



DIRECTORATE FOR EDUCATION, EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS
EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS COMMITTEE

**Labour Market Policies and the Public Employment Service: Lessons from
Recent Experience and Directions for the Future**

FROM RESTART TO THE NEW DEAL IN THE UNITED KINGDOM

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FROM RESTART TO THE NEW DEAL IN THE UNITED KINGDOM

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Introduction

1. The UK public employment service, the Employment Service (ES) and its administration of the unemployment benefit regime is the central feature of the active labour market system. This was also the case when the welfare state was established just after the Second World War. However, it was not always the case in the intervening period. From the end of the 1960s there was a gradual diminution of the labour market focus. In fact, between 1982 and mid-1986 there was no requirement to visit Jobcentres at all in order to receive unemployment-related benefits.

2. This paper considers the development of the system of labour market policies from the introduction in mid-1986 of Restart and the *stricter benefit regime*. This marked the reversal of the previous trend away from a labour market focus. Over the next decade there was a number of innovations that increased the work focus of benefits. These culminated in the introduction of a new unemployment related benefit called the Jobseeker's Allowance (JSA) which remains the bedrock of the current active labour market system.

3. The current Government have introduced two radical extensions to employment policies. First, there are the New Deals for the claimant unemployed that aim to end long-term unemployment; the New Deal for Young People and the New Deal for the Long Term Unemployed. Secondly, employment policies are being extended to cover economically inactive people of working age, particularly lone parents and long-term sick and disabled people on welfare. The challenge in helping these inactive people is different. It is necessary to get people back into the labour market before they can get into work.

4. In what follows Section 1 sets out some essential features of the UK labour market within which labour market policies have to work, highlighting particularly its diversity of job characteristics and employment and its dynamism. Section 2 draws out the implications for labour market policies. It sets out how they affect the Employment Service and how policies have developed since the mid-1980s. Section 3 presents some evidence that suggests that the UK approach has had a positive effect on unemployment, the ability to deal with recessions, the geographical distribution and the extent of long-term unemployment. Section 4 considers the new welfare to work initiatives of the current Government and what evidence is available. Section 5 compares the UK approach with that of some other countries and considers the issue of *profiling*/early identification and *one stop shops*. Finally, Section 6 draws some conclusions.

1. Features of the UK labour market

5. A central feature of the UK system is its universal welfare state that has its closest counterparts in the Scandinavian countries in scope, if not generosity. The main components of the welfare state are universal public education and health systems, universal benefits for people of working age paid to people in respect of unemployment, sickness and disability, lone parenthood and people on low wages relative to their family circumstances (now paid in the form of tax credits). For people above retirement age there are universal pensions. For those in receipt of benefits, whether in or out of work, there are also benefits paid in respect of housing costs and local taxation.

6. The UK system contrasts with the social insurance principles of many EU countries such as France and Germany and the similar but more privately-based delivery system in the US. In social insurance countries there are always supplementary social assistance or welfare systems. However, they are not as comprehensive, integrated or centralised as in countries with Beveridgean welfare states such as the United Kingdom. Social assistance in social insurance countries also tends to be less well regarded and at a lower level.

7. The United Kingdom's form of social protection and the relatively low level (although with more comprehensive coverage) of benefits in international comparative terms have implications for the tax regime. Much of the social protection system is paid for through general taxation. So social security contributions for employers and employees are relatively low. As employers' social security payments usually make up a large proportion of non-wage labour costs this is a major reason why non-wage labour costs are low. In the European Union, only Denmark has a lower level. However, it is not just the method of financing the welfare state that determines the size of the tax wedge. Despite its comprehensive welfare state, the size of the public sector in the United Kingdom tends to be lower than other EU countries, but not the US or Japan. There is, therefore, less finance needed.

8. As social protection in the United Kingdom tends to be delivered through the benefit system there has traditionally been less of a role for regulation of terms and conditions in the labour market. Social protection tends to be focused on outcomes such as requiring behaviour that ensures health and safety or equal opportunities, rather than prescribing the method of achieving these outcomes. This is a long-standing tradition. For example, the United Kingdom has never signed up to any ILO convention on working time. This includes the very first one, Convention Number 1, established when the organisation was set up in 1919. Thus, although the previous Government had a reputation for deregulation and there was some, it was not extensive general deregulation because there were few general regulations to abolish in the first place. However, there was unease that the previous government had gone too far. The current Government believes that it is possible to combine this labour market diversity with decent minimum standards. It has, therefore, restored some basic minimum standards.

Diversity in labour markets

9. The lack of general regulation of terms and conditions in the labour market has tended to mean that there is, and always has been, a wide range of types and patterns of employment (Wells, 1992). The range of jobs in the United Kingdom is wider than in any other EU country and the concept of a *standard* or *typical* working week does not really exist in the United Kingdom. The range of hours worked is very wide with only 10-15% of employees working the modal number of hours of 40 hours per week. Similarly, the distinction between full- and part-time employment is somewhat artificial as there are no obvious dividing points. As well as great diversity of hours worked the United Kingdom tends to do more shift, night, Saturday and Sunday work. A notable exception is that temporary work is less prevalent than in other parts of the EU.

10. The range of jobs available tends to enable a wider range of people to find a pattern of work that suits their individual circumstances. It is one of the reasons why the UK employment rate (the proportion of people of working age who are in employment) is amongst the highest in the world. In the EU it is second only to Denmark.

Diversity in product markets

11. Diversity in types of work available are accompanied by increasing diversity and decentralisation in the methods of production. Self employment is more prevalent than in the 1970s (although it has fallen back somewhat lately) and more generally enterprise and competition are now actively promoted. Alongside this, product market deregulation, international trade liberalisation, privatisation, trade union reform, contracting out and market testing have all made it possible for a larger group of economic agents to compete in both product and labour markets.

Increasing the relative power of “outsiders”

12. It is not, however, enough to have a wide range of jobs available if they are not open to people who are without work. Here policies have changed. The previous stance during the 1970s and early 1980s favoured the maintenance of employment of existing workers. Now, there are fewer barriers to market entry for the unemployed.

13. Subsidies in respect of existing employees such as the Temporary Employment Subsidy and the Short Time Working Compensation Scheme aimed to avoid redundancies. Industrial rescues, subsidies to nationalised industries and closed shops have a similar effect. By the mid-1980s such subsidisation of firms and employees had largely disappeared. Alongside this, there was also a belief that too onerous employment protection regulation for existing workers tended to prevent market entry by different workers and also retard competition. Thus, the qualifying period for unfair dismissal (for full timers), having been reduced from two years to six months in 1974, was increased to two years between 1979 to 1985. Again, the current Government believed that this had gone too far and it is now set at one year.

14. As a consequence, it appears that the determinants of the level of unemployment have changed. During the 1970s the prevailing wisdom was that the increase in unemployment was largely due to an increase in the average duration of unemployment (see, for example, Layard *et al.*, 1991). This is what you might expect if outsiders are excluded from jobs and job growth itself is sluggish. In contrast, during the 1980s and particularly since 1986 the level of unemployment has primarily been determined by inflows into unemployment. The increased competition in both product and labour markets may have had an effect in enabling more unemployed “outsiders” to get past the “insider” barriers and into jobs.

Increased employability and improved incentives.

