eligible for the JSA an

unemployed person will be required to enter into a Jobseeker's Agreement which will include details of action they will undertake in order to find work. The JSA thus brings together the two strands of passive labour market policy in relation to reducing the generosity of the benefits themselves while tightening up on the eligibility requirements for the receipt of those benefits. This approach to passive labour market policy is in turn matched by a greater emphasis on active labour market policy and by changes to other aspects of the tax and benefits system designed to encourage greater labour market participation (see section V.2).

A second major piece of recent legislation has also signalled a clear break with past policies of facilitating labour market withdrawal. This was the introduction of Incapacity Benefit in 1995 to replace Sickness and Invalidity Benefit for people with long term health problems which mean that it is unreasonable to expect them to participate in the labour market. This legislation has to be seen in the context of the significant increase in the numbers of men and women inactive due to long term sickness and disability (see section I.2). Between 1989-90 and 1994-95 there was an increase in the numbers drawing Invalidity Benefit from 1.2 million to 1.8 million.

This increase was the result not of a higher inflow of people onto Invalidity Benefit but of people staying on the benefit longer. Older claimants appear to have used this benefit as a bridge from work to retirement. There is a complex relationship between genuine sickness and disability and labour market changes, with the medical profession using a wide range of medical and non-medical criteria to determine eligibility for benefits. Once an individual develops a long term illness their attachment to the labour market can deteriorate. Similar trends can be observed in other OECD countries where mechanisms have been found to facilitate early labour market withdrawal, even if the precise social security benefits involved differ¹⁰⁵.

One significant feature of the administration of the new benefit is that the ordinary General Practitioner no longer plays such a key role in determining access to benefits on the grounds of incapacity. Instead a more 'objective' test of incapacity is carried out by a medical practitioner with only medical factors being used to assess an individual's ability to perform work-related activities. Previously GPs were also using their judgement of local labour market conditions as a criterion for access to the benefit. The stated aim was to reduce public spending by £1720 million by 1997-98, an indication that this was seen as a much more important reform in expenditure terms than the Jobseekers Allowance.

The new Incapacity Benefit was to be balanced by a much greater emphasis on active labour market measures designed to help individuals who 'fail' the new medical test find employment. The benefit should also be seen in the light of legislation introduced in 1995 to prohibit discrimination against disabled people (section III.1). In common with the JSA, in the Government's terms the emphasis has been on balancing the tighter eligibility criteria with additional assistance made available through the Employment Service. Interestingly, early indications were that far fewer people have been making claims for

unemployment benefit than was originally planned for¹⁰⁶.

The outlines of the shift in Government strategy since 1986 are clear. Reductions in the generosity of unemployment related and other benefits have worked alongside a significant tightening of eligibility for these benefits, with this in turn balanced by greater emphasis on active labour market policy.

IV.2 Active labour market policy

Active labour market policy is a term which covers a number of programmes designed to improve the efficiency with which the labour market works, and to promote greater equality of opportunity in the labour market. The scale and cost of the main employment and training programmes in operation in England and Wales in 1994-95 is outlined in Table 30.

It is helpful to divide these labour market programmes into four different types:

1) Employment Service programmes.

At the heart of active labour market policy in the UK is the Employment Service, with responsibility for matching jobseekers to notified vacancies, counselling those looking for work, enhancing the extent and quality of job search, placing some jobseekers in relevant employment programmes, and checking the eligibility of the unemployed to benefits.

By the mid-1990s the Employment Service in Britain was administering a battery of measures designed to improve placement services, assist job search and provide enhanced counselling for the unemployed (Table 30). This battery of measures is designed to provide a series of nets to catch the unemployed as they approach different durations of unemployment, and are as extensive as anywhere in the OECD.

The first set of specific measures come into play after 13 weeks of unemployment. **Job Search Seminars** offer advice on preparing CVs and completing application forms, improving interview skills and assistance with job search. **Job Review Workshops** offer two-day courses for unemployed people from a managerial or professional background with the aim of broadening the range of jobs applied for and the jobsearch methods used. A new programme is being developed to replace the Job Search Seminars and Job Review Workshops. The **Travel To Interview Scheme** provides financial assistance for people attending job interviews beyond normal daily travelling distance.

A second set of measures comes into play after six months of unemployment. **Jobclubs** offer help with jobsearch similar to the Job Search Seminars. The **Job Interview Guarantee** programme offers an enhanced job placement service, including job preparation courses which prepare clients for a guaranteed interview with a particular employer. The main element of the JIG programme involves employers guaranteeing to interview clients identified by the ES as being particularly suited for the job. **Work Trials** encourage employers to take on people for a trial period of up to three weeks while participants continue to receive benefits as well as work expenses.

After one year's duration jobseekers can be referred to the '1-2-1' programme which involves up to six interviews with an ES advisor while undertaking guided jobsearch activity. **Jobplan** is a mandatory programme for those who do not take up help through other programmes and is designed to provide assistance with jobsearch and with 're-motivating' participants. **Workwise** is a four week jobsearch programme for 18-24 year olds most of whom will have attended the '1-2-1' interviews.

People unemployed for over two years who do not take up other programmes are referred to **Restart Courses** which require attendance and offer assistance with jobsearch activity. **Jobfinder's Grants** offer financial assistance of between £100 and £400 to cover the initial costs of returning to work for very long-term unemployed people who might otherwise not be able to start a job. **Jobmatch** pilots started in April 1995 and offer participants an allowance of £50 per week for six months when they take a part-time job as a stepping stone to full-time employment. The idea is that the participant might at some point be able to take a second part-time job or increase their hours of work. Training vouchers of up to £300 are available and participants who remain in employment after the allowance finishes are paid a bonus. Jobmatch is being piloted in four ES districts and by two TECs.

2) Training programmes

In the UK the Employment Service shares with the Training and Enterprise Councils (TECs) the responsibility for providing training places for the unemployed under the **Training for Work** Scheme (see section II.1). TFW actually includes both training places and work (or project based) placements often with voluntary organisations, usually for people unemployed for over six months. Between the first quarter of 1994 and the last quarter of 1995 the number of filled places at any one time on Training for Work was nearly halved. The primary objective of the programme has since 1995 been focused securely on helping participants into regular jobs.

Career Development Loans worth between £200 and £8000 can be used to help pay for vocational training and are available through four banks. The DfEE pays the interest on the loans for the period of the training and for one month afterwards. If unemployed one month after completing the training the borrower can apply to defer repayments for up to a further five months. From September 1995 a pilot scheme has allowed eligible trainees to defer repayment for up to 18 months. Only 75,000 loans have been taken out since 1988 so that this is quite a small programme. Also only just over one-third of participants were unemployed before taking out the loan while half were already employed and one-in-seven were students. The unemployed participants were not typical of the unemployed in general, being younger and better qualified.

3) Work programmes and recruitment subsidies designed to directly increase the demand for labour.

In the mid-1980s the **Community Programme**, providing

temporary work placements with public or voluntary agencies offering low skilled jobs in such areas as environmental work or social and community services, was the main employment programme offered by the Government. In the late 1980s emphasis was switched to training, but with project places still making up a significant chunk of provision offered under Training for Work and its predecessors. By 1994-95 only the small **Community Action** programme survived as a specific work programme and in Autumn 1995 it was announced that this too would be phased out. From 1996 the only specific work programmes outside of Northern Ireland will be those administered by local organisations, though from April 1996 the DfEE will be piloting in two areas a new work programme for those unemployed over two years. This **Project Work** will mix a voluntary jobsearch element with a compulsory work element for those not taking up any other programme after a 13 week period.

As an alternative to work places directly provided by public and voluntary agencies, the authorities can try to use recruitment subsidies to encourage private employers to take on more of the unemployed. The current UK subsidy is **Workstart** which was piloted in 1994-95 and remains a limited pilot scheme. In the late 1970s and early to mid-1980s a wide range of such subsidies were being used. In 1995-96 the Government was being pressed to expand the Workstart initiative but was resisting for reasons which are made clearer in section IV.3.

The authorities can also provide subsidies to encourage the jobless to become self-employed and the current UK **Business Start-up Scheme** is discussed in section V.3 along with other initiatives which are the responsibility of the Departments of the Environment and Trade and Industry. Direct employment opportunities can also be offered specifically to the disabled through sheltered or subsidised employment schemes. These are not covered here as they are offered on a relatively small scale in the UK.

4) Youth Programmes.

Since the 1970s a number of schemes operating under different names have provided work and training opportunities to young people not participating in further education or in regular employment. These are discussed in section V.1.

In 1994-95 Britain spent about one half of one per cent of GDP on these active labour market programmes. Spending on the Employment Service, at about one fifth of one per cent of GDP, was in line with other countries. Britain spent significantly less than other countries on training schemes and direct job creation aimed at the unemployed¹⁰⁷.

Since the late 1980s there has been a clear shift in resources away from training programmes and direct job creation towards the initiatives run by the Employment Service¹⁰⁸. Over the period 1990-91 to 1993-94 spending on the Employment Service increased by nearly one half in real terms. Spending on training programmes aimed at the unemployed fell by over a quarter in real terms, and spending on Youth Training fell by a third although this latter trend mainly reflected the increase in enrolment in full time education (see section V.1). Some project placements

remain on offer through the Tfw scheme but specific work programmes are in the process of being phased out entirely and the use of recruitment subsidies remains on a pilot basis only.

What clearly distinguishes the Employment Service initiatives from training and work programmes and recruitment subsidies, is their significantly lower cost (Table 30). At a cost per place of around £50-200 versus £2000-3000 for the more expensive measures, the training and work programmes and recruitment subsidies would have to demonstrate significantly better outcomes in terms of participants successfully placed in work than the Employment Service initiatives in order to justify their much greater cost. Thus a major reason for the shift in resources which has taken place in recent years has been the response to the costs of different programmes in the context of constraints on public expenditure. At the same time the relative shift in resources towards the Employment Service programmes has also been a rational response to the results of research on the effectiveness of different active labour market policies and it is this research which section IV.3 explores.

IV.3 Evaluations and discussion of labour market policy

The case for active labour market policy has often been made on the basis of the macro-econometric finding that the long-term unemployed play no role in holding down wage inflation, so that an increase in their employment rates would generate no inflationary pressures. If employers used a recruitment subsidy to hire more of the long-term unemployed at the expense of the short-term unemployed or even by reducing their existing workforce, this would not matter. For a higher level of short-term unemployment would reduce wage inflation, so allowing for an expansion of real demand, so that the workers who have been substituted against would all find work again, and relatively quickly before they become long-term unemployed. When a recruitment subsidy or a placement on a work programme finished, some of the previously long-term unemployed participants might obviously find themselves unemployed again. But because they are now short-term unemployed they too will place downward pressure on wage inflation, allowing for an expansion of real demand and an increase in employment sufficient to absorb them all.

Thus one rationale for active labour market policy is based on this macro-econometric finding, that the long term-unemployed play no role in holding down wage inflation, but that the rate of short-term unemployment adjusts relatively quickly to its 'equilibrium' rate¹⁰⁹. However, it needs to be stressed that the robustness of this finding is disputed by some economists¹¹⁰. This might counsel caution about basing the case for active labour market policy on such a disputed finding.

A complementary route for thinking about the role of active labour market policy is to look carefully at the micro-economic evaluations of specific programmes. Although macro-economic models can be used to suggest that countries which place heavy emphasis on active labour market policy may have a better outcome in terms of aggregate unemployment¹¹¹, these models cannot show

what kinds of active policies might work best. Only micro-evaluations can tell us anything about the relative effectiveness of different active policies.

Economic research has tried to assess how far different labour market programmes have significantly increased the chances of unemployed participants finding employment or obtaining higher earnings. It thus focuses primarily on the economic effects of these programmes, though employment programmes may bring social benefits as well.

Simply recording the proportion of participants who obtain jobs at the end of a programme is in itself not very meaningful. Firstly, the 'job entry rate' is very sensitive to the economic cycle. More people leave programmes to enter jobs during periods of economic recovery than in periods of recession, but this tells us nothing about the quality of the programmes.

More fundamentally many unemployed people are finding jobs all the time, so that to note that a certain proportion of people leave a programme to enter jobs is in itself meaningless unless we can know what proportion would have found work anyway - the 'deadweight' of the programme. Also people on programmes may find work but only by 'substituting' for other jobseekers. Finally, direct job creation programmes may 'displace' work in other enterprises in the economy.

It is possible to try and model the impact of programmes in order to assess their effectiveness, taking into account the economic cycle, and deadweight, substitution and displacement effects. Surveys of participants or of employers and programme providers can also help to shed light on the performance of a programme.

However, the best way of taking into account the problem of 'deadweight' is to conduct an 'experiment' where unemployed people are randomly assigned into two groups - an 'experimental' group which benefits from the programme, and a second 'control' group which receives no assistance. The two groups are then compared over time to see whether those on the programme have found jobs at a significantly higher rate than the control group. Even this approach cannot tell us whether those in the experimental group have found work by substituting for or displacing other jobseekers. The only major labour market initiative in the UK to have been tested using an experimental design is the Restart programme.

Table 31 summarises the results of a range of research in the UK on the impact of different labour market programmes and the trade offs which have to be considered when addressing the case for these policies¹¹².

An experimental approach was used to investigate the effects of the Restart process in Britain¹¹³. It showed modest positive results for the initiative, with the average duration of unemployment reduced by about four weeks for those who went through Restart. Whether this was the result of the enhanced job search assistance and counselling offered by the Employment Service, or was the result of the impact of threatened benefit sanctions on those who did not demonstrate active job search, is a matter of some controversy. This illustrates the problem that although experimental and other evaluation approaches can help tell us whether a programme has worked, it might be a matter of

further interpretation as to why it has worked. It also neatly illustrates the tension between the 'assistance' and the 'policing' aspects of these Employment Service programmes.

There is evidence for the effectiveness of some of the other ES programmes including Jobplan¹¹⁴. An evaluation involving a randomly allocated control group found that 24 per cent of those referred to Jobplan were no longer registered unemployed 16 weeks later compared to 19 per cent of the control group. Two percentage points of the difference was accounted for by entry into jobs and the rest by entry onto TfW and other reasons. An evaluation of the '1-2-1' programme on the other hand failed to demonstrate that this programme was more effective than Jobplan though this has not prevented its extension to the Jobplan client group¹¹⁵. It is also possible that the plethora of job search initiatives may have become counter-productive. Once an individual has been through their third 'counselling' or 'job-search' course it is not clear how much value-added is being delivered.

It is noteworthy that the only classic experimental design used to test a labour market programme in Sweden also found evidence for a positive impact on participants' job prospects from enhanced placement and counselling services¹¹⁶. The results from controlled experiments in the US also sustain the case for viewing this form of active labour market policy as the most effective¹¹⁷. There is thus a stronger body of evidence on the beneficial effects of improved placement services and job search assistance on the subsequent job prospects of the unemployed than on any other component of active labour market policy.

As far as the effects of training programmes are concerned the two most careful studies in the UK have not used an experimental design but have instead compared the subsequent employment and earnings of participants with a matched sample of unemployed people with similar backgrounds. One study found significant positive effects on the subsequent earnings and employment of participants on the relatively small scale Training Opportunities Programme (TOPs) which ran in Britain in the mid-1980s, and which at its peak offered some 80,000 places¹¹⁸. This programme helped people gain qualifications which assisted them in gaining access to intermediate occupations such as clerical and secretarial and craft and technician jobs.

A second more recent study of the programmes which were eventually merged to create the Training for Work scheme found that participants who benefited from an employer placement and/or gained a recognised qualification did have a better chance of gaining employment, but not higher earnings¹¹⁹. It is not clear therefore that it was the enhancement of human capital which improved their job prospects, rather than improved access to information on job opportunities as a result of being placed with an employer and with employers using the qualifications gained as a screening device. Off-the-job training on its own did not increase employment prospects and neither did a placement on a work project with a public or voluntary agency.

An overall conclusion to draw from UK experience might be that small scale and relatively expensive programmes may be effective. TOPs cost over twice as much per place as the

Training for Work programme and seemed to deliver clearer positive results in terms of higher earnings for participants.

The lack of positive results for the project placements (that is work programmes) in TfW is also important. Similar results were found for the Community Programme which ran in Britain in the mid-1980s where there was also no evidence for any significant impact on the flows out of unemployment for participants¹²⁰. People participating voluntarily on such public work projects often welcome the experience, with the chance to meet new people and to make some contribution to the community. Such projects can help tide people over while the regular jobs market improves but there is no evidence that they significantly improve the chances of participants finding regular jobs.

An economy which has very high unemployment is one which is likely to be running a large budget deficit, as in Britain in the early 1990s. Inevitably then any work programme will need to have a low cost per place, and in order to avoid displacing regular work will need to be at the margins of socially useful activity. Labour market programmes are instituted because of the shortage of regular employment opportunities. But in order not to interfere with the regular workings of the labour market, such programme places must not look or feel like regular jobs. They have to offer relatively low rates of pay so that the incentive to obtain a regular job remains. This was the paradox faced by the Community Programme in Britain in the mid-1980s. This kind of work programme will always represent a stop-gap.

How far this is implicitly recognised by those local organisations which have sponsored work programmes is unclear. The most celebrated example in the UK is the Wise group which has run a scheme offering project places to disadvantaged jobseekers in Glasgow¹²¹. They refer to their programmes as constituting an 'intermediate labour market' offering project places in the context of a regular labour market which is failing to deliver sufficient jobs.

The results of the evaluation of the Workstart pilots in Britain are broadly in line with previous international experience¹²². This programme offered a recruitment subsidy over one year of £2340 to employers willing to take on people who had been out of work for over two or four years. Finding placements involved considerable administrative effort and expense on the part of the Employment Service. Just under half the jobs subsidised were deadweight and another third involved employers substituting the long term unemployed for other jobseekers. As the authors of the evaluation study point out this was the programme's intention. Recruitment subsidies do not create many new jobs. Rather their rationale is similar to that for some of the Employment Service programmes, that is the aim is to make a bigger share of employment opportunities available to especially disadvantaged jobseekers. So it makes sense for these subsidies to be administered by the Employment Service as an adjunct to other initiatives designed to improve job search. However, these subsidies are much more expensive than assistance with job search while it is not clear that they are significantly more effective. This would imply that their use has to be restricted to the most disadvantaged jobseekers, particularly the

very long term unemployed.

It is worth asking why simple initiatives designed to enhance job search seem to be far more cost-effective than large training programmes? Surveys of employers constantly pick up concerns about the 'personal skills' and characteristics of job applicants, that is their motivation, ability to communicate and to get along with other employees, and so on. Generally the existence or not of those skills is a more important factor than possession of formal qualifications in determining recruitment, especially for the lower skill occupations¹²³. Apparently simple interventions which have the effect of raising an individual's outward signs of motivation, or helping them to better compile a CV or handle an interview (which are the means by which an individual can best signal their possession of some of these 'personal skills'), might thus have a more significant effect on participants' job prospects than 'training' programmes.

The recent movement of resources in Britain away from training and work programmes towards the initiatives run by the Employment Service is generally backed by the results of research in the UK and from across the OECD. Simple initiatives which offer improved placement services or assistance with job search can be shown to significantly boost participants' job prospects. The evidence for the effects of training and work programmes is much more mixed.

Training programmes which offer some chance of success are likely to be relatively small but of high quality like the old Training Opportunities Programme in Britain. There is a separate issue of ensuring that unemployed people can undertake part time courses in mainstream further and higher education without threatening their benefit entitlement.

This training provision should be clearly separated from any work programme. There is a strong social case for having such a programme offering places for the most disadvantaged jobseekers. It is the kind of programme which could be easily expanded to counter the effects of a modest recession. In the context of the 'speed limit' which may be imposed by the need to reduce unemployment gradually if wage inflation is to be avoided (see section I.4 and I.5) it can offer a stop-gap designed to tide people over until the aggregate labour market improves sufficiently. The phasing out of such programmes in the UK in the mid-1990s in the context of a still relatively high aggregate unemployment rate might have seemed premature. However, the benefits of such programmes should not be exaggerated. In the context of a labour market in Britain which in the mid-1990s was seen to be generating, in the eyes of some critics, too many temporary, part time, low paid and low skilled jobs, these schemes offer temporary, probably part time, inevitably low paid and low skilled jobs.

The Employment Service might have the option to use recruitment subsidies to help place the very long term unemployed, to be used alongside the other placement/job search/counselling initiatives. But their use would have to be kept to a minimum as they are potentially expensive and require considerable administrative effort to secure places. The UK's experience with its Workstart scheme is informative. Finding some 1500 places in just over a year in four areas during the

Workstart pilot phase proved demanding. These jobs were overwhelmingly in very small enterprises. Grossing these 1500 places up to represent all the labour markets in Britain would suggest the scope for up to 35,000 places on a national scheme, of which up to half would represent new opportunities for the very long term unemployed. This would be equivalent to about four per cent of those out of work for over two years in April 1996. Its impact would thus be limited.

Active labour market policy can play a role in helping to reduce unemployment but its impact should not be exaggerated. Indeed there can be a price to pay for exaggerating the role of labour market programmes, if it leads to the neglect of other policy instruments. Some writers can give the impression that a particular subsidy or scheme can by itself virtually eliminate unemployment and that no other policies are needed¹²⁴. Programmes are sometimes sold as offering a possible free lunch in that no net cost is envisaged for the proposed policy.

The rationale for such policies must also be made clear. The main aim is to improve the matching process in the labour market and to enhance the ability of disadvantaged jobseekers to obtain a higher share of the regular employment opportunities which are available. These policies do not create many new jobs themselves unless the specific aim is to create low productivity jobs through specific work programmes. Reference is sometimes made to the need to enhance the employment intensity of economic growth which by definition is the same thing as arguing for a reduction in productivity growth¹²⁵. Such work programmes are presumably one means to this end. If this is the case then the discussion about the limits to these programmes is of importance.

It is also necessary to come back to the question of the boundary between active and passive labour market policies and the tension between the 'policing' and the 'assistance' roles of the Employment Service. Much discussion in the UK revolves around the issue of 'workfare', which is usually taken as a short-hand for the goal of making participation on programmes effectively compulsory by ending the right to claim benefit after a period of time unless a place is taken up on a scheme. In practice it is not clear that this is a useful focus for the debate. Training programmes are only likely to work if participants are highly motivated to obtain new skills which they may not be if their participation is not voluntary. The public and especially the voluntary agencies which provide most work placements would be unlikely to do so if participation was not voluntary. Employers may not respond to recruitment subsidies where participants are being forced to take advantage of the scheme, as not unnaturally they might take this to indicate negative signals about those participants' personal characteristics, which are so important in the recruitment process. On the other hand high quality training programmes and genuine opportunities in the regular labour market are unlikely to struggle in finding willing recruits.

Striking the right balance between the 'policing' and the 'assistance' elements in the programmes run by the Employment Service is very difficult. However, given the significant tightening in the regime since 1986 (Table 29) it is not clear that lax administration of unemployment related benefits can any

longer be blamed for keeping unemployment at a high level in the UK. The policies introduced since 1986 have probably made a contribution to reducing unemployment, though how far this is due to the greater 'assistance' offered and how far to the tighter 'policing' is a matter of continuing controversy.

Restart and the other initiatives were primarily targeted on the long-term unemployed and so we should be able to discern their effect by looking for a break in the relationship between total unemployment and long-term unemployment after 1986. To see if this is the case we can refer back to Figure 13. There is no obvious evidence of any break. In particular the fact that the observations for 1983-83 and 1992-93 are almost exactly the same is suggestive that the simple linear relationship between total unemployment and long-term unemployment was constant through this whole period. This is not to argue that Restart and the other initiatives have had no effect on long-term unemployment, but rather that their effects have been at the margins. It also reiterates the point that for the UK long-term unemployment appears to respond very smartly to any general improvement in the aggregate labour market. Additional labour market policies can help but they play a supportive role.

V Other policies having an impact on the labour market

V.1 Education and training

Two key aspects of the education and training system can be distinguished in terms of their impact on labour market outcomes. Firstly, how well young people are prepared to enter the labour market following compulsory and further and higher education and initial training. Secondly, how far employers provide opportunities for training for their workforce. Each of these is considered below but with most weight given to provision for labour market entrants. Training for the unemployed was discussed in section IV.

Education and training for labour market entrants

From 1995 the Secretary of State at the new Department for Education and Employment (see section II.1) has had primary responsibility within Government for matters relating to education and training in England and Wales. The new Department has inherited a system which has seen very significant changes, especially since 1986.

Compulsory schooling begins at the age of 5 and continues until 16, with a transfer from primary to secondary schooling usually taking place at 11¹²⁶. From age 16 young people can opt to remain in full time further education (FE) in school or college, following either a general or a vocational education track. Alternatively they can opt to enter the labour market, either through obtaining a regular job (if available) or a place on the government sponsored Youth Training (YT) programme. This labour market route may involve access to vocational training and qualifications. Access to higher education (HE) is often from the age of 18 and predominantly from the full-time further education route.

Since 1986-87 the proportion of the age cohort following these different tracks has changed significantly as young people have voted with their feet to stay on in full time further education in much greater numbers (Table 32). In 1986-87 less than half the cohort stayed on. By 1993-94 over 70 per cent were staying in full time education though the increase subsequently appeared to plateau. The proportion enrolling on Youth Training halved over the same period as did the proportion entering into regular jobs. The size of the small residual of the cohort not in education, training or employment is strongly cyclical, having halved during the late 1980s and then doubled again in the early 1990s recession. The increase in enrolment in further education has been matched by increased participation in higher education. In 1986 14 per cent of the age group enrolled in higher education and by 1993 this had increased to 31 per cent¹²⁷.

There have been two strands to the reforms introduced by the Government, one relating to the curriculum and examinations, and the other to the structure of the education and training system. Implementation of these reforms was handled by two separate Departments, one (Education) responsible for general education and the other (Employment) responsible for aspects of vocational education and training.

One clearly successful reform has been the introduction of

a new examination in 1986 - the General Certificate of Secondary Education (GCSE) - replacing the two sets of examinations usually taken at the end of compulsory schooling, at age 16. The first full cohort sat the new GCSE in 1988 and this is closely linked with the significant increase in the proportion of the age cohort staying on in further education after 16 outlined in Table 32¹²⁸. Indeed GCSE is probably the single most important reason for the increase in enrolment in further education as it led to improved attainment at age 16.

From 1989 the Government began introducing a National Curriculum to cover compulsory schooling (age 5-16). A revised and substantially simplified version was introduced in 1995. Although some of the first cohort affected by part of the National Curriculum will have entered the labour market, its full effects will not be felt until the beginning of the next century.

In 1986 the Government set up the National Council for Vocational Qualifications (NCVQ) to rationalise the system of vocational qualifications. From 1988 National Vocational Qualifications (NVQs) were made available and from 1992 General National Vocational Qualifications (GNVQs) were introduced. NVQs were meant to replace existing vocational qualifications on the labour market training route, including youth training. GNVQs were meant to replace existing vocational qualifications in full time education. A young person at age 16 would then face three qualification routes: the full-time general education route (mainly A-levels, the traditional university entrance qualification), the full-time vocational education route (GNVQs) and the part-time, mainly employment-based, vocational training route (NVQs). This is what is meant when reference is made to the 'tripartite' system of post-compulsory education and training.

In practice four routes remain in place because NVQs and GNVQs have not succeeded in replacing all traditional vocational qualifications and seem unlikely to do so. The national qualifications framework is shown in Table 33. NVQs are offered at five levels, which are held to be notionally equivalent to the attainment of the traditional general academic qualifications as shown. In practice the majority of NVQs have been attained only at levels one and two, typically giving access to jobs in the sales and the clerical and secretarial occupations and the personal service occupations such as hairdressing¹²⁹. There has been more recent growth in the number of NVQs awarded at level 3, but matched by a fall in the number of traditional vocational qualifications awarded at this level. GNVQs are offered at three levels only, whereas the traditional vocational qualifications are offered at all five levels.

It is important to recognise that a wide range of vocational qualifications existed before NVQs and GNVQs were introduced. The proportion of the age cohort taking full time vocational qualifications was rising strongly before GNVQs were introduced nationally in 1993-94 (Table 32). GNVQs have not had any impact on the staying on rate, but have merely displaced existing vocational qualifications and the re-sitting of GCSEs, with some marginal impact on A-level enrolment¹³⁰. Moreover, the successful completion rate for GNVQs is lower than for the qualifications they have displaced.

The reforms to the curriculum and qualifications have been matched by structural changes. Many schools now manage their own budgets. They can also opt out of the control of local education authorities, though only 1100 have done so covering fewer than one-in-ten of all school pupils. Training and Enterprise Councils (TECs) are responsible for the vocational training route including Youth Training. This means that for the 16-19 age range four different agencies are involved in decisions over resource allocation: the local education authorities, the Funding Agency for Schools which is responsible under the DfEE for those schools which have opted out of local control, the Further Education Funding Council responsible under the DfEE for all colleges, and finally the TECs. Although the merger of the Employment and Education Departments appears to bring more coherence to policy making at the central level, at the local level a multiplicity of agencies retain responsibilities.

Youth Training remains a very diverse programme. Some companies use it as the basis for their apprenticeship schemes. Others use it to screen potential employees. Other YT placements cater for young people with special needs, and generally the programme caters for those young people with the poorest educational backgrounds. As such evaluating its impact is difficult¹³¹. It is not clear what would be in place if YT did not exist, though clearly much of the provision involves a 'deadweight' element in that employers would, even in the absence of the programme, be recruiting some young people into the entry-level craft, clerical and personal service jobs which form the core of YT. In 1994-95 just under half of participants completed their placement, with many exiting early into jobs. Around three-fifths of participants in 1994-95 exited to employment and two-fifths obtained a full qualification, mainly low-level NVQs, though traditional vocational qualifications were obtained as well.

