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**British Labour Market Performance:  
Beyond the De-Regulation Mythology**



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**BRITISH LABOUR MARKET PERFORMANCE:  
BEYOND THE DE-REGULATION MYTHOLOGY**

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# **BRITISH LABOUR MARKET PERFORMANCE: BEYOND THE DE-REGULATION MYTHOLOGY**

## **1. INTRODUCTION**

This paper provides a selective commentary on key aspects of the state of the British labour market and its potential evolution. Section 2 deals with the ‘de-regulation mythology’ that still influences many people’s perceptions of the role of the labour market in UK economic development since the late 1970s, whether they belong to the policy, practitioner or scientific communities. Section 3 summarises briefly the current structure of employment and unemployment in Britain. Section 4 examines the recent record of the British labour market and the outlook for the medium-term. Section 5 turns to questions of performance and some of the current policy priorities of the Government and section 6 concludes the paper. Note that the account given makes only limited reference to how the UK compares with other countries, since other contributions to the conference deal with the comparative perspective. The focus is on aspects of British performance and policy, taken largely on their own terms.

## **2. THE DE-REGULATION STORY IN PERSPECTIVE**

It is perhaps understandable for Britain’s European partners to wonder if the de-regulated labour market could be a major factor in Britain’s recovery from its difficulties of the 1970s. They may also naturally wish to explore how far the policy might transfer. Yet the lesson seems to be much more country-specific than would provide a great deal of insight for other Member States of the European Union or, indeed, those countries hoping to accede. In terms of the regulation of recruitment, employment, dismissal, redundancy, working conditions, etc., the British labour market was already highly de-regulated in the 1970s with far less regulation than applied to other European countries. Changes to the law directly governing the individual employment relationship during the 1980s and 1990s were relatively minor and do not explain the extent of the recovery any more than an absence of such changes explain the depth of the recession in the first place or the poor performance of the economy in the previous two decades relative to international competitors.

Management’s capacity to manage the *employment relationship* was affected not so much by the law as by *practice*: its own practice in particular. Conservative legislation can be seen as having put more ‘backbone’ into managerial behaviour by legislation aimed at shifting the balance of power in the *industrial relationship* by emasculating the trade unions and giving greater confidence to management to extract more than was hitherto the case from the employment relationship.

There are many comparisons of economic performance among the industrialised economies. The OECD’s (1994) *Job Study* is especially important because of the extent of its analysis, the fact that it concluded by placing great emphasis on differences in labour market regulation as an explanation for the relatively poor performance of Europe, and the OECD’s subsequent follow-up of progress in adopting its recommendations. Yet Britain hardly turned out to be the ‘neo-liberal’ laboratory in which the labour market flexibility thesis was to be confirmed. Indeed, its experience threw up several critical puzzles which went to the heart of the alleged relationship between de-regulating the employment relationship and the kinds of overall

economic flexibility that result (Lindley, 1994). Thus high levels of such responses as (i) labour demand to the real product wage, (ii) aggregate real wages to the state of the labour market, as measured by unemployment, and (iii) employment to output, do not seem to be features of the UK economy compared with other much more regulated labour markets. Nor does the extent of wage differentiation at industrial, occupational and geographical level, and the response of labour mobility to it, suggest that the UK exhibits particularly fluid, economically purposeful, movement of labour to where it is most needed in the economy.

Thus there has not exactly been complete agreement that the OECD has assessed appropriately the evidence or that its preoccupation with promoting 'labour market flexibility' has been well-judged. Indeed, the evidence which is accumulating would now seem to suggest that the importance of de-regulation has been greatly overstated (Grubb and Wells, 1993; Lindley, 1997; Nickell and Layard, 1998) culminating in the OECD's (1999) own re-assessment.

The quantitative evidence at both macro- and micro-levels does not offer support to other EU countries to follow the UK route. Nor do more qualitative studies (Lindley, 1997). For example, despite interpretations to the contrary, foreign investors were attracted to the UK not so much by the extent of labour market de-regulation allegedly put in place by the Conservative governments but by other factors, such as wider corporate strategy regarding nearness to market (Lindley, 1991). If anything, the labour-related factor that mattered was the belief among foreign companies that they could manage better in the British context than could British companies. This is not to say that some parts of the trade union movement did not deserve 'shock treatment', but even the raft of legislation introduced to curb their powers was of secondary significance compared with the shock administered by the state of the product market in the depression of the 1980s. It is ironic that whilst the relatively low level of regulation of the employment relationship was probably not a major factor in *attracting* foreign investment, it does seem to be a factor in *undermining the momentum of* such investment commitment over the medium term. The British position looks especially vulnerable when multi-national companies seek to rationalise production and weigh up the costs and benefits of labour force adjustments in different Member States, entering them into risk calculations made against a background of the drop in the Euro.

### **Does social partnership matter?**

The Labour government has sought to promote 'fairness at work' first by signing up to the Social Chapter previously resisted by Conservative governments. The *Employment Relations Act, 1999* has also strengthened the position of trade unions in seeking recognition in the workplace and improved the conditions governing unfair dismissal for workers. In addition, a minimum wage has been reintroduced but in the form of national minima for adults and young people rather than the sectoral Wage Council minima abolished by the previous government. Nonetheless, recent action on industrial relations policy *per se* has essentially been confined to the margins of the political agenda where there is no risk of contemplating the reversal of significant elements of the Conservatives' legislation of the previous two decades. So Labour clearly does not intend to risk the electoral and economic consequences of re-opening the door to what is seen as the abuse of power by trade unions during the industrial conflict of the 1960s and 1970s.

This is all very understandable but there does seem to be a potential hole in the fabric of policy when examined from the perspectives of the future as opposed to the fears of the past. This relates to the highly ambiguous position of the Government towards the notion of ‘social partnership’, the basis of which, even in its very limited British form compared with those found in other Member States, was virtually dismantled by the Conservatives. Yet the concept of the high performance organisation associated with various scenarios of the learning society and the knowledge-based economy would seem to raise once again the question as to whether or not social partnership matters. (For quite similar reflections in the context of the United States, see Commission on the Future of Worker-Management Relations, 1994; Marshall, 1998; Gray *et al.*, 1999). In particular, does the promotion of high-performance organisations require greater trust and participation by employees in the development of organisational designs and their implementation? If so, can this be achieved simply by legislating for basic ‘fairness at work’, encouraging the modernisation of ‘human resource’ or ‘people’ management approaches at organisational level, and measures to promote more and better quality training and ‘lifelong learning’? Does it rather need a wider framework within which to provide employees with better channels of influence on the implementation of good practice.

