

# **FULL AND FULFILLING EMPLOYMENT: CREATING THE LABOUR MARKET OF THE FUTURE**

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## CHAPTER 1

### OUR AIM: ECONOMIC PROGRESS WITH SOCIAL JUSTICE

The Government wants to enable every individual to develop their true potential, whatever their background or talent. High employment and fulfilling jobs are central to realising this. A job is the first rung on the ladder of opportunity: without a job people have no hope of clambering up. They can lose self-respect.

Social justice and economic progress go hand in hand. Our goal is full employment with social inclusion, so that everyone shares in the rising prosperity of the nation – higher employment and higher productivity leading to higher incomes. People should have the opportunity of fulfilling, well-paid employment. Unemployment is a waste of human potential and a source of social exclusion, as well as a drain on the economy.

Meeting the competitive challenge of globalisation requires higher productivity. Companies will need an increasingly skilled and adaptable workforce and innovative approaches to managing them.

The means of achieving these goals has to take account of the dynamic of change taking place in labour markets around the world. New technologies mean that it is possible for people to work from home in a way that was impossible only a few years ago. Consumers expect to be able to do business at different hours of day and night than has previously been the case. The composition of the workforce is changing. We face the challenges of an ageing population. Women increasingly expect to fulfil their potential in the labour market. We also have to improve the situation of those suffering from labour market disadvantage, such as some ethnic minorities, older workers and the disabled. Labour markets have to modernise in keeping with these changes, or else they will work less effectively.

Britain shares with our European partners common values that put high employment and social inclusion at the heart of our economic and social agenda. The challenge is in making this happen. Too often the debate about reforming labour markets has been sidelined into a supposed choice between a US-style deregulated labour market and the European social model.

This polarisation is unhelpful. There is much to admire in the US in terms of high levels of job creation and participation, the ability to utilise labour from abroad and their sustained growth in productivity in recent years. But the US labour market is not free of regulation. There is Federal and State legislation and an extensive, expanding and expensive culture of litigation.

Similarly, although we share common values with our European partners, there is no single social model. Labour markets are as different between Sweden and France, as they are between the UK and Germany. Britain and Ireland have a tradition of voluntarism in industrial relations that differs from the more legislative approaches in other parts of the EU. We have higher levels of trade union membership and recognition at the workplace than in some other EU countries, but outside the public sector there is less national collective bargaining. By contrast, private sector trade union membership in France is far lower than in the UK, although unions are involved in national and industry agreements. And it is not just the industrial relations system that varies country by country. So do the problems. In the UK labour market participation rates are relatively high, but workforce skills and productivity are relatively poor. Among several of our EU partners, the situation is almost exactly the reverse.

Our aspiration is the same: to create employment opportunity for all. But, as chapter two describes, each country comes from a different starting point in achieving this aim. For example there is a difference of more than 20 percentage points in employment rates between the highest and lowest of the EU15<sup>1</sup>. While European governments share common goals, the great diversity of national labour markets means that reaching them demands different approaches and a diversity of policy responses.

There is no one size fits all solution. European legislation can help underpin a framework of basic standards, but it has to take account of diverse labour market traditions and circumstances. Increasingly, the new challenges that different labour markets face require the development of policies that remain the responsibility of Member States; such as modernisation of tax and benefit systems, targeted employment programmes and vocational training. Now is the right time for the UK Government to articulate its vision of the type of labour market it aspires to achieve and the type of working opportunities it wants to create.

### **Progress to date: more and better jobs**

We believe that employment is the key to prosperity and social inclusion. Lack of employment opportunities creates the conditions for poverty, exclusion, despair and disengagement. That is why the UK has helped to push employment to the top of the EU agenda. We have been strong advocates of the European Employment Strategy from its outset at Luxembourg in 1997. We helped inspire the vision at the Lisbon European Council of making the EU the most competitive, dynamic and socially inclusive knowledge-based economy in the world. At that Council, the 15 member states of the European Union committed themselves to creating 20 million new jobs by 2010, to create a Europe capable of sustaining economic growth with more and better jobs and greater social cohesion.

At home we have achieved the lowest level of unemployment since the 1970s, with employment up 1.5 million since 1997. Both adult and youth long-term unemployment have fallen by more than three-quarters. And we have done this at the same time as we have reformed the labour market.

We have made work pay through the minimum wage and tax credits, introduced a legal right to trade union recognition where a majority of the workforce want it, tackled unemployment through the New Deal and strengthened employee rights against unfair dismissal. We have recognised through the Partnership Fund the contribution partnership, often involving trade unions, can make to

improving business performance to the benefit of employer and employees alike. And we are introducing new rights for trade union learning representatives.

We support the aims of a Social Europe and in 1997 we ended the UK opt-out from the Social Chapter. Implementing EU legislation, we have given British workers for the first time a statutory right to paid holiday, legislated for European works councils in companies with over 1,000 employees in at least two member states and introduced new rights for parental leave and part time workers. As a result of further EU Directives already agreed we will legislate to strengthen protection from discrimination at work and ensure parity of treatment between those on fixed-term contracts and everyone else. We will ensure equal treatment between men and women at work and in training and give new rights to employees for information and consultation in larger firms.

The Government's record demonstrates that fair standards, provided the implementation is right, are not an obstacle to running businesses successfully and high employment.

The record belies the claims made by some, for instance, that the National Minimum Wage would lead to the loss of a million jobs. The record demonstrates that they were wrong. In fact, employment has increased by over three quarters of a million since the National Minimum Wage was introduced. The reason is that the minimum wage has been set at a sensible rate on the recommendation of the Low Pay Commission, drawing its membership from employers and trade unions, having carefully examined and weighed the evidence.

The key is to have an intelligent approach. Regulation can deliver real and important benefits to people at work and in the labour market. For instance, who today would argue that the Sex Discrimination Act and the Equal Pay Act were misconceived?

But we also need to recognise there may be costs. Understanding and implementing regulation absorbs management time and time is a scarce resource, especially for small firms. Regulation can sometimes reduce flexibility and

flexibility is needed for firms to respond to change and competition. And these costs can translate into fewer people being employed. The material presented in chapter four suggests that, for the legislation implemented so far in the UK, we have avoided introducing excessive or disproportionate costs.

As we address the next steps, we believe there is much that Member States can do to learn from each other. That is why the UK is one of the strongest advocates within the EU of the new open method of coordination: a systematic, structural and rigorous process of peer review where, as appropriate, Member States agree specific targets and guidelines; draw up Action Plans describing how their national policies accord with these commitments; and expose their policies to the critical scrutiny of the European Commission and peer review by their partners. In our view this approach can be both more flexible and faster acting than traditional EU legislation.

We share with our European partners common objectives for labour market reform. Here are the headings under which the UK aims to take forward its realisation of these common objectives.

### **Full employment**

We believe that labour markets should encourage job creation. The UK has high employment levels for men and women, but more can be done. Unemployment levels in certain geographic areas and among certain age and minority ethnic groups are still too high. Too many people become inactive and then find it difficult to re-enter the labour market. This is a waste of talent and potential. It is often the cause of social exclusion. Basic minimum standards in the workplace can also bring more people into the work place. Whether by guaranteeing a minimum wage or giving rights to working parents, the Government helps raise employment and develop a diverse pool of skilled labour.

## **Diversity and choice**

The Lisbon agenda contained an ambitious target for increasing the female employment rate, with a target of employment for older workers added at Stockholm. Although the UK performs better than some, but not all, European countries in this regard, there is a long way to go. Critical to achieving this is to have a labour market that offers diversity and choice to individuals when they consider the hours that they are able to work. For example, parents must be able to exercise far greater choice about how they balance work and family in ways that suit them. More opportunities must also be available to people in their 50s and 60s. There is no one model: different people will work different hours at different stages in their lives. Not only does that make the choice of whether to work a real choice for more people, it also creates a pool of labour that is more suited to the need to employers when they are seeking to meet their operational targets. Greater flexibility of hours worked will not only raise our growth potential therefore but also lead to more jobs in the UK.

Choice is expanded when individuals have higher skill levels. That is why a critical tool in our ambition to create a dynamic labour market is for individuals to have access to skills that are relevant, regularly updated and transferable.

## **High productivity**

High levels of skills not only increase choice for individuals, they raise the potential of organisations to achieve success by raising the productivity of our workplaces. Productivity is also higher when we create the kind of workplaces that have high levels of commitment between employers and employees. We want to create workplace structures and frameworks that are designed to help people achieve their potential, whether it be through formal partnership arrangements with unions, employee share ownership or simply good management. Because when people fulfil their own aspirations, they contribute more to the success of the organisations they work in. And because we believe that labour market policy has both economic and social dimensions.

As a government we have identified five drivers of productivity, which stretch far beyond labour market policy alone. In addition to driving up skills, we are strengthening competition, promoting enterprise and innovation, encouraging investment across the board and working directly to increase public service productivity. But the rationale is the same: improving productivity leads not only to greater prosperity for our country, but to better jobs for our people.

### **The need for flexibility**

Labour market flexibility plays a crucial role in achieving our full employment and social justice objectives:

- Recessions will be deeper and the swings in the economic cycle more disruptive if businesses cannot adjust total pay, including overtime and bonuses, as well as employment numbers quickly and flexibly in response to changes in market conditions: it is no good avoiding redundancies in the short term if the economic consequence is higher unemployment in the longer term.
- Regulations that strengthen the position of labour market "insiders" vis-à-vis "outsiders" result in a hard-to-move pool of long term unemployed, making it much more difficult to achieve our aim of reintegrating the workless into the labour market.
- Economic growth will be slower and productivity will suffer unless firms adapt to change.
- Fostering new enterprise is the dynamo of both growth and new private sector jobs. In considering the case for regulation, and designing it, we must be sensitive to the conditions in which small firms operate.