15. There has also been some increase in the ability of individuals to take up jobs and firms to provide them. Education levels have improved substantially since the mid-1980s (although from a low base) and the current Government has placed great emphasis on raising education standards, particularly of basic skills and employability. For example, in 1986 37% of the population of working age had no qualifications. By Winter 1999/2000 this proportion had fallen to 16%. However, demand for unskilled jobs has also fallen over this period and this fall is likely to continue. Therefore, it may be necessary to improve just to stay in the same position.

16. On top of this, financial incentives to make work pay have been improved. Non-wage labour costs have traditionally been low but the United Kingdom is the only G7 country where they have fallen

since 1980. Also, there has generally been a shift from direct to indirect taxation. This has meant that the direct tax wedge (direct taxation together with employer and employee social insurance costs) is amongst the lowest in the OECD. Thus, the gap between the total costs of labour and take-home pay tends to be lower in the United Kingdom than elsewhere.

17. There were also reforms of the distribution of the tax, social insurance and benefits so that it is generally true that people are better off in work. A National Minimum Wage has been introduced. Benefits have been uprated by prices rather than earnings since 1980. As real earnings have risen throughout the earnings distribution then the gap between earnings and benefits has grown. (The situation is complicated by the fact that housing costs have risen more than prices. These costs are usually paid in full on top of benefits. Hence, overall, benefits have risen in real terms.) Changes in taxes and recent reforms of National Insurance have also favoured the lowest paid. There have also been reforms of in-work benefits. Initially Family Credit was introduced and then the more generous Working Family Tax Credit (WFTC). The WFTC also promoted work by payment through the tax rather than the benefit system.

18. Social insurance changes and changes in wage determination may have helped employers to take on workers although partly at the expense of a widening of the earnings distribution. Employer's National Insurance payments have been reformed to reduce the costs of employing low paid workers. Also, over the past two decades, pay determination has become more decentralised and there are now more systems that link pay to performance. Tentative conclusions are that the relative pay movements may have been favourable in providing more job opportunities (Beatson, 1995 ; OECD, 1996a). However, they have also contributed to the earnings distribution becoming more unequal.

Dynamism in the labour market

19. The current Government has restored as a central economic objective the achievement of high and stable levels of employment so that everyone can share in higher living standards and greater job opportunities. The current position is relatively favourable. The number of people employed is currently at its highest ever level at 27.8 million. However, because the population is also increasing record levels of employment do not mean that the employment rate is at record levels. Compared to previous cyclical peaks the employment rate at 74.3% (UK working age is 16-59 for women, 16-64 for men) is currently back up to 1979 peak but below the unsustainable 1990 peak of 75.0%.

20. Employment rates are also well above the EU average in every region and in the vast majority of local authority districts within regions. Differences within regions are much greater than the differences between regions with all regions having areas of high and low employment, sometimes next to each other. There are a relatively small number of local authorities (20 out of 408) which have employment rates below the EU average. Six are in London, four each in North West, North East and Wales and two in Scotland. These districts are dominated by areas in or around major cities, particularly London and Liverpool, some ex-coalfield areas particularly in the North East and Wales and some seaside and coastal towns.

21. More importantly from the perspective of the public employment service Jobcentre vacancies come up all of the time (Figure 1). Over the past year around 2 ³/₄ million vacancies (just under 10% of the workforce) were notified to Jobcentres. Changes in the levels of employment are the net result of a large number of people taking up jobs and a large number leaving jobs. Numbers taking up work do not vary as much as numbers leaving work. Even in each of the recession years of 1991 and 1992 there were still around 2 million new Jobcentre vacancies. Yet, over the period employment fell by over a million because job losses rose substantially. Also, as well as Jobcentre vacancies there are probably twice as many vacancies from other sources such as newspaper adverts.

22. At a local labour market level (Travel To Work Areas) there is a relatively even spread of vacancies across the country (Figure 2). In most Travel To Work Areas vacancies notified to Jobcentres each year are around 7-15% of their workforce. Vacancy rates are not closely linked with whether employment is going up or down or whether employment is low or high. Again, Jobcentre vacancies might be a third of total vacancies.

23. All industries notify vacancies to Jobcentres. There is not a close link between the industry's share of vacancies and whether employment is growing in that industry or not. There is a much closer link between any industry's share of Jobcentre vacancies and its share of total employment. In terms of Jobcentre vacancies, distribution and hotel and catering industries are over-represented and public administration, health and education and, to a lesser extent, manufacturing are under-represented.

24. It is a similar story at an occupational level. Jobcentre vacancies cover a wide range of occupations. Again, there is not a close link between an occupation's share of Jobcentre vacancies and whether employment in the occupation is growing or not. Jobcentre vacancies are under-represented in managerial and professional occupations compared to the structure of employment. However, Jobcentre vacancies are more closely aligned with the occupations sought by the claimant unemployed as managerial and professional occupations are also under-represented amongst the claimant unemployed.

2. Developments in UK labour market policies

The justification for and establishment of a public employment service

25. The diversity and dynamism of the UK labour market at least affords the possibility that people who are without work need not be concentrated amongst certain groups. With all sorts of jobs coming up all of the time more people are likely to be able to find a type of work that suits their individual circumstances such as their domestic commitments and education. There is also the possibility that people will, relatively quickly, find a job that suits them and need not spend too long without work.

26. However, compared to the immediate post war period, society is less collective. It is more individualistic, more consumerist, more complex and more market based and driven. Society is now much more decentralised, diverse and heterogeneous. It is now a mosaic not a jigsaw. This is partly because of the onward march of the market that involves millions of individual transactions rather than a smaller number of collective decisions. It is also partly because new technology, mass communication and travel have shrunk the world. In such a society, information about how all the various bits fit together is an invaluable resource. Here, the provision of information aimed at bringing together people without jobs to jobs without people is crucial.

27. What is more, because of economies of scale and hence decreasing marginal costs, Governments or other collective bodies have a distinct advantage in collecting that information and disseminating it universally. On top of this, information does not diminish when it is used. It can be used more than once without being reduced. Also, the marginal cost of provision is close to zero. This would again suggest Government involvement in order to bear the costs of collection whilst generally providing the information free so that the economy can recoup the benefits of better resource allocation.

28. This classic market failure argument for state provision of labour market information is supplemented by the need to offset unintended side-effects of Government policies. That is why, from the beginning, the British welfare state has incorporated what is now called the rights and responsibility agenda.

29. For example, the Royal Commission on the Poor Law (1904-09) examined the case for unemployment insurance. The minority report, largely written by Labour Party luminaries Sydney and Beatrice Webb, advocated compulsory labour exchanges as a crucial counterbalance to any scheme of unemployment insurance. This view, with which Beveridge concurred, was partly based on an early example of evidence-based policy. There was a brief experiment with compulsory insurance in the Swiss canton of St. Gall which had failed because of the lack of adequate controls over claimant's availability or their willingness to work. Requirements of active job search and availability for work were maintained in the UK system and reproduced in the unemployment benefit system when the welfare state was set up in the late 1940s.

30. These factors remain the key reasons for maintaining a public employment service. In 1995 the conclusions of what was called a Prior Options Review of the Employment Service were announced by Michael Portillo the then Secretary of State for Employment. Abolition was ruled out, despite the then government's predisposition towards greater private sector involvement. Privatisation was not considered feasible. ES generated only a small revenue and any attempt to boost it by charging for placings would undermine the help for the unemployed. Strategic contracting out and market testing were also not considered feasible on a national scale because there was no current capacity to provide all ES functions nation-wide.