In 1988 the Government abolished the right of 16-17 year olds to claim unemployment-related benefits, matching this by a guarantee of a place on YT. This offers a natural experiment to test the impact of withdrawing the right to benefit entirely from a group of people. It can be seen from Table 32 that this benefit change did not have the desired impact of increasing enrolment on YT. The proportion of the age cohort not in education and employment was falling before the benefit change was introduced as a result of a strengthening aggregate labour market. As soon as the recession arrived in 1990 the size of this group increased again. This suggests that the benefit change may have had little impact.

In 1994 the Government introduced 'Modern Apprenticeships' in order to raise the profile of the vocational training route. Modern apprenticeships aim for a higher standard of attainment than that typically achieved through YT, that is an NVQ at level 3 or above rather than the level 2 NVQ typical under YT. In 1991-92 nine per cent of 16-17 year olds entered apprenticeships either inside or outside the YT framework. It is entirely unclear how far modern apprenticeships will add to this or, like GNVQs, merely displace existing provision.

Training for the Workforce

According to the Labour Force Survey, the proportion of employees reporting receiving training in the last four weeks rose steadily between 1984-90, before dipping in the recession and then rising in the recovery after 1993 (Figure 30). This is the only time series on the incidence of training which is regularly available though of course it says nothing about the focus or the quality of that training.

There is no evidence from similar labour force surveys that employees in Britain report receiving less training in aggregate than employees in other industrial countries¹³². So there is no evidence from this survey that Britain's relatively less regulated labour market leads to a lower incidence of training or has prevented an increase in the incidence of training. On the other hand the increase in training incidence does not seem linked to any government policies. TECs were introduced in 1990, the number of NVQs awarded did not increase sharply until after 1990 and the Government's flagship programme for improving the commitment of firms to training - Investors in People - was also introduced at this time. The rising incidence of training was firmly established before these initiatives.

There are important inequalities in access to workplace training¹³³. A higher incidence of training is found for higher paid individuals, those with better formal educational qualifications, those working in larger establishments and in workplaces where unions are recognised. On the other hand women now report receiving fractionally more training than men, temporary employees report receiving more training than permanent workers, and the gap in training received by full time and part-time workers has narrowed significantly since 1984.

The National Targets for Education and Training

The ambitions of the Government for raising the achievement of qualifications by labour market entrants and the adult workforce have from 1991 been encapsulated in the National Targets (Table 34). These were originally a CBI initiative and have been endorsed also by the TUC.

The Government has already more or less achieved its target for having one third of the age group entering higher education. However, the other targets and especially those for attainment at NVQ level 3 will probably not be met.

It is not clear how seriously to view these targets¹³⁴. One original target was for 50 per cent of the workforce to be working towards NVQs by 1996. As in 1996 only two-and-a-half per cent of the workforce was working towards NVQs this target has been quietly dropped. This tells us something about the unrealistic ambitions which were held for NVQs and their disappointing impact in practice. It also tells us something about the way the National Targets have been formulated.

Throughout the whole education and training debate it has been left unclear what economic objectives are meant to be achieved as a result of hitting the targets for education and training. Much of the academic debate has focused on the possible links between education and training and productivity, and specifically the possible links between the attainment of

intermediate vocational qualifications and productivity¹³⁵. This is separate from the debate on the possible links between education and training and unemployment and wage inequality. As was outlined in sections I.2, I.4 and IV.3, the exact weight to be placed on the attainment of formal qualifications as a 'solution' to unemployment and widening wage dispersion is unclear. The trends in employment by occupation outlined in section I.2 pointed to the significant net growth in managerial, professional and technical jobs. This would seem to point towards the need for more general higher educational attainment rather than narrow vocational qualifications. In terms of these employment trends an excessive focus in much of the debate on 'vocational education' seems misplaced.

The focus of the National Targets on qualifications may divert attention from consideration of the wider 'skills' which seem important in the recruitment process. As the National Targets only cover the top 85 per cent of the age group they would also seem to hold the threat of diverting attention and resources from the lowest attainers including those with special needs.

The effectiveness of existing provision

In 1996 reported skill shortages were running at historically low levels in the UK economy (Figure 31). The time series reported in Figure 31 is the only one which goes back over a long period and although it only refers to manufacturing there are reasons for believing that it proxies the trend for the whole economy¹³⁶. In 1995-96 only one-in-ten manufacturing firms were reporting skill shortages as a constraint on output compared with over twice that proportion in 1988 when the unemployment rate was last at around eight per cent. This is another indicator that lack of skills were not in the mid-1990s a major factor preventing further falls in unemployment.

This might be an indication of the success of certain Government initiatives such as the GCSE which has played such an important role in boosting enrolment rates in further and subsequently higher education. GCSE is an example of a successful reform to general education.

The evidence in Figure 29 suggests that UK firms have over time been increasing their provision of training regardless of any Government policies. Indeed the role of the state in boosting provision of workplace training seems primarily a pump-priming one, which is precisely the focus of Government policy. In addition thought needs to be given to how to reduce inequalities in access to training. On the other hand the aim of delivering a unified system of vocational qualifications (NVQs) has not succeeded and a market clearly remains for the traditional qualifications. Indeed the notion of restricting choice in access to qualifications was always in contradiction to a market based approach.

In terms of the options available to labour market entrants, the full-time education route offers a wide diversity of provision, but transfer between the general and vocational routes is difficult. Both full-time routes also suffer from uncomfortably high non-completion rates. Very few young people

now enter directly into jobs without training, but the quality of training available through YT and employment based provision remains variable.

The size of the residual group of young people who are not in education or employment at age 16-17 does respond to significant improvements in the aggregate labour market. This group often exits the system at 16 with few or no qualifications and with an antipathy to state schemes. They appear mostly to want jobs and unskilled jobs would be available to many in a tight labour market. Indeed the composition of this group is not static. The eight per cent or so of 16-17 year olds not in education or employment in the Spring of 1995 will include people who have had jobs or YT places but have left them for various reasons. Some of them will take up jobs or YT places subsequently. They are not completely disconnected from the labour market.

Reducing the size of the age group which leaves compulsory schooling with poor formal qualifications probably requires greater investment in the early years of compulsory schooling. Further remedial public measures after the age of 16 are likely to have only a modest impact. The UK devotes a similar proportion of its GDP to publically funded education when compared with other industrialised countries¹³⁷. Within the education and training system then, it is important to draw up priorities for the allocation of resources. It is in the compulsory schooling system where the priorities might seem to be more urgent rather than in the post-compulsory system.

V.2 The tax and benefits system and the labour market

Introduction and key themes

The interaction between benefits and taxation both for those in work and those out of work and the potential impact of those interactions on labour supply incentives is extremely complex and only a brief overview of the main issues can be offered here. A general conclusion reached by authors who have reviewed the system in depth is that the scale of disincentive problems should be kept in perspective, that they are related more to the benefits system rather than the tax system, that they affect specific groups only, and that modelling those effects is very difficult.¹³⁸

One key theme to bear in mind is that there are always trade-offs to be addressed with respect to any changes in the tax and benefits system as they affect low income households. In particular three objectives have to be balanced: the prevention of unacceptably low incomes; the prevention of serious disincentives to work or save; and the containment of the overall costs of the system. Only two out of three of these objectives at most can be satisfied by any one policy. Universal (non-means tested) benefits set at a high enough level to alleviate poverty will involve no disincentives to work for recipients, but can be costly. Selective (means-tested) benefits can effectively target low income households and at moderate cost, but can create significant disincentive problems.

The Conservative Government since 1979 has put great emphasis on containing the costs of the UK welfare state and on creating incentives to work. By definition these two objectives imply that the alleviation of poverty and income inequality has not been made a priority. Since 1979 income inequality has increased significantly in the UK¹³⁹. In part this mirrors changes in the labour market, that is growing wage inequality and unemployment and inactivity. A progressive tax and benefits system would have acted to offset these changes in the primary distribution of income. In fact in the UK reductions in average tax rates for high income households combined with the failure to uprate all benefits in line with earnings has meant that growing inequalities in the primary distribution of income have been magnified so that the secondary distribution of household income has grown even more unequally. Indeed, changes to the tax and benefits system may have been more important than changes in the labour market in explaining growing income inequality across all households¹⁴⁰. Far from compensating the losers in the process of labour market restructuring, tax and benefits policy has further rewarded the winners and failed to allow a significant minority of UK citizens to benefit from increased economic prosperity.

Some relevant issues have been discussed already. Growing concerns over the increase in the numbers inactive due to disability has led to the introduction of incapacity benefit (section IV.1). The administration of unemployment benefit has since 1986 been significantly tightened (section IV.1), and in the case of 16-17 year olds the right to claim unemployment related benefits was withdrawn entirely in 1988 albeit not with the intended consequences (section V.1).

The unemployment and poverty traps

As was pointed out in section IV.1, the generosity of unemployment related benefits has fallen significantly since the early 1980s mainly as a result of indexing those benefits to prices while average earnings have grown strongly. Assessing the trend in the 'average' replacement ratio over time is very difficult precisely because replacement ratios will vary significantly according to individual circumstances¹⁴¹. Nevertheless, one time series suggests that for a worker aged 40 with a dependent spouse but no children and on two-thirds average earnings, the replacement ratio for unemployment insurance as a percentage of gross wages in previous employment had fallen from 53 per cent in 1981 to 37 per cent in 1991¹⁴². The replacement ratio for Income Support (means tested social assistance) had also fallen. In comparison with most other EU countries the 1991 ratios for both unemployment insurance and social assistance were quite low.

However, the real wages of those 'entry jobs' which are taken by the unemployed have increased much more slowly than average earnings so that these calculations may overstate the decline in the replacement ratios faced by many unemployed people¹⁴³. On the other hand empirical research has failed to find robust evidence that unemployment duration is very elastic with respect to the generosity of unemployment related benefits¹⁴⁴. This implies that only drastic cuts in benefits

would have any significant impact on unemployment. Such a step would certainly increase incentives and reduce public expenditure but only at the cost of significant and presumably unacceptable increases in poverty, which is a neat illustration of the fundamental trade-offs involved in welfare policy.

In practice the 'unemployment trap' (where income out of work might be higher than income in work) only affects certain groups¹⁴⁵. The majority of the claimant unemployed are single or are in childless couples and they face no significant incentive problems in moving into even quite low paid jobs (except those jobs with very limited hours). Heads of households with a very large number of dependents can face very high replacement ratios but they make up only a small fraction of the unemployed. The main incentive problems are faced by women, either as single parents or as the partners of unemployed men. Many of these women are likely to be classified as inactive rather than claimant unemployed.

Single parents, especially those with young children, face acute problems because many can only access relatively low paid jobs while they face potentially high child care costs. The partners of unemployed men face a binding constraint in that if they take up any paid employment then beyond a modest income disregard the income from their wages will be deducted pound-for-pound from their spouse's benefit.

The main in-work benefit which is designed to alleviate the 'unemployment trap' is Family Credit. This replaced Family Income Supplement (FIS) in 1988. FIS was introduced in 1971 indicating that the UK now has a quarter of a century's experience with in-work benefits for families. It is sometimes alleged that the UK welfare system has stood still in the face of dramatic changes in the labour market. In section I.2 the extent of the labour market changes was questioned. The notion that the welfare system has somehow stood still also needs to be qualified.

Family Credit is available to low earning families with children where one parent is working at least 16 hours a week. Someone working at or above this hours threshold will have a significantly higher net income than if they remained out of work, thus 'solving' the unemployment trap. However, as earnings rise Family Credit is withdrawn at a rate of 70 per cent. When combined with taxes and other in-work benefits, particularly housing benefit, individuals who increase their earnings can find themselves facing composite marginal tax rates of over 90 per cent. This is the 'poverty trap', where extra earnings produce only limited gains in net income.

There is a particularly difficult trade-off here in that Family Credit, while it alleviates the unemployment trap, does so at the expense of moving families into the poverty trap¹⁴⁶. Before 1988 the administration of FIS involved some families facing composite marginal tax rates in excess of 100 per cent. The introduction of Family Credit alleviated this problem, but only by increasing the number of families facing marginal tax rates of between 60 and 90 per cent, another example of a difficult trade-off.

On the other hand the actual impact of the poverty trap on hours worked is hard to discern, but may be small¹⁴⁷. In 1995

an extra incentive was introduced for people on Family Credit to work over 30 hours. This change in the Family Credit regime is estimated to have had only a limited and possibly ambiguous impact on labour supply¹⁴⁸. Many individuals, especially men, are unable to choose their hours anyway so that the impact of the tax and benefits regime on hours of work is irrelevant. The impact on the hours worked by women may be more significant, but perhaps still quite small.

Nearly half of all Family Credit recipients are single parents. Nearly half of all recipients work in the personal service occupations covering such jobs as hairdressing and catering staff. Some 40 per cent of male recipients of Family Credit work in these occupations compared with only four per cent of all male workers who are in these jobs. As was discussed in section I.2, this is the only area of less well paid and less skilled employment which is increasing its share of total employment. Family Credit has to be seen then in the context of these trends in the occupational structure of employment as well as the growth in wage inequality and in the number of single parent families.

Families where the head of household is unemployed face a range of possibilities. If a job can be found with sufficient hours and paying a reasonable wage they can escape the benefits system altogether. Jobs which offer over 16 hours of work but with rather low gross earnings will involve the household moving onto Family Credit. Very low paid, low hour jobs can be taken up by, for example, single parents who can earn up to £15 a week before their income support benefit is reduced. However, other part-time jobs offering fewer than 16 hours will not allow access to Family Credit and any earnings above the modest income disregards for unemployment related benefits will result in benefit reductions on a pound-for-pound basis. This means that the head of household (and their partner if they have one) will not be able to access some of the lowest paid part-time jobs.

Recent and suggested reforms

Changes to Family Credit since 1988 have occurred incrementally. From 1995 reforms were introduced to ease the transition from unemployment related benefits to in-work benefits, in response to the problem that heads of households might be reluctant to move into jobs because of uncertainty about what they would receive in terms of in-work benefits at a time when that transition might itself involve extra fixed costs in terms of travel-to-work or other in-work expenses.

In 1994 a disregard in Family Credit for child care costs was introduced aimed particularly at single parents with young children who face some of the most serious disincentives. This reform will assist a small number of families at little extra cost, but more significant help with child-care costs would be very expensive if it was to make any major impact on the participation rates or hours of work of single parents¹⁴⁹. Helping large numbers of single parents move from 'work to welfare' would always involve the Government incurring significant net costs. In other words reducing the disincentives for single parents to participate in the labour market while

boosting their net incomes would involve significant extra expenditure, thus illustrating the nature of the trade-offs discussed at the beginning of this section.

Universal Child Benefit is paid to all families with children. A significant increase in its real value would benefit all families including those on Family Credit without the disincentive effects associated with that means tested benefit. However, the net costs of this would also be very high, again illustrating the nature of the trade-offs involved in any welfare reform.

A similar set of issues relate to Housing Benefit which is paid to low income households in and out of work who are renting. Since the late 1980s there has been a significant increase in the level of rents for all forms of both private and social housing as a result of policies designed to directly increase social rents and to allow for an increase in private rents¹⁵⁰. As a result a much higher proportion of renters have become eligible for Housing Benefit which, as a means tested benefit, is associated with the unemployment and poverty traps. In particular the Government has reduced general subsidies for social housing which can be thought of as a reduction in a form of universal benefit. Households in social housing have become much more concentrated amongst the elderly, disabled, single parents and the unemployed. A reduction in rents (that is a switch back to a universal subsidy) would ease disincentive problems, but would involve a significant extra net cost. The gains in terms of a reduction in the extent of work disincentives would be modest, which is the same thing as saying that the increase in rents and in take-up of Housing Benefit have had only a modest impact in worsening disincentives.

More generous income disregards for unemployment-related benefits could allow workless households to earn a little more from part-time or casual jobs before their benefits were reduced pound-for-pound. This would have particular relevance to lone parents and the partners of unemployed men who face the most binding disincentive problems. This might help alleviate the problem of low incomes associated with unemployment-related benefits and would not be costly. However, it might worsen the incentive to move into jobs offering longer hours and paying higher wages. Fundamentally, the only solution to the problem of 'no-earner' two-adult households is to get the head of household into a job offering more than 16 hours work. Once the head of household is in a job the immediate disincentive faced by their partner is removed though they might still face a poverty trap in that further hours worked by either partner may not result in significant increases in net income.

From October 1996 the Government is to launch the Earnings Top-up Pilots to test the effects of paying in-work benefits to single people and couples without dependent children, in effect extending Family Credit to this group. The new benefit will be tested at two different levels with different rates for couples and single people. As with Family Credit an award will generally run at a fixed rate for 26 weeks. The pilot will extend over three years and about 20,000 people are expected to benefit. The rationale for extending Family Credit to single people and couples without children is not entirely clear as it is not

obvious that these groups face significant problems in terms of the unemployment trap. Indeed the Government's caution in piloting these changes may reflect uncertainty about the necessity of extending in-work benefits to these groups, a reform which could prove expensive with uncertain effects on labour supply.

Employment taxes

A great deal of concern is expressed about the burden of employment taxes, either in aggregate or in terms of their impact on low paid employment. In the UK social security taxes - National Insurance Contributions - are formally paid by both employer and employee, though of course the true incidence of both types of taxes over the long run is likely to fall on the employee in the form of them accepting lower wages. Across a number of EU countries with similar living standards, even where the burden of social security contributions varies significantly, the final cost of employing labour varies only modestly, which seems to confirm the idea that the incidence of these taxes is borne mainly by labour¹⁵¹.

This would mean that any general reduction in employment taxes would have very limited employment effects over the long run. If wages do respond in a way so as to offset the impact of a reduction in employment taxes, as net income in work will have been boosted this should nevertheless result in lower replacement ratios¹⁵². However, cutting employment taxes across the board would be a very expensive way of reducing replacement ratios as it would benefit all workers, including single people and childless couples who do not in general face significant incentive problems. This helps illustrate the general point that reductions in taxes are usually the least cost-effective way of alleviating any incentive problems precisely because they are hard to target.

One way of achieving such targeting would be to confine reductions in employment taxes to the low paid only, by trying to make the incidence of these taxes more progressive. In fact the UK system is already quite progressive at the lower end of the earnings scale, more so as a result of reforms to the system in 1985, 1989 and 1994. Total average tax rates are quite modest on low earners and there are no barriers in the UK tax system to the creation of low paid and part-time jobs. In fact the opposite is the case in that the operation of the lower earnings threshold for National Insurance Contributions means that there is a large bunching of part-time employment at just below this threshold, though the extent of this bunching has diminished in recent years¹⁵³. These less well paid part-time jobs are likely to be taken by young people and second earners (married women). So the structure of employment taxes in the UK does have an impact on the structure of employment, but not in terms of limiting the overall number of low paid part-time employment opportunities. Removing some of the remaining anomalies in the system would prove very expensive and the gains might be limited.

An approach to reform

A single man in Britain aged 34 with a mortgage, working full time as a barman, with gross earnings at just 49 per cent of the male average placing him on the dividing line between the first and second deciles of the male earnings distribution, would be placed in the very middle of the income distribution for all households in the UK¹⁵⁴. He would not face a significant unemployment trap if he lost his job, and does not face a poverty trap as he claims no in-work benefits. He is not in poverty or in a low income household. However, if he had dependent children the household would slip down to around the second decile of the income distribution and he would be claiming Family Credit, putting the household in the poverty trap. Depending on the number of children he might also face a high replacement ratio if he lost his job.

As already discussed such a man with dependent children represents the typical male Family Credit recipient working as he does in a personal service occupation. Such jobs cannot be eliminated by overseas competition and will not be eliminated by technology. They are the only form of less skilled work which is increasing its share of total employment. And it is a form of employment which is only associated with low net household income if the head of household is responsible for dependents.

It seems unclear what contribution education or training could make to improving the productivity of such a worker in his present job. In this case a minimum wage would also have no impact as this worker is above the threshold at which a minimum wage would be likely to be set in the UK. Reductions in taxation would be expensive in relation to any gains in net income for such a worker and would, like a minimum wage, be poorly targeted benefitting many young people and second earners. As a low net household income would only result if such a worker had dependents, benefits targeted on families with children would offer the best method of ensuring that the household always had an adequate income. The choice then is between universal Child Benefit and selective Family Credit with the usual trade-off between the expense of a universal benefit and the poverty trap disincentives created by a means-tested benefit. A more general point to make here is that because some of the changes in the primary distribution of income, particularly wage inequality, are ill-understood, a strategy of attempting to offset these changes through in-work benefits may be the only viable, second best, option.

A significant increase in Child Benefit would benefit many families including those on Family Credit. A modest minimum wage would prevent the downward adjustment of gross wages which is an inevitable feature of the impact of any means-tested benefit. However, in-work means tested benefits would remain a significant feature of any system which tried to prevent unacceptably low incomes for members of the active population while containing total costs. Whatever the optimal package which was arrived at, the nature of the fundamental trade-offs between cost, incentives and poverty alleviation would remain. Interestingly, the Labour party appears to have exactly the same ordering of priorities as the Conservative Government in terms of putting the containment of cost and the creation of incentives to move from 'welfare-to

work' at the head of its list, which by definition means leaving the boosting of low incomes as the lower priority.

The difficulties posed by the ever present trade-offs, the complexity of the system, and the uncertainty about the causes of the trends in the primary distribution of income, all argue for an incremental approach to reform. Uncertainty about the exact scale of the disincentive problems also counsels caution. In addition there is an argument for not allowing this debate over the possible impact of work disincentives to crowd out the more fundamental issue for the UK of ensuring that those who are not expected to work - the elderly and disabled - and who are dependent on state benefits do not get left further behind as their benefits are indexed only in line with inflation while the real incomes of most of the population increase over time. For this group the rhetoric of 'welfare-to-work' is irrelevant and only significantly improved transfers from higher income households can ensure that they participate in the growing prosperity which successful economic policy can engender. As there is little evidence that the reductions in marginal tax rates in the 1980s had significant beneficial effects on labour supply¹⁵⁵, and as there are many reforms which could raise average tax rates without raising marginal rates anyway, the financing of extra transfers should not impose problems for the economy but would prove politically contentious.

V.3 Industrial policy

Government policy since 1979

The term industrial policy can cover a very wide range of instruments, and the emphasis here is on exploring the interaction between industrial policy and labour market outcomes. It is important to identify the rationale which lies behind the approach of the UK Government in this area of public policy. In retrospect the year 1979 seems to mark a clear break in the approach to industrial policy, with the UK Government having since then pursued policies, most notably privatisation, which have attracted a wide range of interest. However, it might be misleading to paint a portrait of a Government setting out with a clear and detailed strategy. Privatisation was not mentioned in the election manifesto of the winning party in 1979; it was a policy and a term invented after the fact.

Government policy since 1979 can best be characterised as consisting of a clear commitment to the promotion of private ownership, product market competition and free trade, tempered by a pragmatic approach to providing direct assistance to firms when such assistance can be shown to work and provided it does not cost too much. Indeed the degree of emphasis placed on providing direct assistance to firms has been influenced as much by the personality of the minister in charge of the Department of Trade and Industry as by any well thought through philosophy.

One key theme to again emphasise is that this policy agenda has relevance to both the objective of boosting the rate of growth of productivity and the objective of trying to improve the trade-off between unemployment and inflation. The latter

objective is served if greater product market competition can help force firms to keep their prices down which in turn will oblige them to keep a tighter grip on costs.

The commitment of the UK Government to the objective of increased product market competition explains their whole hearted support for the creation of the European Union's Single Market. The removal of internal trade barriers would serve the objective of increasing the competitive pressures on British firms to secure efficiency gains and to hold down costs. On the other hand the active promotion of the rationalisation of European firms to secure greater economies of scale might be contradictory to the promotion of greater product market competition, which explains the lukewarm approach of the British to this part of the European agenda.

The approach of the UK Government would also support a position of the EU being in favour of greater openness to international free trade, hence the enthusiasm for the completion of the Uruguay round of GATT. The UK Government has been very supportive of foreign direct investment. This can be rationalised by the view that foreign firms might be more efficient at managing certain UK industries and more generally the presence of foreign companies would prove to be a competitive stimulus to domestic firms.

With regard to product markets the UK Government has pursued a steady policy of deregulation, most notably in areas such as shop opening hours, the rules governing the operations of certain professions such as lawyers, and most comprehensively in the financial markets. However, the most celebrated departure was the rolling programme of privatisation, starting with firms such as British Airways which were already involved in fiercely competitive product markets, before moving on to the complex task of privatising the utilities. As these firms all had some degree of monopoly power their privatisation has had to be accompanied by complex regimes of regulation. Within the public sector services competitive tendering has introduced some market pressures with the aim of fostering greater efficiency

Before 1979 the nationalised firms were heavily subsidised by the state. These subsidies were reduced and the process of rationalisation started before privatisation. More generally the phasing out of direct subsidies to firms has been another key break with past policy, motivated by the desire to reduce public expenditure and by the belief that such subsidies merely slowed down the necessary processes of adjustment and fostered inefficiency. In addition the Government has also significantly reduced the resources devoted to regional policy, abolishing automatic regional grants which were not felt to be cost-effective and focusing on modest selective grants, often to aid foreign direct investment. However, at the same time the Government has responded pragmatically to the problems faced by disadvantaged urban areas by using a wide range of policy instruments and an equally wide range of agencies. This urban policy has largely supplanted traditional industrial and regional policy.

Government pragmatism is also in evidence in the wide range of policy instruments and very wide range of agencies designed to help small and medium sized enterprises gain access to finance

and to assistance with premises, the development of business plans and so on. Key agencies here are the Training and Enterprise Councils which continue to compete and overlap with many other agencies (see section II.1).

One significant element of 'active labour market policy', support for the unemployed in starting enterprises, is now the responsibility of the TECs under the direction of the Department of the Environment. It is thus now seen as part of 'industrial policy' aimed at fostering the growth of sustainable small enterprises. With the emphasis on helping businesses which show potential for growth, far fewer unemployed people have been helped by the Business Start Up Scheme which replaced the Enterprise Allowance Scheme in 1991¹⁵⁶. Individuals can receive assistance under the scheme if they have been out of work for over six weeks. Recipients can receive between £20 and £90 per week for between 26 and 66 weeks. The scheme has very high levels of deadweight in that a high proportion of recipients (up to 84 per cent) would have started a business anyway, though the incentives may have brought forward their plans. Survival rates are quite high up, to 76 per cent after 18 months. However, the extent of displacement of the activities of existing enterprises is very difficult to ascertain.

The effects of Government industrial policy

A major problem in evaluating the impact of this agenda is that the direct evidence on the relationship between product market competition and productivity growth is rather thin¹⁵⁷. It is very difficult to find measures which can show how far product market competition has increased since 1979. It is often not possible to disentangle the effects of enhanced product market competition on productivity from the effects of labour legislation or recessionary shocks, as was discussed in section II.2.

Nevertheless, there is a general tendency for economists to be supportive of policies designed to foster greater product market competition. It is only possible to infer from the evidence that the UK's productivity performance has improved since 1979 (section II.2), that increased product market competition has played a role. There is some direct case study evidence in support of specific policies. Foreign direct investment in the car industry has helped secure a dramatic turnaround in productivity performance¹⁵⁸. Privatised firms such as British Steel, stripped of industrial subsidies and operating in competitive markets have registered especially impressive turnarounds. The former nationalised industries were frequently the source of significant industrial unrest so that privatisation may have played a role in securing more quiescent industrial relations, though in the steel and coal industries union power was curtailed before privatisation. Deregulation of shop hours may have helped foster the creation of more employment in the retailing sector in the context of a relatively deregulated UK labour market which has always allowed firms to secure a wide range of working practices.

There have been specific criticisms of UK industrial policy. From the perspective of those who have been broadly supportive of the general thrust of policy have come criticisms that not

enough competition has been fostered through privatisation, or that too permissive an approach to takeovers can allow firms to stifle competition¹⁵⁹. Other critics offer more general criticism of the lack of an 'industrial strategy' designed to help UK manufacturing industry¹⁶⁰. However, such critics tend to offer little evidence which contradicts the notion of a turnaround in UK productivity performance since 1979, especially in manufacturing, and little evidence that their proposed policy instruments would work any better than the instruments which came under the heading of 'industrial strategy' before 1979.

There is therefore a strong predilection amongst many economists to be broadly supportive of the Government's approach to industrial policy, on the grounds of the general commitment of most economists to the advantages of competitive markets, a view that the aggregate picture of UK industrial performance is promising, that some limited direct evidence exists of the beneficial effects of certain policies, and a pragmatic scepticism with respect to the effects of traditional 'industrial strategy'.

VI The national debate: policy perspectives

The purpose of this last section is to draw together some of the analysis contained in the body of the report in order to assess the impact of public policy on the labour market in the UK. Suggestions will be made as to the lessons to be learned from UK experience and what an optimal approach to policy might be given the objective of wanting to bring about significant reductions in unemployment. The approach of the social partners to labour market policy will be scrutinised in the light of this analysis.

The objectives of economic policy

In the introduction three dimensions of economic performance were outlined which will be related to a significant extent to the performance of the labour market. In 1979 unemployment in the UK, according to the claimant count, seasonally adjusted and consistent with current coverage, stood at four per cent of the labour force, but with inflation accelerating. In the first half of 1996 it stood at just below eight per cent of the labour force, but declining at a steady rate without as yet any sign of an acceleration in inflation. There is no consensus on whether or not the NRU has fallen. Since 1979 productivity growth in UK manufacturing has been at an impressive rate when considered both historically and relative to the trends in other countries, and growth rates in whole economy productivity have been reasonably good relative to the 1970s and also in relation to other countries. On the other hand wage inequality has grown significantly and this has been one factor, though not necessarily the main one, in explaining the significant growth in income inequality in the UK since 1979.