To make these points is not to put efficiency before the primacy of human values. It is rather to recognise the importance of flexibility to creating the wealth that will improve our living standards and our public services. And it is

to recognise that labour market flexibility can extend employment opportunities.

For example:

- Ready availability of flexible working enables people who might otherwise be workless to participate in the labour market and improves choice for everyone.
- Ready availability of agency work enables employers to cope flexibly with growing requirements for parental leave and releasing employees for training. It also benefits individuals who do not want to enter into long-term employment commitments.

For all these reasons, new employment rights and standards must be employment friendly and not block change.

At the same time Government should recognise its responsibility to help people and communities to deal with change. And the benefits of change need to be fairly distributed. Employees who are affected by change must be treated with respect. They need to be informed about and involved in the process of change. More broadly, we must promote a culture of skill acquisition and lifelong learning in and out of the workplace, so that people can maintain and improve their employability. And we must supplement this with speedy and effective help for those seeking work.

### **The role of Europe**

The Barcelona European Council, in March this year, called for a reinforced Employment Strategy and increased social cohesion. It concluded that a revised Employment Strategy "should focus on raising the employment rate by promoting employability and by removing obstacles and disincentives to take up or remain in a job, while preserving high protection standards of the European social model". Barcelona reaffirmed Europe's commitment to a goal of full employment, but not at the expense of social justice. "Full employment in the European Union is the core of the Lisbon Strategy and the essential goal of

economic and social policies, which requires the creation of more and better jobs." "The Lisbon goals can be brought about only by balanced efforts on both the economic and social fronts."

These are the right aims. The question is what is the appropriate role for EU level intervention in furthering these aims?

As noted above, we believe that the EU has an important role to play in encouraging Member States to deliver through the open co-ordination process. We can learn much from each other's experiences. And the process of peer review and joint reports - while not always comfortable for national governments - introduces a necessary element of challenge.

We see the EU's role in the field of employment rights as establishing an adequate minimum framework, not prescribing detailed standards. This is inevitable given the diversity of the EU as it presently is. Enlargement is bound to reinforce it. There will always be debate about the need to modernise and update this framework at the margins, but the Government sees no need for any significant new additions beyond those already in the pipeline.

Some people argue that there is no need for any further EU legislation at all in the employment field. Some would go further and argue for the EU's powers in this field to be returned to the Member States.

The Government does not support these propositions. EU laws to facilitate a Single Market arguably require flanking regulations on common consumer, environmental and social standards. Furthermore, the need for common standards on issues such as health and safety and discrimination has been accepted throughout the EU. These are hallmarks of a just society. A single market without any minimum standards would not be sustainable.

The EU is more than a market: it is a coming together of nation states that were once bitter rivals on the basis of shared European values and common interests. The EU cannot be a credible force for good in the wider world if it is indifferent

to how its citizens are treated at work or questions of social justice in European society.

At the same time it has to be clear that any forced movement of standards to those of the Member States that are most restrictive would be extremely counterproductive and result in very high unemployment in countries with lower productivity. "Harmonisation" should never mean uniformity. The EU's role can only be to set a framework of decent minimum standards, with discretion as to their method of implementation left to each Member State.

A Europe endeavouring to raise its productivity must also concentrate on the flexibility of its labour force. This flexibility encompasses geographical and occupational mobility and skills, as well as the ability of wages and working hours to adjust to different economic circumstances; and it applies to employers as much as employees. The Government believes that further work to improve these kinds of flexibility in European labour markets is the best route to ensuring job creation across the EU and provides the best possible safeguard against social exclusion.

### **Organisation of the paper**

So these are our objectives:

- Full employment.
- Diversity and choice.
- High productivity.

To achieve these objectives, we need policies that can respond to the challenges of a globalising, integrating, ageing and enlarging European Union.

Chapter two examines how European countries perform against each other in achieving their policy goals. It shows that there is a diversity of models across

the EU as a whole. Chapter three examines in more depth the UK labour market and its strengths and weaknesses. Chapter four articulates what we are doing to address the weaknesses. Chapter five then sketches out some conclusions and next steps.

## CHAPTER 2

### EUROPEAN LABOUR MARKETS: SHARED VALUES, SHARED OBJECTIVES, DIFFERENT TRADITIONS

The UK is committed to full employment and social inclusion. These are the values that we share with other Member States. They are the bedrock of what has been called the European Social Model. But although we share common values and face similar challenges, different countries have different approaches.

Within Europe, there is a varied set of labour markets. Each has its own structure, institutions and traditions. Enlargement from 15 to possibly 25 member states will add to the wealth of different systems. As the recent High Level Group on Industrial Relations and Change said, "diversity in Europe should be treated as an asset"<sup>2</sup>. It allows us to learn and share experiences.

The Lisbon summit concluded that "the best safeguard against social exclusion is a job". It wanted Europe to match US levels of employment and productivity. This chapter provides a summary assessment of the performance and key features of labour markets within the EU and US. It is based upon the comprehensive analysis in the Government's complementary publication *Towards Full Employment in the European Union*<sup>3</sup>.

#### **Full employment**

Employment and social policy is a competence shared between Member States and the European Community. We support the balance between coordination at the European level and implementation at the national level, enshrined in the Luxembourg process of open coordination. This provides a flexible mechanism to meet common goals for full employment, yet recognises the diversity of approaches within Member States.

Lisbon and the subsequent Council at Stockholm agreed the following employment targets:

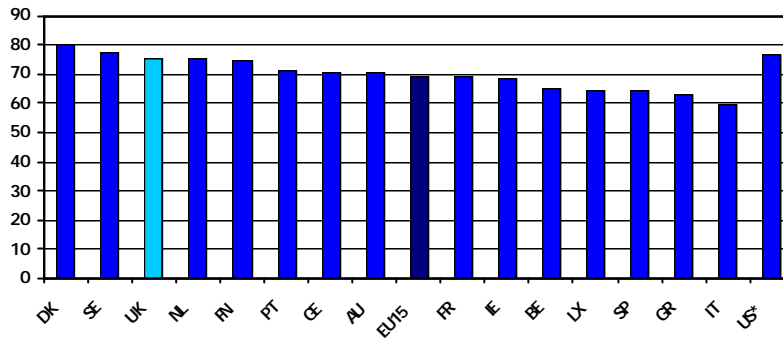
- An employment rate of 70 per cent by 2010.
- A female employment rate of 60 per cent by 2010<sup>4</sup>.
- An employment rate of 50 per cent for those aged between 55 and state retirement age by 2010.

Achieving these targets would be a significant step on the road to full employment across Europe. Their ambitious nature is clear if we look at current rates of labour force participation. The participation or activity rate describes the proportion of the working-age population either in work, or unemployed and looking for work. If people are not economically active, they cannot be employed. An EU participation rate of 69 per cent in 2000 implied that almost a third of the working age population was unable or unwilling to work; in absolute terms, 50 million women and 27 million men. Even excluding the education-intensive 15-24 year old age group, the number of inactive adults still totalled around 53 million. Meeting the Lisbon targets requires getting more people into the labour force as well as helping those already unemployed into paid work.

In 2000, only eight Member States had a participation rate equal to or better than the Lisbon employment target (Figure 2.1). The UK participation rate is the third highest in the EU. The challenge for EU governments is thus not simply to help those looking for work to obtain it, but to encourage a larger proportion of the working age population, especially women, to enter, re-enter, or remain longer within the labour force.

**Figure 2.1: Labour force participation rates, 2000**

Percentage of population aged 15-64 who are economically active

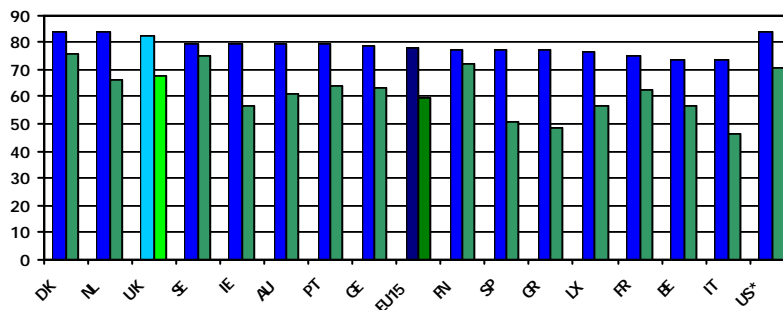


Source: European Labour Force Survey, except \* = OECD.

Male participation rates in the EU are above 70 per cent in all Member States, and close in most cases to US levels. Female participation rates are lower and vary much more across the EU. Whereas the gap in participation rates between men and women is just nine percentage points in Denmark, it is 27 percentage points in Italy. The comparison with the US is also less favourable (Figure 2.2).