31. The over-riding factor behind these conclusions was the need to maintain the links between job-broking and benefit administration. As the report concluded:

The strong links between benefit administration and job-broking have been shown to be a significant factor in ensuring that the unemployed receive adequate help back into work. Without them, levels of unemployment, particularly long term unemployment, would be higher, and any reduction in the effective labour supply would lead to higher recruitment costs and greater wage pressure. The report concluded early on that it is important to maintain such links in any future arrangements for the delivery of ES functions.

32. Thus, the UK approach is to ensure that all of the claimant unemployed are helped all of the time by maintaining continuous labour market attachment. Administrative means are used to maintain this attachment and labour market focus. They offset the effect of duration dependency -- the natural tendency for morale and job search to flag the longer a person is unemployed -- and any disincentive effects associated with the receipt of benefit. This approach aims to increase the chances of individuals of all durations of getting a job. It allows people to take advantage of the fact that all sorts of jobs come up all over the country all of the time.

The period up to the mid-1980s: broken links between job broking and benefit administration

33. From the mid-1960s there was a move away from market solutions and towards direct interventions in the income distribution not just in the United Kingdom but in many other countries. Benefits moved away from being a temporary palliative whilst the underlying problem is being resolved towards a permanent payment for 'victims' who have no responsibility for their plight.

34. Jobcentres and Benefit Offices were split in 1974 when the Manpower Services Commission was established. From 1961 people only had to visit Jobcentres once rather than twice a week. In 1980 it became once a fortnight and between October 1982 and mid-1986 unemployed people did not have to sign on at Jobcentres at all.

35. Thus, the management of the system had become essentially passive with no responsibilities to counterbalance the right to benefit. People only had to sign on at benefit offices in order to receive their benefits. This shift away from responsibilities was increased by the pressure to reduce the number of public

servants. The review that suggested the move to voluntary attendance in Jobcentres also recommended that the number of Unemployment Review Officers (UROs) needed to police the new regime should be increased from 940 to 1 250. Instead, by 1985 only 550 UROs were being employed. The first half of the 1980s had also seen years of staff cuts. This further reduced the focus on the labour market and increased the relative importance of the passive payment of benefits.

36. What is more, in the early 1980s large numbers were encouraged out of the labour market into inactivity. For example, the 1983 Budget allowed men aged over 60 to move on to a higher benefit rate if they left the unemployment register and signed onto the long-term supplementary benefit rate (as it was called then). This benefit required that benefit recipients *did not* look for work. In addition, there was the Job Release Scheme which subsidised the early retirement of older workers in order to release a job for young people. Finally, many people were on large-scale undifferentiated training and employment programmes which had relatively few links with the “open” labour market.

37. The focus of the Jobcentre network also moved away from the individual. The split of Jobcentre from Benefit Office and the siting of Jobcentres in high streets aimed to maximise vacancies by concentrating on providing a better service to employers. By gaining market share the belief was that more of your clients, particularly the harder to help, would benefit. This example of *trickle down* did not work. The policy aimed to get more vacancies notified to Jobcentres, but fewer unemployed people were coming in to Jobcentres to match with these jobs.

Restart and all that

38. The year 1986 is rightly famous for the start of a reversal in UK labour market policy. However it was not just Restart (see below) that was introduced. A number of initiatives, collected under the term “stricter benefit regime” also began to increase the labour market focus of the administration of benefit. More Unemployment Review Officers (UROs) and also fraud officers were introduced, vacancies were displayed in benefit offices, UROs could interview clients in Jobcentres, and there was a “Postal Contact Initiative”. Letters were sent to all unemployed over six months to encourage them to use Jobcentre services.

39. As well as this initiative Restart was introduced. All the long-term unemployed were invited to come to an interview at a Jobcentre. The interview included discussion of why individuals remained unemployed and of a menu of opportunities. Restart was introduced on a pilot basis in nine offices in 1986 because the Government and particularly the finance ministry asked for an evaluation of the pilots before they would agree a nation wide extension. The evaluation when it finally emerged concluded that an extra 8.5% left the count as a result of Restart. Not all of those who left were for work. This became a common feature of such programmes. When a new initiative is introduced then some people will tend to leave the register not for work. Over time this effect tends to wear off and, to some extent, could be seen as “cleaning up the register”. In the end Restart went national on 1 July 1986 and by 1987 interviews were held after the first six months and every six months thereafter until a person left the register.

40. Over the next decade until the introduction of the Jobseeker's Allowance in 1996 there was a gradual revision of all aspects of labour market policies. Active labour market policies aimed to take advantage of the diversity and dynamism of the UK labour market and match individuals with the jobs as they appear. The public employment service is, therefore, a vital element. Within it the use of the job-broking function in conjunction with the payments seeks to promote and improve job search. Where necessary this is supplemented by other individual based interventions such as training and work experience that help to place the right person in the right job. This approach is fully in line with the original proposals of the OECD Jobs Study (OECD, 1994). It combines the payment of benefit with active job search and also acts as a gateway to other active labour market help.

41. The key elements comprised the establishment of a fully unified unemployment benefit system (Jobseeker's Allowance) which combines both contributory (social insurance) and means tested (social assistance) benefits. Rules from the previous regimes were standardised and, where possible, simplified. This aimed to allow people to concentrate on getting back to work rather than worrying about benefits. It also makes it easier to provide more coherent help as people become unemployed for longer. By contrast, many other countries have social assistance that is not integrated either with social insurance or with active labour market policies. In these cases active labour market policies tend to be concentrated on people receiving social insurance benefits who, in turn, tend to be the shorter-term unemployed. For example, the US welfare to work initiative was a radical departure for that country in focusing on social assistance beneficiaries but (for claimant unemployed) in the United Kingdom this approach has always been built into the system.

42. Secondly, an intervention regime has been established which is built around the individual and fully focused on the labour market. At the start there is a Jobseeker's Agreement for everybody who becomes claimant unemployed. This is a back to work plan that tries to devise the most efficient form of labour market activity necessary to get people into jobs. It takes account of an individual's characteristics, their benefit position (another reason for integrating benefit payment and job search) and the local labour market circumstances. Such an action plan is a common feature of many countries' systems but the UK version applies to all people rather than a group selected on the basis of the duration of unemployment, or a procedure such as profiling.

43. The other major difference is that the agreement expects the individual to do most of the work particularly at the start of the claim. Individuals tend to have the best idea of their own circumstances. They can also tap into the majority of vacancies that are not notified to Jobcentres as well as those that are. Finally, getting the jobseeker to do most of the work is a way of shepherding public sector resources.

44. This plan requires people to be actively seeking work and available for work and the intervention regime promotes continuous job search by requiring regular (fortnightly) attendance at a Jobcentre where vacancies are available. This keeps individuals in touch with vacancies and tries to offset, through administrative means, any tendency for job search to flag as their unemployment duration increases. In addition, "active signing" checks the Jobseeker's Agreement by testing a proportion of the client group each time they attend. "Active signing" supplements this continuous-job-search strategy particularly since the individual is unaware when their Jobseeker's Agreement will be checked. Under this approach the payment of benefit itself is an active labour market measure.

45. This regular attendance is supplemented by regular, more intensive, interviews thereafter. At three months individuals have to widen the range of jobs that they have to consider both in terms of occupation, type of job and distance travelled. Individuals attend a Restart interview at six months and a similar interview every six months thereafter. These interviews review and check the individual's approach to getting a job and, as duration increases, provide a suitable occasion for determining whether they should change their approach and also what individual help is needed.