If so, the measures chosen to undermine the role of trade unions at national and sectoral level in order to combat their power to *frustrate* managers’ plans may have also left them no scope, in more constructive times, to *facilitate* better management and development of the organisation. Thus a later consequence of industrial relations reform has been to impoverish the basis for social partnership when what may be needed is to enrich it. Certainly, attention has been paid to ‘partnership’ by both Conservative and Labour governments but this has been ‘local’, not ‘social’, partnership in which business, local authorities, regional development agencies and local offices of government services collaborate for the purposes of promoting training, small-business activity, job creation, and economic re-generation. Even then trade union involvement has been modest.

### **3. KEY FEATURES OF THE BRITISH LABOUR MARKET**

#### **3.1 Labour Force, Employment and Unemployment**

In the spring 2000, the population aged 16-59(women)/64(men) in the UK was about 36.3 million, of which 28.7 million were economically active, with 27.1 million in employment and 1.6 million in unemployment (DfEE, 2000a/b). Thus 79 % of the ‘population of working age’, as conventionally defined in official statistics, were in the labour force and 75 % were in employment. Unemployment constituted almost 6 % of the labour force. Labour force participation rates for men and women were 85 and 73 %, respectively; employment-population rates were 80 and 69, and unemployment rates were 6 and 5, respectively.

Amongst the 27.9 million employed *of all ages*, 24.5 were employees, 3.2 self-employed, 110 thousand were unpaid family workers and 150 thousand had formal employment contracts whilst on government training and employment programmes. About 1.2 million people had second jobs so the number of jobs is significantly above the number of people employed in one way or another (the measure of employment used above). Note also that about 1.1 million of the employed were working part-time whilst being students or still at school. In

addition, there were about 100 thousand people on government-supported training who were engaged on work experience but who did not have a contract of employment.

## **Employment patterns**

As regards the discussion of the previous section, regulation does not seem to affect in any clearly predictable way the *level* of employment in relation to the population of working age (Lindley, 1997). It does, however, affect the *pattern* of its distribution among different forms of work (degrees of security - 'permanent', open-ended, fixed term, temporary, casual; employee and self-employed; full time, part time, over-time, shift work, Sunday work and other working hours arrangements) and among different socio-demographic groups. This is apparent from the most recent data which have been refined somewhat (OECD, 1999). British employment patterns are, as a result, generally more varied than those of most other EU states.

Whilst self-employment is significant at 12 % of employment, part-time work in the UK is extensive, comprising a quarter of all those in employment. Despite much media comment, those on temporary contracts only account for 7 % of all employees with about half of them having fixed-term contracts, 15 % engaged by temporary employment agencies, and 20 % taking casual work. It is worth noting that the highest incidence of temporary work (10 %) is found in the public services (including education and health).

Taking men and women separately, only 7 % of women are self-employed compared with 15 % for men. The proportions of employees and self employed who work part-time in their main job are quite close: for men at, respectively, 8 and 12%, and for women, at 44 and 50%. So, for employment as a whole, this corresponds to aggregate figures of 9 % of men working part-time and over 44 % of women. However, temporary workers are as likely to be men as women.

Whilst part-time work is a major feature of the UK labour market, another feature is the *long hours of work* for both male and female full-time employees. Actual weekly hours of full-timers averaged 38.5 in 1999, compared with 15.4 for part-timers and 9.1 in second jobs. Men full-timers averaged 40.4 hours and women 34.2 hours whereas there was little difference for part-time and second jobs. However, the distribution of hours worked is much broader than in other EU Member States so that in the mid-1990s, over 40 % of British men worked usually 45 hours or more per week, compared with fewer than 10 % of German workers or 15 % of French workers (OECD, 1998, Chart 5.2).

## **Unemployment**

Despite the relatively low level of unemployment and the efforts to cut long durations amongst vulnerable groups, almost 30 % have been out of work for more than 12 months, more than half of whom for over 24 months. Age-specific unemployment rates among 16-17 year-olds who have chosen to join the labour force, regardless of continuing efforts to keep them in the education system for longer, have stuck at 20 %, despite almost a halving of the overall unemployment rate to 6 % in the last seven years. The rates for 18-24 year olds have dropped from 18 to 12 %, and those for older workers have declined the most, the more so at higher ages, though the differences are not so striking.

## Major trends

The age structure of the labour force has been affected by policy moves to encourage young people to stay at school beyond the legal minimum leaving age and to expand opportunities in further and higher education. One consequence of this was a more than doubling of the numbers graduating from university between 1980 and the mid-1990s. Thereafter, however, the labour force participation rates for 16-17 and 18-24 year-olds have stayed quite stable at about 60 % and 75 %, respectively, with small declines of about two percentage points for both men and women aged 18-24. Other age-specific activity rates for men have fluctuated, if anything, falling slightly over the last seven years of falling unemployment. Those for women aged 25-34 have risen by five percentage points to reach 75 %, but there has been little or no movement for 35-49 year-olds (78 %) and an increase of three percentage points for 50-59 year-olds to 66 %.

Enduring trends across both the 1980s and 1990s have been the growth of female employment and part-time employment. The number of female employees rose from 9 to 11 million in the two decades to 1999, their share of all employees rising from 41 to 47 %. Part-time employment rose from 21 to 25 % of employees between 1984 (the earliest figure comparable with the present) and 1999; most of the jobs were taken by women but their share fell from 80 to 90 % during the period as male part-time employment rose faster. The proportion of self-employed almost doubled between 1979 and 1990 but fell back slightly during the rest of the 1990s. The growth of temporary work continues from a small base, rising overall by about a third between 1992 and 1999 but declining since 1997.

### 3.2 Productivity, Earnings and Inflation

Productivity increases allow firms to meet wage claims without increasing unit labour costs and then either raising prices or squeezing profit margins. The first response has a negative effect on demand which in turn discourages investment which is also undermined by the second response. Productivity increases first because demand rises and productive capacity can be more fully utilised without increasing the requirement for capital equipment and/or the recruitment, training and development of more skilled labour. Subsequent increases must be secured by investment in physical and/or human capacity, periodically involving major technological and/or organisational innovations that exploit their potential more effectively, but continually accompanied by less dramatic, more incremental, changes that seek to improve processes and products.