**Figure 2.2: Labour force participation rates of men and women, 2000**

Percentage of population aged 15-64 who are economically active



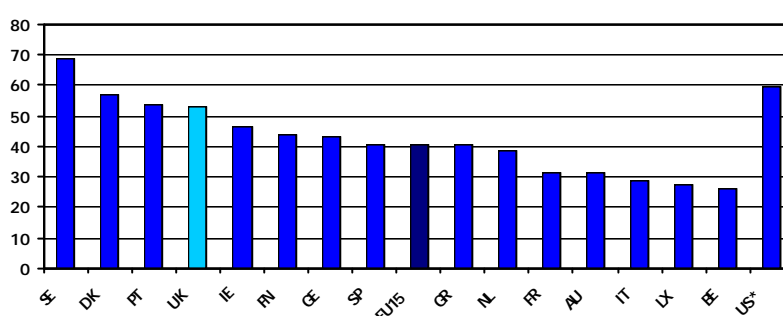
Source: European Labour Force Survey, except \* = OECD.

Contrasts in participation rates are also striking for older workers (Figure 2.3). In Sweden, two-thirds of people aged 55-64 are active in the labour market. In

Belgium, the figure is only one in four – a long way from the 50 per cent employment rate target. The 2002 Barcelona summit urged an increase of at least five years in the effective average retirement age by 2010, with progress to be analysed ahead of each spring Council.

**Figure 2.3: Labour force participation rates of older workers, 2000**

Percentage of population aged 55-64 who are economically active



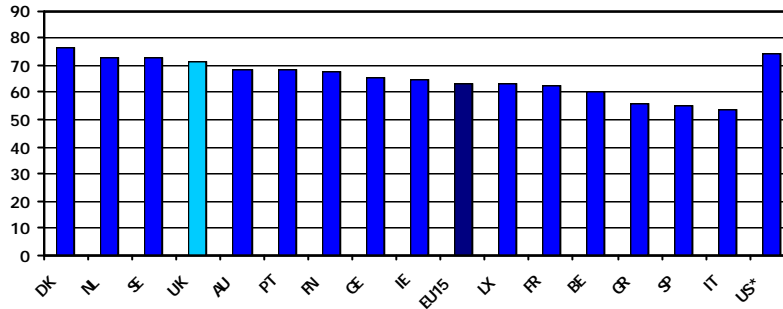
Source: European Labour Force Survey, except \* = OECD.

Meeting the Lisbon target therefore requires the return of inactive people to the labour force as well as helping the unemployed into jobs. Surveys show that the main reasons given for economic inactivity are education or training (27 per cent of those surveyed, and 90 per cent of 15-24 year olds in a recent survey<sup>5</sup>); personal or family responsibilities (19 per cent); retirement (16 per cent, though 90 per cent of the 55-64 age group); own illness or disability (9 per cent); and discouragement – the belief that no work is available (2 per cent). Men are more likely to cite education (38 per cent) or illness (13 per cent) as the reason for inactivity; women, personal or family responsibilities (29 per cent). Surveys suggest that half of those currently inactive would like to enter or re-enter full time employment within five years, and 11 million – approximately one in seven – would like to do so immediately.

Regarding employment, in 2000 the UK was one of only four Member States that had met the overall Lisbon employment target, Denmark, Netherlands and Sweden being the others (Figure 2.4).

**Figure 2.4: Employment rates, 2000**

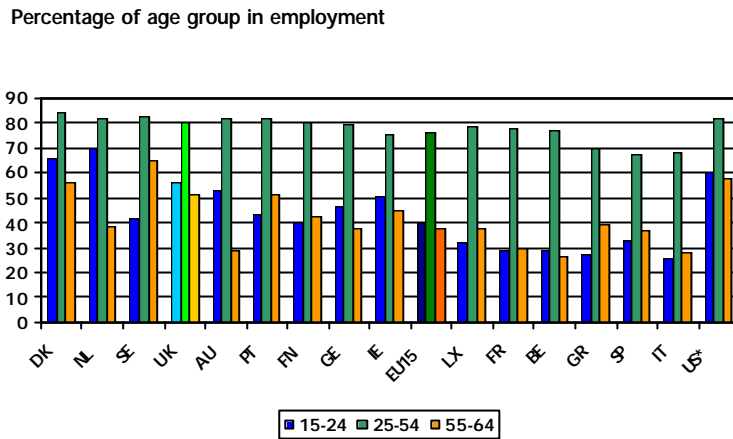
Percentage of population aged 15-64 in employment



Source: European Labour Force Survey, except \* = OECD.

In the UK as in most Member states, employment rates in the 25-54 age category are above the 70 per cent Lisbon target. However, the employment rates of older and younger workers vary considerably (Figure 2.5). For example, employment rates among older workers in Sweden are more than twice those of Belgium. Employment rates of young people in the Netherlands are more than three times those in Italy. At these ends of the labour market, differences in systems of education (and student support), income support and retirement benefits are likely to be important factors explaining these variations.

**Figure 2.5: Employment rates by age, 2000**



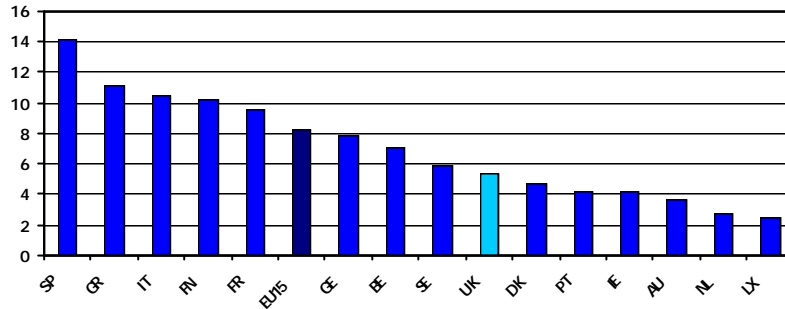
Source: European Labour Force Survey, except \* = OECD.

Employment rates differ by sex as well as by age. Men in the prime age group have high employment rates across the EU and are comparable with the US. There is more variation in the employment rates for women in the prime-age group although the best EU performers (Sweden, Denmark, Finland and the UK) match the US.

Headline unemployment rates have been falling, though wide disparities persist between Member States (Figure 2.6). Except for the UK, Ireland and Sweden, the unemployment rate for women is greater than for men.

**Figure 2.6: Unemployment rates, 2000**

Percentage of economically active population aged 15-64 who are unemployed

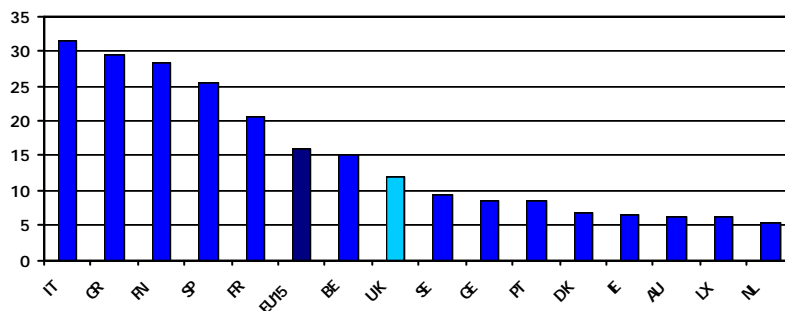


Source: European Labour Force Survey.

Youth unemployment rates are, in most countries, two or three times higher than the overall headline rate (Figure 2.7), Germany being one important exception.

**Figure 2.7: Youth unemployment rates, 2000**

Percentage of economically active population aged 15-24 who are unemployed



Source: European Labour Force Survey.

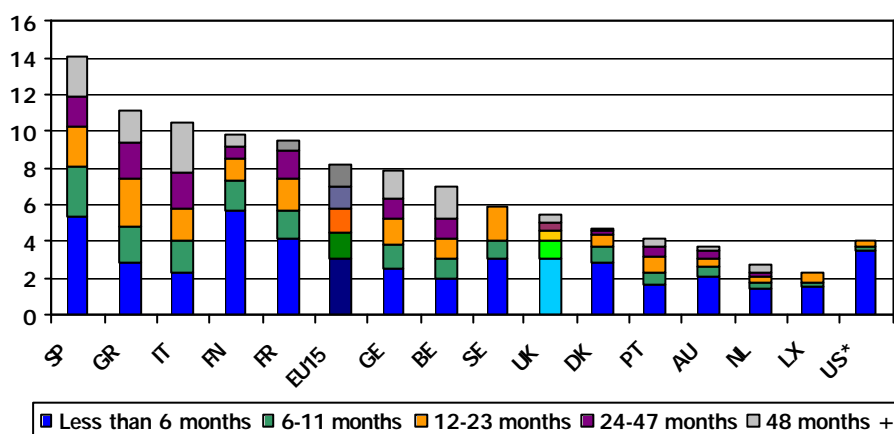
Unemployment rates are, in most Member States (with the exceptions of Greece and Portugal) lower for those with upper secondary education than without, and lower still among graduates. The relative differences are particularly marked in the UK and Belgium, where unemployment rates among the poorly educated are

about four times those among graduates.

Long-term unemployment remains a major problem in the EU, despite recent falls in most countries (Figure 2.8). Nearly half (46 per cent) of the unemployed in EU had, in 2000, been looking for work for over a year, and 15 per cent for more than four years. Women are in most countries more likely to be long term unemployed than men. The contrast with the US is striking.

**Figure 2.8: Unemployment by duration, 2000**

Percentage of economically active population aged 15-64



Source: European Labour Force Survey, except \* = OECD.