Overall then there is one clear positive - improved productivity growth, one clear negative - increased wage and income inequality, and one ambiguous result - there is no consensus that the sustainable rate of unemployment is lower than that inherited in 1979. In the introduction it was pointed out that there might be trade-offs between these objectives and some of the analysis has pointed to such possible trade-offs. The shock of the early 1980s recession probably played a major role in explaining the productivity breakthrough, but also brought in its wake large scale unemployment. Reforms in the field of industrial relations may have contributed to improved productivity growth but reductions in union coverage have also contributed to increased wage inequality. Whether one approves of these outcomes since 1979 will depend on how one subjectively ranks these different dimensions of economic performance.

It will also depend critically on whether you believe that the sustainable rate of unemployment is now lower as a result of supply side reforms or remains unacceptably high, that is whether you believe the natural rate 'optimists' or 'pessimists' whose estimates of the NRU were outlined in section I.5. It is the wide range of such estimates which makes it difficult at first sight to come to an overall judgement on the impact of the Government's strategy for labour market reform. This wide range of estimates also makes it impossible to judge how much of the remaining UK unemployment is 'cyclical' in nature and therefore

capable of being eliminated through expansionary macroeconomic policy and how much is 'structural' in nature implying the need for further significant supply side reforms.

Macroeconomic policy and unemployment

Unemployment rose sharply in the UK during two recessions which were initiated by tight monetary policy designed to bring about a reduction in inflation. In this sense the impact of macroeconomic policy on unemployment over the short to medium term seems obvious. However, if the natural rate of unemployment is very high then most if not all unemployment can be considered 'structural' in nature implying only a limited role for macroeconomic policy in achieving reductions in unemployment.

Given the very wide range of estimates of the NRU it would seem unwise to base macroeconomic policy on any one estimate of where the NRU might be. Rather macroeconomic policy has to be robust to different estimates of where the NRU is. In addition the rate at which unemployment falls towards the NRU may be important. Rapid reductions in unemployment may result in short-term capacity constraints or skill shortages emerging which can put upward pressure on inflation. Putting these two factors together suggests the case for a modestly expansionary macroeconomic policy which pushes the actual unemployment rate down slowly towards whatever the NRU might be. Since 1992 Britain has had just such a modestly expansionary policy.

This analysis also suggests that the absence of any discussion of the role of macroeconomic policy in reducing unemployment in the conclusions of the Essen meeting of the European Council was not warranted.

Microeconomic reforms and unemployment

In section I.5 a list of the main causal factors which have been put forward to explain why the NRU may have risen were outlined. The main body of the report has reviewed the evidence on the impact of Government reforms on many of these supply side factors, and this should now allow some summary of whether there is compelling evidence that these factors remain important as explanations of a high NRU.

Clearly the supply shocks of the 1970s are past history. The sharp increase in the share of income from employment in GDP which occurred in the mid-1970s following these shocks has been fully reversed and in the 1990s commodity prices remain subdued. The period 1979-84 saw a dramatic acceleration in the rate of job loss in manufacturing. However, this is the only compelling direct evidence of an acceleration in the pace of structural change which might have led to some labour market mismatch. Since 1984 the pace of change in the structure of employment by industry and occupation does not seem to have been out of line with historical experience. At the same time educational reforms have been associated with significant decreases in the proportion of the working age population holding no qualifications. Unemployment rates and pay differentials by qualification show no clear sign of having widened dramatically, though there are measurement problems here. Reported skill shortages in 1996 were

at historically low levels. Regional unemployment rates were more equal in the mid-1990s than at any point in the last 70 years.

The significant decline in the coverage of trade unions and in collective bargaining does not suggest that organised labour could be held responsible if the NRU does remain high in the 1990s. There might remain some concern that there is not enough coordination in the wage bargaining process. Such coordination was a feature of some economies which appeared to cope relatively well with the supply side shocks of the 1970s. But then the relevance of such institutional mechanisms seems most apparent in the circumstances of adverse shocks. Future shocks may see the UK labour market no better placed to cope, but in the absence of shocks it is not clear why the UK pay bargaining system should stand in the way of further falls in unemployment.

There is no evidence that either the modest employment protection legislation in place in 1979 or the modest minimum pay rates associated with the Wages Councils had any significant impact on employment. Such evidence implies that the abolition of minimum wage protection will not have contributed to any reduction in the NRU, but will have contributed to the increase in wage inequality. In terms of the overall range of individual employment rights there has been no net deregulation since 1979, with some reduction in employment protection offset by increased rights in relation, for example, to equal pay. There is no evidence that the equal pay legislation in the 1970s harmed employment and no suggestion that it has done so since 1979.

There was never compelling evidence that high personal tax rates had very serious effects on labour supply or that employment taxes had a large impact over the long run. The UK has a uniquely progressive system of social security contributions at the lower end of the earnings scale.

Assessing the impact of the benefits system (and its interaction with taxation) on unemployment is very difficult. However, it is hard to see how unemployment related benefits could be considered to be more generous and/or more loosely administered than in 1979. Average replacement ratios have fallen since 1979, and even at the lowest end of the labour market seem likely to have declined. The administration of unemployment related benefits has been significantly tightened since 1986 while the unemployment trap affects only a small proportion of the unemployed. Greater disincentives are faced by single parents and the partners of the claimant unemployed, many of whom are likely to be counted as inactive.

The long-term unemployment rate demonstrates a stable relationship with the total unemployment rate. As total unemployment falls, long-term unemployment falls in the same way as it rises when total unemployment rises. The finding that the long-term unemployed play no role in holding down wage inflation is not robust. There is evidence that some of the initiatives run by the Employment Service have helped to increase the rate at which unemployed people find work. However, assessing their aggregate impact is difficult.

There has been an increase in product market competition but assessing its impact on labour market outcomes is also difficult. Capacity constraints may be important over the short-term but

investment does respond quite quickly to such constraints so that their existence may place a limit on how quickly unemployment can fall but do not affect the NRU itself.

Even when it is difficult to assess directly the impact of some of the supply side reforms, all the factors outlined in section I.5 have either been moving in the right direction or had little explanatory power to begin with. It may be that the combined contribution of some of the Government's supply side reforms has been greater than the measurable contribution of the individual parts. It has hard to believe that the NRU is not lower than in 1979, but it is not possible to judge how low it might be. However, the trade-off between unemployment and inflation in the mid-1990s looks significantly better than during the early and mid-1980s. The estimate offered by Sentance in section I.5 that unemployment could fall on a sustainable basis to a range between 4-6 per cent does not seem unduly optimistic.

In terms of further supply side reform, the uncertainty about where the NRU might be coupled with the analysis that all the factors have been moving in the right direction should counsel a cautious approach. There seems little rationale for further drastic changes. Rather there is a case for looking carefully at the merits of further specific incremental reforms in such areas as education and training or the tax and benefits system, based on a careful analysis of the empirical case and of the impact of past reforms. Drastic reforms, such as abolishing the right of the long-term unemployed to draw benefit while giving them access to large scale active labour market programmes, run the risk of significant adverse side-effects in terms of the income distribution and seem to draw few lessons from past experience.

At the same time there is a good case for cautiously reversing some of the changes with respect to employment protection legislation and minimum wage regulation, given the evidence that the regimes which existed in 1979 had no significant adverse impact on employment. The codifying of individual employment rights which has continued since 1979 in part due the impact of the EU does not appear to be incompatible with the operation of an efficient labour market, providing that the right balance is struck. Modern trade unions also have a role to play in terms of helping to enforce and improve those rights, and in other areas such as training and employee participation where the presence of unions seems to have a positive impact.

A market based economy on its own will almost certainly not deliver a desirable outcome in terms of the overall distribution of income. The main objective of the tax and benefits system is to ensure that those households which have little or no market income can nevertheless enjoy a standard of living acceptable to society as a whole, and can enjoy rising real incomes along with the rest of society. Given the ill-understood nature of the increase in wage inequality and the relative weakness of the instruments available to directly affect the primary distribution such as a minimum wage and training, a strongly redistributive tax and benefits system is the only sure instrument available to offset these changes in the primary distribution and is the only instrument of any relevance to the elderly and disabled on state

benefits.

It is possible then to come to some conclusions about the importance of different policies in terms of their impact on labour market outcomes and wider social goals. To what extent is there any consensus amongst the 'social partners' over either the objectives or the instruments of labour market policy?

The 'social partners' and labour market policy

Although the term the social partners is not in heavy use in the UK, with no formal mechanisms for dialogue in existence, it is the case that the TUC and the CBI do talk to each other and do produce documents which state their case with respect to the objectives and instruments of labour market policy. However, it should be borne in mind that neither organisation can be said to represent all opinion from the two sides of industry.

1) The objectives of policy. The TUC and more especially the CBI often obscure how they rank the different objectives by referring to the need to 'improve competitiveness'. The TUC is clear that full employment should be the prime objective for economic policy, though the unions will also be deeply concerned about the growth in wage inequality¹⁶¹. By definition therefore increased productivity growth must be a lower priority, although the TUC usually argues that higher productivity and greater equality are not in conflict. The CBI clearly places higher productivity as its priority and warns that attempts to reduce unemployment or tackle inequality would not gain business support if they interfered with the efficiency of UK firms¹⁶². As such it seems to accept the ordering of objectives implicit in Government policy. Thus at the most critical level of the objectives of labour market policy there are differences, though exactly along the lines which one would expect.

2) Macroeconomic policy. The TUC has expressed considerable scepticism about estimates of the NRU, making the same points as in this report in noting the wide range of such estimates. As a result they are also clearer that macroeconomic policy may have a significant role to play in reducing unemployment. The CBI tends to echo the views of the 'natural rate pessimists' and favours a very cautious approach to macroeconomic policy, though one with a greater emphasis on public investment in areas such as the transport infrastructure. The CBI has also endorsed the case for a more independent Bank of England.

Interestingly, the TUC itself has endorsed EMU, though many individual unions remain sceptical. The CBI has not taken a strong position, probably wisely as there is no other economic issue which is more divisive across industry and across the political spectrum.

3) Collective industrial relations. The CBI has, retrospectively, endorsed the Government's programme of reform, though they never really pressed for it. Given that the reforms aimed to tilt the balance of power towards employers, their support is not surprising. Neither was the opposition of the TUC to each piece of legislation, although the unions have pragmatically accepted much of this new legal framework and it

is not clear that there would be any significant pressure on a Labour Government to roll the reforms back. Rather the TUC wants to see further legislation which would create a statutory trade union recognition procedure designed to make union organisation easier with the aim of turning the tide with respect to the coverage of union membership and collective bargaining. The TUC is deeply sceptical of the impact of 'human resource management' techniques in the absence of a trade union presence and believes that 'social partnership' in the workplace is the best route to higher productivity growth. Needless to say any agenda involving statutory intervention would be fiercely opposed by management.

4) Individual employment rights. There is strong agreement on the regulation of health and safety and the promotion of equal opportunities, those relatively less contentious areas of policy, though the TUC does not believe that equal opportunities policy goes far enough. The TUC, although voicing concern about the large tail of long working hours in the UK labour market and support for the EU Directive on working time, does not believe that lower working hours would have much impact on unemployment. Generally this is not an issue in the UK. Neither the TUC or CBI is in favour of reducing productivity growth in order to increase the 'employment intensity of economic growth'¹⁶³.

There is disagreement on the minimum wage with the CBI formally opposed in principle. However, the CBI has hinted that a very low minimum wage would not in practice pose problems for its members. The CBI is strongly opposed to the Social Chapter on principle. Basically the CBI supports the status quo as it now exists with respect to labour market legislation. The TUC wants to see the extension of basic minimum rights which collective bargaining can then enhance. The TUC is strongly committed to the Social Chapter. Since 1988 the unions have seen the EU as a mechanism to enhance employment rights. Shut out from influence by the UK Government they are keen on the influence potentially available to them through the institutions of the EU.

5. Passive and active labour market policy. The TUC has argued that the balance between the 'assistance' and the 'policing' role of labour market policy has tilted too much towards coercion. Both the CBI and the TUC view active labour market policy favourably, with the latter in favour of significantly enhanced resources for training and work programmes run on a much larger scale.

6. Education and training. Everyone is in favour of more. The CBI was responsible for developing the National Targets for Education and Training, which were subsequently endorsed by the TUC and the Government. Whether the aim of these targets is to improve productivity growth or to reduce unemployment has never been made clear by anyone. However, the TUC would like to see statutory obligations on employers to provide training, to which the CBI is implacably opposed. So although there is agreement on ends there is a division over means.

7. Tax and benefits. There is much common ground in terms of concern about the possible impact of disincentives on unemployment and hours of work. The CBI is enthusiastic about Family Credit as an alternative to the minimum wage. Neither organisation has ever spelt out how it would address the fundamental trade-offs in this area of public policy, though the reluctance to spend much more money would narrow the CBI's options down to a straightforward trade-off between incentives and poverty alleviation. More generally both organisations have voiced concerns about the overall growth in income inequality, though identifying the relative losers in any redistributive package is never made explicit. The CBI worries about employment taxes and other Government imposed non-wage labour costs and is always and everywhere in favour of the reduction of business taxes. The TUC accepts that reductions in employment taxes would have little impact on employment.

8. Industrial policy. The CBI has been broadly in favour of Government policy though it has always argued that tax incentives for firms are not generous enough. The TUC has been sceptical of the impact of policies aimed at small and medium sized enterprises. It is far more critical of the reduction in resources for regional policy, of the absence of a tougher regime with respect to takeovers, and is more generally supportive of the more far reaching criticisms of the absence of any 'industrial strategy.'

Few of the policy positions outlined above will prove surprising. Where there is agreement it is in areas such as education where the desirable direction of reform seems clear. On the minimum wage and Social Chapter there is less common ground. Both in terms of the objectives of labour market policy and the possible trade-offs between those objectives, and in terms of the more contentious instruments of labour market policy, there is limited common ground between the CBI and the TUC even though they engage in a dialogue which is usually a civil one.

The position of the Labour opposition on all these matters is unclear, in part because there are obvious differences within the Party. In terms of objectives the Deputy Leader of the party is representative of those who wish to make full employment an explicit over-riding aim of economic policy, while the Leader and Shadow Chancellor rarely mention full employment and instead, like the Government, put most emphasis on the growth in productivity and living standards.

In terms of policy Labour seems committed to a macroeconomic framework which would be more cautious than the Government's, a stance heavily influenced by the 'natural rate pessimists'. EMU is as contentious an issue as it is within the Conservative Party. It wants more education and training, but apparently without a statutory framework for employer provided training. It is in favour of more active labour market policy. It is in favour of a minimum wage and the Social Chapter. It is in favour of tax and benefit reforms though the overwhelming emphasis on containing costs means that in practice its position with respect to the trade-offs in this area of policy are the same as those

of the Government. It may pursue a more active industrial policy, though consisting of what is unclear.

Conclusions: unemployment, macroeconomic and labour market policies

Whatever labour market policies are pursued by any Government, they need to be based on a clear understanding of what the main trends in the labour market are, a clear idea of what the objectives of policy should be and of the possible trade-offs between those objectives, and a clear understanding of the role and limits of different policy instruments.

UK experience in this respect can be set alongside the five action areas which were emphasised in the conclusions of the Essen meeting of the European Council (see introduction).

a) In terms of the goal of promoting investment in vocational education, the UK has seen a significant expansion in the proportion of young people and adults obtaining vocational and general education qualifications. It is unclear why there should be specific emphasis on vocational qualifications when the net increase in a range of service sector jobs would seem to place more weight on the need for more general education qualifications.

b) The objective of increasing the employment intensity of growth must imply trying to lower productivity growth. In the context of the UK experience where improved productivity growth is the one unambiguous sign of a better functioning labour market, this objective seems ill-founded.

c) Reductions in non-wage labour costs may have little impact on employment in the long run if the incidence of these costs is passed onto workers in the form of lower wages, which the evidence suggests is the case. The UK already has a reasonably progressive structure of employment taxes.

d) The emphasis in labour market policy in the UK has shifted decisively away from large scale work and training programmes to the programmes operated by the Employment Service. This shift seems entirely in line with the evidence on the relative effectiveness of different programmes.

e) Unemployment rates amongst disadvantaged groups, including the young, ethnic minorities and the long term unemployed, are all very sensitive to aggregate employment conditions. When total unemployment is on a firmly downward trend so are the unemployment rates for all disadvantaged groups. Other policies can play a supporting role.

An obvious gap in this list is the lack of any mention of the role of macroeconomic policy and the need for growth in aggregate output and employment. The UK's experience of falling unemployment since 1993 is a product of the success of some supply side reforms and of a macroeconomic policy which since the end of 1992 has been supportive of an expansion in employment. A reasonably optimistic assessment would be that by the year 2000, in the absence of any shocks, a continuation of such policies may see unemployment in the UK fall on a sustainable basis to around 5-6 per cent of the workforce. This would be approximately half the unemployment rate in 1993, when the

European Commission's White Paper advocated the objective of halving unemployment in Europe by 2000. The UK may well come close to fulfilling that objective. One of the main unresolved issues in the UK will be how to address the widening gap in the distribution of income which emerged in the 1980s.

ENDNOTES

1. This is one of the unsatisfactory features of the European Commission's 1993 White Paper.
2. Commission of the European Communities, 1993.
3. Post-war trends are discussed in Robinson (1994).
4. See OECD Employment Outlook 1995, Table A.
5. See Robinson, 1994a.
6. See Robinson, 1994a.
7. See Robinson, 1994a, and OECD Employment Outlook, 1995, Table 2.12
8. OECD Employment Outlook 1996, Table 1.6.
9. Changes in the occupational and industrial structure of employment are discussed in Robinson, 1996a.
10. See Robinson, 1996a.
11. These results are discussed more fully in Robinson and Manacorda, 1996.
12. See the report by the Royal Statistical Society, 1995. The most cogent critic of the claimant count has been John Wells, see Wells, 1994.
13. See Blanchflower and Freeman, 1994 and Ramaswamy and Prasad, 1994.
14. These arguments have been put forward most forcefully by Richard Layard in various contributions, for example Layard, 1986.
15. See chapter five of Layard, Nickell and Jackman (1991).
16. This simple linear relationship also appears to hold historically and at every spatial level down to local government ward in the UK. See Webster, 1996.
17. See Brown, 1984.
18. See Evans and McCormick, 1994.
19. Green, Gregg and Wadsworth, 1994.
20. OECD Employment Outlook, 1995, Table 2.1.

21. OECD Employment Outlook, 1995, chapter 2, page 71-74.
22. OECD Employment Outlook 1996, chapter 1.
23. Gregg and Wadsworth, 1995.
24. Schmitt and Wadsworth, 1994.
25. Burgess and Rees, 1996.
26. A conventional interpretation of the Beveridge Curve is offered in Jackman, Layard and Pissarides, 1989.
27. Jackman, 1992.
28. Gregg and Wadsworth, 1995.
29. As measured by the underlying average earnings series produced by the Office for National Statistics.
30. Commission of the European Communities, 1993.
31. Jackman, 1992.
32. Robinson, 1996d.
33. See Harkness, 1996.
34. Gregg and Wadsworth, 1995.
35. Important contributions include Machin, 1996, Blanchflower and Freeman, 1994 and Wood, 1994.
36. See Schmitt, 1995.
37. The estimate arrived at by Schmitt, 1995, is typical.
38. See OECD 1996.
39. Barrell et al, 1995.
40. Nickell, 1996.
41. OECD Economic Survey, United Kingdom, 1996.
42. Bank of England Inflation Report, February 1996.
43. Barrell et al, 1995.
44. Nickell, 1996.
45. Layard, Nickell and Jackman, 1991.
46. Layard, Nickell and Jackman, 1996.
47. Rowthorn, 1995.

48. Sentance and Emerson, 1995.
49. See the contributions in Cross, ed., 1994.
50. National Institute Economic Review, May 1996.
51. These data are taken from the National Institute Economic Review, May 1996.
52. See Financial Times, 1995.
53. The rationale for the Government reforms is discussed in Marsh, 1992.
54. Emphasised by Marsh, 1992.
55. The reforms are discussed in Marsh, 1992, Dunn and Metcalf, 1994, and Dickens and Hall, 1995.
56. Discussed in Dunn and Metcalf, 1994.
57. Trends in union membership are discussed in Sweeney, 1996.
58. See Metcalf, 1994, Table 34.
59. This is argued in Dunn and Metcalf, 1994 and Metcalf, 1994.
60. Millward et al., 1992.
61. Sweeney, 1996.
62. Millward et al, 1992.
63. Milner, 1995.
64. Brown and Walsh, 1991.
65. Discussed in Metcalf, 1994.
66. Elliot and Duffus, 1996.
67. Robinson, 1994b.
68. Public sector pay determination is discussed further in Bailey, 1994.
69. Ingram et al., 1996.
70. Including Ramaswamy and Prasad, 1994 and Blanchflower and Freeman, 1994.
71. The turnaround in the UK's productivity performance is discussed in Crafts, 1993, and Oulton, 1995.
72. International data is discussed in Bamber and Lansbury, 1993.

73. Sweeney and Davies, 1996.
74. Oulton, 1994.
75. Gregg et al, 1993.
76. Bean and Crafts, 1995
77. Dickens and Hall, 1995.
78. Discussed in Barnard et al., 1995.
79. Barnard et al., 1995.
80. Commission for Racial Equality, 1992.
81. Brown and Gay, 1985.
82. Millward et al., 1992.
83. Discussed in Metcalf, 1994.
84. See Metcalf, 1994.
85. Dickens and Hall, 1995.
86. Nickell, 1979 is representative.
87. Discussed in Beatson, 1995, chapter 3.
88. Manning, 1993.
89. Watson, 1993.
90. Discussed also in Beatson, 1995, chapter 4.
91. Watson, 1993.
92. Green, 1995.
93. ELUS survey, Mcgregor and Sproull, 1991.
94. Rubin and Richardson 1996.
95. Dickens, Machin and Manning, 1994.
96. This earlier research is discussed in Metcalf, 1994.
97. The evidence is discussed in Dickens, Machin and Manning, 1994.
98. Dickens et al., 1995a.
99. Dickens et al., 1995b.
100. Manning, 1993.

101. Dickens, Machin and Manning, 1994.
102. Sutherland, 1995.
103. The impact of European integration is discussed in Gold and Matthews, 1996.
104. Blondal and Pearson, 1995.
105. Blondal and Pearson, 1995.
106. Unemployment Unit, 1995-96.
107. Robinson, 1995a.
108. Robinson, 1995b.
109. See Layard, Nickell, and Jackman, 1991.
110. Most notably Blanchflower and Oswald, 1994.
111. Layard, Nickell and Jackman, 1995.
112. Teasdale, 1996, presents a remarkably comprehensive bibliography on evaluations of active labour market policy in the UK.
113. White and Lakey, 1992 and Dolton and O'Neill, 1996.
114. Kay, 1994.
115. Kay, Gibbins and Birtwhistle, 1995.
116. The Swedish experience is discussed in Robinson, 1995c.
117. Riccio, 1995.
118. Payne, 1990.
119. Payne et al, 1996.
120. Jackman and Lehmann, 1990.
121. See Grimes 1996.
122. Atkinson and Meager, 1994.
123. Discussed in Robinson, 1996b.
124. Most notably, Dennis Snower, 1994.
125. 'Increasing the employment intensity of economic growth' was one of the objectives set following the European Council meeting in Essen.

126. The 1995 OECD Economic Survey of the United Kingdom offers an excellent overview of education and training in the UK.
127. This refers to the Age Participation Index (API), that is the number of initial entrants to higher education under 21 as a proportion of the averaged 18-19 population. Trends in educational enrolment rates are discussed in Robinson, 1995d.
128. The contribution of GCSE and other factors to the increase in the staying on rate is discussed in Gray et al., 1993.
129. See Robinson, 1996c.
130. Robinson, 1996c.
131. See Dolton, 1993.
132. Machin and Wilkinson, 1995.
133. Machin and Wilkinson, 1995.
134. A critical analysis of the National Targets is contained in Robinson, 1995e.
135. See Prais, 1990, and Robinson, 1995f.
136. See Robinson, 1996d.
137. OECD Economic Survey of the UK, 1995.
138. Excellent reviews are offered by Atkinson, 1993, Blundell, 1993 and Dilnot, 1992.
139. As comprehensively documented by Hills, 1995.
140. Johnson and Webb, 1993.
141. A point strongly emphasised by Atkinson, 1993.
142. See Blondal and Pearson, 1995.
143. Gregg and Wadsworth, 1995.
144. Atkinson, 1993, and in many other contributions by this author.
145. See chapter eight in Dilnot and Giles, eds., 1994.
146. A point emphasised by Whitehouse, 1996.
147. A conclusion reached by Mclaughlin, 1994.
148. Duncan and Giles, 1996.
149. Duncan, Giles and Webb, 1995.

150. Discussed in Giles et al, 1996.
151. Nickell and Bell, 1995.
152. A point argued by Pissarides, 1995.
153. See chapter six in Dilnot and Giles, eds., 1994.
154. The placing of a representative group of households in the overall income distribution is discussed in Hills, 1995.
155. See Blundell, 1993.
156. See Murray, 1994 for a critical review of these developments.
157. Discussed in Nickell, 1993.
158. Owen, 1994, discusses the case of the UK car industry.
159. A criticism voiced by Crafts, 1993, in an otherwise generally supportive overview of the effects of Government policy on industrial performance.
160. A good summary of the more critical view is to be found in Kitson and Michie, 1996.
161. Two TUC documents are especially useful and are referenced as TUC 1996a and 1996b.
162. CBI, 1995
163. This recommendation of the Essen Council is the least comprehensible.

Table 1

Age and gender distribution of the population aged 16 and over, 1979-95

	Thousands	%	Percentage of total					
			Female	16-19	20-24	25-99	50-59(W)	60+ (W)
							50-64 (W)	65+ (M)
1979	41146	52.2	-	-	-	-	-	
1984	42720	52.0	8.4	10.3	41.5	17.5	22.4	
1990	43962	51.7	7.0	9.9	44.3	16.4	22.4	
1995	44381	51.4	5.8	8.6	46.5	16.7	22.4	
	Annualised % change							
1979-84	0.77							
1984-90	0.48							
1990-95	0.19							

Source: *Labour Force Survey, Spring*

Table 2

The net impact of migration, 1981 - 92

Country of last or next residence	(Thousands)					
	1981 - 87			1988 - 92		
	Inflow	Outflow	Balance	Inflow	Outflow	Balance
European Union	51.9	44.6	7.3	62.5	58.3	4.2
Rest of Europe	8.4	8.0	0.4	14.2	12.0	2.2
Commonwealth	88.6	72.6	16.1	100.4	87.4	13.0
United States	25.3	30.3	-5.0	25.3	34.2	-9.0
Rest of World	45.2	33.7	11.5	40.6	35.8	4.7
Total	219.6	189.2	30.4	243.0	227.9	15.1

Note: Excludes migration with the Irish Republic

Source: *International Passenger Survey, Social Trends 1995*

Table 3

Age and gender distribution of the labour force aged 16 and over, 1984-96

	Thousands	Percentage	Percentage of total				
			Total Labour Force	Female	16-19	20-24	25-49
1979 LFS	25836	39.5	-	-	-	-	-
1984 LFS	26590	41.2	-	-	-	-	-
1984 ILO	26768	41.3	9.4	13.4	54.5	19.7	2.9
1990	28346	43.0	7.9	12.8	58.6	17.8	2.8
1993	27859	43.7	5.8	11.7	61.8	17.8	2.8
1996	27959	44.0	5.9	10.1	62.8	18.5	2.8
	Annualised % change						
1979-84	0.86						
1984-90	0.98						
1990-93	-0.57						
1993-96	0.12						

Source: *Labour Force Survey, Spring*

Table 4

Labour Force Projections by gender, 1996 - 2006

	Thousands	%	Labour Force Participation Rate for those of working age (%)			
			Female	Male	Female	Total
	All aged 16+					
1994	27964	44.0	84.7	71.2	78.3	
2001	28669	44.6	84.1	72.6	78.7	
2006	29271	45.3	82.8	74.2	78.7	
	Annualised % change					
1996-2001	0.5					
2001 - 2006	0.4					

Note: Assumes unemployment at 2.15 million as in December 1995

Source: *'British Labour Force Projections: 1996 - 2006'*
Labour Market Trends, May 1996

Table 5

Age and gender distribution of the employed workforce, 1984 - 96

	Thousands	Percentage	Percentage of total				
			Total Employment	Female	16-19	20-24	25-49
1979	24369	39.1					
1983	23103	40.9					
1984	23626	41.4	8.3	12.5	55.7	20.4	3.1
1990	26421	43.1	7.5	12.5	59.2	17.9	2.9
1993	24949	44.9	5.2	10.9	62.9	18.0	3.2
1996	25646	44.8	5.3	9.6	63.5	18.7	2.9
	Annualised % change						
1979-83	-1.3						
1983-90	2.1						
1990-93	-1.9						
1993-96	0.9						

Source: *Labour Force Survey, Spring*

Table 6

Total Employment by Standard Region, 1979 - 95

	Total Employment, thousands (% change over previous period)									
	1979	1983		1990		1993		1995		
South East	8181	7873	(-3.8)	9019	(14.6)	8075	(-10.5)	8387	(3.9)	
East Anglia	785	786	(-)	970	(23.4)	937	(-3.4)	986	(5.2)	
South West	1775	1767	(-0.5)	2177	(23.2)	2052	(-5.7)	2159	(5.2)	
West Midlands	2386	2139	(-10.4)	2483	(16.1)	2272	(-8.5)	2292	(0.9)	
East Midlands	1675	1594	(-4.8)	1835	(15.1)	1725	(-6.0)	1773	(2.8)	
Yorkshire and Humberside	2149	1950	(-9.3)	2245	(15.1)	2106	(-6.2)	2151	(2.1)	
North West	2902	2546	(-12.3)	2816	(10.6)	2655	(-5.7)	2621	(-1.3)	
North	1332	1149	(-13.7)	1280	(11.4)	1232	(-3.8)	1257	(2.0)	
Wales	1162	1011	(-13.0)	1185	(17.2)	1125	(-5.1)	1165	(3.6)	
Scotland	2248	2063	(-8.2)	2250	(9.1)	2233	(-0.8)	2217	(-0.7)	
N. Ireland	598	563	(-5.9)	627	(11.4)	635	(1.3)	682	(7.4)	

Source: *Workforce in Employment Series, June*

Table 7

Changes in the industrial structure of employment in Britain, 1979 - 96

	% of total employment					Annualised percentage point change		
	1979	1984	1984*	1990	1996	1979-84	1984-90	1990-96
Primary/Utilities	5.5	5.2	4.8	3.8	3.0	-0.06	-0.17	-0.13
Manufacturing	29.5	23.5	23.3	21.1	19.4	-1.20	-0.37	-0.28
Construction	6.3	6.4	8.2	8.3	6.9	+0.02	+0.02	-0.23
Distribution/ Transport	25.1	26.6	26.6	26.5	26.3	+0.30	+0.02	-0.03
Business and Financial Services	7.0	9.2	10.5	13.2	14.0	+0.44	+0.45	+0.13
Public/Social	26.5	29.2	26.7	27.1	30.4	+0.54	+0.07	+0.55

Sources: *1971-1984 Workforce in employment series, SIC (80).*
**1984-1996 Labour Force Survey, Spring, SIC (92)*

Table 8

Changes in the occupational structure of employment, 1979-1996

Occupation	% of total employment				Annualised percentage point change		
	1979	1984	1990	1996	1979-84	1984-90	1990-96
1. Managers/ Administrators		12.5	13.8	15.9		+0.22	+0.35
2. Professional		8.9	9.2	10.7		+0.05	+0.25
3. Associate Prof. & Technical		7.7	8.8	9.6		+0.18	+0.13
'Professional/ Managerial/ Technical'	24.1	29.1	31.8	36.2	+1.00	+0.45	+0.73
4. Clerical/ Secretarial	16.8	16.1	17.0	14.9	-0.14	+0.15	-0.35
6. Personal/ Protective Services	6.6	7.3	7.5	10.7	+0.14	+0.03	+0.53
7. Sales	6.3	7.0	7.5	8.0	+0.14	+0.08	+0.08
'Service'	29.7	30.4	32.0	33.6	+0.14	+0.27	+0.27
5. Craft and Related		17.7	16.0	12.4		-0.28	-0.60
8. Plant and Machine Operatives		11.6	10.7	9.6		-0.15	-0.18
9. Other Occupations		11.3	9.6	8.2		-0.28	-0.23
'Manual'	46.2	40.6	36.3	30.2	-1.12	-0.72	-1.01

Source: 1979-1996 Labour Force Survey, SOC classification. Data for 1984-90 reclassified to SOC using mapping provided by Peter Elias from the Institute of Employment Research, Warwick University.