46. The amount of help available increases as duration increases. There are, however, some groups who are eligible for extra help immediately. For individuals with one particularly severe labour market disadvantage -- disability, English as a second language, severe literacy or numeracy problems -- early access is allowed.

47. The range of large-scale interventions has also changed in nature. As Figure 3 shows there has been a shift away from large-scale and undifferentiated training and work experience. Now, the focus is much more on measures aimed at matching people with jobs and aiming to address their individual barriers and problems. There is a range of jobs and individuals so there is the need for a range of interventions. The interventions include policies to improve job search (*e.g.* Jobclubs); interventions to ease the transition into work (*e.g.* travel to interview subsidies, work trials, subsidies, jobfinder grants, help with claiming or

retaining benefits, advice on in-work benefits and tax credits); and interventions to restore either work habits (*e.g.* work experience) or improve skills (*e.g.* training). At the end of longer interventions there is also greater effort to recoup the investment and ensure an efficient transition into work through job search.

48. There has also been an examination of how the policies are delivered. Jobcentres and unemployment benefit offices have been re-integrated and attention paid to customer service with an important cultural change brought about by removing screens between staff and clients and having open plan offices.

49. Also, new management techniques were introduced. The Employment Service (ES) was set up as a Next Steps agency that operated at arm's length from its parent department. However, given the importance of the various processes in the delivery of labour market policies there continues to be close liaison between policy and delivery. The ES is given, each year, a set of targets. There is a set of placement targets aimed at those with labour market disadvantage so that the delivery mechanism as well as policy is focused on those most in need. Other targets aim at ensuring that the labour market interventions are delivered promptly and accurately and at ensuring customer satisfaction.

50. For the large-scale interventions the ES hands the individuals over to specialist providers. ES does not deliver all these interventions. Many are contracted out.

3. Success of the Policies

51. As Figure 3 shows, the cost of active labour market policies has fallen even after the introduction of the current Government's more extensive welfare to work programme. However, despite the reduced costs there is evidence that labour market outcomes have improved since the mid-1980s and that labour market policies have contributed to this outcome.

52. Since labour market policies changed and then changed back after 1986, a historical comparison might show whether the policies since Restart have had an effect. Figure 4 compares claimant and ILO unemployment. In the mid-1980s the number of unemployed claimants was more than the numbers of ILO unemployed. This implied that, during the period when there were not policies aimed at continuous labour market attachment, many claimants were either not actively seeking or not available for work -- even though these were conditions of receiving benefit. They were inactive in the labour market.

53. In such circumstances the claimant unemployed could not take up jobs even if they come up. They either do not know that there are jobs around or are not available to take them. The drift into inactivity and benefit dependency is also likely to be concentrated amongst those who have been without work for a long time. By mid-1986, even though employment had been growing for more than three years after the recession, there were 3.1 million claimant unemployed and 1.3 million had been claimant unemployed for more than a year.

54. Thereafter, when the labour market focus of the benefit regime increased, claimant unemployment fell below ILO unemployment as you would expect and the gap grew from 1996 when JSA was introduced. However, generally the unemployment trends were very similar. That is not surprising given the universal nature of the UK benefit system.

55. Since 1986 there has been improvement in claimant unemployment (Figure 5). For the first time since the 1960s, the cyclical peak in unemployment in 1992 was lower than the previous (July 1986) peak. Recently, another milestone was reached. The current claimant unemployment levels are now below the previous unemployment trough in 1990. Most of the improvement in unemployment (1.1 million of the 1.9 million improvement in unemployment since 1986) is amongst the long-term unemployed. Falls at the even longer durations were even faster.

56. The improvement has largely been because there has been a change in the relationship between inflows and outflows. As Figure 6 shows, until the 1980s outflows were generally on a downward trend and that trend was relatively unaffected by inflows. The focus on maintaining employment probably meant that the probability of “outsiders” getting back into work was reduced. Thus, even when inflows jumped during the recession of the mid-1970s, there was not an equivalent increase in outflows and durations increased. From the 1980s and particularly since 1986 outflows have become more of a mirror image of inflows, following the moves up and down. Thus, in contrast to the mid-1970s, the recession of the early 1990s saw a rise in unemployment that was predominantly due to the increase in inflows.

57. The improvement in outflows between mid-1986 and 1999 is set out in Figures 7 and 8. By using the benefit regime to maintain continuous attachment for all claimants throughout the unemployment spell, it seems that it is possible to take advantage of the constant turnover of vacancies. Most people leave unemployment quickly; in 1999 over three quarters left within six months and over 90% left within a year. People continue to leave unemployment at all durations. Half of the people who reach a year leave within the next year. Similarly, half of the people who reach two years and three years leave in the next year. (However, among all people leaving, the proportion that goes into jobs falls as duration rises.)

58. Since mid-1986 there have been large improvements in the outflow rate at every duration. Compared to 1986 the proportion of the inflow who remain claimant unemployment after a year is now less than half (9% compared to 20%); after two years a quarter (2% compared to 8%); and after four years an eighth (0.5% compared to 4%).

59. The regime also appears to help prevent the build-up of long-term unemployment during recessions. Outflow rates have moved up over the period (Figure 9). There was a rise in the mid- to late-1980s when the new approach to labour market policies was being introduced and in 1996/97 when the new Jobseeker's Allowance was introduced. However, there is little overall variation in the rates despite the fact that the early 1990s recession was both long and severe.

60. The application of a standardised approach to all claimants across the country has helped to achieve a relatively even spread of outflow rates. Figure 10 shows for Travel To Work Areas (TTWAs) the proportion of people in the first three months of unemployment who leave in the next year (ranked from lowest to highest) for both 1986 and 1999. Most TTWAs were in a relatively narrow range of 85% to 95% close to the national average of 91%. This was a substantial improvement on the 1986 range of 75% to 85%. Outflow rates tend to be slightly lower the higher is the unemployment rate but the differences are neither consistent or marked.

61. It is a similar story at longer durations. In 1999 for people in their first year of unemployment most TTWAs in 1999 saw around 85-95% leave unemployment in the next year compared to around 70-80% in 1986. In the second year of unemployment most were in the range 60-80% in 1999 compared to 40-60% in 1986. In the third year 50-80% left unemployment in the next year in 1999 compared to 30-40% in 1986. In the fourth year 40-60% in 1999 compared to 20-30% in 1986. For longer durations, outflow rates tended to be lower in higher-unemployment areas. However, again this correlation is neither close nor marked. The correlation seems even less marked in 1999.

4. The new Welfare to Work agenda

62. Despite the fact that there is the same proportion of people of working age in employment as in 1979 there is now a greater number of people on benefits who are not in work. The number of households as well as the number of people who are dependent on benefits has risen. Also, more people have been without work and on benefits for a long time. This is particularly true of benefits associated with inactivity -- lone parent and long-term sickness and disability benefits. Also, there are still more people who are long-term claimant unemployed than in 1979 which was then considered a historically high level.

63. The numbers of claimant and ILO unemployment are now falling to close to 1979 levels but the numbers on other benefits are much higher. Of the 5 1/4 million people of working age who were not working and on benefits only around 1.2 million were on unemployment related benefits. Of the rest, 2.9 million were on sickness and disability benefits, 900 000 on lone parent benefits and around a quarter of a million on various other benefits. The major reason why the number on inactive benefits is high is that once they are on benefits only a small and, until recently, declining proportion of them leave. There is, therefore, a build up of people on these benefits with very long durations. This picture is similar to the story of the claimant count in the period up to the mid-1980s when it, too, had a passive administration regime.