In general, regional unemployment differences within the EU became more, not less, pronounced in the 1990s, although the UK is an exception to this pattern. Areas which, in the mid-1980s, had unemployment rates which were very high or low relative to the EU average generally stayed that way in the mid-1990s. Regions with intermediate initial unemployment rates tended, however, to see unemployment rise or fall markedly over the decade, resulting in a more polarised distribution of joblessness<sup>6</sup>. High unemployment in a region could reflect a low skills base, a specialisation in a declining industry, or a self-reinforcing agglomeration of employers and skills.

The lack of labour mobility is another factor that might contribute to the persistence of localised disadvantage. Labour mobility is frequently identified as the main mechanism by which the US economy and employment rate adjust to economic shocks. Estimates of mobility tend to be much lower for Europe.

About 1.4 per cent (or 2 million) of the EU employed population moved residence between regions of Member States in 1999, or about 1.2 per cent of the total population<sup>7</sup>. The rate of mobility differs between countries: 0.6 per cent in Spain, 1.2 per cent in Germany and 1.6 per cent in the UK<sup>8</sup>. In contrast, about 5.9 per cent of the total US population changed residence between US counties in 1999<sup>9</sup>.

Net immigration into members of the EU, meanwhile, equates to around 2 million people a year: 0.8 per cent of the working age population, or 0.5 per cent of the total population. Almost 60 per cent of these entrants (equating to 0.3 per cent of the population) come from outside the EU. In the US, the equivalent of 0.5 per cent of the population arrived from overseas in 1999. The openness of the US to immigration has been an important factor in its economic success; it is difficult to imagine, for example, the development of Silicon Valley without the contribution of skilled labour from India or South East Asia.

The role of cultural and linguistic barriers in Europe is likely to mean that movement across borders will in most cases remain modest. The role of European policy is to tackle any residual barriers that prevent those who want to work in another Member State from doing so and to strengthen the framework of information and advice.

This section has focused on the current position regarding participation, employment and unemployment and how the EU and individual Member States compare both to the US and to the Lisbon employment targets. This reflects the importance attached to finding and retaining employment. Nevertheless, the experience of people while in jobs is also of economic and social importance.

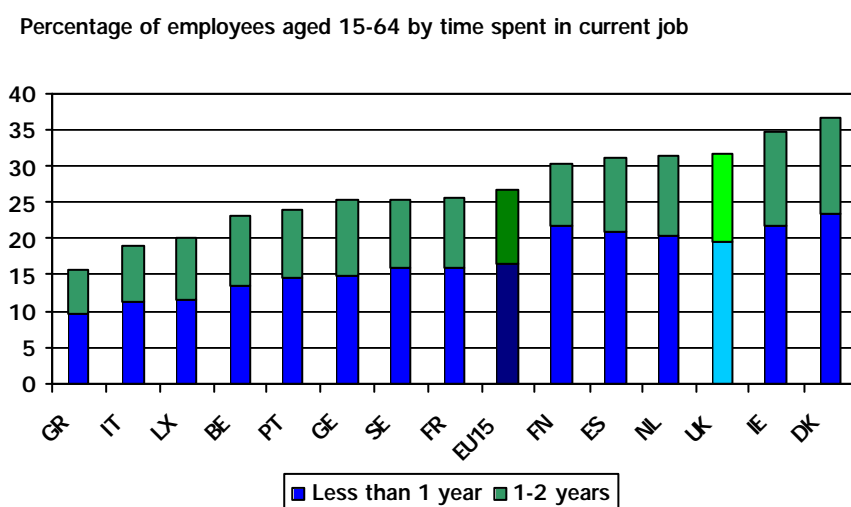
"Quality" in working life is difficult to define. It depends in part on the views of individuals - what they want and need from paid employment. The EU's Employment Committee has been considering indicators of quality. This is work in progress but all have recognised the importance of taking a broad and dynamic view of the notion of quality - it is not simply the level of pay or the degree of protection. Some of the building blocks are covered in the sections below.

## Diversity and choice

The extent to which labour markets meet the interests of employers and those in work or looking for work depend on their dynamic properties. The unemployed, for example, may find it easier to compete for work, and new entrants to the labour market might find it easier to progress, if there is a relatively high flow of new job openings. In contrast, those with few skills or experience may find it more difficult to break into the labour market when new opportunities are few and far between.

There are considerable differences between Member States in terms of tenure with current employer (Figure 2.9). While over a third of Danish employees have been with their employer for less than two years, the corresponding figure for Greece is 15 per cent. In contrast, about half of all Greek and Italian employees had been with their current employer for over 10 years, compared with just under a third of UK employees and a quarter of US employees<sup>10</sup>. Although turnover may not always be a good thing - Spain's high turnover to some extent reflects the high use made there of fixed-term contracts - very low rates of turnover could lead to problems with a lack of "fit" between individual and job.

**Figure 2.9: Prevalence of short duration employment, 2000**



Source: European Labour Force Survey.

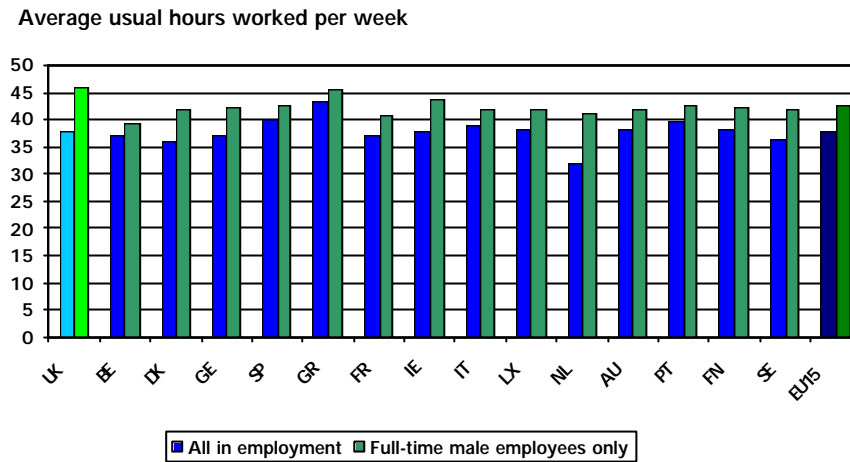
Cross-sector mobility may be constrained by such factors as a lack of recognition of professional qualifications; lack of pension portability; concern over damage to promotion prospects, status and reputation; and ignorance as to the opportunities elsewhere.

Low levels of occupational mobility may be of particular concern insofar as it restricts the transfer of knowledge and skills between, for example, research institutions and industry, or between the public and private sectors. In the US, scientists and engineers change jobs approximately every four years; at the opposite extreme, only a fifth of Japanese engineers change employers even once in their career<sup>11</sup>. In France, the OECD estimates that only about 40 scientists leave public research organisations each year to work in industry. Greater mobility is evident in Germany and the UK, fostered by the availability of temporary employment contracts for researchers switching into the private sector.

The degree of diversity in working patterns can contribute to the efficiency of the labour market in a number of ways. The availability of a range of different types of work can increase participation. A range of working patterns will tend to be beneficial to business in meeting the needs of production and of consumers.

One source of diversity is in working time arrangements. There is not great variation in the average length of working week across the EU (Figure 2.10). However, these averages conceal further variations. The self-employed work the longest hours across Europe and the high average working week in Greece and Portugal, for example, is due to the high proportion of self-employed in these countries. The average working week in the Netherlands is short because of the high proportion working part-time. This also explains why the average working week in the UK is spot on the EU average - it has a relatively high proportion in part-time work and a relatively low proportion self-employed.

**Figure 2.10: The average working week, 2000**



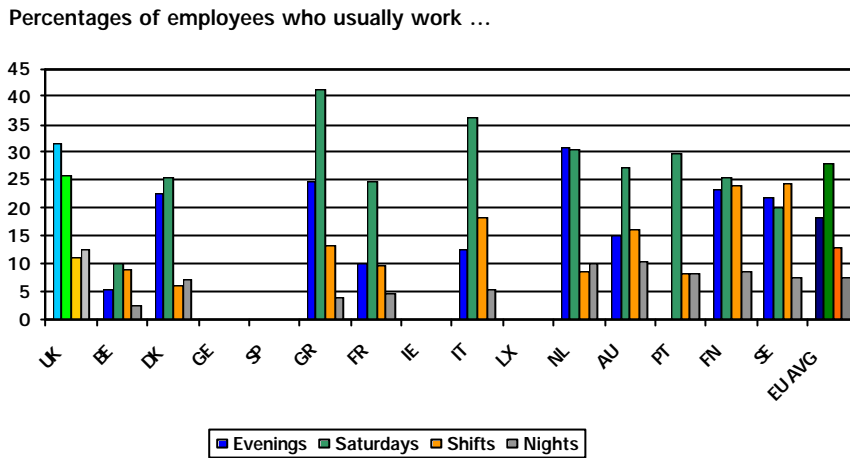
Source: European Labour Force Survey, 2000.

The UK has the longest working hours in the EU only if the analysis is restricted to full-time male employees. Further analysis suggests that the UK is exceptional in the working hours of full-time male manual employees. The proportion of managers and professionals working long hours is much more even across the EU<sup>12</sup>.

Average working hours in all EU Member states are well below the levels seen in the US or Japan - where the number of days leave taken each year is also much lower.

There is also considerable diversity in when those hours are worked (Figure 2.11). It is difficult to discern clear patterns in this data - in the sense that there are few countries scoring universally "high" or "low" across all these different working arrangements. This reflects the diversity of national traditions and standards or norms set by legislation and collective bargaining. The impact of national traditions and legislation shows through very clearly at a more disaggregated level<sup>13</sup>.