Table 9

The highest qualifications held by the working age population, 1984-1995

Education group	% of working age population		
	1984	1989	1995
(4) Higher education	12.2	13.5	19.7
(3) A-level or equivalent	21.8	24.0	25.1
(2) O-level or equivalent	15.5	17.7	18.4
(1) Other qualifications	8.7	12.0	15.5
(0) No qualifications	40.0	32.0	21.0
Did not know/did not say	(1.8)	(0.9)	(0.3)

Source: *Labour Force Survey, Spring*

Table 10

The highest qualifications held by employed people of working age, 1984-1995

Education group	% of all those in employment of working age		
	1984	1989	1995
(4) Higher education	14.9	15.7	23.5
(3) A-level or equivalent	24.8	26.5	26.5
(2) O-level or equivalent	14.7	18.1	18.8
(1) Other qualifications	8.6	11.8	15.3
(0) No qualifications	35.2	27.0	15.6
Did not know/did not say	(1.7)	(0.9)	(0.3)

Source: *Labour Force Survey, Spring*

Table 11

Actual qualifications held by the workforce in 1984 and 1994 and the predicted qualifications held based on the changes in the occupational structure of employment

Education group	% of total employment		
	Actual	Predicted	Actual
	1984	1994	1994
(4) Higher education	15.19	18.20	23.63
(3) A-level or equivalent	25.27	25.05	26.63
(2) O-level or equivalent	15.00	15.43	16.87
(1) Other qualifications	8.77	8.44	15.44
(0) No qualifications	35.77	32.89	17.43

Note: Excluding those who did not know or did not report their qualifications. Excluding students.

Source: *Labour Force Survey, Spring.*

Table 12

Unemployment rates by Standard Region, 1979-95

	Annual average unemployment rate						
	1979	1981	1986	1988	1990	1993	1995
South East	2.5	5.4	8.2	5.3	3.9	10.2	7.9
East Anglia	3.1	6.2	8.5	5.1	3.7	8.1	6.2
South West	3.9	6.6	9.2	6.0	4.3	9.5	7.0
West Midlands	4.0	10.0	12.8	8.8	5.7	10.8	8.4
East Midlands	3.3	7.4	9.9	7.1	5.1	9.5	7.7
Yorkshire and Humberside	4.0	8.8	12.4	9.3	6.6	10.2	8.8
North West	5.0	10.2	13.7	10.3	7.6	10.7	8.8
North	6.4	11.7	14.6	11.8	8.7	11.9	10.6
Wales	5.3	10.4	13.7	9.9	6.7	10.3	8.5
Scotland	5.7	10.0	13.5	11.2	8.2	9.7	8.2
Northern Ireland	7.9	12.6	16.8	15.0	12.8	13.8	11.4
United Kingdom	4.0	8.1	11.1	8.0	5.8	10.3	8.2
Absolute difference between highest and lowest region	5.4	7.2	8.6	9.9	8.9	5.7	5.2
Ratio between highest and lowest region	3.2:1	2.3:1	2.0:1	2.9:1	3.3:1	1.7:1	1.8:1

Source: *Claimant court, Seasonally adjusted and consistent with current coverage*

Table 13

The highest qualification held by the unemployed of working age, 1984-95

Education group	% of the unemployed		
	1984	1989	1995
(4) Higher education	5.8	6.2	10.8
(3) A-level or equivalent	18.4	19.5	23.5
(2) O-level or equivalent	14.3	14.9	17.8
(1) Other qualifications	12.0	13.5	19.8
(0) No qualifications	48.1	44.8	27.7
Did not know/did not say	1.4	1.0	0.4

Source: *LFS, Spring*

Table 14

Unemployment rates by highest qualification held, for those of working age 1984-95

Education group	ILO unemployment rate		
	1984	1989	1995
(4) Higher education	4.7	2.7	4.3
(3) A-level or equivalent	8.4	5.3	7.9
(2) O-level or equivalent	10.6	5.9	8.4
(1) Other qualifications	15.3	8.0	11.1
(0) No qualifications	15.3	11.2	14.6
Total	11.8	7.1	8.8

Source: *LFS, Spring*

Table 15

Male unemployment rates by qualification, 1975-93

	Male unemployment rates %				
	1975-78	1979-82	1983-86	1987-90	1991-93
Total unemployment rate	4.4	7.7	10.5	7.5	11.4
1. Rate for those with A-levels/Higher education	2.0	3.9	4.7	4.0	6.3
2. Rate for those with no qualifications	6.4	12.2	18.2	13.5	17.4
Ratio (2) : (1)	3.2	3.1	3.9	3.4	2.8

Source: *General Household Survey, Nickell and Bell (1995)*

Table 16

Labour force participation and reasons for inactivity for prime age adults, 25-54

	1971	1981	1991
Men, 25-54			
Participation rate	97.8	97.2	94.2
Number inactive (1000s)	216	287	647
Due to: Sickness	101	158	431
Retirement	10	13	35
Other	106	116	181
Women, 25-54			
Participation rate	54.0	61.4	70.2
Number inactive (1000s)	4529	3885	3362
Due to: Sickness	92	120	386
Retirement	...	12	46
Other	4437	3753	2930

Source: *Censuses of Population, Robinson, 1994a*

Table 17

The changing composition of all employment, 1979-96

	Percentage of all in employment			
	1979	1984	1990	1996
Full-time employees	76.7	69.7	67.1	65.2
- Full-time permanent		67.4	64.8	61.9
- Full-time temporary		2.3	2.3	3.3
Part-time employees	16.1	18.8	19.4	22.1
- Part-time permanent		16.5	17.2	19.2
- Part-time temporary		2.3	2.2	2.9
Full-time self-employed	6.5	9.4	11.3	10.2
Part-time self-employed	0.7	1.9	2.1	2.5

Note: Excluding those on Government schemes and unpaid family workers.

Source: *Labour Force Survey*

Table 18

Length of time in present employment (employees of working age) 1975 - 93

Men	1975	1984	1989	1993
< 6 months	5.5	7.4	8.8	7.0
6-12 months	7.5	7.3	8.1	6.8
1-2 years	6.8	7.5	10.1	8.4
2-5 years	18.2	18.4	18.4	22.2
5-10 years	20.9	22.0	16.8	19.8
10-20 years	21.6	22.6	23.7	21.9
20+ years	19.6	14.0	14.1	13.9
Median (years)	7.9	7.1	6.4	6.4
Women				
< 6 months	9.1	11.2	12.9	8.7
6-12 months	12.1	10.3	11.2	8.7
1-2 years	11.2	10.9	13.7	11.6
2-5 years	27.9	24.6	23.0	27.7
5-10 years	21.8	23.5	17.3	21.8
10-20 years	12.5	16.0	17.7	16.9
20+ years	5.5	3.6	4.2	4.6
Median (years)	3.9	4.1	3.6	4.3

Source: Labour Force Survey, Gregg and Wadsworth, 1995

Table 19

Duration of jobs by employment status, 1992-3

	Duration (years)		
	All	Men	Women
Full time permanent	6.2	6.3	6.1
Part time permanent	3.0	1.4	3.4
Full time temporary	0.8	0.8	0.8
Part time temporary	0.8	0.7	0.9
Full time self employed	3.6	3.6	2.4
Part time self employed	0.8	0.7	0.9

Source: *Labour Force Survey, Gregg and Wadsworth, 1995*

Table 20

Number of people making at least one claim for unemployment-related benefits

Five year period	Millions	% of working age population
1985-89	9.7	26.0
1986-90	9.47	25.3
1987-91	9.64	25.8
1988-92	9.76	26.2
1989-93	9.79	26.3
1990-94	10.22	27.4
1991-95	10.39	27.3

Source: *Bank of England Inflation Report, February 1996*

Table 21

**The changing composition of employment entered by formerly unemployed people,
1979-94**

	1979	1985	1994
Full-time employees	53.4	49.2	47.0
- Full-time permanent		38.4	35.1
- Full-time temporary		7.9	9.1
- Full-time on Government scheme		1.8	2.4
Part-time employees	41.2	40.7	40.9
- Part-time permanent		26.1	26.7
- Part-time temporary		10.6	8.7
- Part-time on Government scheme		3.6	5.0
Full-time self-employed	2.5	6.2	7.9
Part-time self-employed	1.2	3.6	4.2

Source: Labour Force Survey, Gregg and Wadsworth, 1996

Table 22

Pay by qualification for men, 1974-94

Ratio of hourly wages for men with higher education to men without qualifications

1974 - 76	1.73
1977-79	1.63
1980-92	1.66
1983-85	1.66
1986-88	1.64
1989-91	1.72
1992-94	1.70

Source: General Household Survey

Table 23

Estimates of the natural rate of unemployment in Britain in the mid 1990s

	Minford	Sentance	Congdon	Currie	Brittan	Davies
Natural rate of unemployment as a % of the labour force (claimant count)	3.5	4-6	6-7	6.5-7.5	7-8	7-8

Sources: *The Panel of Independent Forecasters, November 1995 Report*, HM Treasury.
 Sentance, A., 1995, 'Are we entering a new golden age of economic growth?'
 London Business School Economic Outlook, November 1995.

Table 24

Estimates of the natural rate of unemployment in Britain over the period 1969-73 to 1995-96

	1969-73	1974-80	1981-87	1988-90	1995-96
NRU - range	1.6 - 5.6	4.5 - 7.3	5.3 - 9.9	3.5 - 8.1	3.5 - 8.9
- average	2.9	5.7	7.0	6.1	6.7
Actual rate of unemployment (average)	2.5	3.8	10.1	6.8	8.2
Number of estimates	11	13	15	5	9

Sources: *The Panel of Independent Forecasters, November 1995 Report*, HM Treasury.
 Cromb, R. 1994. 'The UK NAIRU', Government Economic Service Discussion Paper No. 124
 Barrell, R., Pain, N., and Young, G., 1995.
 Nickell, S., 1996.

Table 25

Main independent medium term forecasts for the British economy to 1998

		Britton	Currie	Davies	Godley	Congdon	Minford	Average
Un-employment (millions)	1995	2.31	2.32	2.31	2.2	2.32	2.30	2.3
	1996	2.18	2.10	2.27	2.1	2.11	1.99	2.1
	1997	2.08	1.93	2.13	2.1	1.89	1.48	1.9
	1998	2.02	1.84	2.04	2.1		1.11	1.8
Inflation (annual % change)	1995	2.8	2.9	2.9	3.1	2.8	2.7	2.9
	1996	2.4	3.1	3.1	3.3	1.7	2.1	2.6
	1997	2.6	2.8	3.2	3.6	2.0	2.2	2.7
	1998	2.7	2.5	3.2	3.5		2.2	2.8
PSBR (% GDP)	1995-6	4.2	3.6	3.7	6.8	4.0	3.7	3.8
	1996-7	3.5	2.7	2.8	6.0	2.9	2.8	2.9
	1997-8	2.7	2.1	1.8	5.3	2.3	2.2	2.2
	1998-9	2.1	1.6	1.1	4.2		0.7	1.4
Current Account (% GDP)	1995	-1.2	-0.8	-1.1	-1.5	-0.5	-0.5	-0.9
	1996	-0.9	-0.4	-0.6	-1.5	0.3	0	0.5
	1997	-0.6	-0.6	-0.8	-1.4	-0.5	0.1	-0.6
	1998	-0.3	-0.5	-1.1	-1.7		0	-0.7

- Notes: 1. Retail Price Index (-mortgage interest payments) except for Godley (consumer price index)
2. Public Sector Borrowing Requirement except for Godley (General Government Financial Deficit). Actual outturn for 1995-6 was 4.5% GDP

Source: Panel of Independent Forecasters, November 1995 report. HM Treasury

Table 26

Forecast of regional unemployment rates in 2001

	Forecast	Actual
	2001	January, 1996
South East	7.5	7.5
East Anglia	6.0	6.1
South West	6.9	6.8
West Midlands	8.6	7.8
East Midlands	7.0	7.3
Yorkshire and Humberside	8.3	8.4
North West	8.7	8.2
North	10.0	10.0
Wales	7.9	8.1
Scotland	7.9	7.8
Northern Ireland	11.8	11.4
UK	7.9	7.9

Source: *Review of the Economy and Employment: Regional Assessment* Institute for Employment Research, Warwick, 1994.

Table 27

Productivity growth rates in the UK and other industrialised countries, 1960-94

	% growth rate			
	1960-73	1973-79	1979-89	1979-94
Growth of output per hour in manufacturing				
- UK	4.1	1.0	4.1	4.0
- average for 11 countries*	6.1	3.9	2.8	2.8
Growth of output per person employed in whole economy				
- UK	2.8	1.3	1.9	1.7
- Average for EU-15	4.4	2.3	1.7	1.6

Notes: *11 countries: US, Canada, France, Germany, Italy, Japan, Belgium, Denmark, Netherlands, Norway, Sweden.

Sources: Manufacturing: *US Bureau of Labour Statistics*
Whole Economy: *OECD Historical Statistics*

Table 28

Employee's preferences for working more or fewer hours in 1989

Usual hours worked	(Row percentages)				Happy with present hours
	Would prefer to work: More	Less	Even if it meant less pay: Yes	No	
10-20	13	2	2	1	84
21-30	7	9	7	2	84
31-40	3	30	8	20	67
41-50	3	41	7	31	56
51-60	-	67	9	48	33
61+	-	67	12	53	33
All men	4	36	5	29	60
All women	5	24	9	12	71
All persons	4	30	7	21	65

Notes: Employees usually working 10 hours or more each week, Great Britain.
Excluding small number of don't know/no answer responses

Source: 1989 British Social Attitudes Survey

Table 29

Main changes in regulations affecting receipt of unemployment benefits since 1979

<u>Year</u>	<u>Change in regulations</u>
1982	Abolition of compulsory registration at Jobcentres/ introduction of availability for work testing
1986	Introduction of compulsory Restart interviews (held every six months from 1988)
	Extension of period for which benefit can be disallowed from 6 -13 weeks)
1988	Extension of period for which benefit can be disallowed (from 13 - 26 weeks)
	Benefits removed from 16-17 year olds
	All new claimants interviewed
	Availability test every 6 months
1989	Claimants required to show that they are 'actively seeking work'
	New claimants required to complete a Back to Work plan and attend a review after 13 weeks. After this time cannot refuse a job outside their normal occupation and rate of pay.
1996	Jobseekers' Allowance replaces Unemployment Benefit/ Income Support for unemployed people. Non-means tested element reduced from 12 - 6 months.

Source: Based on Figure 9, House of Commons Employment Committee, 1996.

Table 30

**The scale and cost of the main employment and training programmes
in England and Wales, 1995-96**

Employment Service programmes	Number of places	Cost per place
Jobclubs	243,000	£172
Jobfinders' Grant	25,000	£200
Job Interview Guarantee	243,300	£3
Jobplan Workshop	167,500	£104
Job review workshop	31,100	£61
Job search seminar	61,900	£57
One-to-one	94,000	£64
Restart courses	107,100	£84
Travel-to-interview	55,000	£33
Work Trials	30,000	£57
Workwise	29,300	£195
 Training programmes		
Training for Work	214,000	£2523
Career Development Loans	13,000	£2400
 Work programmes		
Community Action (being phased out)	28,700	£2440
 Recruitment Subsidies		
Workstart (original pilot) (not including admin costs)	1,200	£2340
 Youth programmes		
Youth Training	247,900	£2830

Notes: The figure for the Job Interview Guarantee is for Job Preparation Courses only.
The figure for Work Trials does not include ES costs.

Source: *Department for Education and Employment: Departmental Report, 1996.*

Table 31

The trade-offs in active labour market policies aimed at the unemployed

Policy	Benefits for the unemployed	Gross costs per place	Comments
Employment Service: placement assistance and job search	Significant, but modest in scale. Can benefit target group at expense of others	Very low	Work better in relatively tight labour markets
Training programmes	Hard to substantiate for large programmes. Modest significant effects for smaller programmes	High for quality programmes	Small, high quality programmes might be effective, but are expensive.
Work programmes	Benefits while on program, but little effect on subsequent job prospects	Moderate	Has to offer a moderate cost per place to accommodate large numbers. By definition work of marginal social value.
Recruitment subsidies	Net employment effects small. Can benefit target group at expense of others	Depends on scale of subsidy	Work better in relatively tight labour markets. Require considerable administrative effort to find places.

Source: Robinson, 1995a

Table 32

Destinations of 16/17 year olds in England, 1986/7 to 1995/6

Destination	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Full-time education	47	48	52	55	59	67	70	72	71	71
of which: general	32	33	36	38	42	45	45	44	41	41
vocational	15	15	15	16	17	21	24	28	30	30
YTS/YT	26	24	22	21	17	14	13	12	12	11
Employment	18	21	22	19	17	11	9	8	9	10
Non-participants	9	7	4	5	7	8	8	8	8	8
										133

Notes: Non-participants are those not in education or employment, and looking for a job or YT place, or economically inactive.

General: A-levels and GCSE re-sits. Vocational: NVQs, GNVQs and traditional vocational qualifications.

Source: *Robinson 1996c.*

Table 33

The National Qualifications Framework

(1) NVQ Level	(2) Academic	(3) GNVQ	(4) Traditional Vocational Qualifications	(5) Typical Occupations
1	4 or fewer GCSE/CSE/ O-level passes	Foundation	BTEC General Certificate	Operatives Sales assistants
2	5 or more GCSEs/ O-levels at grades A-C	Intermediate	BTEC First Diploma	Personal service Clerical Basic craft
3	2 or more A-levels	Advanced	Ordinary National Certificate/Diploma	Advanced craft Junior Management
4	First Degree	*	Higher National Certificate/Diploma	Technician Management Professional
5	Higher Degree	*	MBA	Senior Management Senior Professional

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Note: * GNVQs are currently available only at the first three levels. Typical occupations are drawn from the Standard Occupational Classification.

Source: *Robinson 1996c*

Table 34

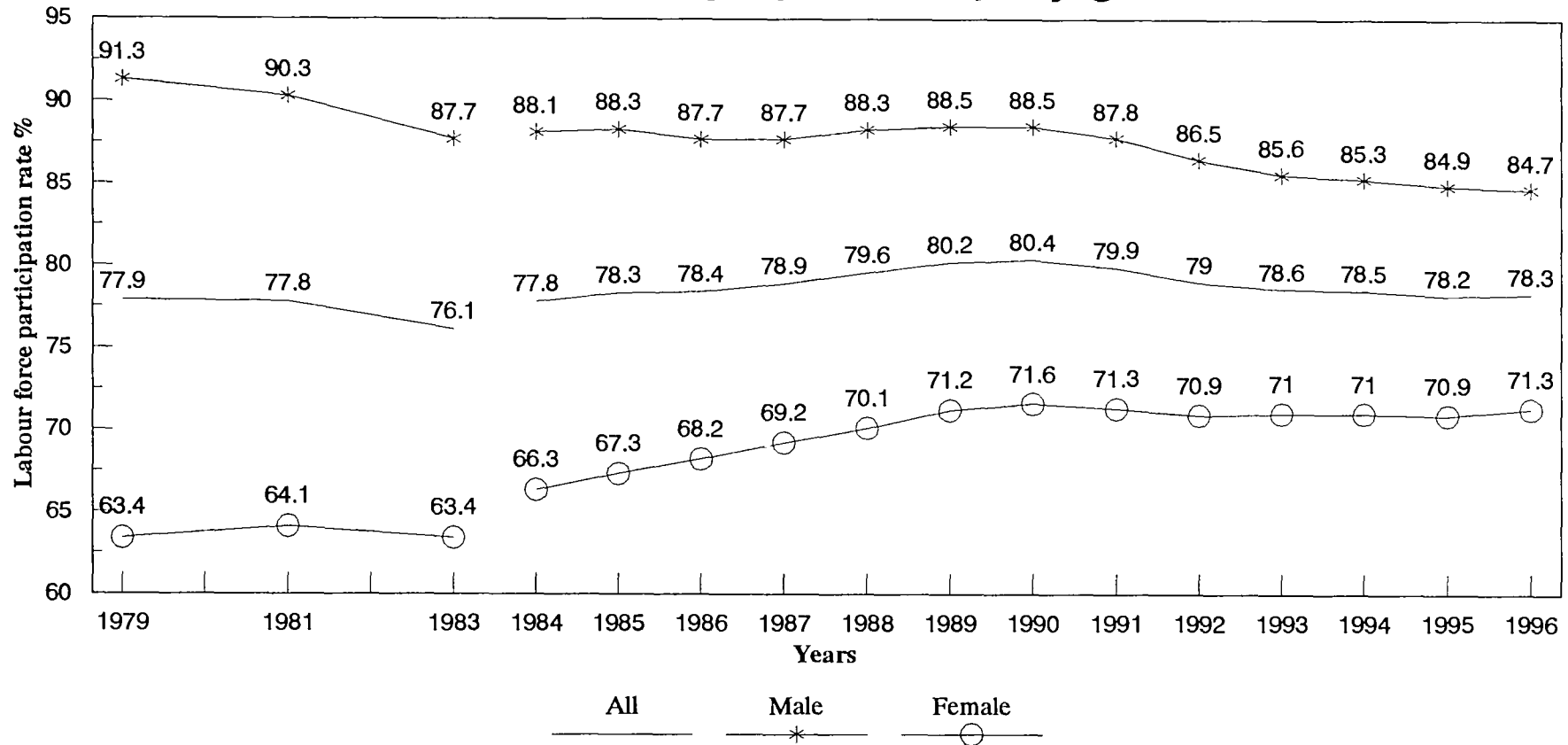
The National targets for education and training

	Actual (%) 1995	Target (%) 2000
Targets for Lifetime Learning		
(1) % of the workforce at NVQ level 3	40.9	60
(2) % of the workforce at NVQ level 4	23.9	30
Targets for Foundation Learning		
(1) % of young people at NVQ level 2	67.5	85
(3) % of young people at NVQ level 3	44.4	60
Targets for Higher Education		
(1) % of the age group entering higher education (Government target for the APR)	31	33

Note: APR - Age participation ratio

Source: *NACETT, 1996*

Figure 1
Labour force participation rates, 1979-96
All of working age (16-59/64), by gender

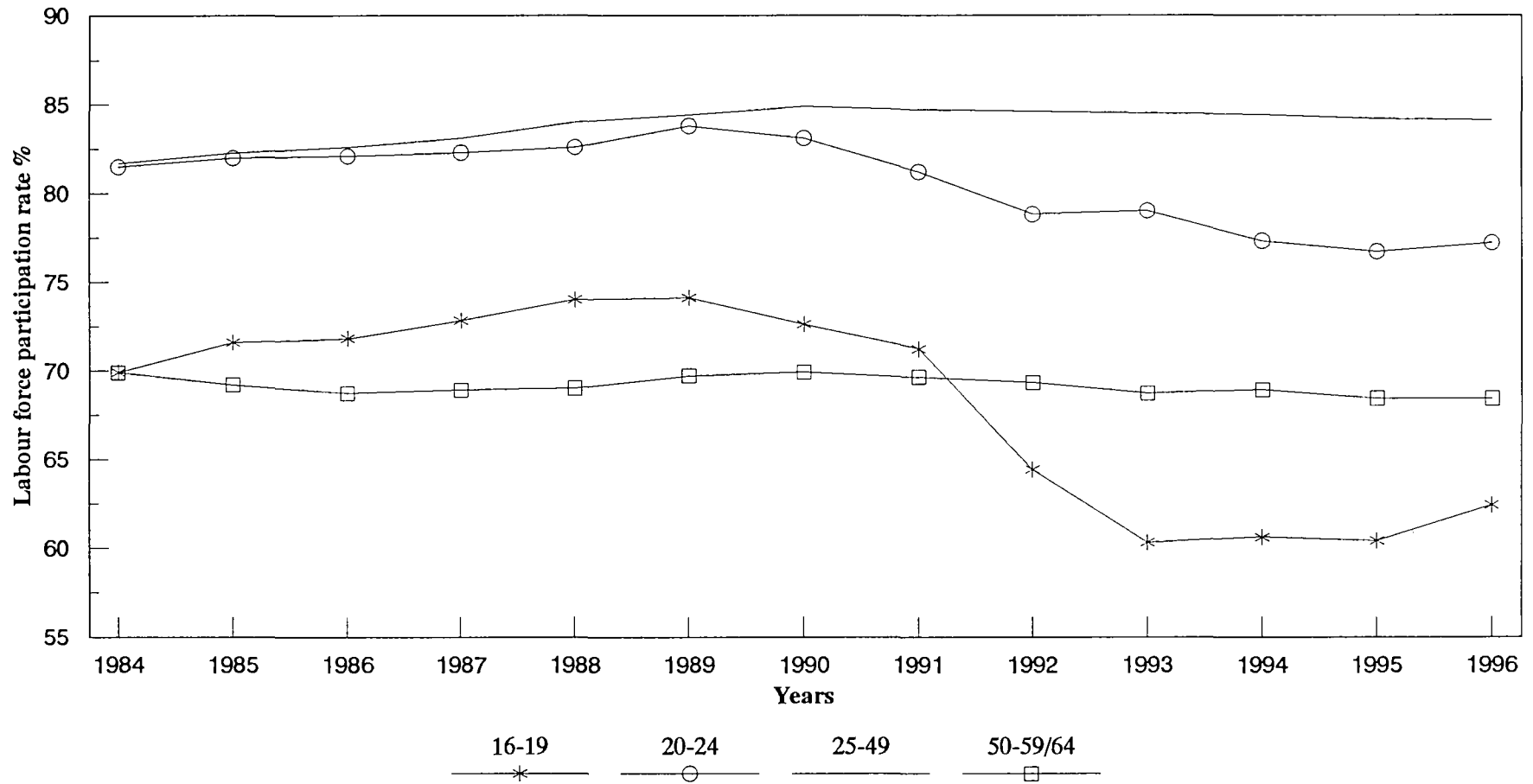


Source: Labour Force Survey
 Note: Discontinuity in data in 1984
 Not seasonally adjusted