Implicit in the above account is the existence of a virtuous circle of higher investment in physical and human capital, higher productivity, higher wages, higher skills, better quality products and services, higher demand, higher profits, and higher investment which leads to sustainable dynamic gains in economic performance. Moreover, it is one in which the creation of more employment and better quality jobs are compatible objectives, though their achievement is not guaranteed. Unfortunately, this is a virtuous circle that still seems to elude the UK economy in general, even if there are undoubtedly strong areas of performance in particular sectors. GDP per person-hour rose at almost 3 % p.a. during the 1970s, but dropped to 2 % p.a. in the 1980s and 1990s, with particularly low growth in the last five years. By the mid-1990s, GDP per hour worked was about 30 % higher in Germany and France and 20 % higher in the US (OECD, 2000; van Ark *et al.*, 1999). Thus unlike some

other EU Member States, Britain has failed to catch up with the US and whilst the US has significantly improved its position recently, the UK has recorded relatively low growth (see below).

### **3.3 Taxes and Benefits**

The basic rate of income tax has been reduced to 22 from 23 per cent, a 10 per cent rate has been introduced for an initial income band, and the rates of National Insurance Contributions (NICs) have been altered to remove distortions at higher income levels. For the unemployed in 1997, income from social security, including housing benefit, expressed in relation to labour income (net of taxes and NICs) for the average production worker (OECD, 2000, Table 12), amounted initially to almost two thirds for those on average earnings and over four fifths for those in the lower half of the income distribution. The rates for the long-term employed rise further to about 75 and 95, respectively. These long-term net replacement rates were very high relative to those in most other EU Member States.

Tax and benefit changes are likely to improve the positions of 7 million families, according to the Government but mostly for those in the lowest three deciles. In particular, the number of families facing marginal tax rates of more than 70 % has halved to about 500 thousand, though the numbers facing 60 % or above has increased. These changes partly reflect the impact of the Working Family Tax Credit which reformed Family Credit from October 1999: families with children, an adult working at least 16 hours per week, and with weekly income net of tax and NIC below a certain limit (about Euro 150) are eligible and also receive a child care credit of 70 % of costs incurred up to Euro 250 per week for two or more children.

## **4. THE RECENT RECORD AND MEDIUM-TERM PROSPECTS**

### **4.1 Recent Record**

Macroeconomic stability with low inflation and low unemployment has been achieved in the latter part of the 1990s:

- total hours worked and the number of people with employment continue to rise
- the inflation record has been helped by falling commodity prices (until recently) and the appreciation of sterling and the retail price index is now rising at only about 2 % p.a.,
- productivity growth has been low as companies held on to labour for longer than might have been expected,
- earnings growth has fallen despite the tightening of the labour market and currently stands at about 4½ % p.a.,
- the short-run indicators of recruitment difficulties appear to indicate no further significant exacerbation of the position.

These are indeed benign conditions for employment to rise and it has done so by 2½ million since 1993, the depth of the last recession. They could, however, unravel somewhat before a platform for stronger medium-term growth has been truly established. During the last year,



productivity growth has picked up to more or less its long-run average. This will help to keep unit costs down in case there is pressure for higher earnings growth but it might indicate less scope for employment gains to continue on their recent scale. As regards the recruitment indicators, their interpretation is not straightforward. The very short-run indicators may not be continuing to rise but they have stabilised at historically high levels and the average duration of vacancies registered with the public employment service is nonetheless still growing, yet the CBI manufacturing labour shortage index is barely above its long-run average for skilled labour and slightly below for unskilled labour.

Overall, it is apparent that the new monetary and fiscal policy framework, introduced by the Labour government, has stabilised the economy, generated more common and realistic expectations, and provided a budget surplus which gives considerable room for manoeuvre in making choices between additional public spending and tax reductions and as regards the patterns of spending and taxation within the main aggregates. There is little room for complacency, however, as the lesson of the early 1990s should have taught the UK and as will be apparent from section 5.

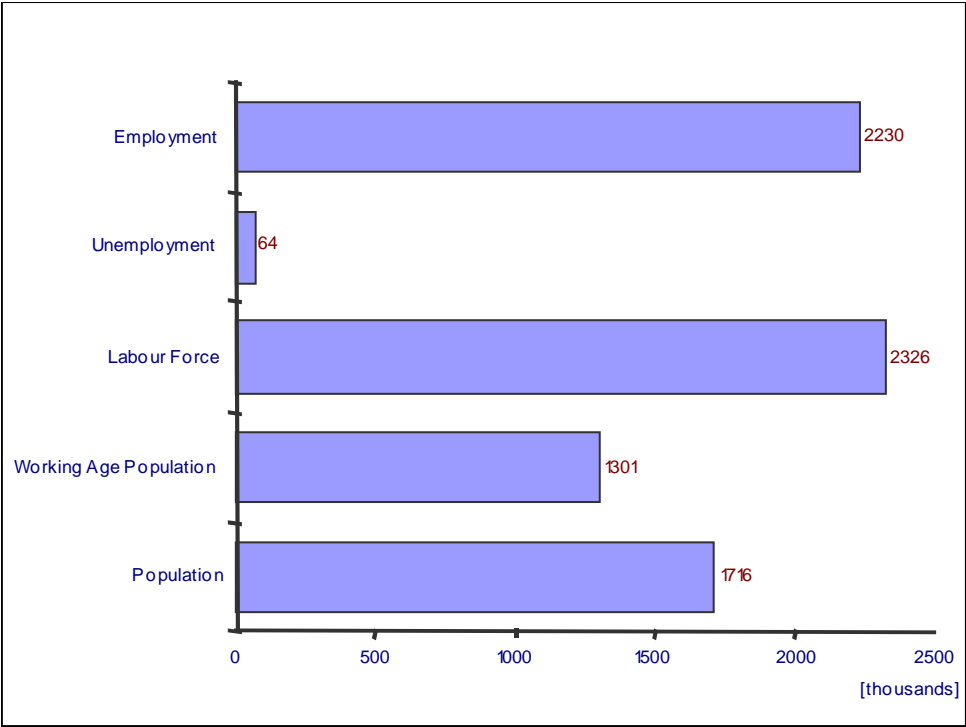
## **4.2 The Medium Term**

Nonetheless, in terms of the essentials, the recent improvement does seem to be sustainable over the medium term. For example, projections by the Institute for Employment Research (2000), co-ordinated by Rob Wilson, suggest that over the decade 1998-2009:

- The growth of GDP/GVA will be about 2.5 % p.a. with that of productivity picking up from barely 1.5 % p.a. over the last five years to 2 % p.a. over the next five years or so.
- Earnings growth of about 4.5 % p.a. and unit cost held down towards 2 % p.a. Allowing for import price changes, consumer prices rise at somewhat below 2.5 % p.a., so the trend for inflation is still downwards.
- Employment growth will vary between 0.5-1.0 % p.a. such that over the next decade employment will increase by over 2 million.
- Of this increase, about two-thirds of new jobs are expected to be taken by women, half will be in the form of part-time employment (including significant increases for men), and there will be a slight increase in self-employment (Figure 1).
- Despite this growth in employment, unemployment will probably stay roughly constant because labour supply will grow at a similar rate to that of employment (Figure 2).
- About 60% of the increase in supply will be due to demographic change, namely through growth of the population of working age and 40% will be due to a continuing rise in female activity rates.
- Employment growth is projected to be most rapid in business services (1.5 % p.a.) where the largest employment increase is also expected (2 million). Modest growth of 0.5 % p.a. is projected in distribution and transport and in non-market services

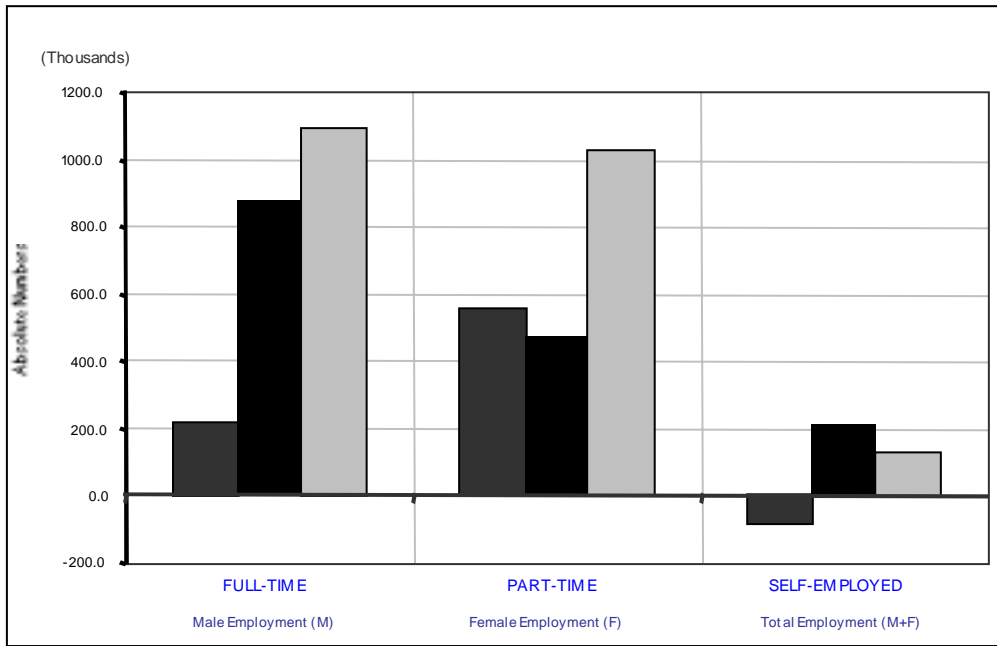
(this includes government and public services) but none in construction. Declines in the manufacturing sector (1 % p.a.) and in the primary and utilities sectors (0.5 % p.a.) are expected (Figure 3).

- The fastest occupational growth is expected for the professions and associate professions where employment rises by almost 1 million in both cases. Personal service occupations, however, also provide more jobs, amounting to almost ½ million jobs (Figure 4).
- Labour force participants with university degrees or equivalent qualifications are expected to rise by over 2 million and, whilst roughly the same growth is anticipated on the demand side for such people, it is also expected that graduate employment will diversify into non-traditional areas of the industrial and occupational structure and into work for smaller enterprises.



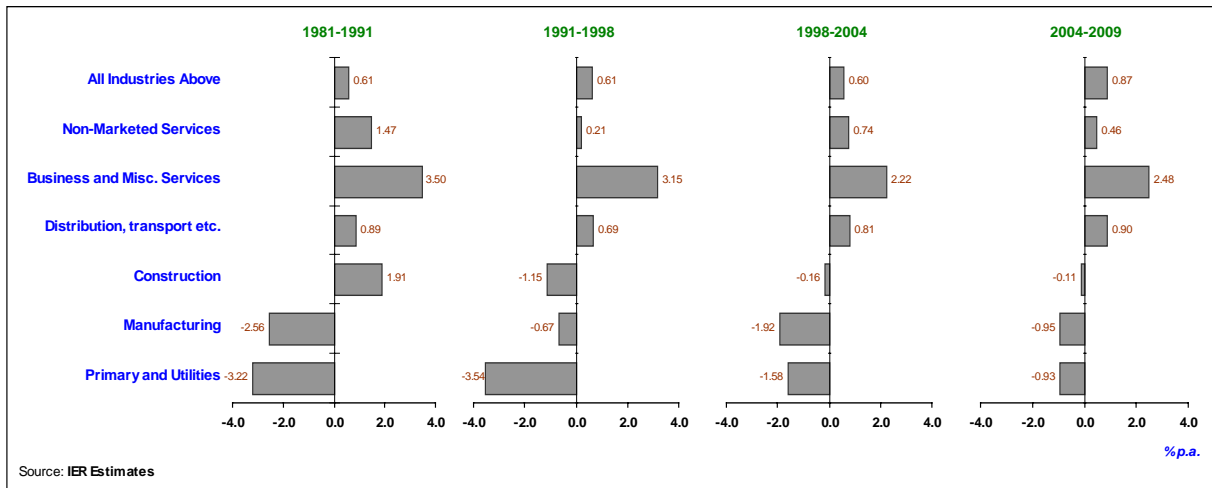
**Figure 1: Projected Growth in Labour Force, Employment and Unemployment, UK, 1998-2009**

Source: Institute for Employment Research (2000). *Projections of Occupations and Qualifications 1999-2000*