**Figure 2.11: Spread of different types of working time arrangements, 2000**

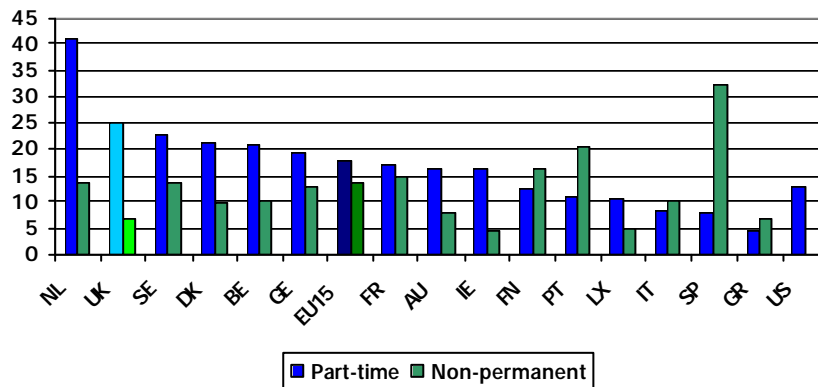


Source: EU Labour Force Survey, 2000.

Nor are all jobs of the full-time, permanent variety (Figure 2.12). The proportion varies between countries and across business cycles. Part-time work in the EU remains concentrated among female workers.

**Figure 2.12: Part time and temporary work, 2000**

Percentages of employees working part-time or on a non-permanent basis



Source: European Labour Force Survey, except \* = OECD.

In terms of motivation for - and satisfaction with - part-time only 16 per cent of part-time employees said that they had taken their jobs unwillingly. Over 59 per cent of part-time workers did not want a full-time job and had actively chosen to

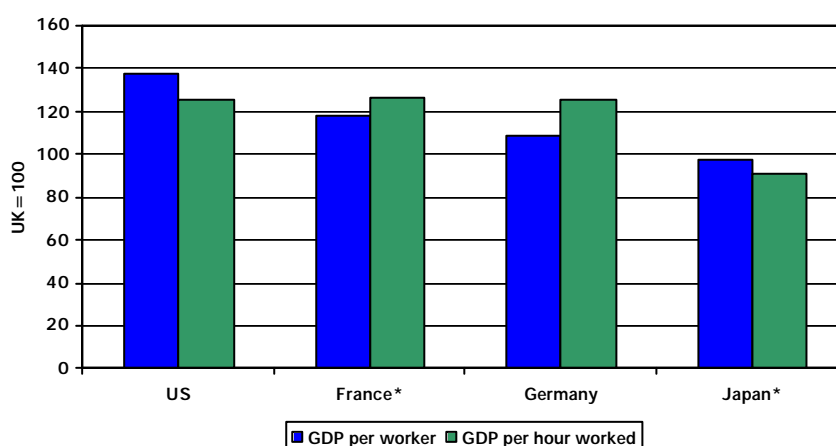
work part-time, while a further 11 per cent were combining part-time work with education or training.

Survey evidence also suggests that around three quarters of older inactive people looking for a job would prefer part-time work, as would a third of young entrants or unemployed<sup>14</sup>. Two-thirds of prospective women returnees would prefer a part-time job; three-quarters would accept one. Access to flexible, secure part-time work may be an important aspect of policies designed to encourage entry or re-entry into the labour force or postpone eventual retirement as well as helping many people achieve a better work-life balance.

### High productivity

Comparisons of labour productivity in the UK compared to other major OECD economies suggest a large productivity gap with the US and a smaller but still significant gap between the UK and France and Germany (Figure 2.13). The differences are most marked when considered on an hourly basis, rather than per worker.

**Figure 2.13: UK relative productivity performance, 2000**



Source: Office for National Statistics, except \* = 1999.

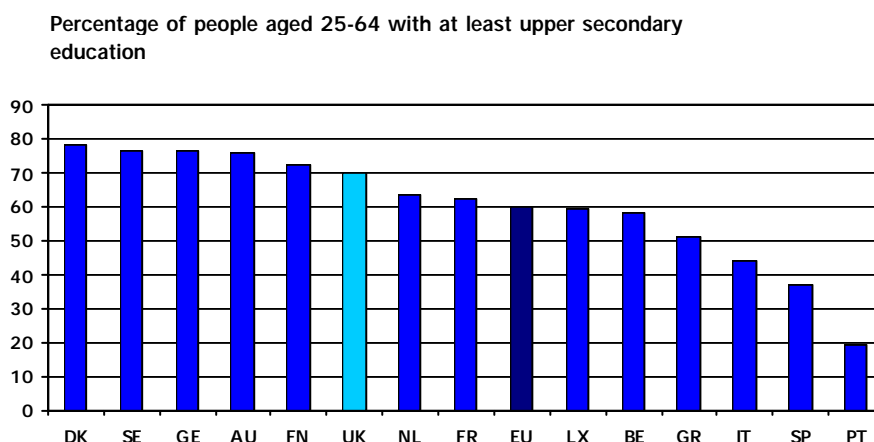
One source of differences in productivity will be differences in the educational achievement and skills of the workforce. This has been an area where UK performance has traditionally been weak.

At the level of basic literacy and numeracy, the International Adult Literacy Survey final report<sup>15</sup> provides a comprehensive assessment of the large-scale literacy study covering 23 countries over the period 1994-98. "Literacy" covers a multiplicity of skills but overall the measurement of adult proficiency is measured on each of three domains - prose (texts); document (in different formats) and; quantitative (number). In terms of the average (mean) level of literacy in society the UK ranks:

- 13 out of 22 on the prose domain
- 16 out of 22 on the document domain
- 17 out of 22 on the quantitative domain

In terms of general education, in 2000, 70 per cent of people aged 25-64 in the UK had completed secondary education (Figure 2.14), compared with a EU average of just over 60 per cent. The differences between Member States are less pronounced, although still substantial, for younger age groups. Among 25-34 year olds, the proportion still varied from 31 per cent in Portugal to 87 per cent in Sweden.

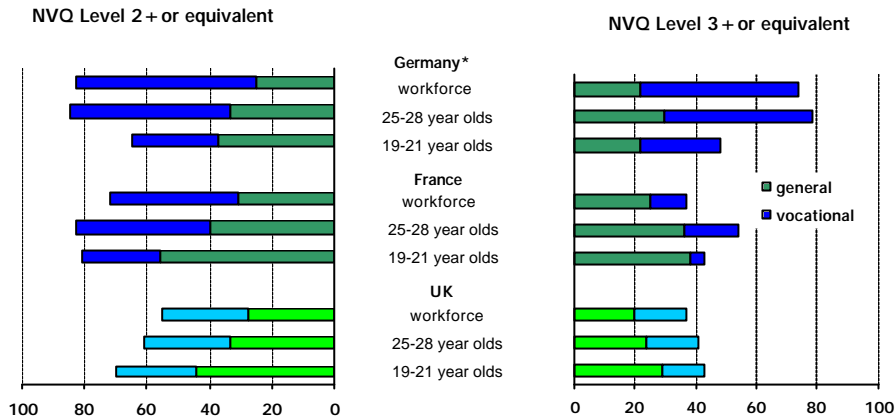
**Figure 2.14: Education levels, 2000**



Source: European Commission Action Plan for skills and mobility, 2002.

More specific comparisons with France and Germany suggest a particular problem in terms of intermediate level skills (Figure 2.15).

**Figure 2.15: Skill levels in UK, France and Germany, 1998**

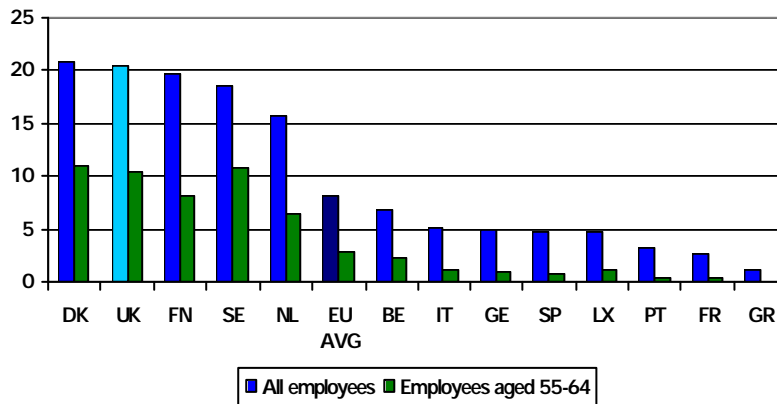


Source: National Institute for Economic and Social Research, except \* = 1997.

In contrast, the UK has one of the highest proportions of employees in receipt of job related training (Figure 2.16). Comparisons are affected by differences in national systems of education and training and, in particular, the respective roles of government and employers.

**Figure 2.16: Job related training, 2000**

Percentage of employees who have received job-related training in previous 4 weeks



Source: European Labour Force Survey.

Although the availability of skilled and adaptable labour is clearly important to explaining differences in productivity performance, how people are managed and utilised within the enterprise is also important. In part this may be an issue of managerial capability, and in part a reflection of the underpinning relationship between employers and their workforce. It is also an area where rigorous and internationally comparable data tends to be scarce.