Figure 2

Labour force participation rates by age

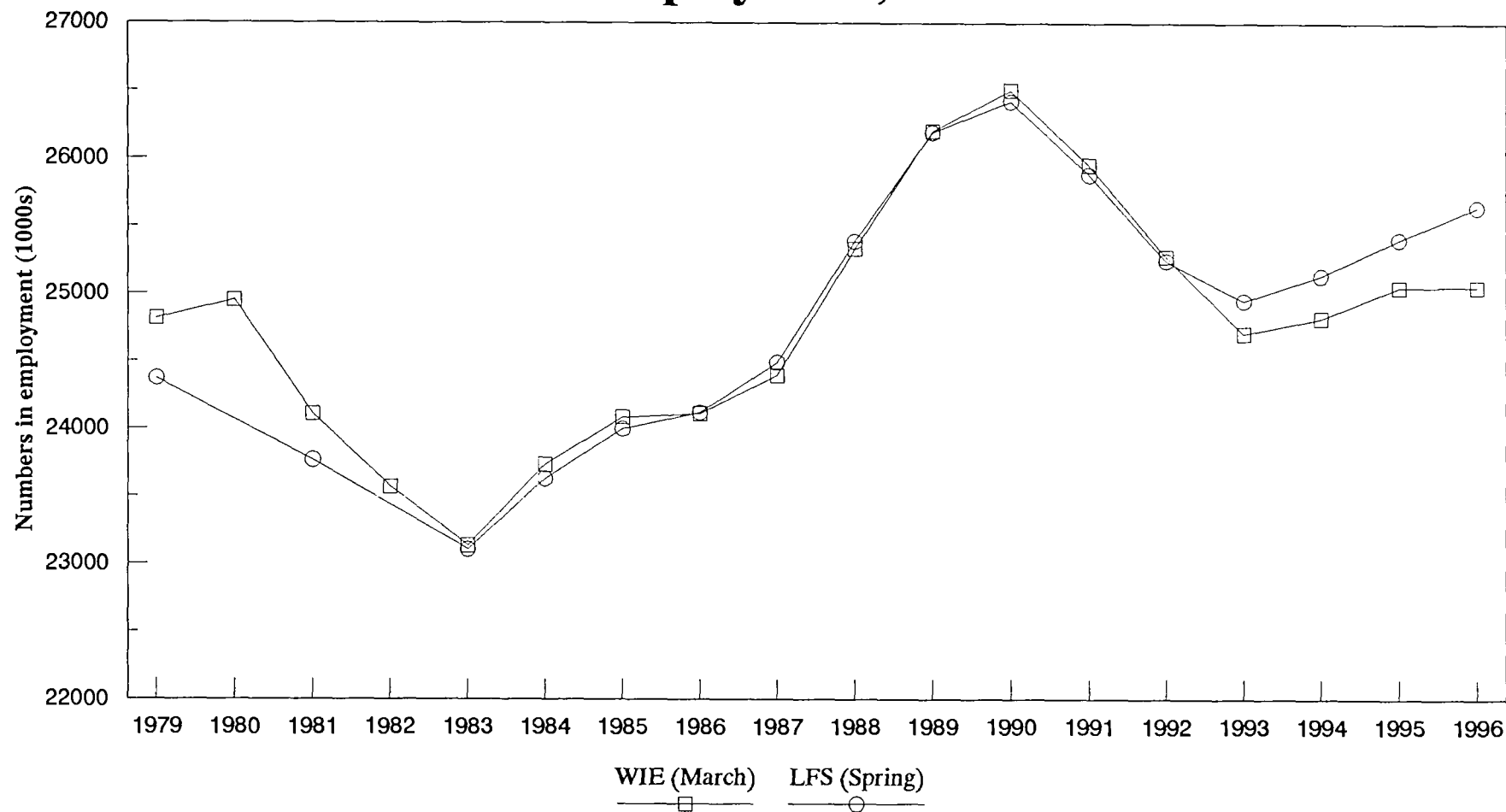
1984-96



Source: LFS Spring

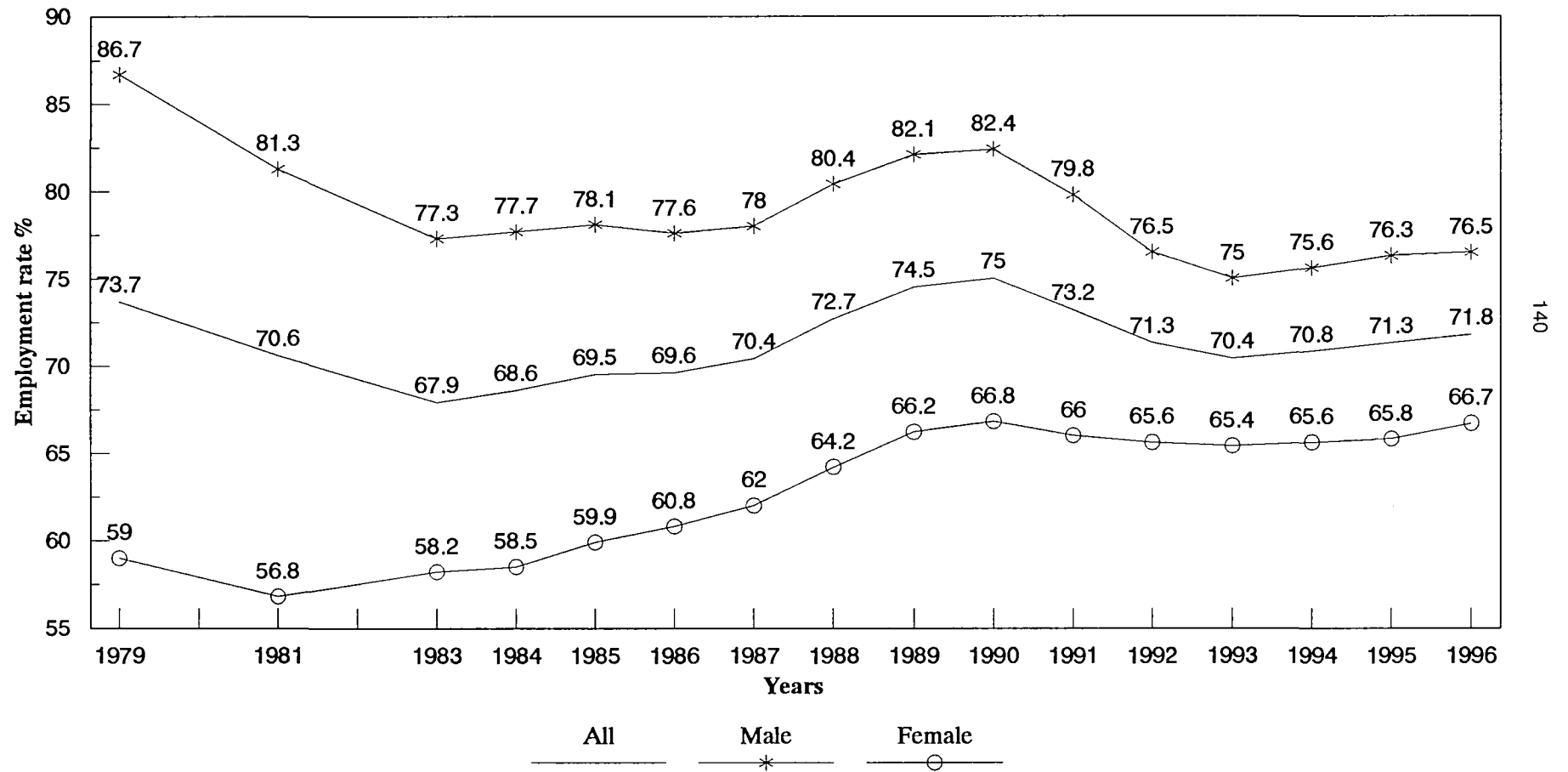
Figure 3

Total employment, 1979-96



Source: Workforce in employment series and Labour Force Survey, Spring.

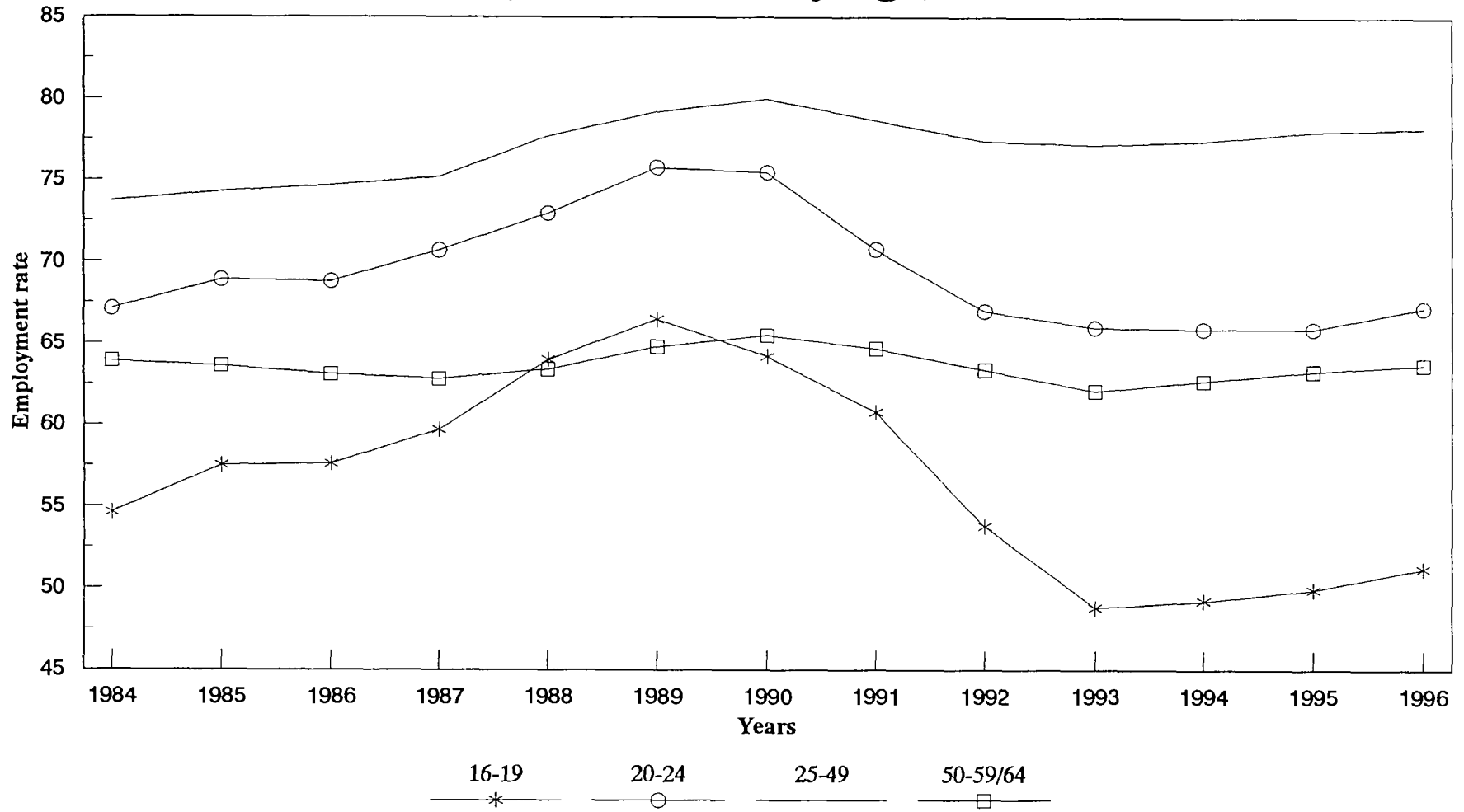
Figure 4
Employment rates 1979-96
All of working age (16-59/64), by gender



Source: Labour Force Survey

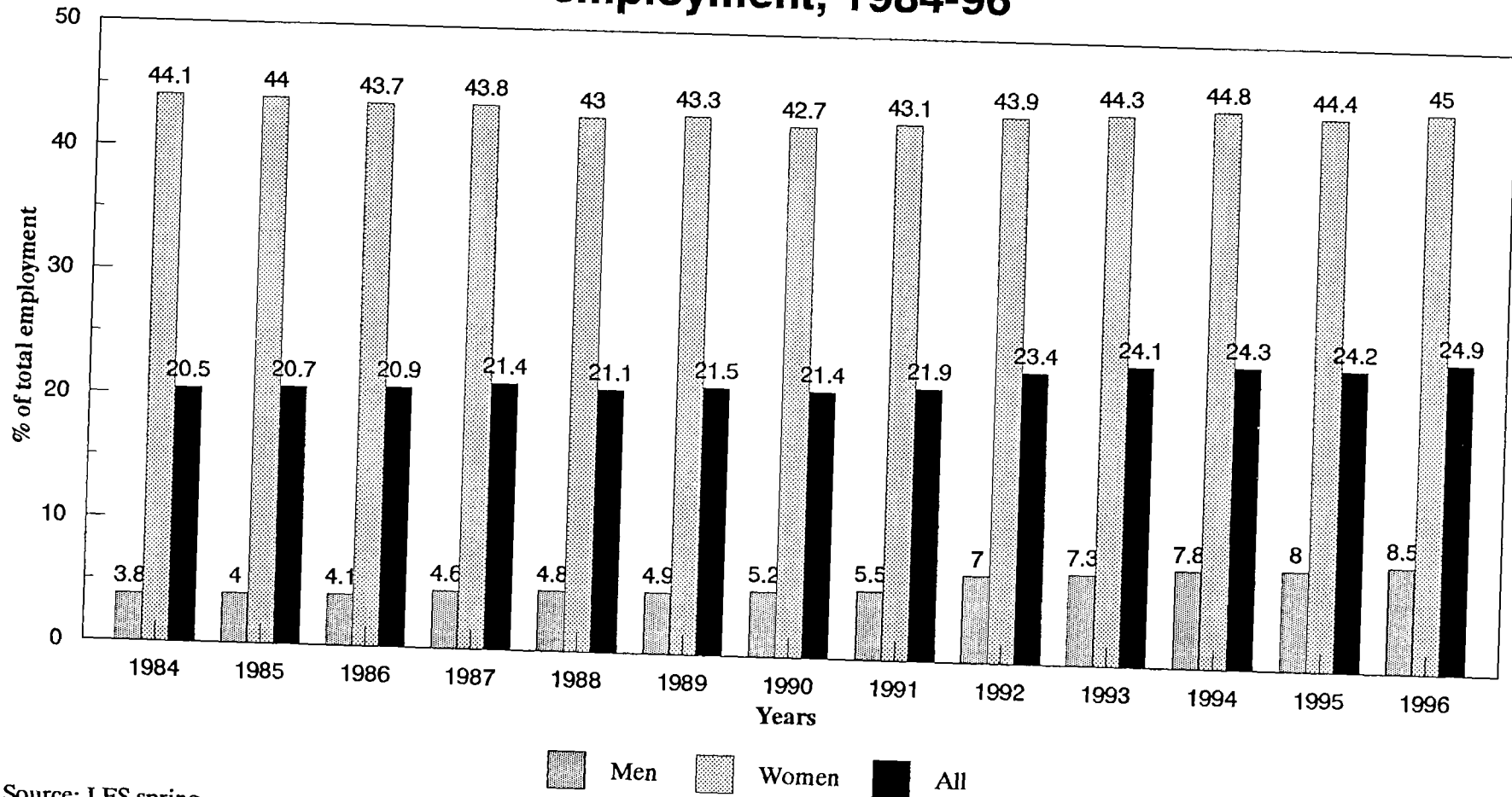
Figure 5

Employment rates by age, 1984-96



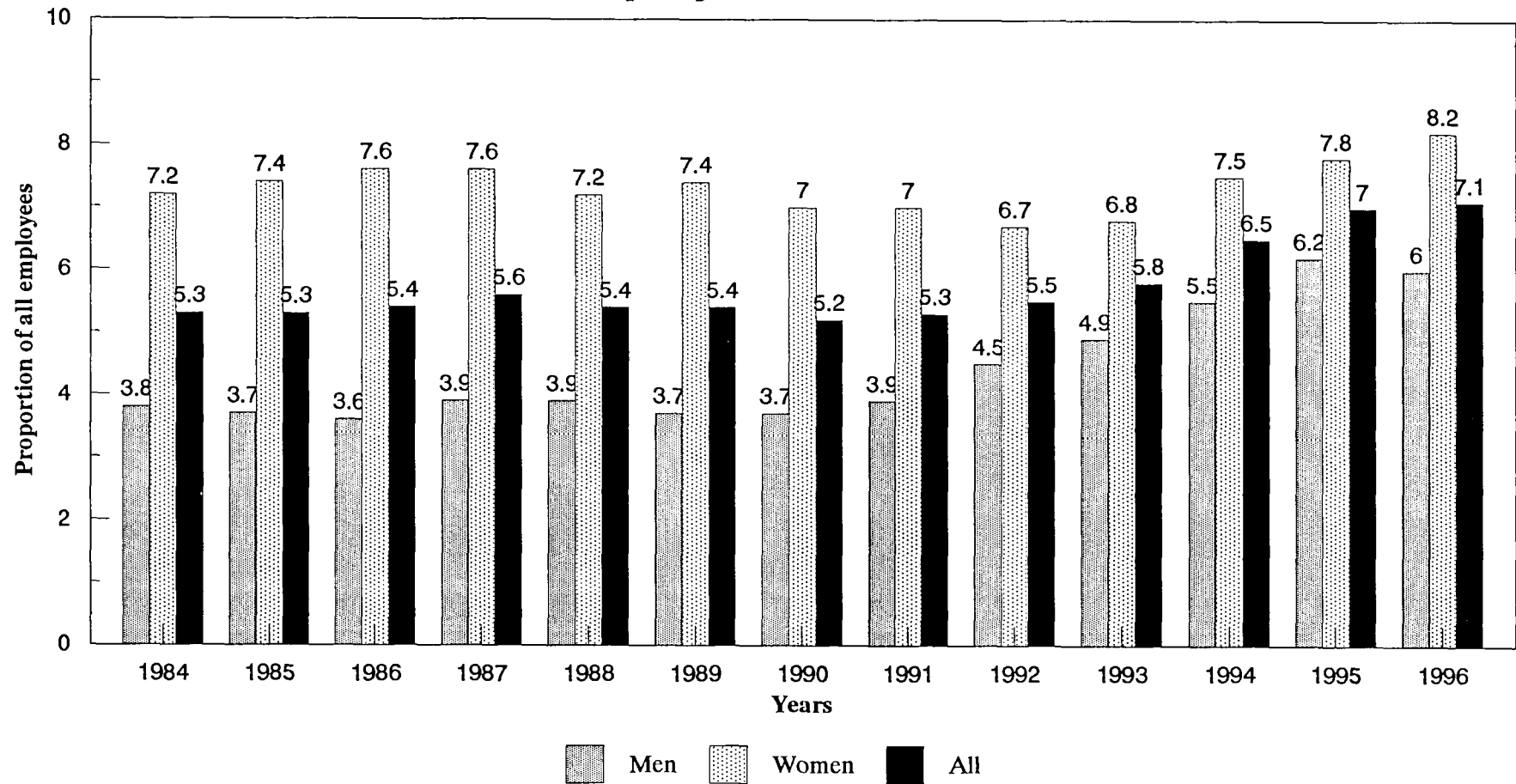
Source: LFS Spring

Figure 6
Part-time employment as a proportion of all employment, 1984-96



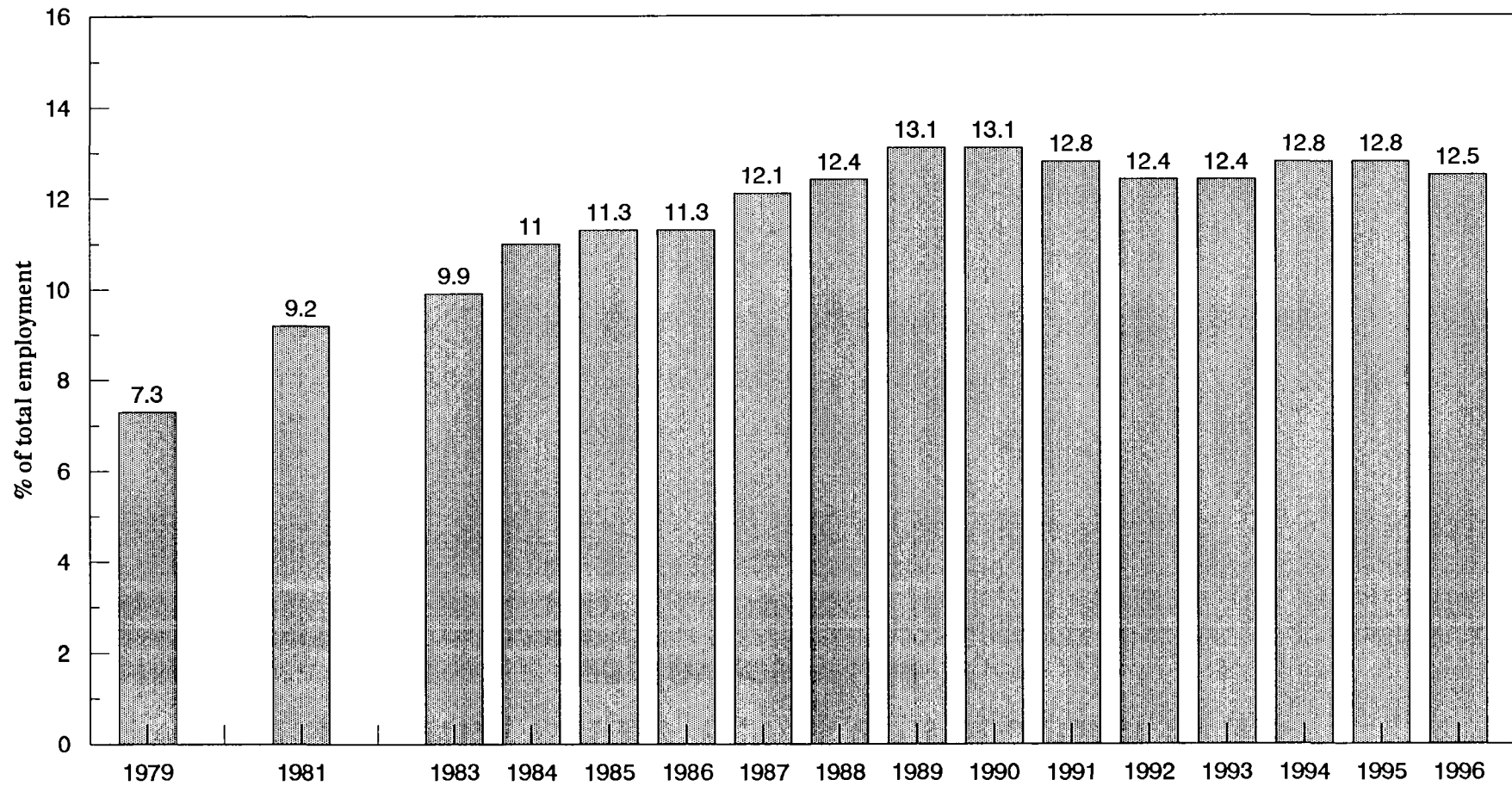
Source: LFS spring

Figure 7
Temporary employees as a proportion of all employees, 1984-96



Source: LFS Spring

Figure 8
Self-employment as a proportion of total employment, 1979-96

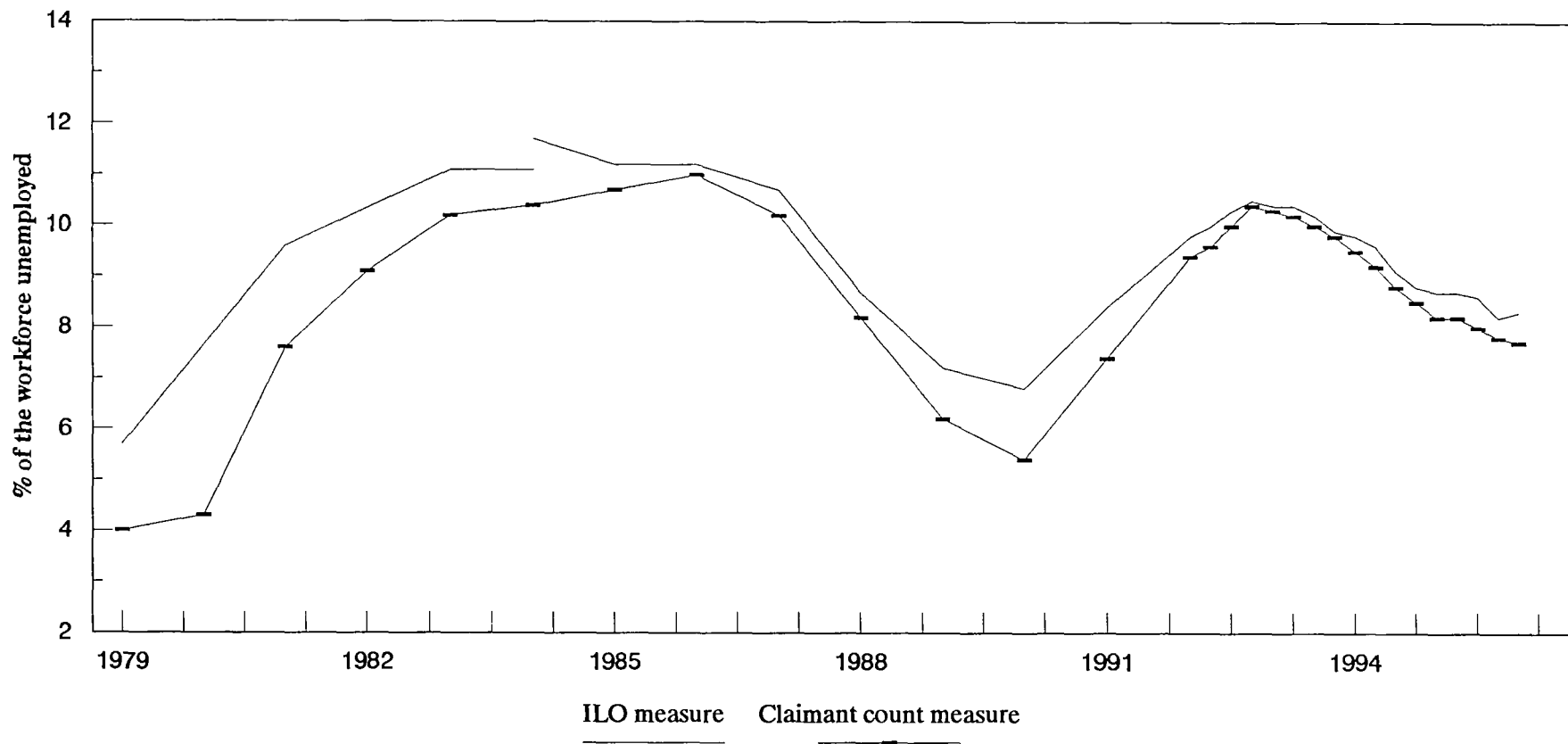


Source: LFS, Spring

Figure 9

Alternative measures of unemployment

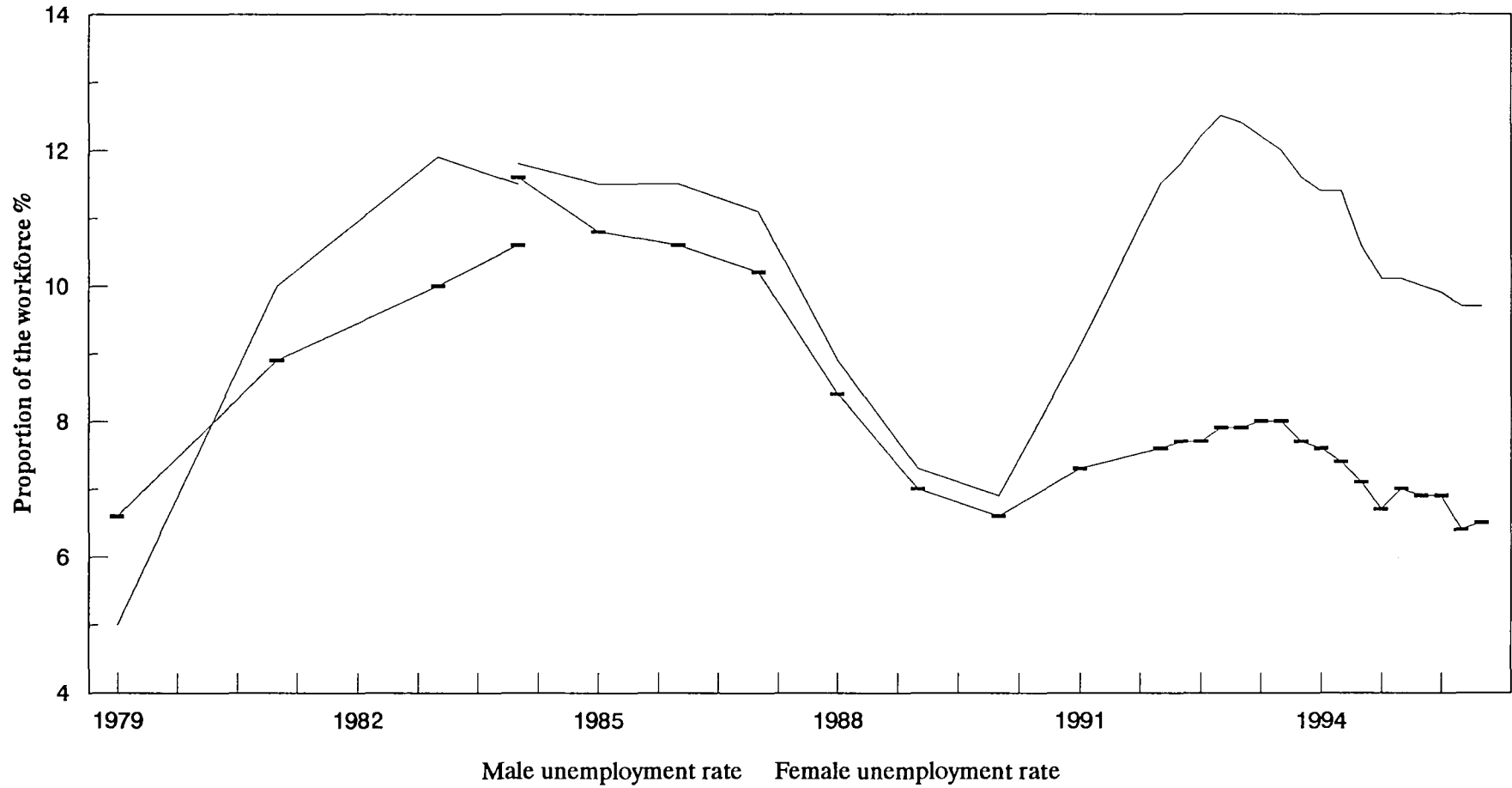
1979-96



Sources: Claimant count and LFS
 Note: GB, seasonally adjusted.
 Discontinuity in LFS series in 1984