64. Given this distribution of people without work the current government has decided to use the best national and international evidence of what works in active labour market policies in order to end long-term unemployment. Also, in another radical innovation, employment policies are being extended to cover the inactive, particularly those on benefits.

The New Deals for the claimant unemployed

65. The *New Deals for Young People and the Long Term Unemployed* are the policies aimed at ending long-term unemployment. The New Deal for Young People is the more developed of the two. In return for the rights of a comprehensive, individually based service young people aged 18-24 unemployed for six months or more have the responsibility to take up the help. They are not allowed to remain on benefit.

66. In the New Deal for Young People there is a "Gateway" process. For up to four months, the young people are assigned to a caseload with a personal adviser and given counselling and intensive job-search help. There are then four options; a subsidised job with an employer, work experience on either the environmental task force option or with a voluntary organisation, or primarily for people with low or no qualifications, the option of full time education or training. If the young person turns down all reasonable offers there is "no fifth option". They will not be allowed to rest on benefits and will be sanctioned. Towards the end of the option, help with job search is reintroduced and this continues after the option has ended in what is called the Follow Through.

67. The New Deal for Long Term Unemployed was introduced in its original form in June 1998. It is now being developed building on the evidence and successes of the New Deal for Young People. After a degree of experimentation and piloting a new structure, which resembles that of the New Deal for Young People, will be introduced next year in the light of evaluation results and lessons that have been learnt.

68. These New Deals were introduced to end long-term unemployment. There are signs of success but there is still more to do. The client group for the New Deal for Young People is now at levels not seen since the mid-1970s. As Figure 11 shows, the number of young people claiming unemployment benefit for 6 months or more is around 50 000 (most of whom are on the Gateway phase of the New Deal), about a tenth of the peak in the mid-1980s. And, since the introduction of the programme two years ago, claimant unemployment amongst the 18-24 year olds has fallen by over half (56%) compared to nearly a fifth (18%) for the rest.

69. There is further independent evidence from the National Institute of Economic and Social Research that the New Deal has contributed to this improvement. It estimates that, in its first year, around 30 000 of the fall in the numbers in the client group was due to the New Deal with around half representing an increase in jobs. From the national statistics, there is some sign of an increase in the numbers rejoining JSA after leaving the New Deal options and/or the Follow Through. Despite this rise in inflows, the outflow rates from the short durations have not been adversely affected. We are doing more work to try to isolate the former New Deal people among the short-term unemployed and where they are going. If their

experience has improved sufficiently so that they have become similar to other newly unemployed young people then this might be seen as an early indication that their long-term employability has increased.

Employment policies for the inactive

70. The other radical innovation of the current Government is to extend active labour market policies to the inactive, particularly those on welfare. The challenge here is different. It is first necessary to get people back into the labour market before they can take up jobs. Also, the client group is different. These are people who are receiving benefits because they are lone parents or long-term sick or who have a disability. They will, therefore, have particular barriers to work and sometimes a temporary or permanent inability to do any work.

71. Therefore, the United Kingdom has proceeded cautiously and with a good deal of experimentation in order to ensure that the security and social protection of these people are maintained. Thus, there have been a set of New Deals for each of the main groups of the inactive population dependent on welfare; the *New Deal for Lone Parents*, the *New Deal for Disabled People*, and the *New Deals for the Partners of the Unemployed*. In addition, there has been a *New Deal for the over 50s* introduced to target help on the area where growth of inactivity has been most marked. These New Deals again draw on some of the lessons from the New Deal for Young People. Key elements are caseloading with a personal adviser and extra help to offset particular disadvantages such as lack of childcare and workplaces that are inaccessible to people with disabilities.

72. Alongside these policy innovations there have also been pilots aimed at giving a greater work focus to the delivery of the inactive benefits. They are the “*ONE*” pilots which introduce work-focused interviews for the inactive as well as the unemployed. Thus, they incorporate active management of the benefit and the requirement of certain activity by the participants (although not necessarily full labour market conditionality). This process is similar in principle if not intensity to the rights and responsibilities agenda associated with the Jobseeker's Allowance. It aims to get people back into the labour market and keep them there so that they can, with appropriate help, take advantage of the vacancies as they come up.

73. There are changes planned in the delivery organisations that also aim to increase the work focus of benefits. The Employment Service which concentrated mostly on the unemployed is being combined with the parts of the Benefits Agency that deals with the people of working age on inactive benefits. The aim is to improve the delivery of the welfare to work policies by removing artificial bureaucratic burdens that may inhibit people from considering work or getting the work that suits them.

74. For these people on inactive benefits the evidence of likely success is more speculative because the policies are still in their infancy. However, the diversity and dynamism of the labour market and the fact that there are people already in work who face similar barriers to those who are on benefits suggest that there is, at least, the possibility of moving these people from welfare to work.

75. The success of the active management of the claimant count since 1986 particularly in reducing long-term unemployment and the US success in dealing with their welfare rolls made up largely of lone parents suggests that policy can make a difference. After years of almost continuous increases, numbers on lone parent benefits seem to be trending downwards, albeit slowly (Figure 12). Growth in the number of people on long-term sickness and disability benefits has slowed considerably and the number may be close to peaking.

76. At the very least, policies that aim to increase the probability of the most disadvantaged in society taking up and keeping work -- their employability -- can have a redistributive effect. The work is shared more evenly. However, there is an economic case as well. If these policies are effective in bringing more people into the world of work then more vacancies can be turned into jobs rather than remaining

unfilled. Getting the right people into the right jobs also eases bottlenecks, skill shortages and inflationary wage increases. If all people in the labour market have at least basic employability and we can match the people with the jobs it will be possible to run the economy with a higher level of employment and lower levels of inflation.

5. Profiling/Early Identification and One Stop Shops

77. The UK approach is fully in line with the strategy set out in the original Jobs Study report (OECD, 1994). Its policy proposal for the public employment service was to maintain close links between job-broking and the administration of benefits. This may be called a “one-stop” approach with “work first”, emphasising continuous job search for everyone so that all people can take account of the vacancies that come up all of the time. Since 1986 this has increasingly become the UK approach in the unemployment benefit system (although until recently the rest of the benefit system has been relatively passive).

78. Under this approach, referrals to larger-scale, more intensive labour market programmes are actively managed by the public employment service in support of the work first objective. They are, for example, targeted on the basis of a thorough assessment of labour market needs, while participation may be made a condition for long-term benefits. However, as the Jobs Study developed, there was a movement towards recommending the use of 'profiling' or early identification (OECD, 1996a; 1998). This approach tends to give intensive help to a small proportion of people early in the spell, rather than to the small proportion of people who reach longer unemployment durations.

79. Interestingly, it is arguable that the US runs both systems simultaneously. Its unemployment insurance system has a relatively passive administration, with a one-stop shop that tends to combine job-broking with other large-scale active labour market help which is accessed through early identification or profiling. The welfare or social assistance system, by contrast, now tends to be work first. Comparisons between the two countries and between the two forms of benefit suggest that the work first approach may be yielding better results. First, although ILO unemployment and the share of long-term unemployment in total unemployment are lower in the United States than in the United Kingdom, the average duration of unemployment was higher in 1997 than at similar points in previous expansions (OECD, 1999, p.9). Also, if attention is focused on the unemployed with benefit, in the United Kingdom more than three quarters of the claimant unemployed leave unemployment within six months and this compares favourably with the United States where over a third of unemployment benefit claimants exhausted unemployment benefits (OECD, 1999, p. 65) which usually last for six months. The reason for this may be that in the United States the majority of unemployment claimants who are not profiled are not kept in touch through administrative means. One factor may be the greater use of telephone rather than personal checking of labour market activity.