### **Different systems**

The three previous sections illustrate the differences of labour market and broader economic outcomes between the EU and the US (where available) and indeed within EU Member States. This in itself would mean that individual Member states - within the Lisbon framework - may have different views about where the relative priorities are. In addition, the institutional systems that underpin and support the labour market differ widely across the EU. This section sets out in brief the extent of that diversity.

One important source of diversity is the extent to which the social partners are involved at different levels in policy-making processes that extend beyond collective bargaining - what has been termed "social dialogue".

At the European level, the term social dialogue is used to denote the treaty-based mechanism for policy making involving at interprofessional level the ETUC, UNICE and CEEP<sup>16</sup>. This is underpinned by sectoral mechanisms. The outputs of the social dialogue vary. In the past, the social partners have negotiated framework agreements, such as on fixed term work and parental leave, which have later been turned into Directives. More recently, the social partners have been exploring "voluntary" agreements, such as the current discussions on teleworking, which they will implement themselves in accordance with national practices and procedures.

The most common structure of trade union organisation is one of sector-based unions grouped in a number of confederations. However, this is far from being a representative "European model" (Table 2.1).

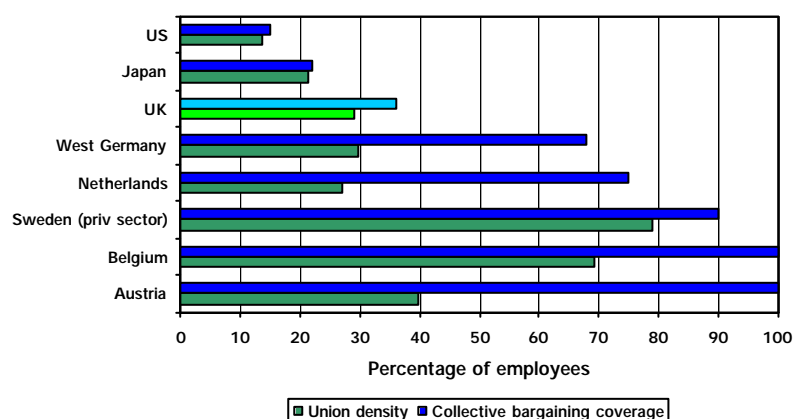
**Table 2.1: Trade union organisational structures**

	Structured primarily around industries/sectors	Mixed structures – industry, general, occupational
Single main confederation	Austria, Germany	Ireland, UK, USA
Multiple confederations (often along religious, political or organisational lines)	Belgium, France, Italy, Japan, Luxembourg, Netherlands, Portugal, Spain	Denmark, Finland, Greece, Norway, Sweden

Source: European Industrial Relations Observatory.

Union membership may not be an accurate reflection of the economic importance of collective bargaining outcomes. In many countries, increases in pay and terms agreed by unions and employers are extended across the relevant sector by law or convention; coverage of an agreement may go well beyond the union membership (Figure 2.17).

**Figure 2.17: Union density and collective bargaining coverage**



Source: European Industrial Relations Observatory.

Employers may be organised on either a sector or inter-sector basis and, in most EU countries, pursue collective bargaining or substantive dialogue with trade unions through their employer associations (Table 2.2). The UK stands out from

the rest of the EU (but resembles the US) in that its own employer bodies do not play a significant bargaining role at either a sector or cross-sector level.

**Table 2.2: Bargaining role of employers' organisations**

	Bargaining or significant dialogue with unions	Little/no bargaining or dialogue with unions
Cross-sector organisations	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, Portugal, Spain, Sweden	UK, USA
Sector organisations	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, Sweden	Ireland, Japan, Luxembourg, UK, USA

Source: European Industrial Relations Observatory.

One consequence of these differences in union and employer organisation and coverage is that the parties to the social dialogue at the European level - ETUC, UNICE and CEEP - themselves represent the interests of different proportions of employees and employers in different countries.

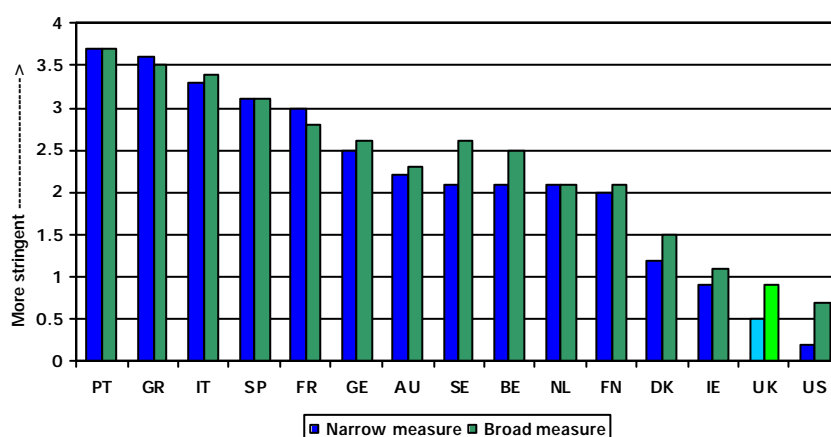
Another source of diversity is the role of labour market regulation - how it is implemented as well as the degree of protection it affords. Although there is now a considerable body of EU minimum employment standards set out in legislation, there is still considerable variation within the EU.

Measuring and comparing different regulatory regimes is invariably both difficult and subjective. Indices are often narrowly drawn. Measures of employment protection legislation, for example, tend to concentrate on limitations on hiring

and firing but ignore the potential for law suits over discrimination or pension funds. Similarly, studies of the market-friendliness of product markets tend to count the number of hoops an entrepreneur must jump through to incorporate a new business and how many weeks this is likely to take, but forget differences in bankruptcy or laws that can have an important influence on business formation and dissolution<sup>17</sup>.

A commonly used measurement scale for employment protection legislation has been that compiled by the OECD (Figure 2.18). This shows comparative rankings of the strictness of legislation, with higher values (on a scale of 1-6) implying greater protection. The "narrow" measure is based on data for regular and temporary contracts; the "broad" measure incorporates additional information on regulations covering collective dismissals<sup>18</sup>. The US and the UK had, at the end of the 1990s, fewer restrictions than countries in Continental Europe on the rights of employers to adjust the size of their workforce. The differences were, however, smaller than a decade previously. Although the least regulated countries did not change between the late 1980s and the late 1990s, the more regulated countries tended to reduce the strictness of their employment protection legislation.

**Figure 2.18: Measures of employment protection legislation, late 1990s**

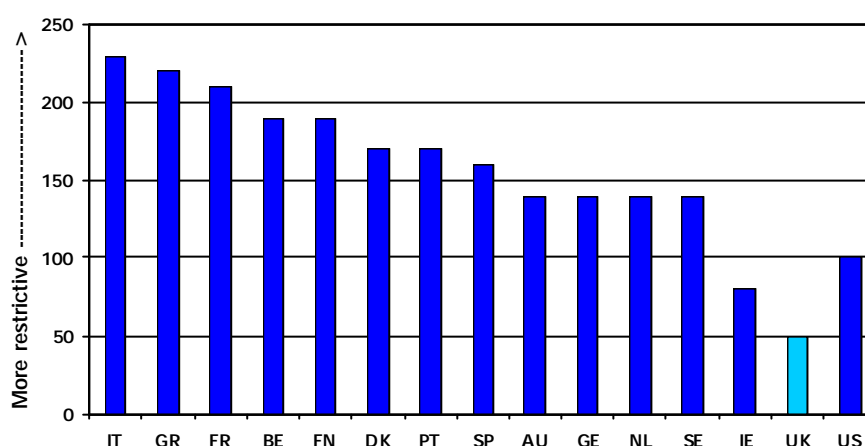


"Narrow" scores are for regulation of regular and temporary contracts.  
 "Broad" scores include collective dismissal legislation.  
 Source: OECD.

Regulations affecting business start-ups or expansion, or the ability to enter new product or geographic markets, can also have an important influence on

employment. Figure 2.19 summarises aggregate measures of the regulatory burden for each and in total, with higher scores indicating a thicker and more intrusive regulatory system. Recent analysis by the OECD<sup>19</sup> has emphasised the links between product and labour market regulations. Competitive product markets provide the incentives for the spread of best practice methods. Dynamic markets with few barriers to entry and exit can promote employment - especially in business start-ups.

**Figure 2.19: Measures of product market regulation**



Measure used is "total" measure of inward and outward-oriented legislation.  
Source: OECD.

Employment protection legislation is one way in which some Member States deliver social protection. The boundaries drawn between this form of social protection and others, e.g. through income support via the welfare state also vary. And there are also differences between countries in terms of how benefits are financed, who manages them, their levels, the conditions attached to them etc.

The responsibility for administering unemployment benefits systems varies across the EU. In countries such as France and Sweden, the social partners – trade unions and employer associations – are heavily involved. In others, such as the UK, the social partners play a much smaller or negligible role.

Different countries will have a different mix of attributes. The UK, for example, has a comprehensive welfare system, with the state responsible for the provision

of many benefits, but it has also a decentralised and voluntarist labour market, with social dialogue occurring mainly within the workplace. The Netherlands also has a comprehensive welfare state, but has widespread collective bargaining at national and sectoral level and tight coordination of wage settlements.

The different mix of systems means that the tools available to policy makers differ. It is noticeable, however, that, despite these differences, there is some commonality in the responses to common challenges. Policy priorities set out in the OECD Jobs Study and in the EU's Broad Economic Policy Guidelines are having an impact. Making work pay, reform of tax and benefits, active labour market initiatives (such as the New Deal in the UK) are consistent themes across Member States (Box 2.2).