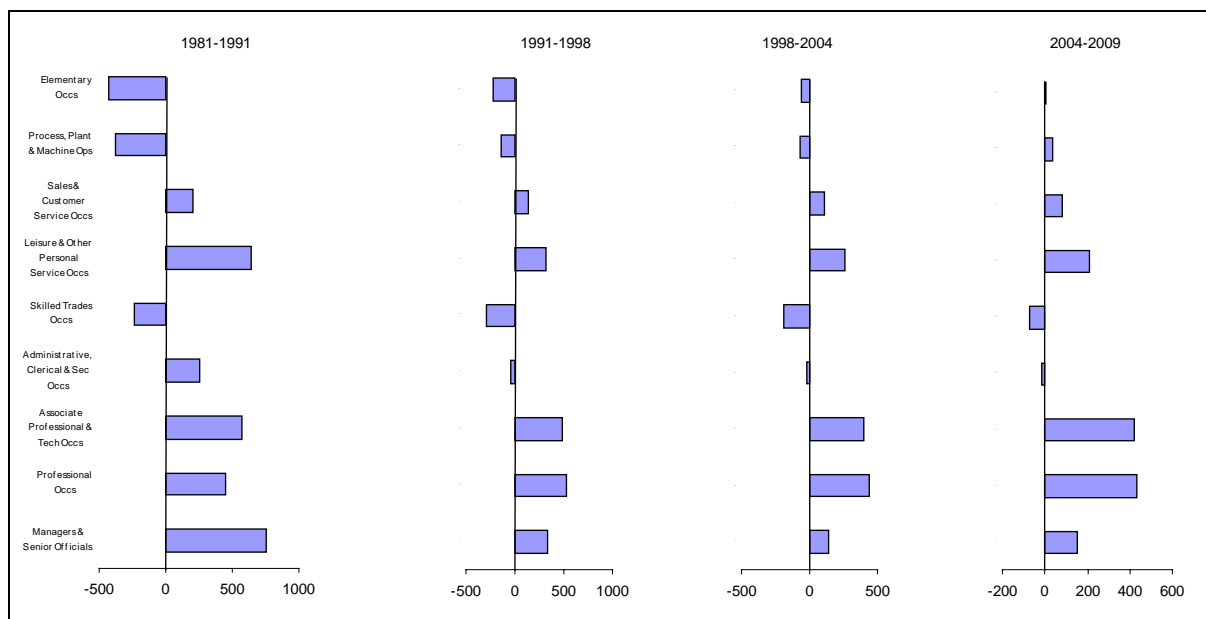
**Figure 2: Projected Changes in Employment Status, UK, 1998-2009**

Source: Institute for Employment Research (2000). *Projections of Occupations and Qualifications 1999-2000.*



**Figure 3: Industrial Employment, UK, 1981-2009**

Source: Institute for Employment Research (2000). *Projections of Occupations and Qualifications 1999-2000*



**Figure 4: Occupational Employment, UK, 1981-2009**

Source: Institute for Employment Research. *Projections of Occupations and Qualifications, 1999-2000*

## 5. UNDERLYING PERFORMANCE AND POLICY STRATEGY

Against the background of quite positive signs, there are two particular medium-run problems which need to be tackled. The first relates to the dynamic effectiveness of the economy and the second to the social well-being derived from economic recovery.

### 5.1 The Dynamic Effectiveness of the Economy is still Disappointing

Whilst it would be churlish to deny the successful elements of performance, there are still problems which undermine the momentum of long-run economic growth.

- Productivity is low relative to that of the larger EU economies.
- Entrepreneurial drive is weaker than it needs to be in the face of international competition.
- The science base has not been harnessed sufficiently for business purposes. Institutional conditions for effective university-business co-operation have still not generally been created.
- Product market competition is not vigorous enough in some areas, allowing less efficient producers of goods and services to survive on the back of the domestic market.
- Investment in education, initial training and continuing professional development are inadequate: as regards employer behaviour, too much reliance is still placed on

voluntarism and exhortation, despite continuing skills deficiencies (Bosworth, *et al.*, 2000).

- Supply-side orientation of policy is too concerned with individual behaviour and too little with organisational effectiveness.

The Government's own diagnosis of the problem and policy responses to it are strongly linked to the perceived lack of appropriate education and training. The remainder of this subsection considers those elements of policy that address the 'dynamic' issue but, as will be seen, it is not possible to separate them out entirely from those that concern the 'social well-being' issue.

### **'Education, education, education' – exaggerated expectations of mainstream policy?**

This particular mantra of the present government, uttered both during and long after the election of 1997, points to its belief in the ultimate overriding importance of raising the quality of education and training for all. It has spawned various devices for monitoring the performance of the school system and extracting greater effort on the part of teachers and administrators; similar steps have been taken for further and higher education. In addition, financial incentives to sustain the commitment of young people to continuing their education and of adults to pursue individual strategies for lifelong learning have also been increased.

This has involved some rationalisation of the existing pattern of advisory and financial support for 16-19 year-olds introduced as pilots or full-blown national initiatives, notably, Education Maintenance Allowances (a pilot) for those in full-time education from low income families; a right to time off for paid part-time study or training for those in employment (with no special derogations relating to small companies, part-time employees, or length of service); a major new re-configuration of careers and other personal advisory services which emphasises the integration of the advisory process; enhancement of minimum training allowances of work-based training. Other innovations, dealing with adults, include the establishment of a national framework of Individual Learning Accounts during 2000.

As regards higher education, reform during the 1980s and early 1990s led to considerable expansion but with a reduction in the unit of resource and in the subsidies to students for fees and maintenance, especially to those from middle- and upper income families. Access issues are still debated, however, and a major commitment has been made to expanding further and higher educational opportunities by about 800 thousand by 2002, especially for part-time and mature students.

Mainstream educational reform is, however, unlikely to have the kinds of pay-off in terms of economic dynamism that is sometimes rather glibly claimed for it. A more realistic expectation is that it will (i) improve the economic efficiency of the education system, (ii) raise its effectiveness in achieving key objectives, notably in meeting better the needs of those from poorer families, those who are least able, and those who missed an opportunity earlier in life, and (iii) help to change underlying attitudes towards the value of learning and to its continuation throughout life.

Getting more value from public spending on education and strengthening the social integration and 'employability' of poorer and less able people (insofar as education can

actually do so) will obviously have economic benefits in a general sense but truly dynamic benefits are not so directly obtained. This is not to deny that promoting high quality and genuine equal opportunity in education will produce both economic and social benefits in the long-run but it is a strategy that *facilitates* rather than initiates entry in to the virtuous circle alluded to in section 3.2. A much more targeted strategy is needed to achieve the latter.

## Labour market policy versus labour market issues in other policy fields

In trying to raise the dynamic capacity of the economy, however, successive governments have struggled with the policy design problem, experimenting not just on the labour market front with measures to increase the volume, pattern, and quality of initial training and (more recently) continuing professional development (Galloway, 2000) but also with different approaches to 'industrial strategies', 'foresight initiatives', and various forms of science and technology policy etc.