80. By contrast, in the United Kingdom the administration of the non-unemployment related benefits has been passive and the number of people on benefits, especially for long periods, has grown (despite the sharp reductions in the unemployment rate). In the United States the system of welfare benefits, which are mostly benefits for lone parents, has become much more active and work focused through welfare to work initiatives in the 1990s. The higher female employment rates and the halving of the welfare rolls suggest that this approach has worked.

81. Australia and the Netherlands are two other countries which have introduced profiling methods and in these countries the proportion of ILO unemployed who had been unemployed for more than a year was higher in 1998 than in 1986 (1987 for the Netherlands). In Australia the share rose from 27.5% to 33.6%, in the Netherlands from 46.2% to 47.9%. By contrast, the UK share improved from 45.9% to 33.1%. It may be that the UK approach which helps all of the people all of the time but concentrates help on the long-term unemployed has a more effective targeting approach than profiling which concentrates

most help on those who are currently short term unemployed. It is arguable that the unemployment benefit rate in the US and the long-term unemployment share in the United States, Australia and the Netherlands might be lower if there was a more comprehensive and more continuous administration of their unemployment insurance system. Also, it is arguable that the application of a more active and work focused administration of the UK non-unemployment benefits would have beneficial employment effects.

82. Finally, there is surprisingly little difference between US and UK activity rates (in 1998, 76% of the population aged 15-64 in the United Kingdom were economically active compared to 78% in the United States). Financial incentives to get a job are stronger in the United States, but time limits on the unemployment insurance system and increasingly the welfare or social assistance system in the United States may increase the possibility that some people will drift into inactivity (the relatively high proportion of the US population in jail might be an indication of this). Without a comprehensive welfare state, there are no levers to pull to stop people drifting away from the world of work and society, and into economic inactivity and social exclusion. In the United Kingdom many more of the economically inactive on benefits. If this attachment can be used to promote labour market attachment it may be that there exists the possibility that the participation rate in the United Kingdom might be increased substantially. The success of the US welfare to work initiatives which tend to concentrate on the inactive is a hopeful sign for the United Kingdom.

6. Conclusion

83. If a modern welfare state can be configured correctly, it can act as an economic as well as a social tool -- combining efficiency with fairness. If people can be kept in touch with the world of work, they can fill vacancies more quickly but also they are kept in touch with society. This promotes a lower level of frictional unemployment, a higher level of employment and a fairer distribution of the remaining burden of joblessness.

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Figure 1. Vacancies - notified to Jobcentres and estimated total, 1980-1999