#### **Box 2.1: Examples of labour market reform in EU Member States**

**Spain** has simplified its tax system, cutting minimum and marginal tax rates by 2 and 8 percentage points.

**Ireland** has converted personal tax allowances into tax credits, raising significantly the threshold at which income tax is payable.

**France** has cut employer social security contributions to reduce labour costs and introduced prime pour l'emploi for workers at or above the minimum wage to address the unemployment trap.

**Italy** is amending its law, explicitly to increase flexibility in job placement

The UK has introduced a national minimum wage and the working families tax credit to make work pay.

**Finland** has introduced a package of complementary measures designed to correct a situation in which work incentives have been dampened by very high marginal tax rates.

#### **Conclusions**

This Chapter has provided what is a necessarily brief and incomplete account of the differences in labour market policies and institutions between EU countries and in comparison with other systems.

The main conclusion to be drawn from it is that, although countries have much in common, the differences between them in terms of the structure of their markets are large. Participation rates for men are generally quite high, but there are large differences between countries in the participation rates for women and for both older and younger workers. Different regions display very different characteristics throughout the EU. Mobility between professions varies depending on the institutional structures that exist in different member states. Some countries have a high proportion of self-employed people, others a low number. The same is true of part-time workers. Productivity levels vary significantly, as do the systems for financial participation in private sector success, and the institutional systems for wage bargaining.

This diversity indicates that there is much that we can learn from each other. But the policy priorities of different countries will also vary at different points in time. Some governments will want to emphasise job creation, others diversity or productivity. Systems of coordination and peer review against stated objectives may therefore be the best way to encourage progress. The next chapter sets out in more detail our priorities for UK labour market policy to achieve the aspirations articulated at the Lisbon summit and reaffirmed by EU leaders subsequently, and examines our record to date in achieving those aims.

## CHAPTER 3

### OUR VISION OF THE LABOUR MARKET OF THE FUTURE

Chapter 2 illustrates the diversity of labour markets and institutions in Europe and elsewhere in the world. In Europe, it has shown that, while we share common aims, the situation in each country varies considerably from that in other Member States. It is not the case that there is a single European model in direct contrast to a US model. Rather, different countries share different strengths and weaknesses in their ability to reach our common aims. And because our underlying structures and institutions differ, the toolkits at our disposal to effect the changes we need will differ as well. But we are clear where we want to be. We want to see full employment. We want to see diversity and choice in the employment opportunities faced by employers and employees alike. And we want high productivity - delivered through a productive and skilled workforce with the high level of commitment between managers and workforce that is required to raise the level of success of the organization.

#### **Full employment**

We want to see full employment - a demanding definition based on the achievement of high and fair levels of employment and encapsulated in the ambition of "employment opportunities for all"<sup>20</sup>. It includes two new elements based on fairness:

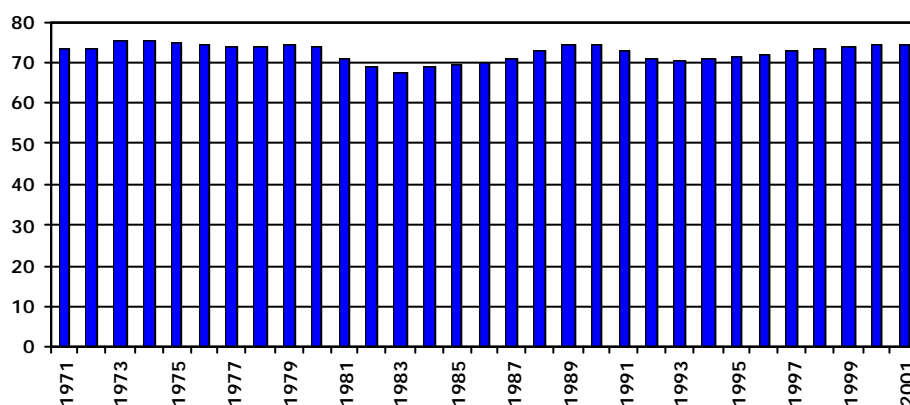
- A determined effort to end long-term unemployment;
- Bringing into the world of work those who are currently excluded – the economically inactive, recognizing that paid employment may not be the best choice for everybody all the time and providing a framework of rights and decent minimum standards for those in work and support for vulnerable groups who are unable to work.

Full employment is a social as well as economic goal. Work is central to most people's lives and the sense of social worth it provides is a powerful argument in itself. So too are the economic benefits of high employment and a fair distribution of work across society. And everybody - as consumers of private and public goods and services - benefits from a well functioning labour market.

The UK has one of the highest employment rates in Europe and the OECD. Employment has grown steadily in recent years and the employment rate now stands at 74.6 per cent. The Chancellor's goal of a 75 per cent employment rate sustained over the cycle is within reach (Figure 3.1).

**Figure 3.1: Employment rates, 1971-2001**

Percentage of population of working age in employment



Sources: 1971-1991, DWP calculations; 1992 onwards, Labour Force Survey.

Unemployment rates are now at their lowest for a generation, with less than a million claimant unemployed and just over 1.5 million unemployed on the ILO definition. For the first time in almost 50 years, unemployment in the UK is the lowest in the G7.

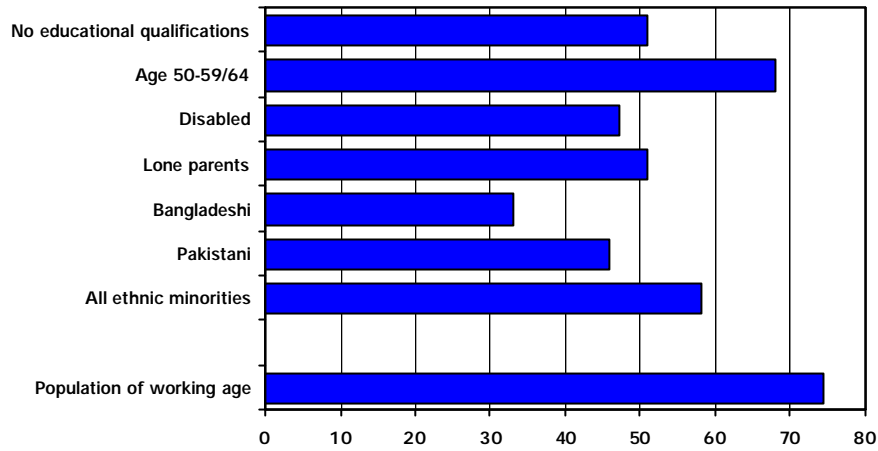
These are considerable achievements. Not too long ago, these would have been called pipe dreams. But there is more to be done. There are still 4 million people in the UK on out-of-work benefits – 3 million on sickness and disability benefits, 800,000 on lone parent benefit and 200,000 on other benefits. The

vast majority of those on inactive benefits have been there for a very long time – years rather than months. In total, including those not on benefits, there are 7.8 million inactive people of working age<sup>21</sup>. Many might be encouraged into the labour market with the right support.

Figure 3.2 and Table 3.1 show that employment rates are especially low for:

- Lone parents, mainly lone mothers.
- Disabled people.
- Ethnic minority groups, although the gap is particularly large for people of Pakistani/Bangladeshi origin (especially women).
- Over 50s.
- People with no formal qualifications.
- Some local areas. The very lowest employment rates are concentrated in parts of London, Wales and Northern Ireland. More broadly, the areas affected are mainly inner cities, some coastal resorts and a few ex-coalfield areas.

**Figure 3.2: Groups in the labour market with relatively low employment rates**



Source: Various Labour Force Surveys, 2000 and 2001.

**Table 3.1: Local areas with the lowest employment rates, March 2000-February 2001**

Percentage of resident population of working age in employment

Area	Employment rate (per cent)
Newham (London)	51.1
Tower Hamlets (London)	53.6
Blaenau Gwent (Wales)	54.3
Hackney (London)	54.6
Isle of Anglesey (Wales)	54.6
Limavady (Northern Ireland)	54.7
Derry (Northern Ireland)	56.3
Monmouthshire (Wales)	56.6
Strabane (Northern Ireland)	58.3
Haringey (London)	58.4

Source: Local Labour Force Survey, Table A.12, *Labour Market Trends*, January 2002.

There are job opportunities generated all the time all across the country. Moving towards full employment means helping those looking for work or thinking about looking for work to compete for these jobs. Financial incentives - the difference

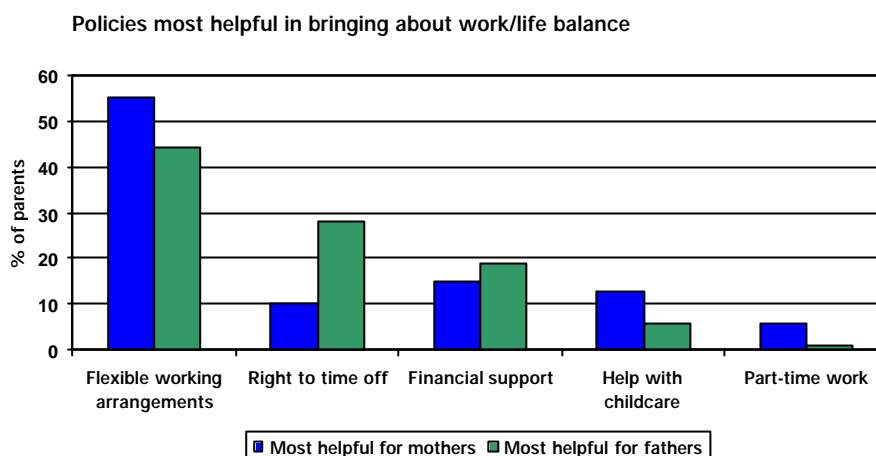
between income in and out of work - are important in influencing activity decisions<sup>22</sup>. However, non-monetary factors are also important: the ability to fit paid work in with other commitments; a working environment free from unfair treatment or harassment; and opportunities to develop and progress.