Many changes to the institutional arrangements for such policy development and delivery have taken place alongside the changes in specific measures (Lindley, 1993). Overall, they aim to operate on both demand and supply to increase the amount of flexible, certificated training provision which improves individual 'employability' and helps enterprises, especially small firms, to take more advantage of the scope for investing in their labour forces. The *University for Industry*, planned as an intermediary body taking course content and learning materials from such providers as colleges of further education and offering information and advice to 2.5 million people per year by 2002 is one such innovation. The model is difficult to implement, partly because the balance between financial risk to potential providers in investing in products and services and the likely opportunities for extending their markets is complicated by the aim to introduce on-line technologies and a national network of *learndirect centres*. These are ambitious ideas with more than their share of 'new economy' hype attached to them. It remains to be seen how much difference they will make to the market for training in the medium term.

Another, much more grounded development is the replacement of the independent local Training and Enterprise Councils by a national *Learning and Skills Council* with 47 local arms from 2001. This re-organisation of the arrangements for co-ordinating local provision and injecting more strategic thinking at national level is intended to have an annual budget of about £5 billion to cover its responsibilities for the education and training of an estimated 5 million learners. Yet the National Skills Taskforce (2000a/b), itself, warns of the need to ensure that the DfEE retains its own capacity for high-level analysis and strategy-making.

Meanwhile, the Government has continued to develop the training system to promote more *high quality work-based training*. The rationale behind this effort is to strengthen basic incentives for employers and individuals to engage in training for competitiveness. This is somewhat separate from the New Deal initiative (see below) which is essentially aimed at reforming how the disadvantaged are enabled to enter or return to the mainstream labour market. Both training elements of the 'competitiveness' and 'social exclusion' strategies are, however, underpinned by the educational reforms mentioned above and the construction of a more transparent qualifications system. The latter attempts to maintain continual consultation among employers and training providers within the framework of sector/occupation-based training organisations.

The two main concepts for monitoring purposes are Work Based Learning for Adults (WBLA) and Work Based Training for Young People (WBTYP). At end-March 2000, almost 36 thousand were engaged in WBLA and 280 thousand in WBTYP. Roughly 40 % those leaving WBLA are in work six months afterwards and about 50 % gain a qualification or formal credit towards one. About half of the WBTYP participants were in Advanced Modern Apprenticeships and a quarter were in Foundation Modern Apprenticeships. Overall,

about 55 % of all leavers gained full qualifications, 70 per cent entered jobs, and 14 % took up further education and training.

How such statistics on the outcomes of a changing policy design should be interpreted in a tightening labour market presents something of a problem when provision for establishing 'counter-factuals' is very limited. No further comment will be made here, except to note three main criticisms of these programmes: the level of qualification is too low, their scale in relation to overall need is too modest, and the deadweight is high (i.e. the proportion of individuals concerned who would have obtained training in the absence of the programme).

### **Changing roles: the case of the universities**

Whilst there are many ingredients of education and training policy that deal with boosting the supply of such people as skilled manual workers, technicians, scientists, technologists, engineers, computer scientists, and more business-orientated IT specialists, the Government is experimenting with other policy tools and funding techniques. Space does not permit a review of all the policy areas that have a bearing on the above. However, from the labour market perspective, it is apparent that policy-makers need to focus on the *boundaries* between policy relating to the labour market *per se* and that concerned with learning, innovation, and enterprise creation / entrepreneurship. It is there perhaps where the scope for injecting more dynamism into the economy is to be found, rather than in the raft of government measures to reform education and training, important as they are in other respects. Just one recent example of this will be given, not for its quantitative significance as part of science and technology policy but for its qualitative positioning at the intersection of the 'boundaries' mentioned above.

Although there are several metaphors at hand which offer visions of the future (Lindley, 2000, on which the next three paragraphs draw), the learning, labour and innovation systems are likely to be linked much more intimately. The first of these will not simply provide highly skilled labour, basic research and strategic research for the innovation system to incorporate into products and processes. This linear model has long been out-dated and several of the leading European universities have been involved in complex relationships with industry and regional economies for many years (Gibbon *et al.*, 1994). Under this scenario, universities or their equivalent, will be transformed by far more 'engagement' with:

- other major producers and users of knowledge outside the university and other parts of the publicly funded research system;
- a variety of intermediaries concerned with more intensive knowledge transfer activities for and with small and medium-sized enterprises (SMEs);
- continuing professional development building on (inter)national reputation, regional and local association as well as alumni relationships in which 'graduation' is merely the start of a process of deepening and broadening the individual's knowledge base and acquiring both higher-level generic and occupationally specific competencies, with varying degrees of involvement of employers;
- regional economic development strategies in which they will play an active part not merely in helping to implement but in helping to construct;
- and local communities.



The importance of the transformation of universities from exclusive producers of knowledge and educators of the highly qualified to partners in complex networks which go far beyond the pedagogical and scientific boundaries of their traditional roles should not be under-estimated as a major force in the development of the knowledge-based economy and society. Great changes in culture, management and structure of these institutions will be needed if the societies within which they are embedded are to benefit fully from their potential. Essentially, universities have an opportunity to become major animators and participants in networks of *practice* as well as networks of knowledge production and dissemination.

The Government's Science Enterprise Challenge Initiative is setting up 'institutes of enterprise' which aim to achieve critical mass in knowledge transfer by:

- permanently changing attitudes to entrepreneurship and business start-up within the universities, their staff, students and broad networks of contacts;
- enabling and delivering effective exploitation of the universities' world class knowledge base.

The new institutes and the networks that will be sustained by them and which, in turn, sustain them are extremely difficult to build. Moreover, once established, they will tend to be faced with a shifting economic, social and political environment. This environment needs to be understood and major changes in it need to be anticipated. At the same time, success derives not only from the intrinsic merits of the science and technology available for transfer, nor on the nature of the environment within which this is attempted. It depends both on the approach to networking and collaboration adopted and on the approach to professional development amongst those in the partner institutions and collaborating businesses.

It does not matter whether this is seen as an educational policy initiative with innovation and labour supply components, or a technological labour supply policy with educational and innovation components, or an enterprise policy aiming to get more young graduates and experienced university-based researchers in science and technology and *the science and technology to go with them* into the SME sectors, etc. The point is that this kind of initiative seeks to address a dynamic deficiency in the UK economy by directly challenging several groups of actors in the economic and educational systems, raising the incentives they face to collaborate and, in the case of the universities, questioning their traditional conception of the science and technology curriculum.

## **5.1 Social Well-being has not Gained Sufficiently from the Economic Turn-round**

Social well-being derived from the economic recovery and reduction of unemployment of the last seven years has been limited by rising inequality of income and opportunity, and concentration of disadvantage in particular socio-economic groups.