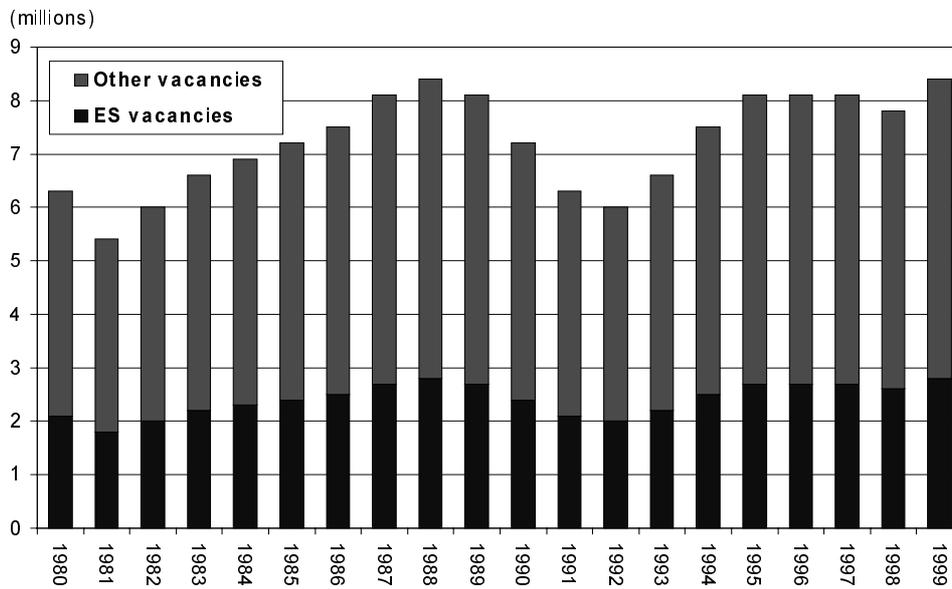


Figure 2. The distribution of notified vacancies across the United Kingdom



Figure 3. Expenditure on labour market programmes, 1982-1998

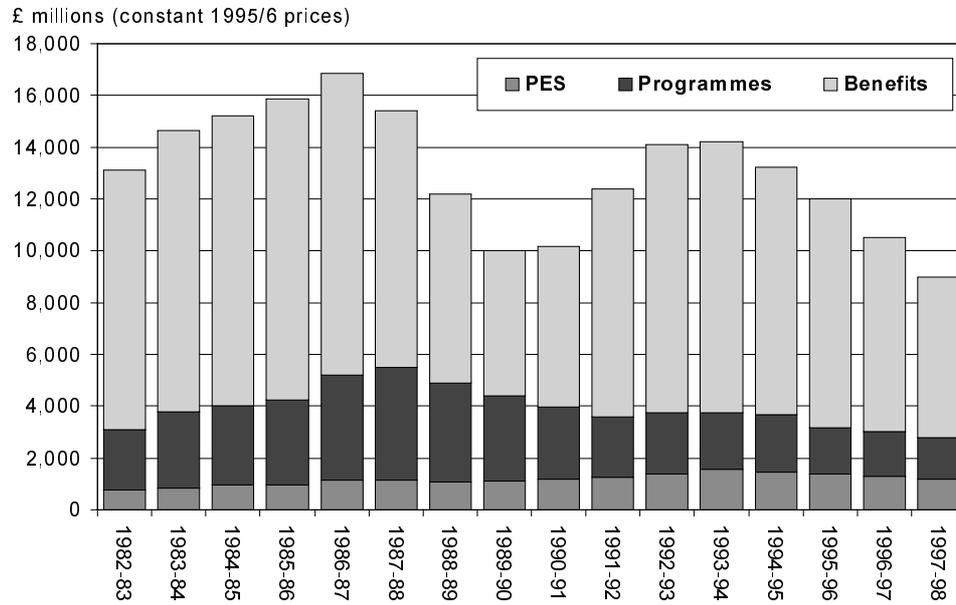


Figure 4. Unemployment - claimant and ILO measures, 1978-2000

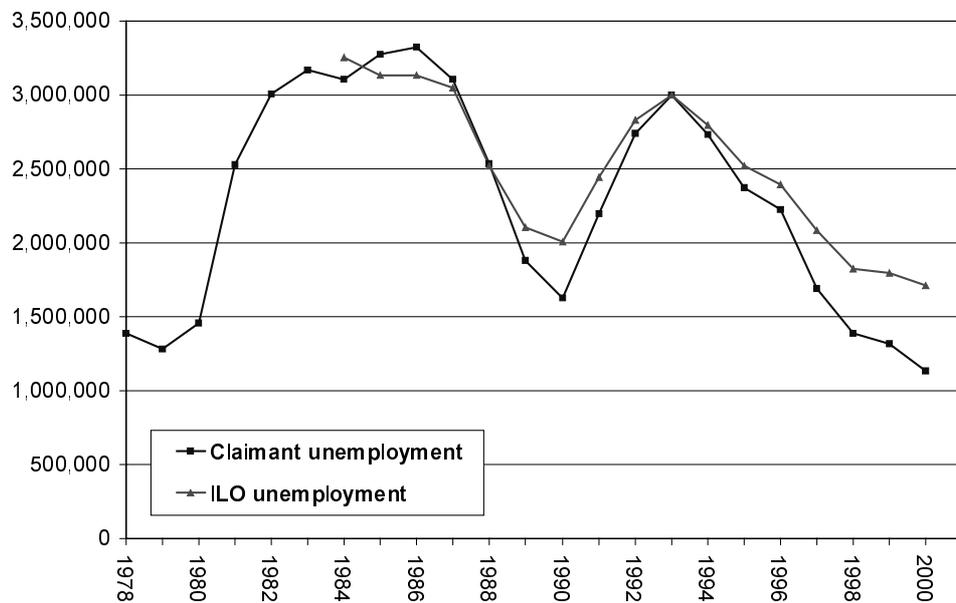


Figure 5. Claimant unemployment - total and long-term, 1950-2000

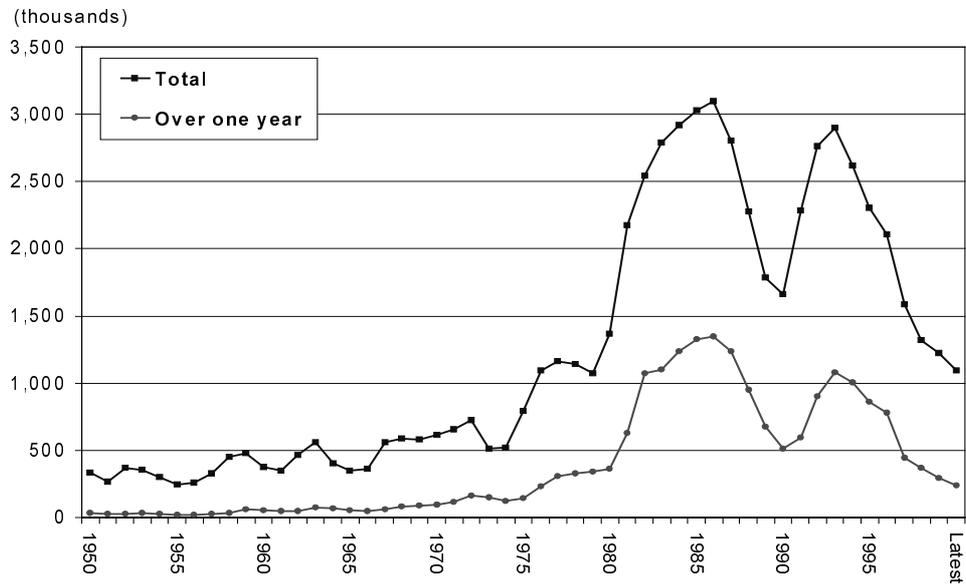


Figure 6. Inflows to and outflows from claimant unemployment, 1967-1999

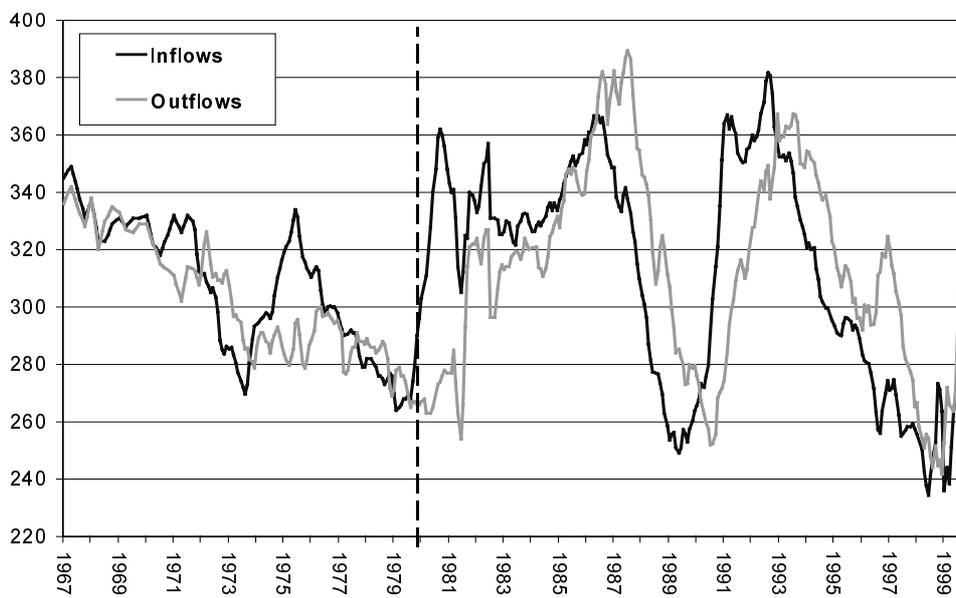


Figure 7. The proportion of people becoming unemployed who left unemployment in 1986 after various periods of time

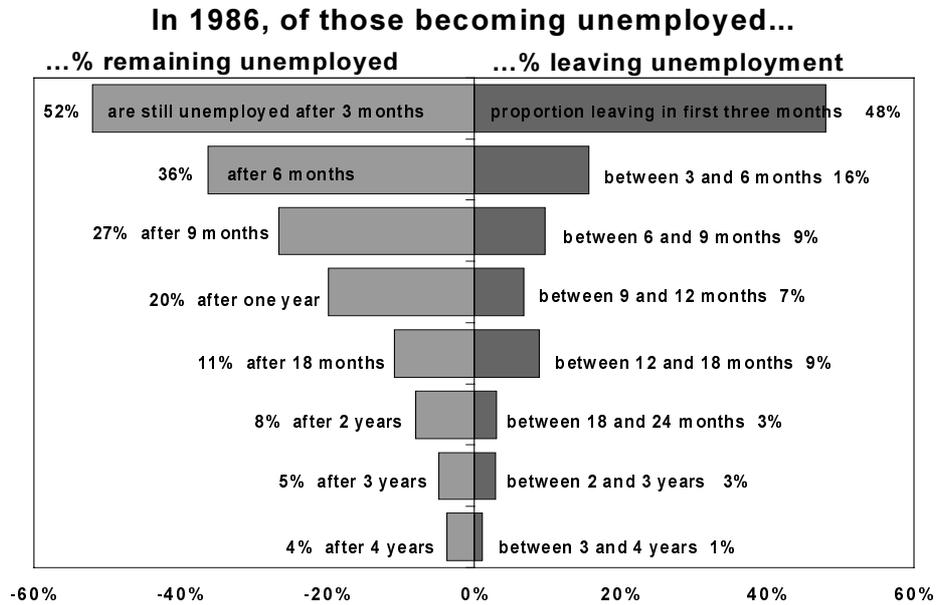


Figure 8. The proportion of people becoming unemployed who left unemployment in 1999 after various periods of time