Figure 10

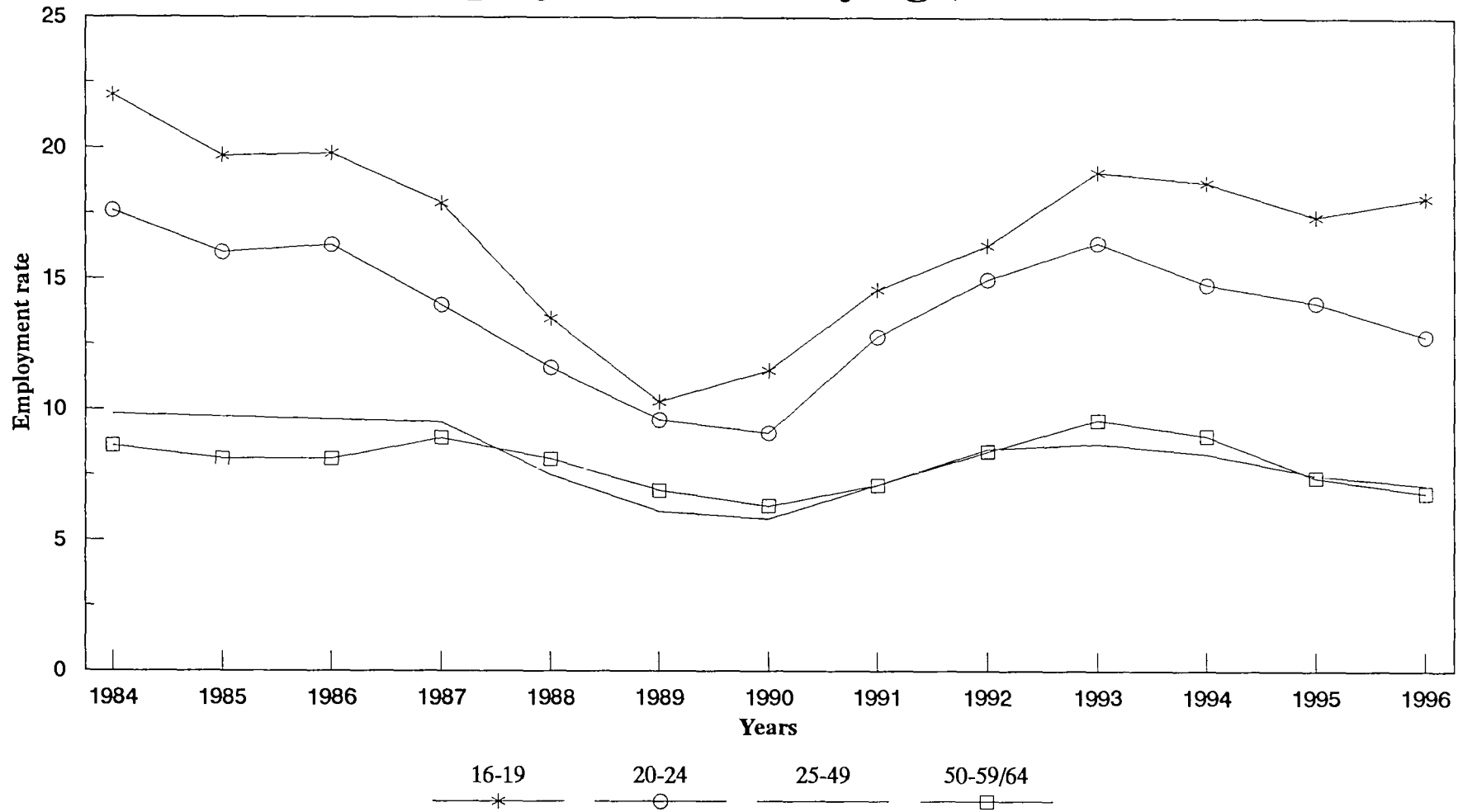
Male and female unemployment rates, 1979-96



Source: LFS
 Note: Discontinuity in LFS series in 1984

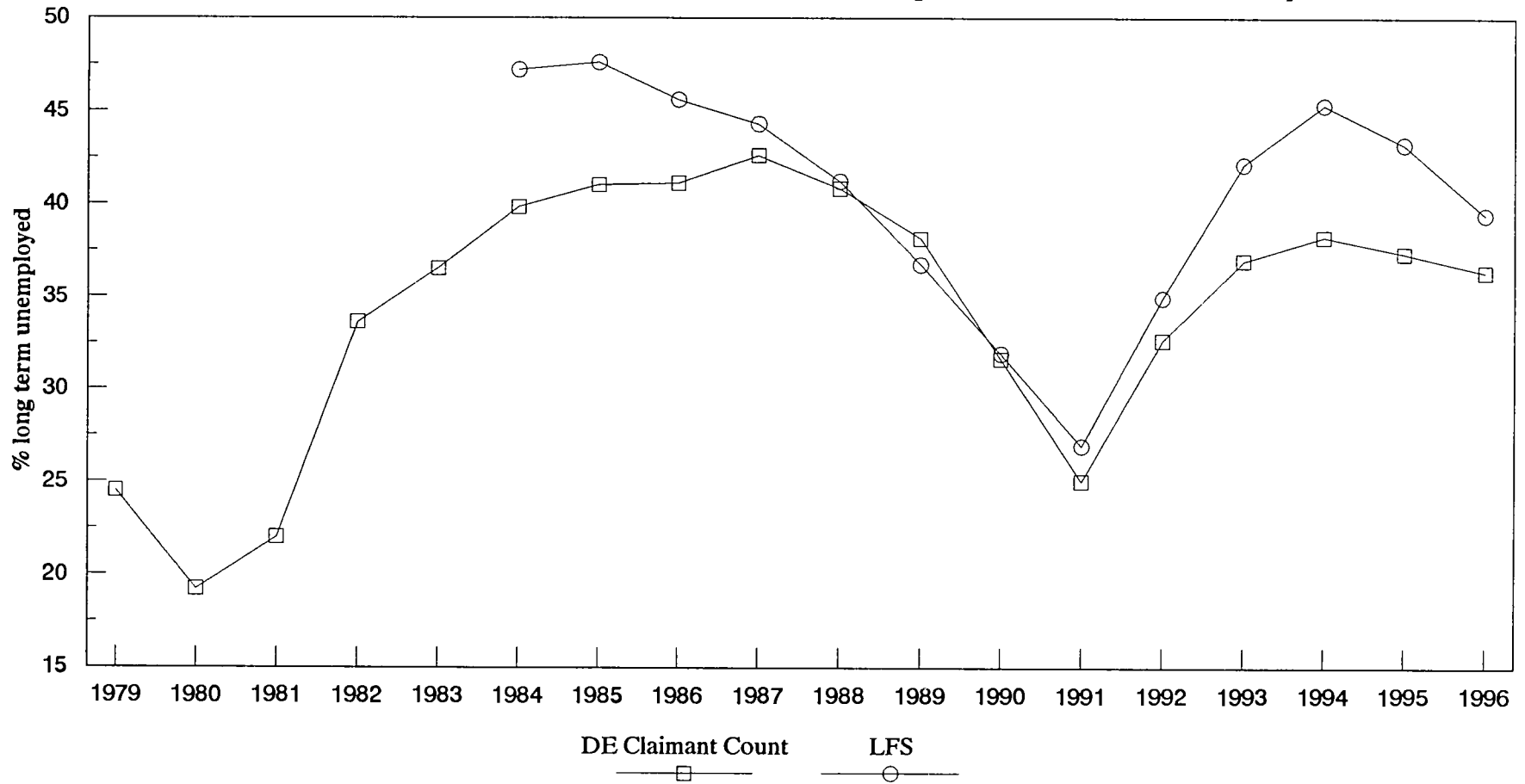
Figure 11

Unemployment rates by age, 1984-96



Source: LFS Spring

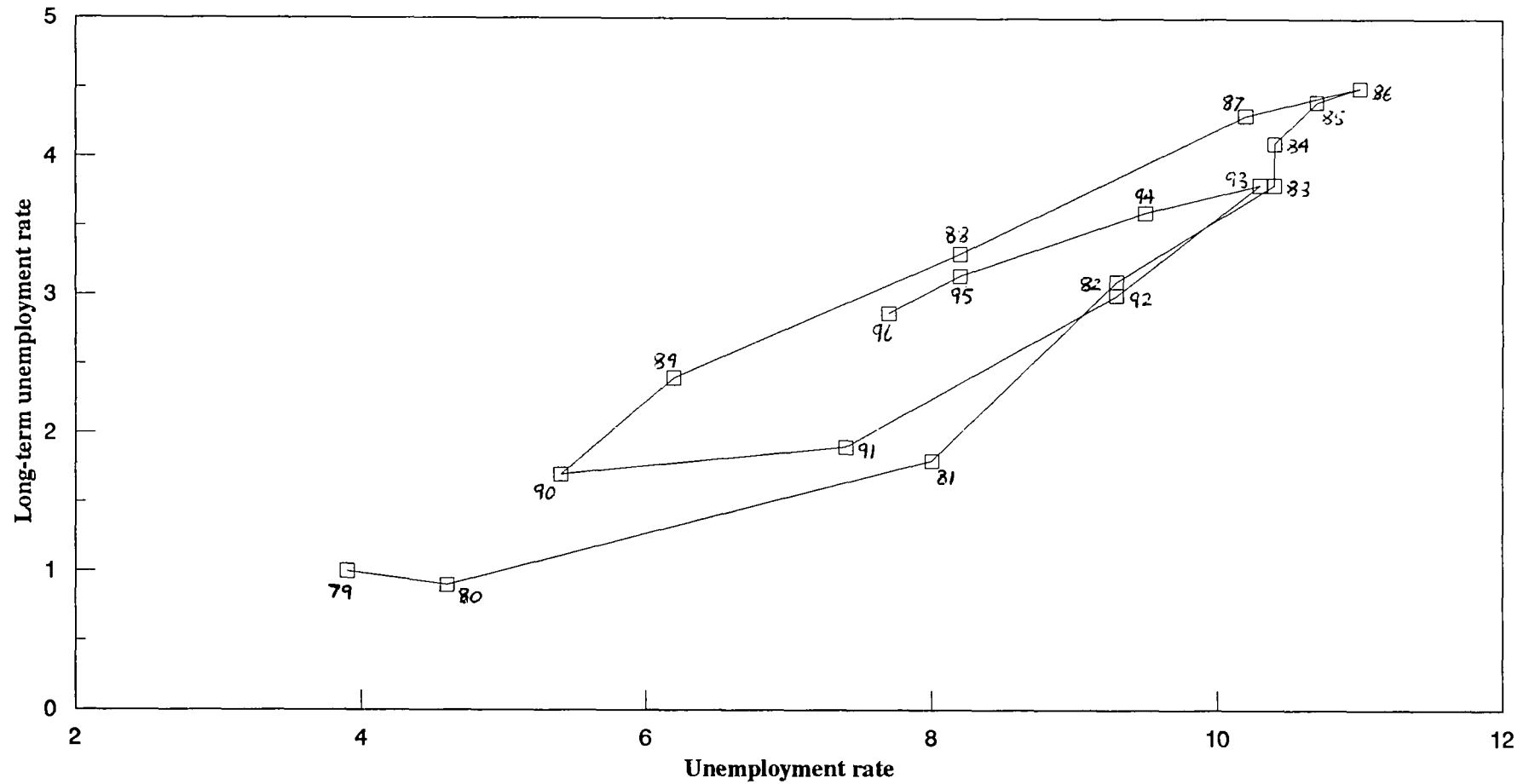
Figure 12
The long-term unemployment ratio, 1979-96
(Those unemployed for over 1 year as % of total)



Sources: Claimant count and LFS

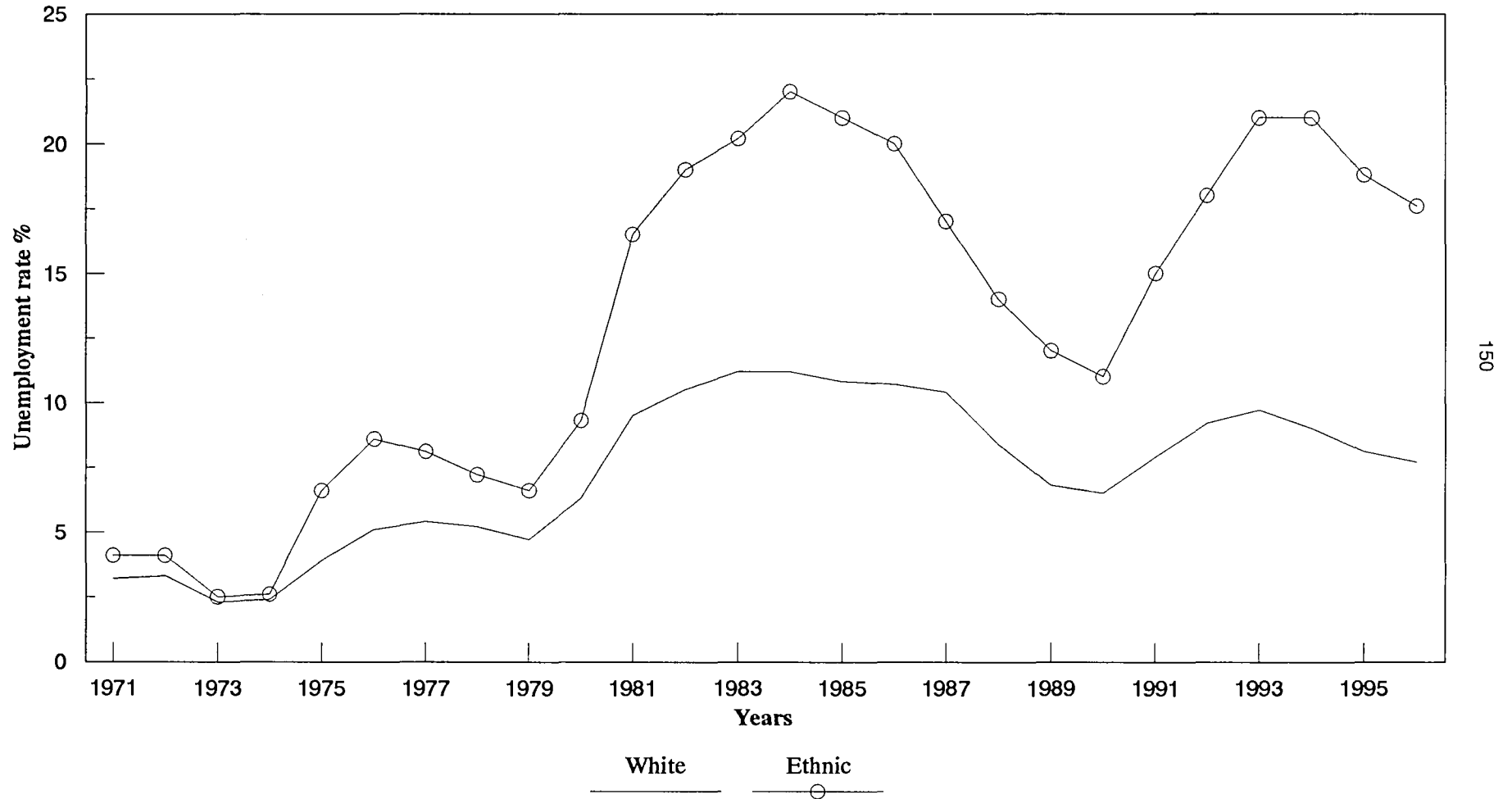
Figure 13

The unemployment and long-term unemployment rates, 1979-96



Source: Claimant Count, Spring

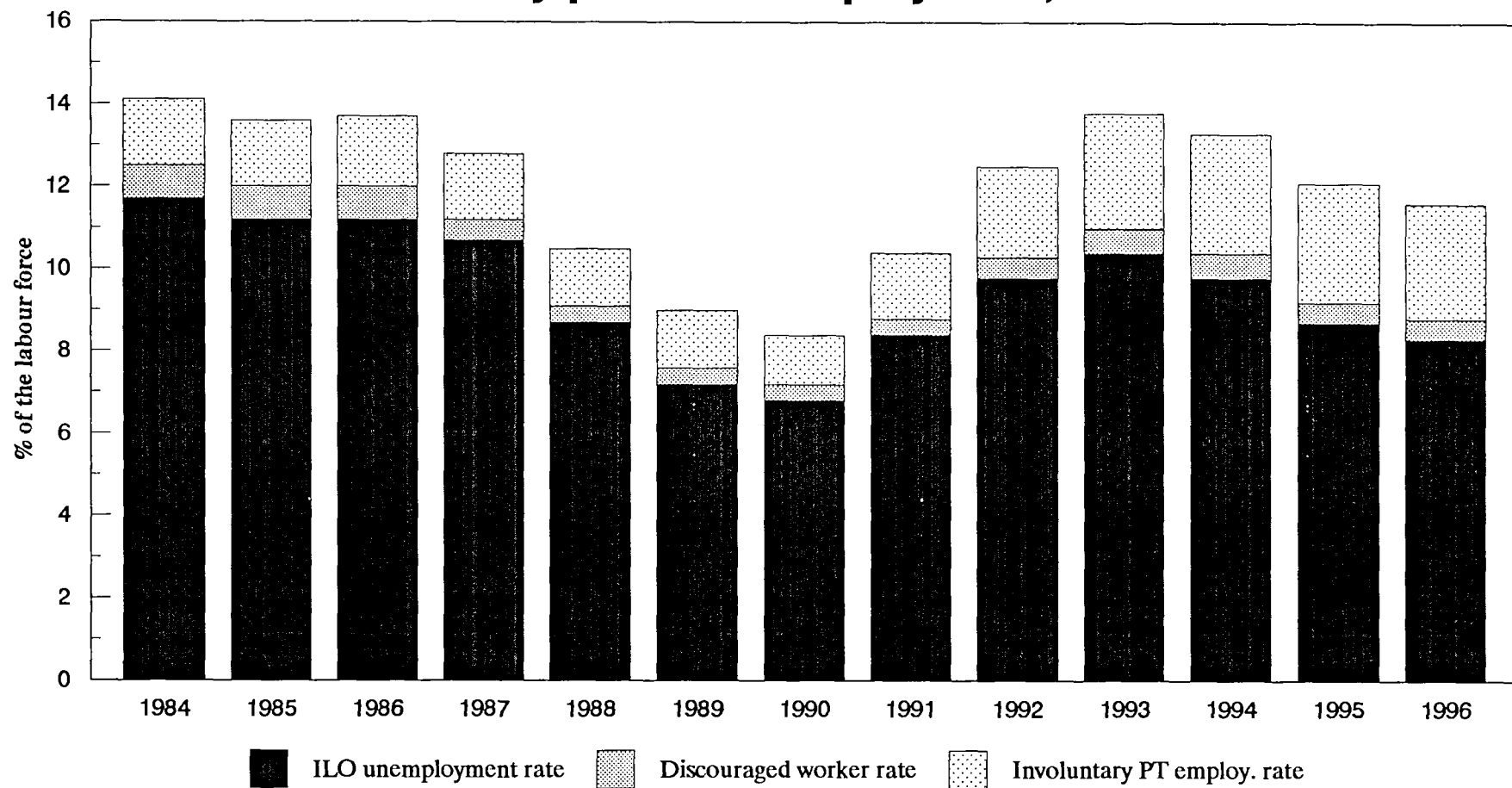
Figure 14
Ethnic and white unemployment rates, 1971-96



Source: Brown (1984) and LFS Spring

Figure 15

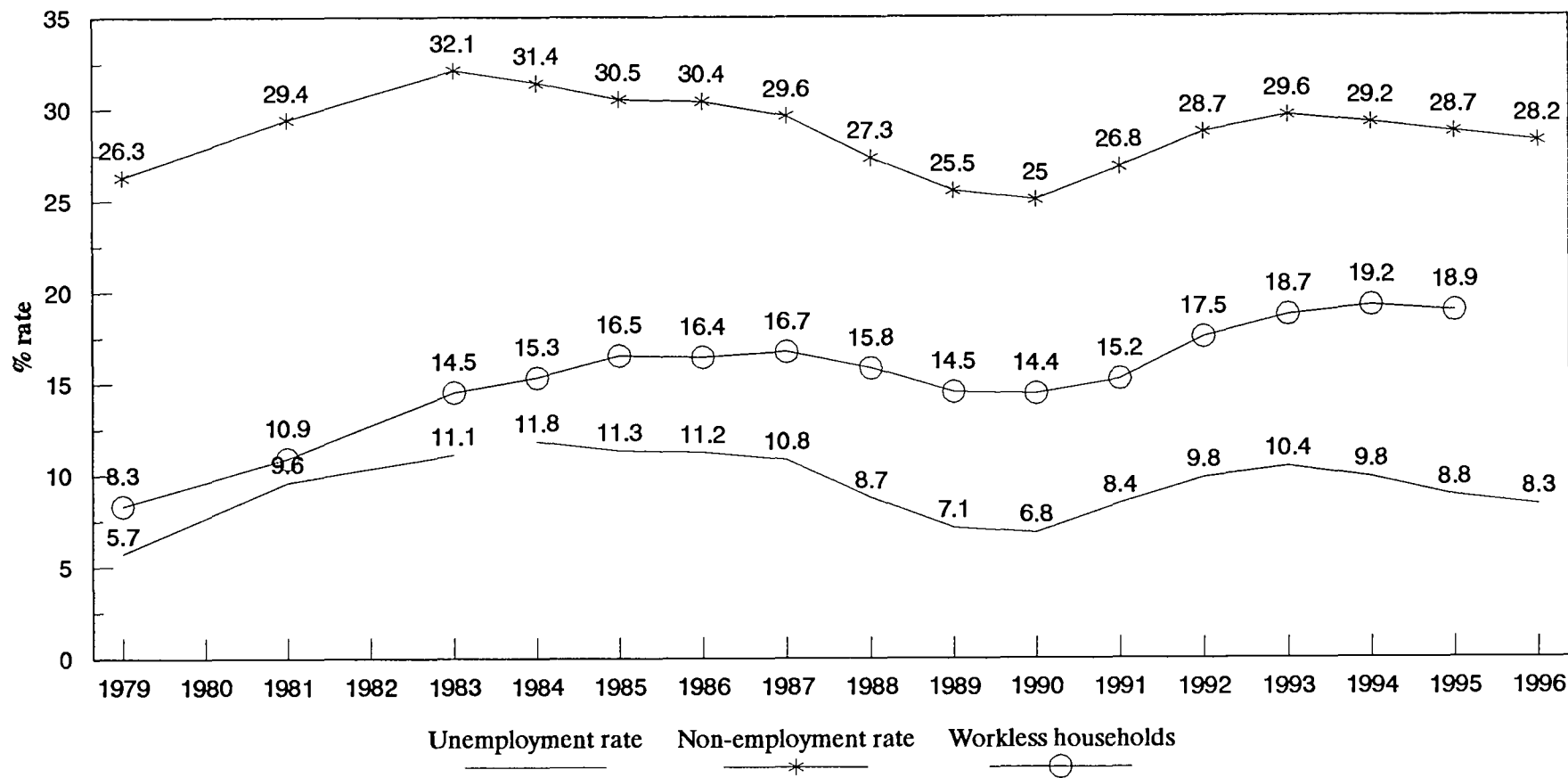
Unemployment, discouraged workers and involuntary part-time employment, 1984-96



Source: LFS Spring

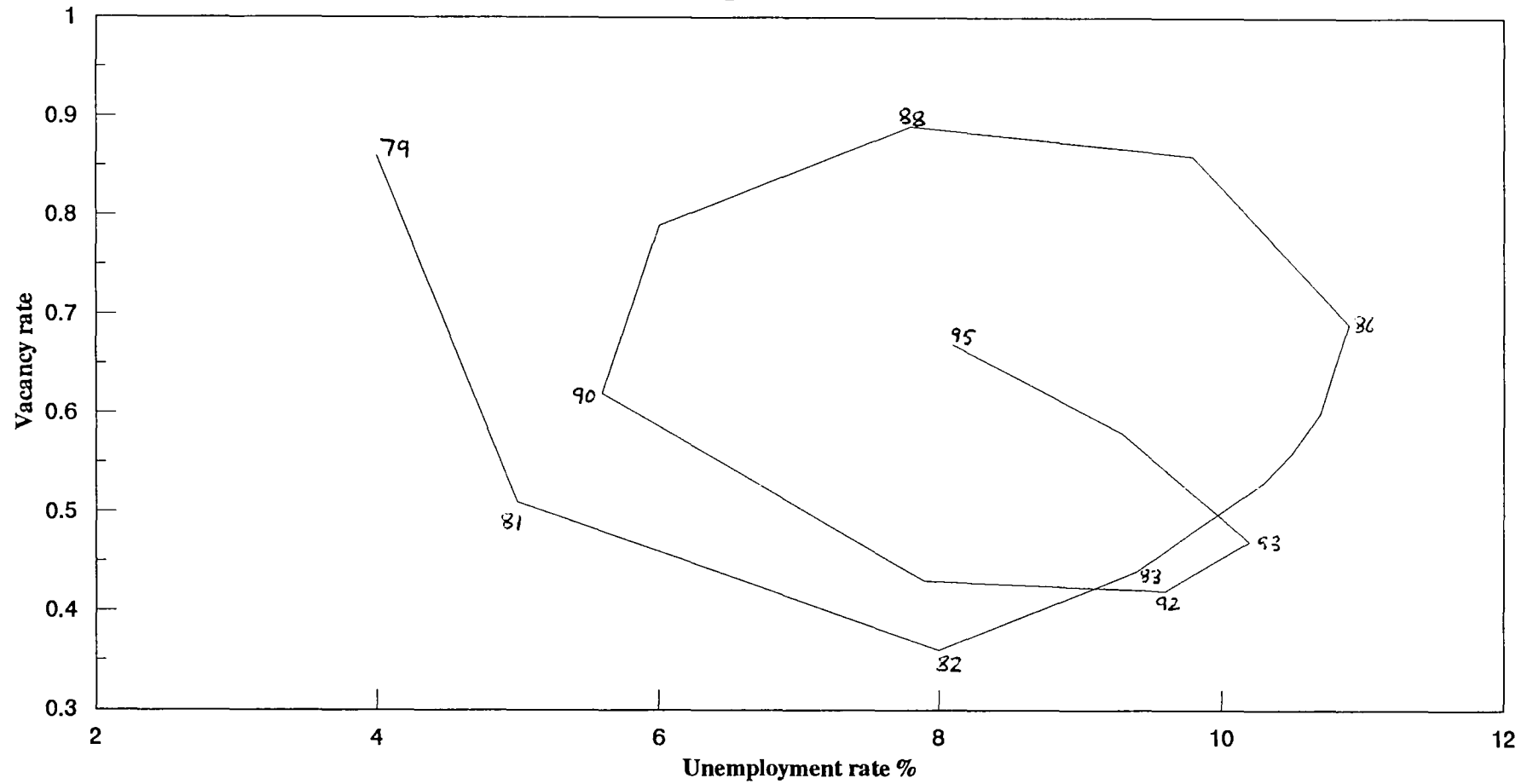
Figure 16

Unemployment, non-employment and workless households, 1979-96



Note: All aged 16-59/64
Source: Spring LFS

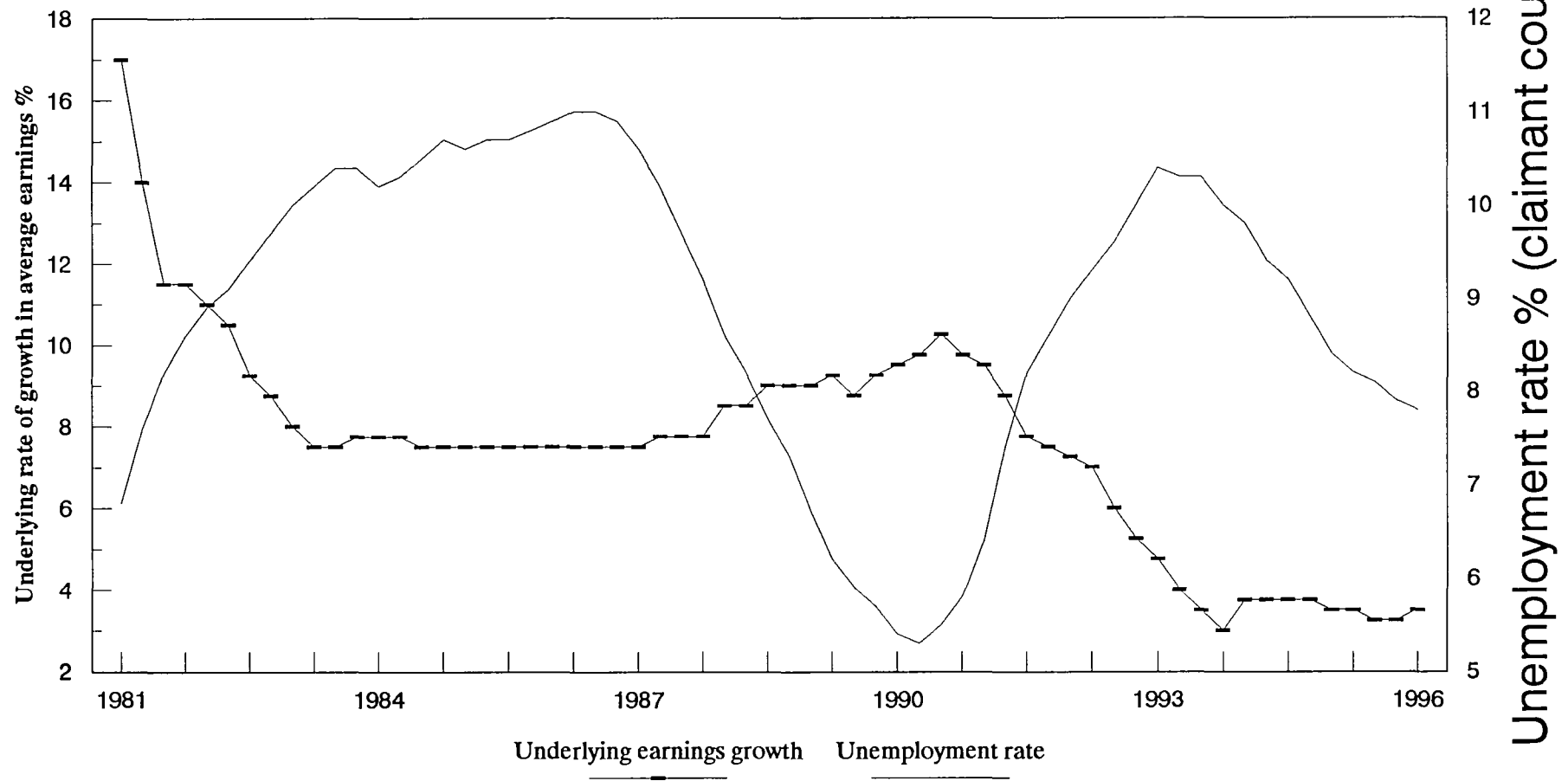
Figure 17
The 'Beveridge curve' 1979-95



Note: Unemployment and vacancies as a proportion of the workforce, seasonally adjusted, consistent and revised