### **Unemployment, inactivity and location**

- Even at present low unemployment rates, over 500 thousand people have been unemployed for more than one year, of whom more than half have been without work for more than two years.
- Unemployment rates of the most disadvantaged men are substantially reduced by high rates of inactivity as those with little or no chance of finding a job withdraw

from the labour force. This phenomenon has increased markedly over the last two decades. For example, almost 2.5 million men of working age are inactive, which is over twice the number currently unemployed and almost *six* times the number of inactive males in the late 1970s. (Dickens *et al.*, 2000)

- Almost a quarter of men of working age living in local authority accommodation (the main form of social housing) are unemployed and 30 % have withdrawn from the labour force. This compares with 7 % and 13 %, respectively, for men as a whole (*ibid.*).
- During the recovery from 1993, the apparently welcome large decline in unemployment among men in local authority accommodation has been due largely to a fall in activity, not a rise in employment.
- Inactivity rates among less-skilled women are 40 % in areas with employment-population rates below 70 % and for men, 28 %. These compare with 27 and 15 %, respectively, for areas with more than 78 % employment-population rates (*ibid.*).

### **Unemployment, skills and qualifications**

- Unemployment among 16-17 year olds (the least well-qualified who have left school) has remained at 20 %, failing to decline as the overall unemployment rate almost halved.
- The adult figures cited above are averages with great variation according to level of qualification: for example, 10 % of those with little or no formal qualifications are unemployed and 18 % have withdrawn from the labour force. This last figure compares with only 8 per cent for university graduates (*ibid.*).

### **Joblessness, inequality and poverty**

- Over 17% of working-age households were jobless in 1999 compared with 11 % in 1981.
- About 13 % of working age adults were in workless households in 1999 compared with 8 % in 1981.
- Hourly earnings inequality has increased by about 30 % for both men and women as measured by the Gini coefficient in 1979 and 1990, continuing to rise for men up to the mid-1990s but falling a little for women (Machin, 1999).
- Workers tend to be stuck with low pay rather than experiencing a high level of mobility into higher levels (Dickens, 2000, cited in Dickens *et al.*, 2000).

### **Inter-generational effects and the welfare of children**

- About 20% of children live in jobless households (well over twice the figures for Germany and France) - so many children are raised in conditions that amount to poverty.
- Inadequate support for child-care affects the welfare of children, especially those with a lone parent working.

## Reconciling personal and professional life - equal opportunities

- The long hours culture, especially amongst male manual workers (see section 3.1), is inconsistent with the Government's pronouncements about encouraging 'work-life' balance. The significance of this for wider social welfare does not seem to be fully appreciated. The mode of implementing the EU Working Time Directive (which was obligatory after the previous government lost its appeal against the legal basis for that Directive) allowed for numerous derogations and there are no explicit commitments to encouraging a long-term decline in full-time working hours by means of further policy intervention.
- The problem with childcare also militates against the reconciliation of personal and professional life for parents and maintains a continuing conflict between the expectations generated and achievements among girls whilst in education and their subsequent experience as mothers whilst in employment.

## General welfare and public services

- There is still a lack of appropriate public sector labour market strategies to match the service objectives stipulated by government with the action required to deliver those objectives in health, law and order, and education.
- Active labour market policy can contribute considerably to curtailing long unemployment durations and, more modestly, to raising employment but runs the danger of promoting more competition in the secondary labour market when what is needed is more competition in the primary labour market.

In order to tackle at least some of the above problems the Government has adopted a strategy which is heavily dependent on the notion of shifting the emphasis of policy from passive to active measures, namely: the policy of 'welfare to work'.

The extent of wage inequality and lack of skills and qualifications means that jobless households only have access to low-paid jobs which, after allowing for taxes and social benefits, would not help many of these households. There are four main ways of responding to this:

- regulate the labour market to raise income from work by legislation on minimum hourly wages as far as possible without lowering job opportunities;
- re-structure the social security and tax systems to lower the disincentives to taking and retaining a job vis-à-vis unemployment or withdrawal from the labour force;
- reinforce job search strategies and the motivation to pursue opportunities for education, training and work experience which have an impact on 'employability';
- improve the quality and quantity of the opportunities provided by active labour market policy.

All the above have been the subject of action by the Government. A *minimum wage* was introduced in April 1999. Reforms of the tax and benefit system have sought to reduce disincentives to work through shifting from out-of-work to in-work benefits by means of several changes in social security and a decline in marginal effective tax rates, especially on the poorer groups. The *Working Family Tax Credit* (see section 3.3) aims to tackle together

the three problems of child poverty, work disincentives and the inadequacy of childcare. Further changes are also envisaged in which, for example, the WFTC and the current Child Benefit will be together replaced by an employment tax credit and integrated child credit. These changes will sharpen the focus on ameliorating child poverty through getting parents back into work whilst maintaining a substantial safety net for the most vulnerable families. However, the operation of the housing benefit system is still problematical.

Complementing these changes in tax and social security, the *New Deal* seeks to increase the employability of the most vulnerable, raising incentives for those already in low-paid jobs to stay in the labour market and for those not in jobs to take them. At the same time, the obligations placed upon the unemployed to seek employment or training have been intensified. Entry to the New Deal is obligatory for young people unemployed for more than 6 months or over and those aged 25 and over who have been unemployed for more than 2 years and wish to continue receiving the Job Seekers' Allowance. The New Deal has re-packaged and re-structured active labour market policy in terms of (i) the nature of the advisory and regulatory process, (ii) the range and quality of opportunities offered to potential participants, and (iii) further impetus to the use of partnerships with local actors.

By August 2000, 532 thousand young unemployed people, 297 long-term unemployed and 160 thousand lone parents had started the New Deal since its introduction. These are the dominant schemes in terms of the numbers involved but the first two attract the vast majority of the funding (80 % of Euro 4.3 billion between 1997/98 and 2001/02) because the third involves largely an advisory process. In terms of the numbers engaged on the programme at a particular point in time, the figures are obviously going to be less impressive than the 1 million or so flowing through it so far. At the end of August 2000, the New Deal covered 115 thousand young people, 65 thousand adult long-term unemployed, and 85 thousand lone parents. At any one time, about half of the younger group and four fifths of the long-term unemployed group are in the advisory phase of the scheme, as well as all lone parent participants. (The other components of the scheme are the New Deals for disabled people, partners of the unemployed, people aged 50 plus, and musicians.)