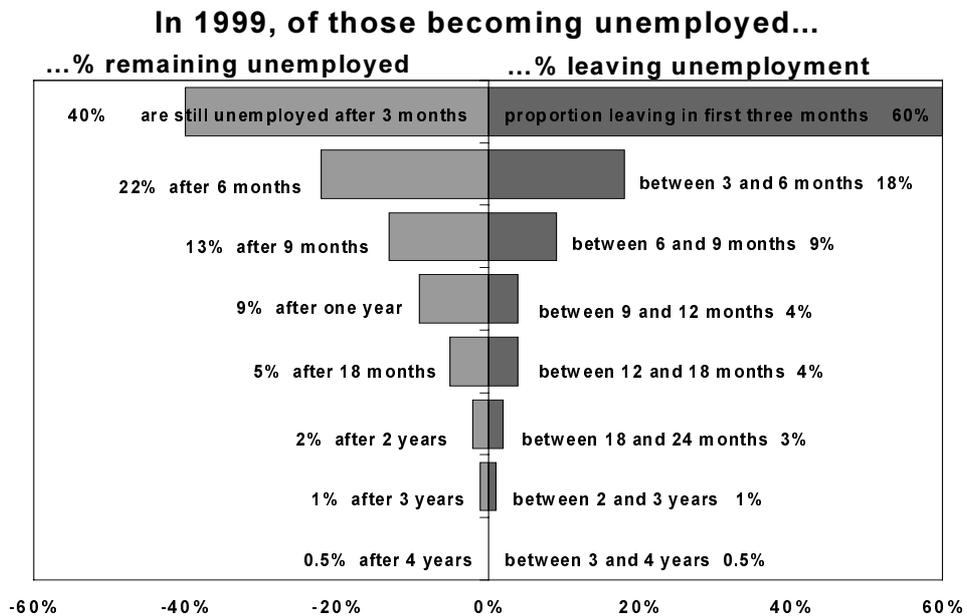


Figure 9. Proportion of the claimant inflow leaving within a certain period, 1984-1999

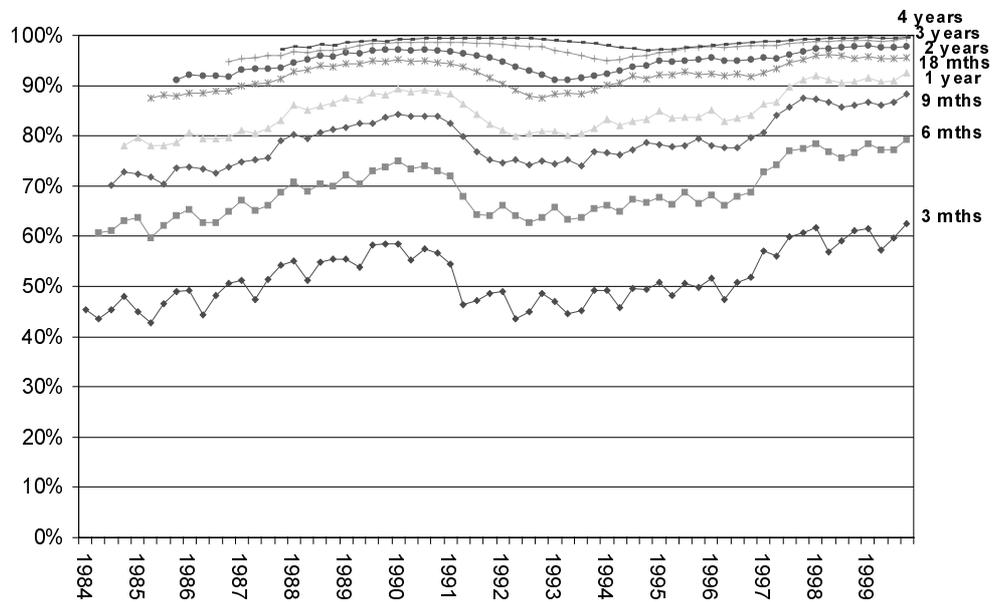


Figure 10. Distribution across the United Kingdom of the proportion leaving unemployment in the first year of unemployment, 1986 and 1999

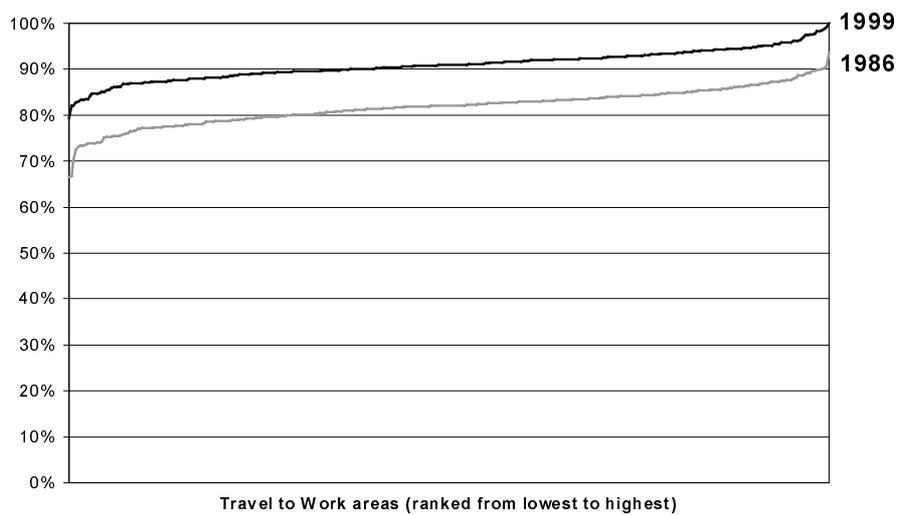


Figure 11. Claimant unemployment amongst 18-24 year olds, 1962-2000

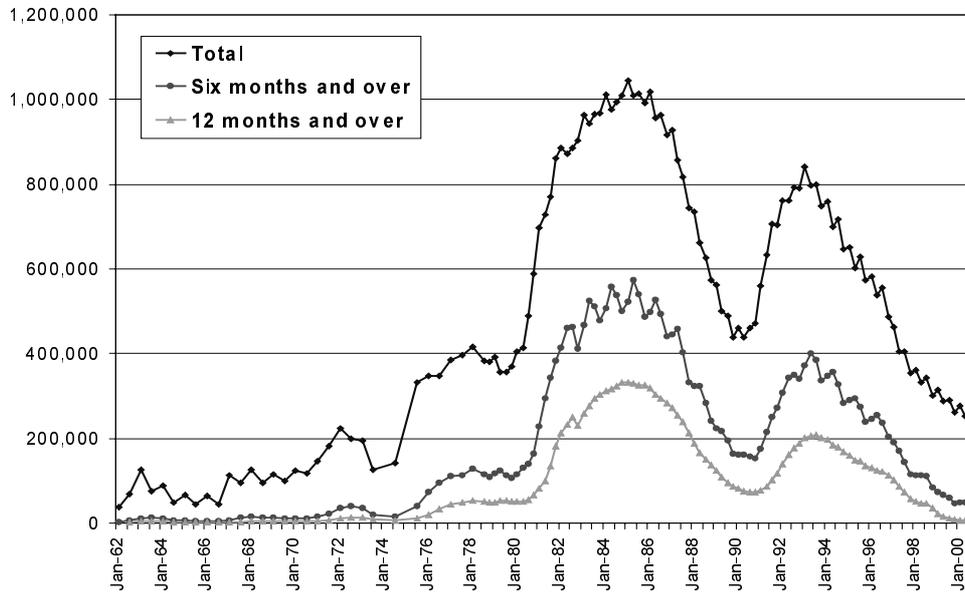


Figure 12. Recipients of selected state benefits, 1985-2000