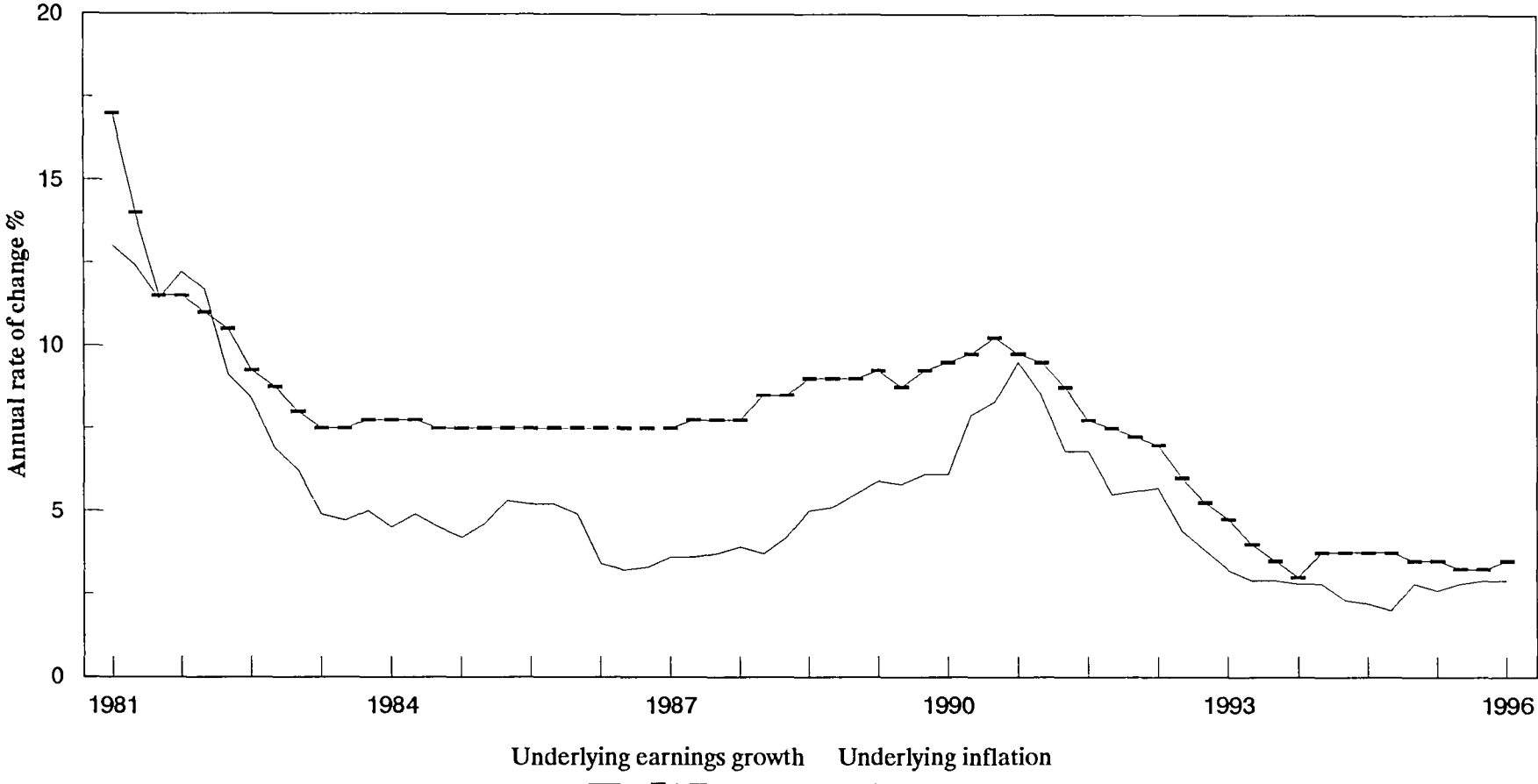
Figure 18

Average earnings growth and unemployment in Britain, 1981-96



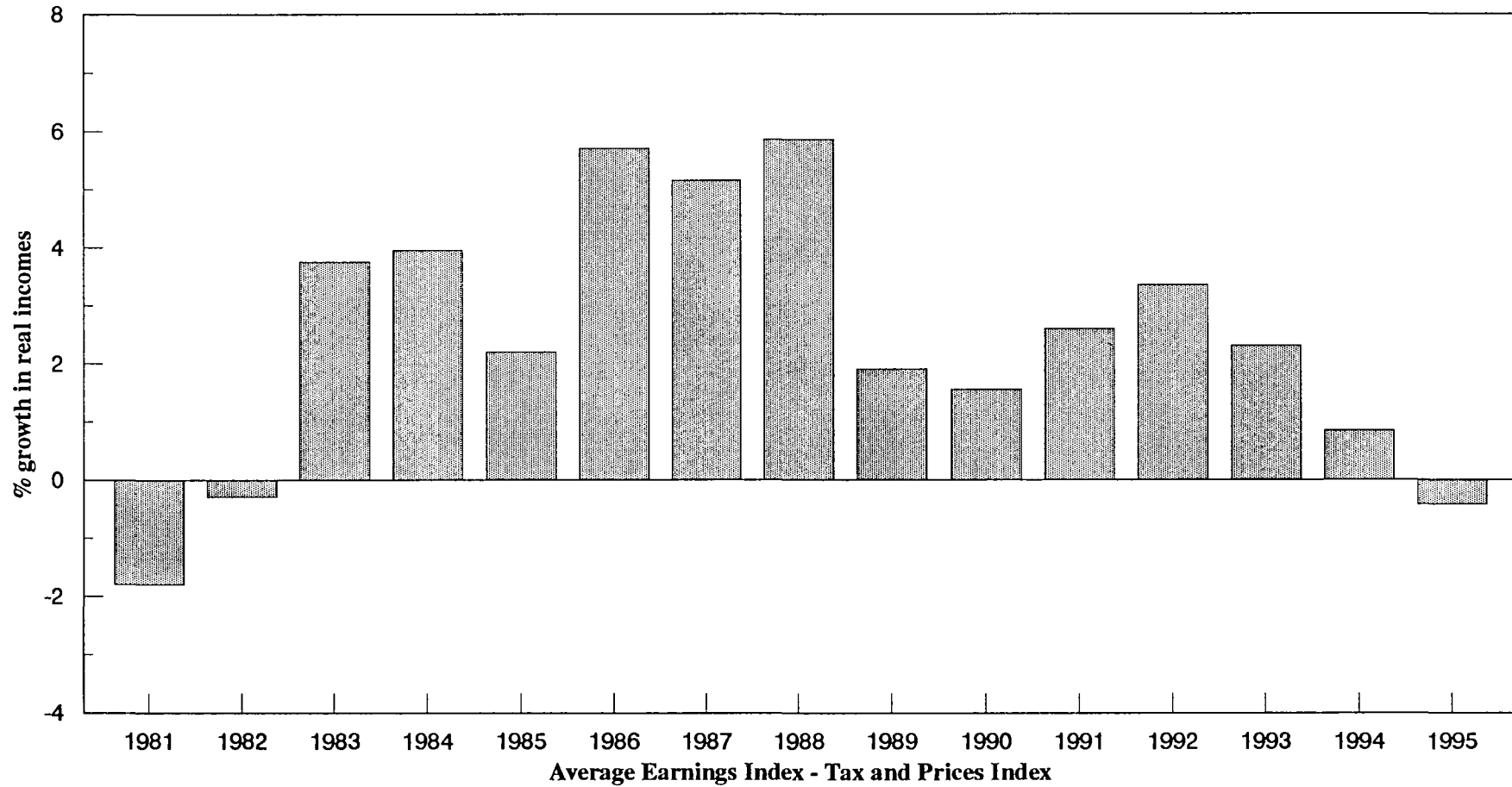
Source: Office for National Statistics

Figure 19
Average earnings growth and underlying inflation
in Britain, 1981-96



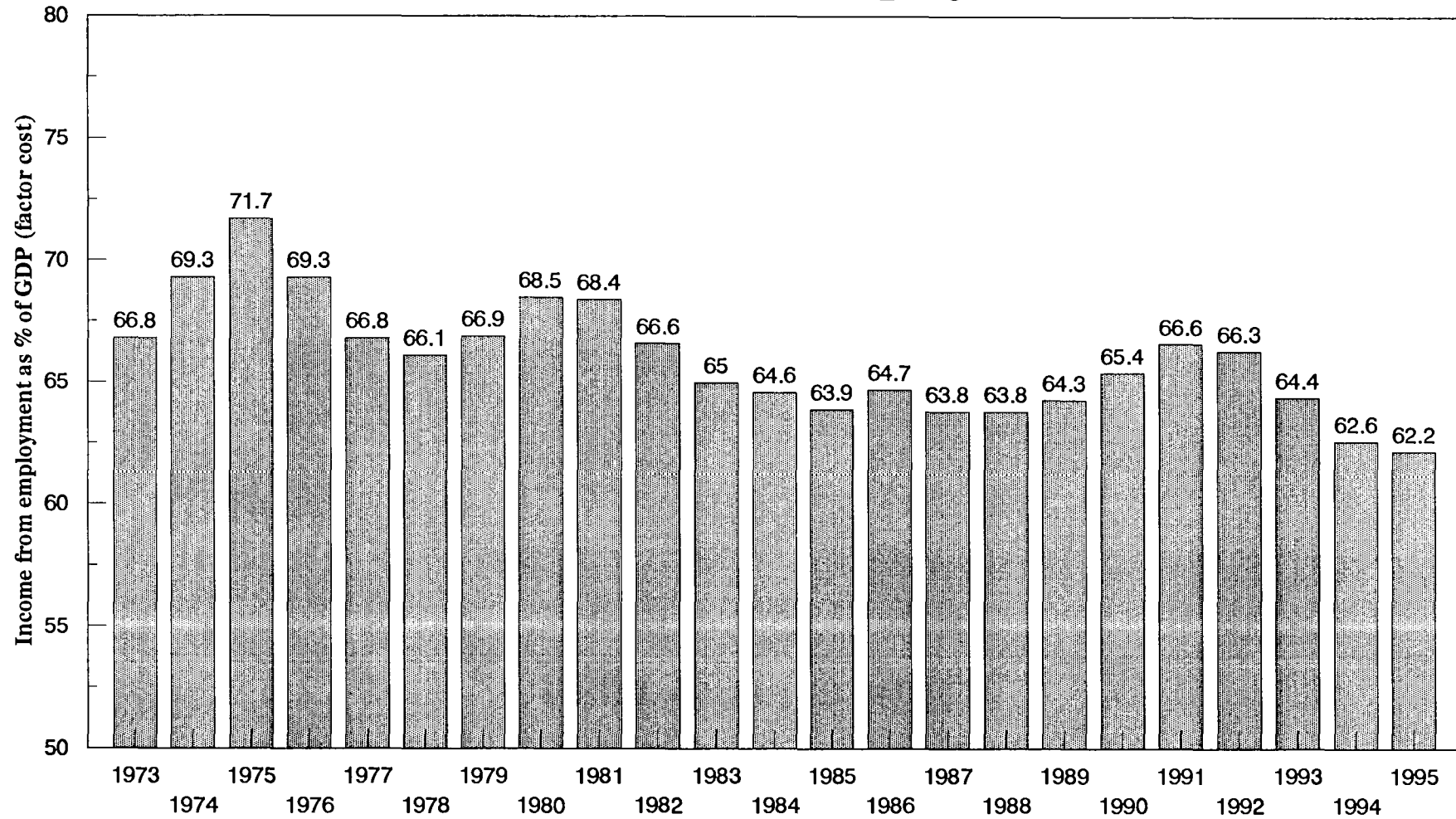
Source: Office for National Statistics

Figure 20
The growth in real take-home pay
for those in work, 1981-95



Source: Office for National Statistics

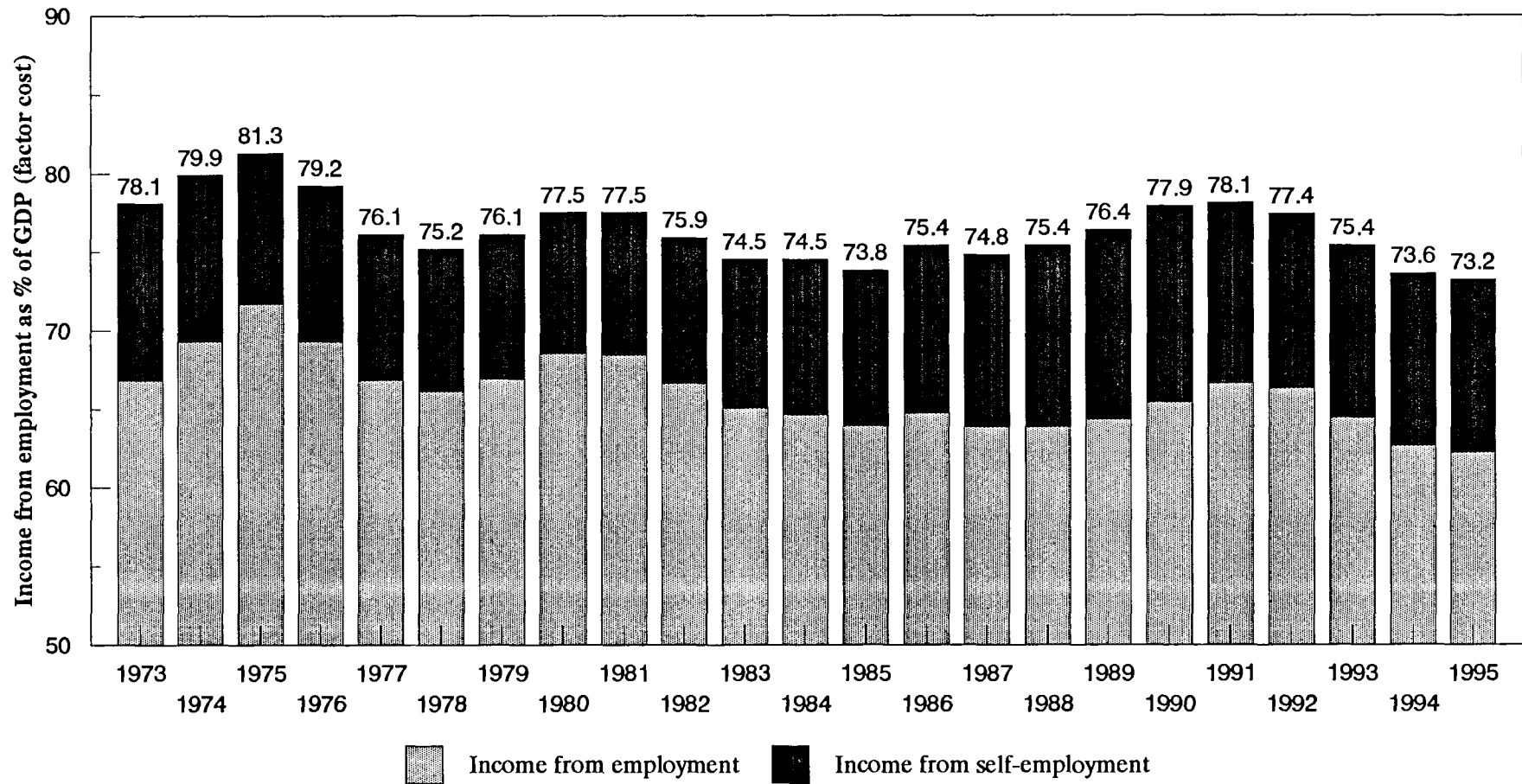
Figure 21
The share of income from employment in GDP



Source: Office for National Statistics

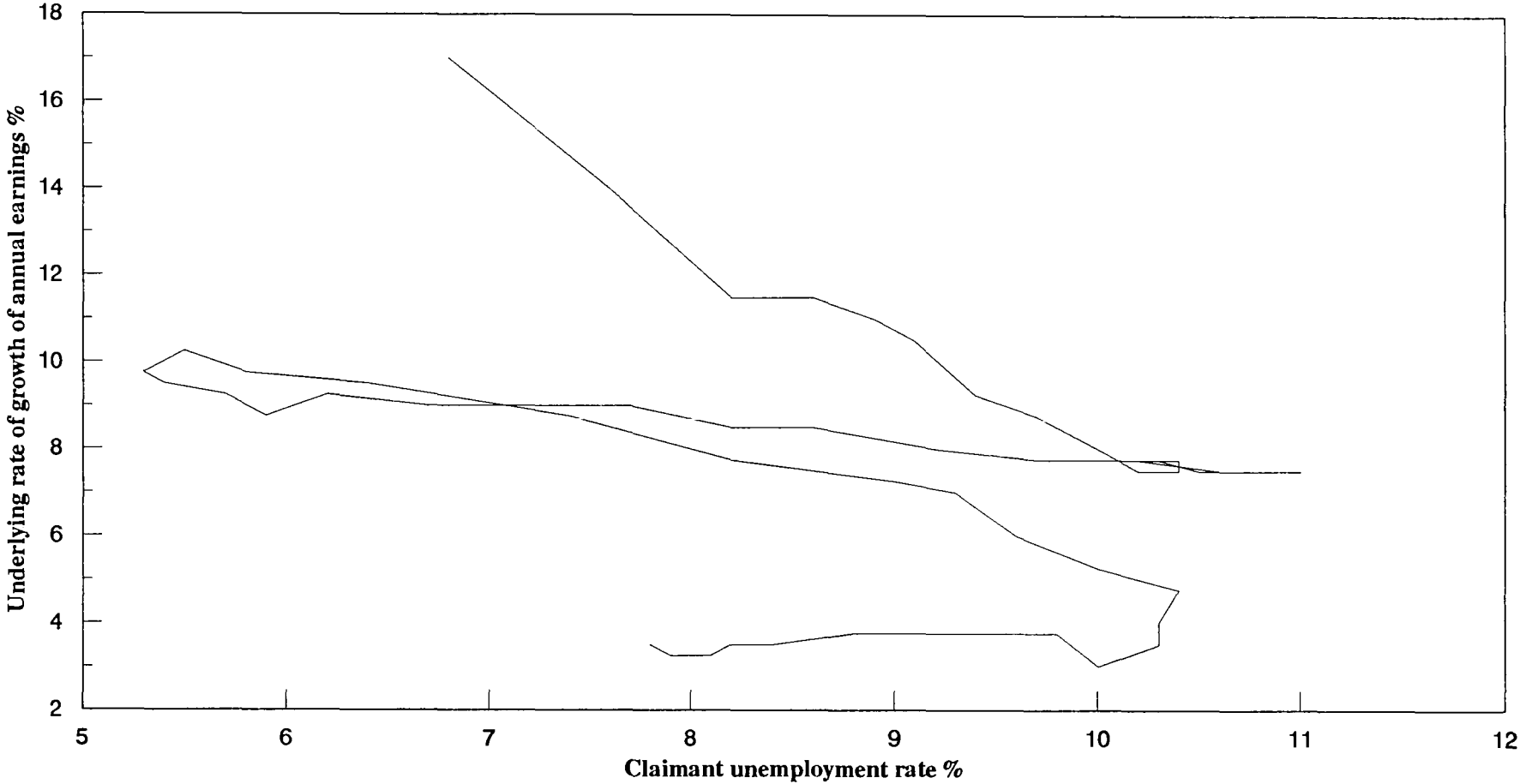
Figure 22

The share of income from employment and self-employment in GDP



Source: Office for National Statistics

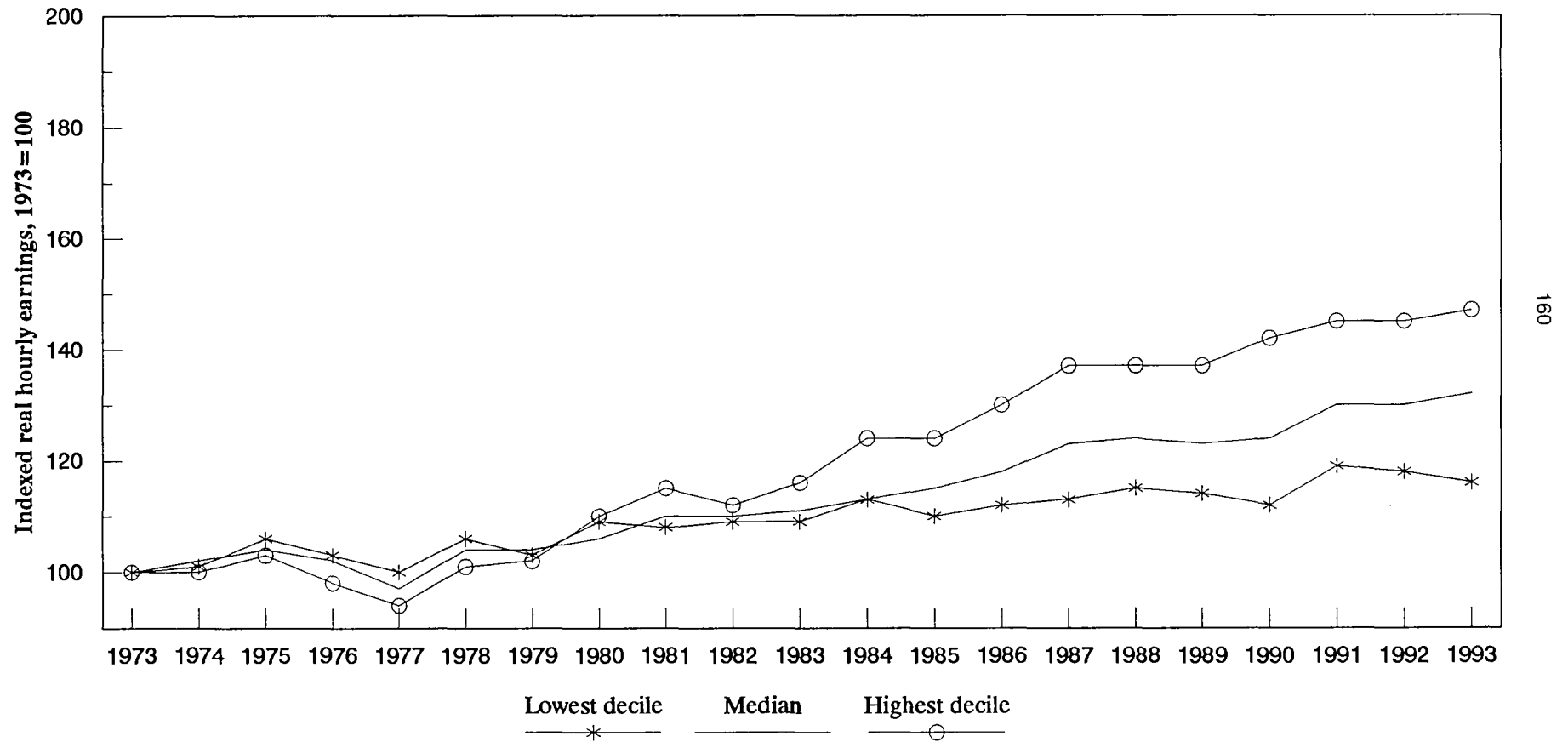
Figure 23
The "Phillips curve" - Average earnings growth
and unemployment, 1981-96



Source: Office for National Statistics

Figure 24

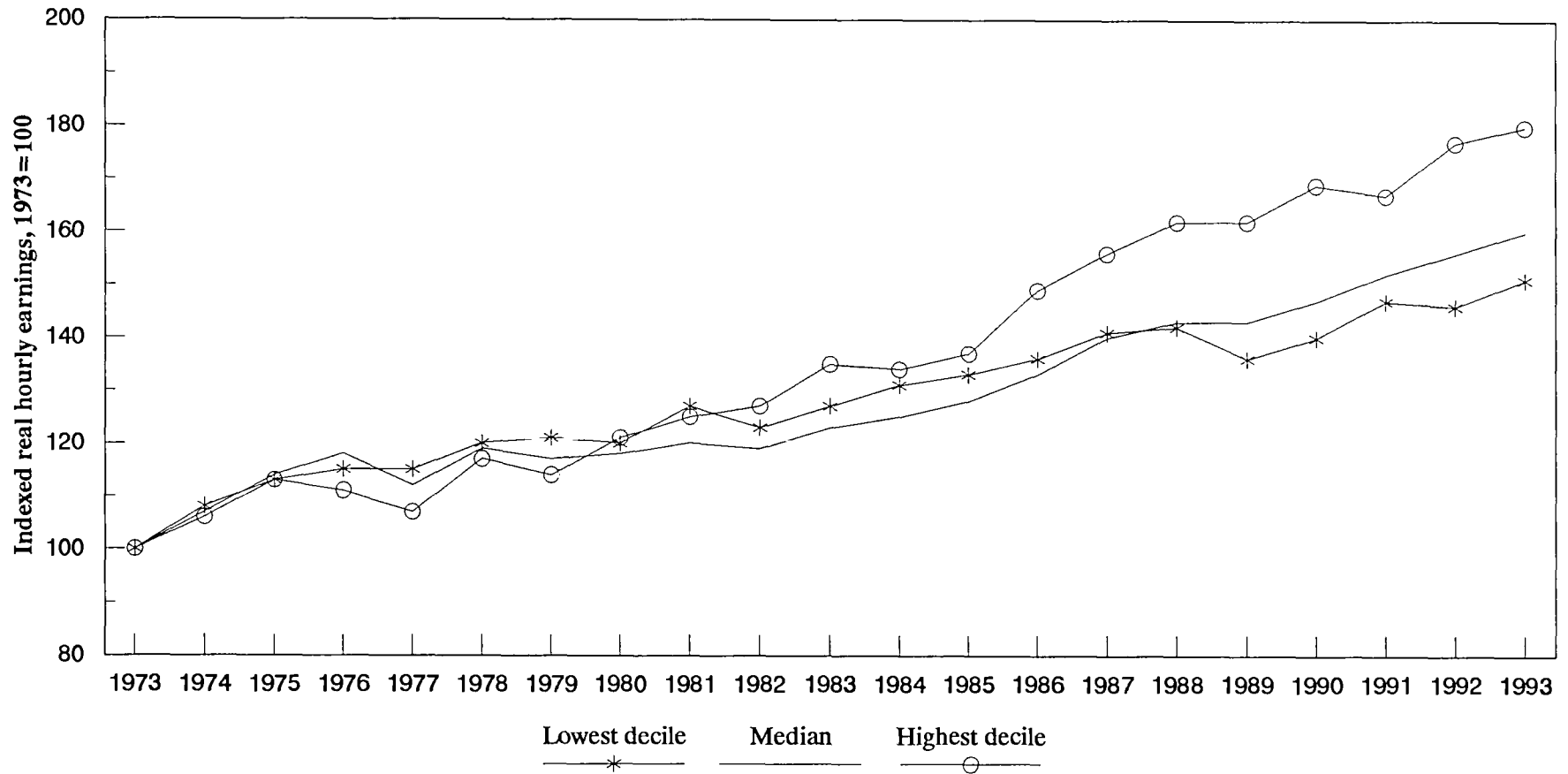
The dispersion of real hourly earnings for men 1973-93