As with work-based learning, this is not the place to offer a detailed review of the impact of the New Deal; moreover, the scheme is, itself still a young one from the point of view of evaluation and even the routine monitoring statistics leave something to be desired as a result of a lack of cohort analysis. Concentrating on those who have left NDYP and NDLTU, almost 40 % of young people and 14 % of the adult long-term unemployed have entered 'sustained unsubsidised jobs' (lasting more than 13 weeks); these figures rise by about five percentage points in both cases if sustained *subsidised* jobs are included.

The *quantitative* medium-term net impact of the programmes is still open to question for the reasons that also apply to the work-based learning programmes, noted earlier. However, at a *qualitative* level, based on the views of individual participants, providers and other organisations associated with its operation, NDYP has been given a more positive reception than has been the case for previous youth schemes (Hasluck, 2000). NDLP and NDDP also seem to have attracted good responses, whereas NDLTU has not yet achieved a breakthrough in marking a transition from the schemes of the past, even if there are good points to report from at least some groups of participants.

It is with the long-term unemployed whom we might expect to find the greatest difficulty in making a difference. Just as there is a need for policy which aims to tackle the dynamic deficiencies of the economy in ways which operate on the boundaries between traditional policy areas, so the same applies to tackling the exclusion of certain groups from sharing in the benefits of economic recovery. In part, this means that *individuals* should be subject to coherent approaches to policy, delivered in an integrated manner. This is exemplified in the aims of the New Deal with its mix of personal advisory service combined with options for education, training, participation in work experience schemes, and subsidised employment. In part, it also means taking into account the *family context* in which people find themselves in terms of its logistical implications for engaging in the labour market (or pursuing activities aimed at preparing for initial entry or return to employment) and for family income from work and social security. Finally, there is the *local community and socio-economic environment*.

The Government has created a new framework within which problems relating to the last of these are to be addressed. *Regional Development Agencies* were established in 1999 for the English regions and are responsible for promoting sustainable development which addresses the need for social and physical regeneration as well as the design of more specific strategies on competitiveness, such as 'skills action plans'.

However, in spring 2000, still looking for more leverage on the long-term unemployment problem, the Government designated 15 areas of very high unemployment as ***Employment Action Zones***. These account for about 8 per cent of long-term unemployment. By pooling funds from training and welfare budgets, Personal Job Accounts of up to Euro 8000 are accessible for the purposes of covering the costs of job search, training, and employment (e.g. childcare and transport). About 50 thousand people are likely to benefit. The zones will be managed by partnerships, many of which will include private sector partners; providers will be paid according to the number of job-seekers found sustained employment (as defined above). In addition, recognising the complexity of the relationship between education and local socio-economic environment, policies which focused on disadvantaged communities have sought to connect strategies together. So, the ***Excellence in Cities, Education Action Zones*** and the ***New Deal for Schools*** all recognise the role of schools in wider local regeneration.

## 6. CONCLUDING REFLECTIONS

This paper has covered many of the main aspects of performance and issues of policy that arise in considering the UK labour market situation. Even then, it has not dealt with the particular imperatives that stem from population ageing or from discrimination in the labour market, relating to gender, age, ethnicity and disability. Leaving these matters to one side, it is, nonetheless, clear that the situation has improved substantially, thanks especially to the adoption of better macro-economic policy.

The relatively low degree of regulation of the employment relationship has probably played a very minor part in this process of recovery and *changes* to regulation will have had trivial overall effects with some changes tending, if anything at all, to increase and some to decrease employment and others to re-distribute employment opportunities among different groups of the labour force. The amount of legislation to curtail the powers of the trade unions has been substantial but its direct impacts on trade union behaviour have probably been less important

than the severity of the economic downturns during the early 1980s and 1990s. It has, undoubtedly stiffened the resolve of some areas of British management to manage more effectively but this has been accompanied by the virtual destruction of the conditions for social partnership.

Basically, the lesson of British experience is that the policy debate needs to move on from that concerned with deregulation of the employment relationship and tighter regulation of trade union behaviour in industrial relations. Neither has helped to tackle the twin underlying weaknesses of the UK economy: low dynamic effectiveness and high social exclusion.

Although educational reform is seen to contribute to the solution of both problems, this is a blunt instrument with largely medium-to-long-term results for the *economy*. Similarly, labour market policies that focus on enhancing skill supply via boosting initial training in certain sectors and occupations seem not to alter the fundamentals in the ways which are needed. It is as if the problem is the *lack* of skill shortages rather than their presence, since the former reflects the under-performance of organisations in the economy more than does the latter.

Scenarios that encompass the arrival of the knowledge-based economy reinforce the above concerns. For one thing, if the aim is to promote a high performance economy, *subject to high levels of social integration*, organisations in the market and non-market sectors alike need to aim high *individually*. The evidence suggests that, the more knowledge-based the organisation, the more important it is to have high levels of investment in professional development and strong employee participation. For another thing, if the economy is to be run at a more intense rate so as to bring out high performance, does there not need to be a framework of social partnership at sectoral and national levels in order to facilitate attempts to share expectations and co-ordinate efforts to reconcile them so as to aim high *collectively* in the interests of society as a whole?

Therein lies the dilemma for Britain. How hard does it want to try for high performance and low social exclusion, if this means complicating the lives of management and entrepreneurs? Is it actually a feasible objective anyway? Should Britain just not push on with North American style approaches to the relationship between capitalism and society, leaving the fortunes of the poor to depend on 'trickle down' effects?

This is where a further reflection emerges from the experience of the UK economy, especially over the last two years. Social security systems and opportunity structures can be re-structured so as to promote employment among vulnerable groups, taking into account the inherent problems of local communities, and without recourse to punitive sanctions. The lifecycle of the New Deal programme has, however, reached the stage where the problem of how to help those who have been through the programme but remain without an unsubsidised job becomes a matter of concern. The UK Government has shown a determination to persist in tackling disadvantage at individual, family and community levels and the interaction between them. Low unemployment helps to make this commitment more realistic but there is still much to do in dealing with the effects of cumulative disadvantage that already exists and the prevention of it arising in the first place.

Global imperatives are sometimes invoked to qualify such commitments to deal with disadvantage. The present British government seems less likely than its predecessors to adopt this excuse with much alacrity, should unemployment begin to edge up again, but the UK

remains in a critical phase. There is much valuable experience for other countries to share and a degree of self-confidence deriving from the success of macro-economic policy reform would not be out of place. However, the remainder of what is still part of a neo-liberal policy strategy which has evolved over the last two decades, albeit now modified by much greater sensitivity to social need and marketed as a new 'third way', has yet to provide the complete answer for the rest of Europe.

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