Source: Family Expenditure Survey, Harkness and Machin, 1995

Figure 25

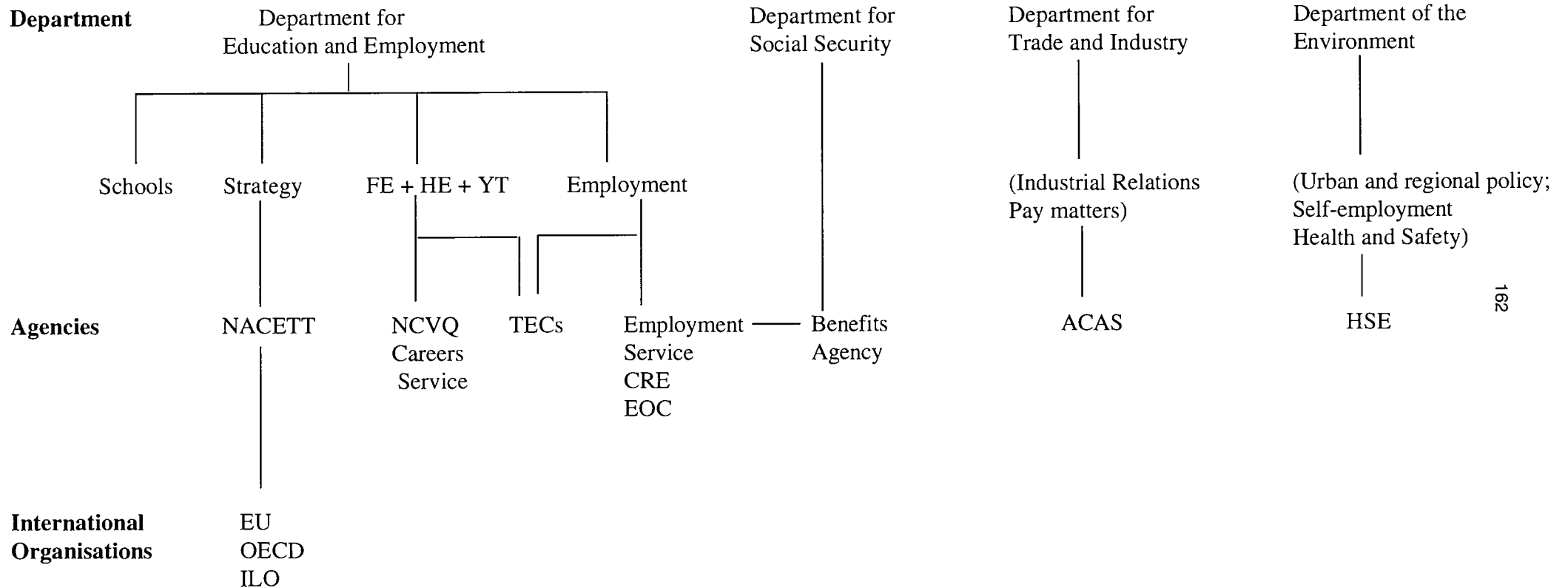
The dispersion of real hourly earnings for women 1973-93



Source: Family Expenditure Survey, Harkness and Machin, 1995

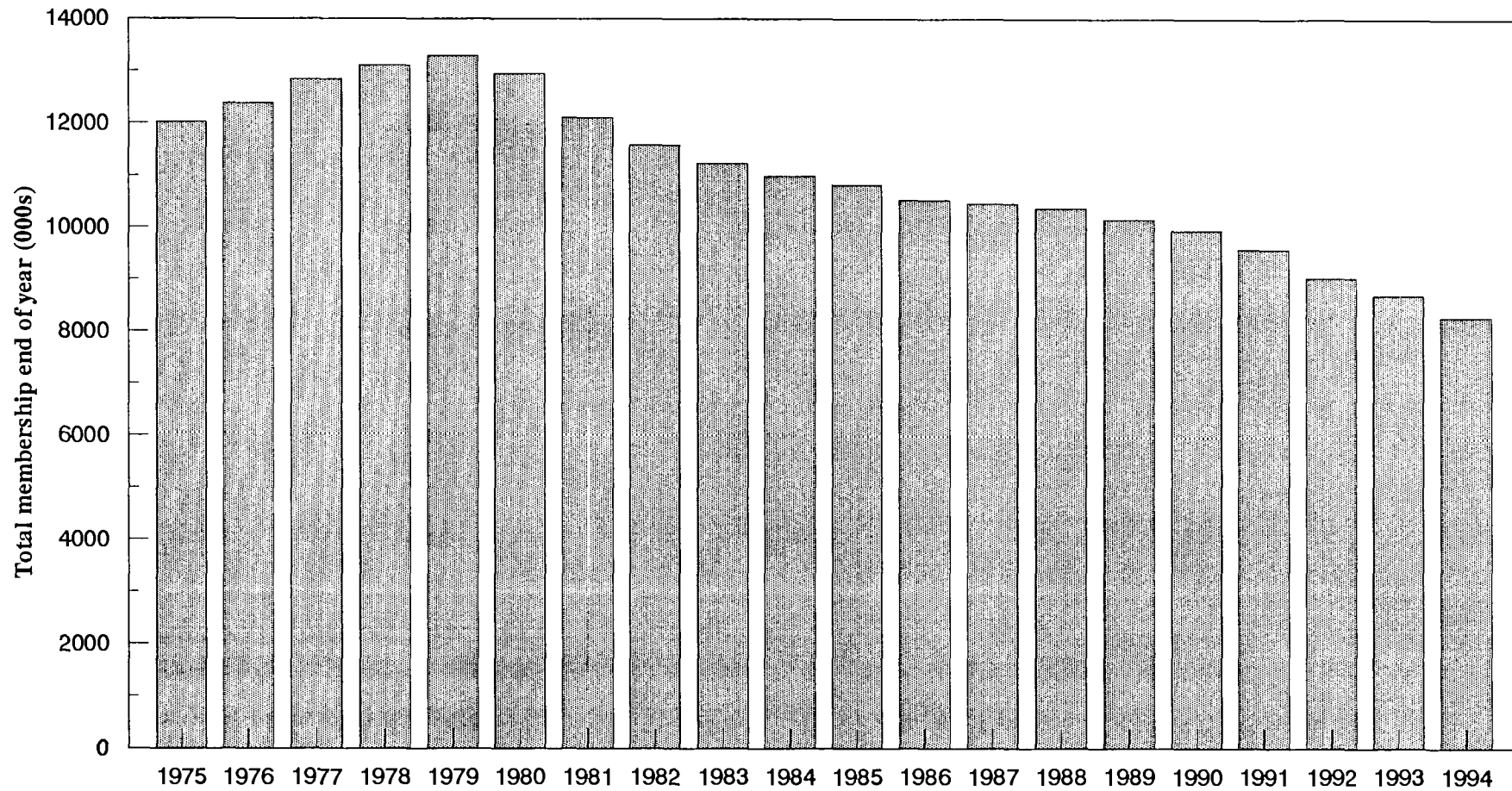
Figure 26

Departments responsible for labour market issues in England



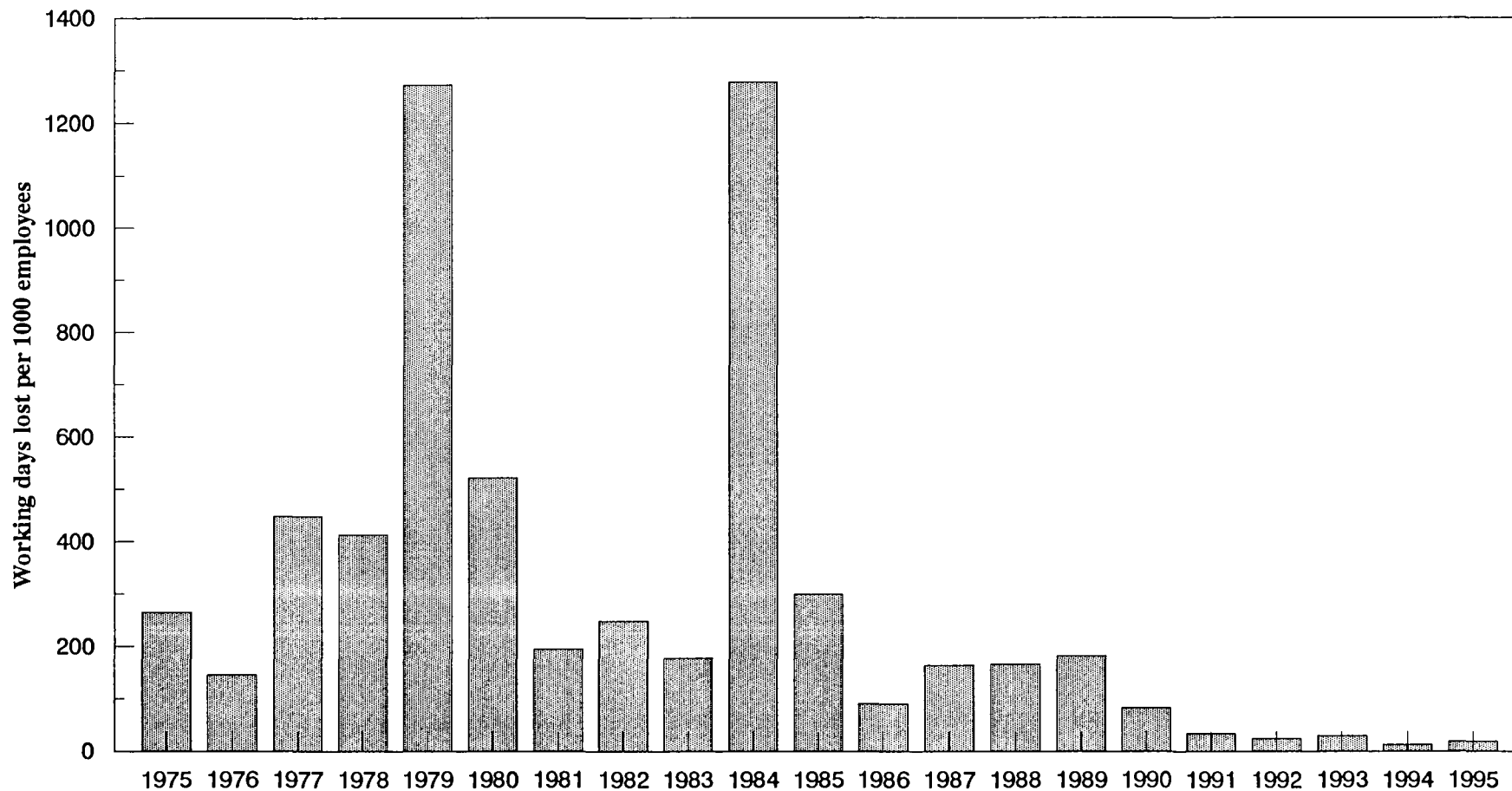
Notes: FE + HE + YT: Further and Higher Education and Youth Training; NACETT: National Advisory Council for Education and Training Targets; NCVQ: National Council for Vocational Qualification; TEC's : Training and Enterprise Councils; CRE: Commision for Racial Equality; EOC: Equal Opportunities Commission; ACAS: Advisory, Conciliation and Arbitration Service; HSE: Health and Safety Executive.

Figure 27
Total membership of trade unions in Britain,
1975-94



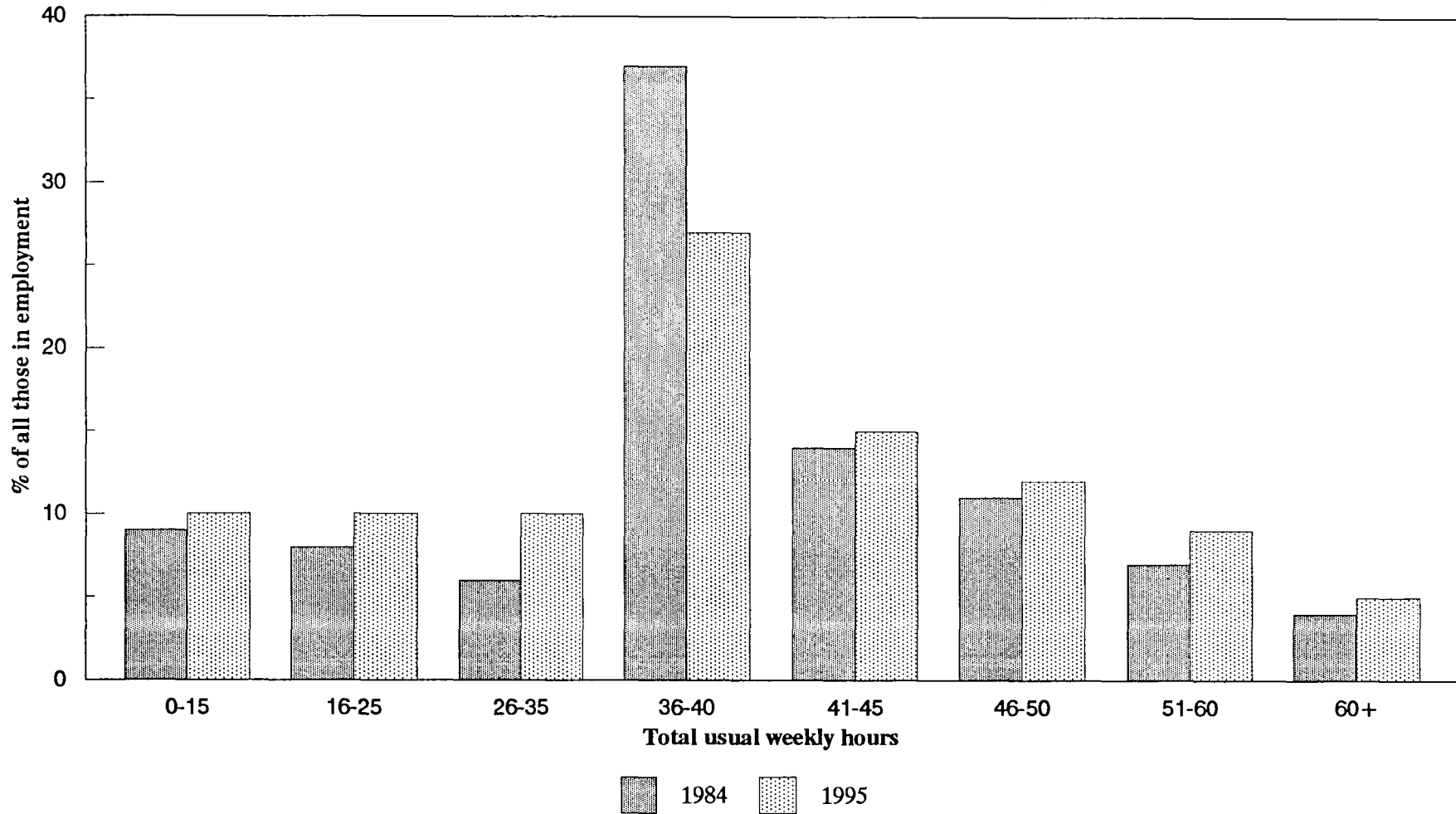
Source: Sweeney, 1996

Figure 28
The number of working days lost per 1000
employees in Britain, 1975-95



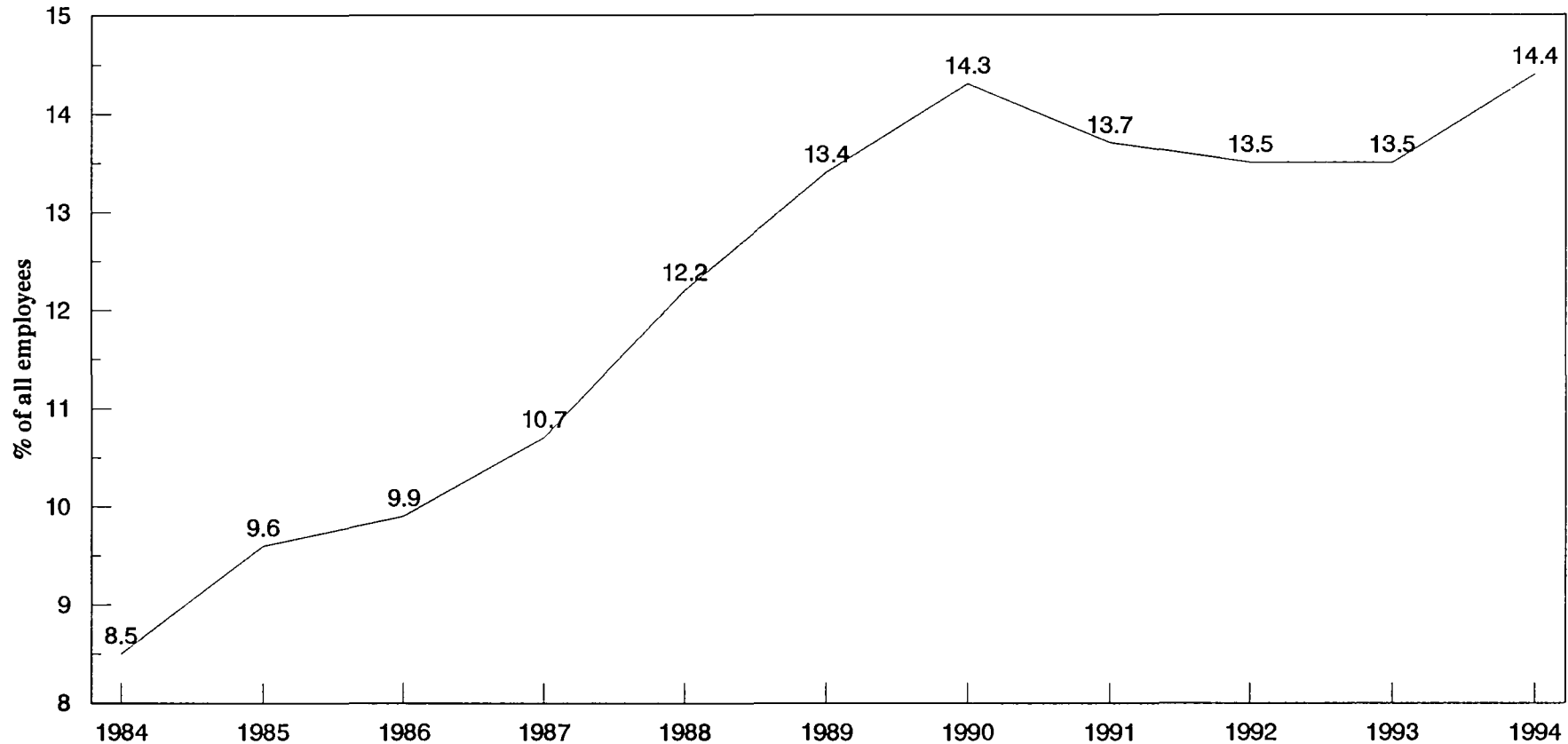
Source: Labour Market Trends, June 1996.

Figure 29
Distribution of usual hours worked, 1984-95



Source: LFS, Spring

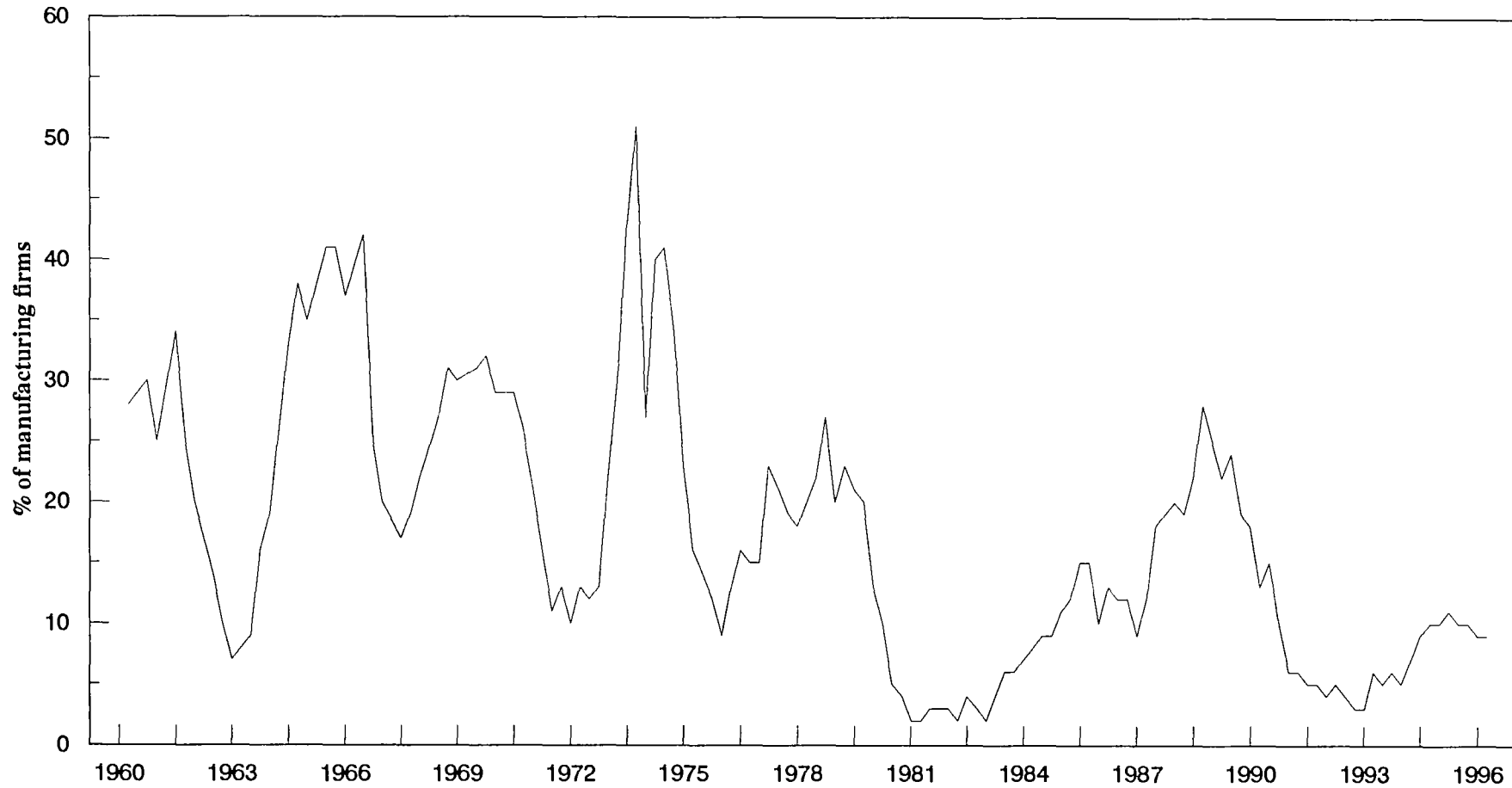
Figure 30
The proportion of employees receiving job related training in last four weeks, 1984-94



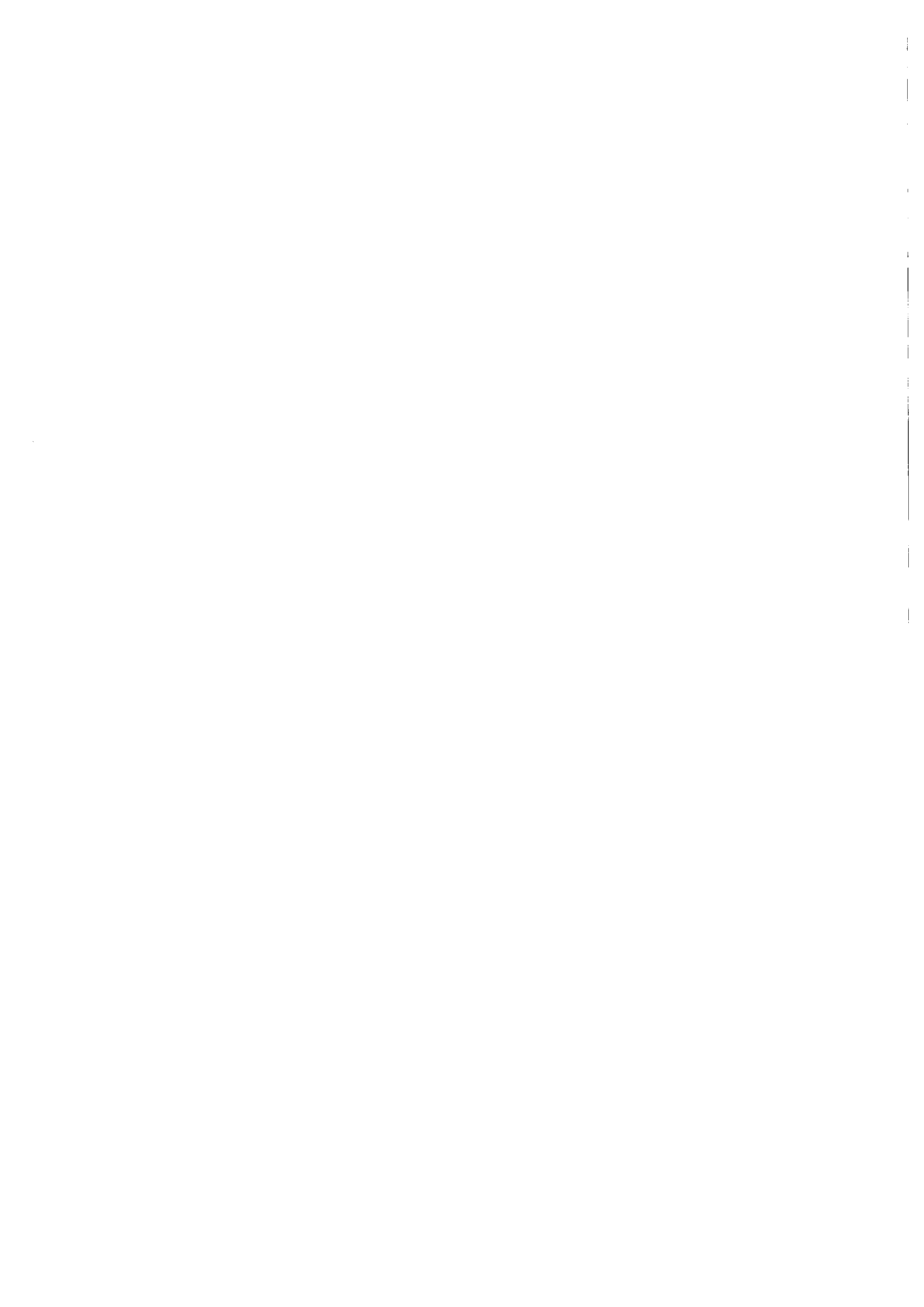
Source: Labour Force Survey, Spring

Note: Data for 1995 are not comparable because of a change to the survey and are not reported

Figure 31
The proportion of manufacturing firms citing shortage of skilled labour as constraint 1960-96



Source: CBI Quarterly Industrial Trends Survey



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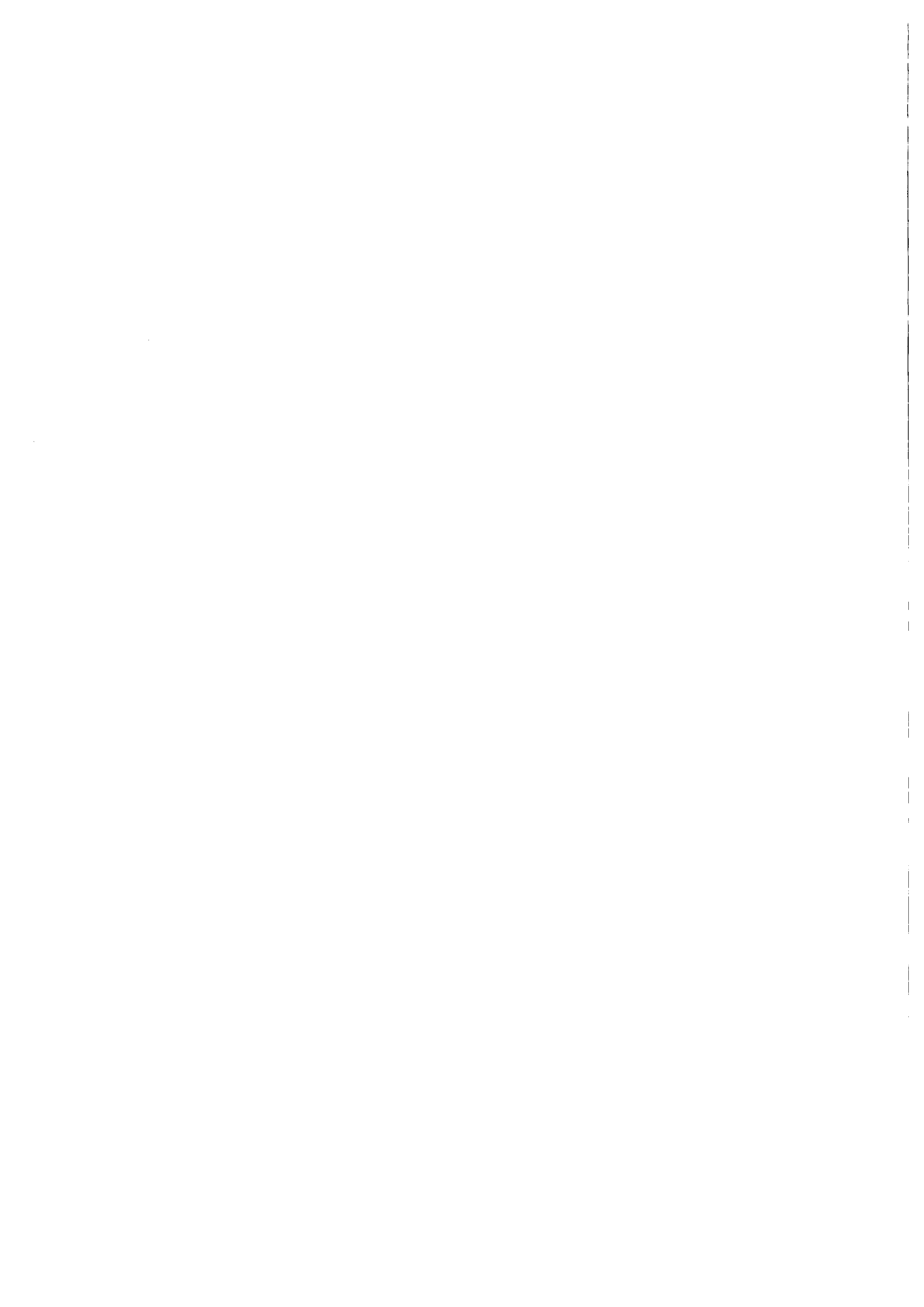
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Labour Market Studies — United Kingdom

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ISBN 92-827-8751-6