Where people do want or need to withdraw permanently or temporarily from the labour force, for example to care for children or other dependents, their choices and circumstances should be respected. If necessary, there should be measures to provide security. Interruptions from employment can often involve a "penalty" in the form of reduced future earnings and career prospects<sup>23</sup>. There may be a need for measures to support entry or re-entry into the jobs market. This is the role of a modern welfare state.

To give meaningful choices, barriers to entering the labour market need to be tackled. These include:

- Knowledge of the jobs market and the opportunities available.
- Lack of recent work experience.
- Problems in the availability, accessibility, affordability and perceived quality of arrangements for childcare. A 1999 survey found that 23 per cent of non-working mothers cited a lack of free or cheap childcare as a reason for not working outside the home, 10 per cent cited a lack of childcare at suitable times, 7 per cent reliability and 6 per cent a lack of good quality<sup>24</sup>.
- The availability of working patterns that enable employment to be fitted in with other commitments. The UK has a good record in its diversity of employment opportunities (see below). But there is still unmet demand for greater choice over working patterns. A recent government survey asked parents for their views on what the policy priorities were for achieving greater work-life balance. The responses showed that greater access to flexible working opportunities was the most popular choice in terms of benefits for both mothers and fathers (Figure 3.3).

**Figure 3.3: Parents' priorities for work/life balance**



Source: "Parents' perceptions of and attitudes towards Government work-life balance initiatives", WEU/DTI/DfEE survey report, 2002.

- Lack of basic skills and education qualifications. Literacy skills are strongly associated with the probability of finding employment, even after taking account of individual differences in family background. A study of men born in 1958 found that, over time, those with low literacy skills were less likely to be in full-time employment than those with better skills<sup>25</sup>. And those with poor basic skills are less likely to progress and increase their earnings even when they do find work<sup>26</sup>. More generally employment opportunities for those with lower or no qualifications declined significantly between the late 1970s and the mid 1990s<sup>27</sup>.

### Diversity and choice

Achieving full employment and reducing disadvantage will require a diverse labour market able to accommodate the choices of both businesses and individuals. There also needs to be the flexibility in practices, attitudes and institutions to facilitate change.

The dynamism of the UK labour market contributes to these aims. There are vacancies coming up all the time, all over the country, across all industries and occupations and at all qualification levels. Net changes in employment mask

substantially larger gross flows. For example, over the year to winter 2000/01, employment grew by 170,000 but this represented around 6½ million people moving into a new job, an average of more than half a million each month, or 24% of total employment. Nor is turnover on this scale a new development<sup>28</sup>.

Over time, changes in the numbers of people employed are influenced more by changes in the number of people leaving jobs than in the number of people entering jobs. So, even in the most severe downturns, there have always been large numbers of new vacancies and job openings. Thus, even though manufacturing employment has been falling, the share of Jobcentre vacancies in manufacturing is very similar at around 15 per cent to the share of manufacturing employment in total employment. It is a similar story in terms of occupations and geography.

This picture of dynamism holds across all levels of qualification. Of the 6.5 million people who moved into jobs in the last year, there were around 1.25 million or more at each of NVQ levels 1, 2, 3 and 4. At NVQ level 5 there were around 250,000 job changes and around 750,000 people with no qualifications changed jobs<sup>29</sup>. At each qualification level around a fifth to a quarter of people changed jobs (but not necessarily firms) over the previous year.

The sheer number of new job openings provides lots of opportunities for the unemployed to compete for work. The range of jobs available gives them the chance of finding a job that suits their needs and aspirations. People who do lose their job - even involuntarily - are usually able to find another one relatively quickly. For example, over 40 per cent of those made redundant find employment again within a three months<sup>30</sup>. Two-thirds of those who become claimant unemployed leave the count within three months.

Employers and workers in the UK generally determine the detailed terms and conditions of employment at a local or individual level. In most other countries, the state, nationwide or industry level collective bargaining determine common features. This is why the OECD analysis of employment protection legislation in chapter 2 identified the UK as having one of the most liberal regulatory frameworks. Determining the types and patterns of work at a local or individual

level - subject to minimum standards - leads to greater diversity of employment patterns because the outcome is dependent on millions of individual decisions by workers and employers.

A wide range and diversity of employment opportunities is likely to be of particular benefit to people who are not looking for, or unable to take up, "standard" working arrangements, such as young people wishing to combine paid work with study, men and women with domestic commitments, and older workers. But diversity of this kind also has more general benefits through facilitating the efficient matching of labour demand and labour supply.

About 11 per cent of UK employment is self-employed, 7 per cent are in non-permanent work, and 24 per cent work part-time. Chapter 2 also showed that the UK had relatively high numbers working at evenings and weekends. According to the Labour Force Survey, nearly three million people work mainly at or from home and nearly 1.8 million people are teleworkers on either a regular or occasional basis<sup>31</sup>.

Technology and the growth of the service economy have had important implications for the organization of work and working time. The nature of services means that work often has to be done at the times that the customer needs it, whenever that may be. Consumers - in a more competitive environment - are demanding more. Modernisation of public services involves more flexible delivery built around the needs and expectations of the public - with implications for the workforce providing those services. In manufacturing, there is more just-in-time production. Employers and employees have responded and continue to respond to these changes. Only 35 per cent of employees now work a "standard" Monday to Friday week with 9-to-5 type starting and finishing times<sup>32</sup>.

Almost a quarter of employees work part-time, a high proportion by EU standards. Four-fifths are women. About 90 per cent said they do not work part-time because they could not find a full-time job. Although in some cases this choice may be constrained by real or perceived problems of access to

suitable childcare, this is a low proportion of "involuntary" part-time workers by EU standards.

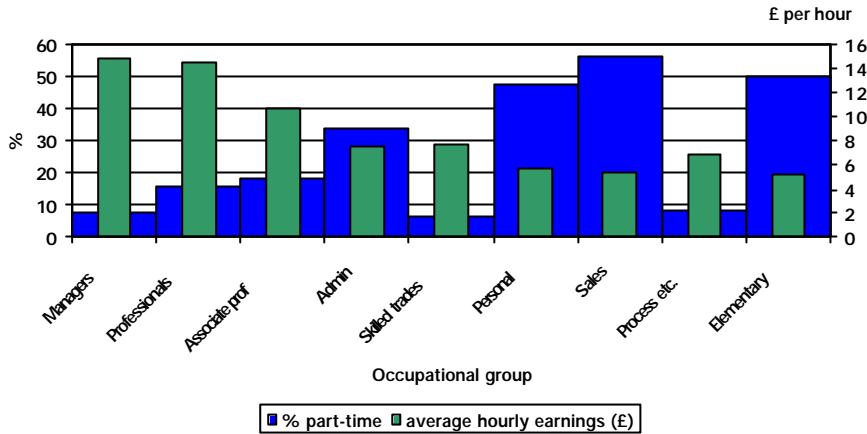
At the other end of the spectrum, the Labour Force Survey shows that 21 per cent of employees say they usually work 48 or more hours each week<sup>33</sup>. Around half of this group appear to work such hours on a long-term basis<sup>34</sup>. Men are more likely to work long hours than women.

Those working long hours fall into two broad groups. The first group is those who receive paid overtime. Recent analysis of employee responses in the 1998 Workplace Employee Relations Survey found that the most common reasons given by this group for working over 48 hours a week were "I need the money" and "It's required as part of the job"<sup>35</sup>. They are mainly men and predominantly employed in unskilled, craft or personal service occupations. The second group is predominantly employed in managerial and professional occupations. They tend not to receive paid overtime. Their working hours may or may not be an implicit expectation of their job. For this group, the survey suggests a more complex set of motivations. The most commonly cited reasons for working long hours were: "So that I can get all my work done" and "It's required as part of my job" followed at some distance by enjoyment of the job and not wanting to let other people down. But expectations of reward through pay or promotion may also be reasons for working unpaid overtime.

Surveys have shown a significant increase in dissatisfaction with working hours during the last decade<sup>36</sup>. This could be due to rising expectations about the balance between work and personal time because the overall prevalence of long hours working has not changed greatly over this period. Yet while most people working long hours say they would like to work fewer hours, few would take a pay cut to do so<sup>37</sup>.

Long hours working can have implications stretching beyond the impact on those working long hours. There are relatively few part-time workers in managerial jobs (Figure 3.4). The observation that people in these occupations often work long hours and the perception that part-time work spells career death may be self-reinforcing.

**Figure 3.4: Prevalence of part-time work by occupation, 2001**



Source: Spring 2001 Labour Force Survey.

Figure 3.4 also shows that part-time work is concentrated in relatively low paid and low status work with considerable vertical segregation. The occupations with the highest concentrations of part-time work tend to have the lowest average earnings per hour. This segregation of part-time jobs leads to lower pay for part-time workers and accounts for some of the pay gap between men and women (see below).

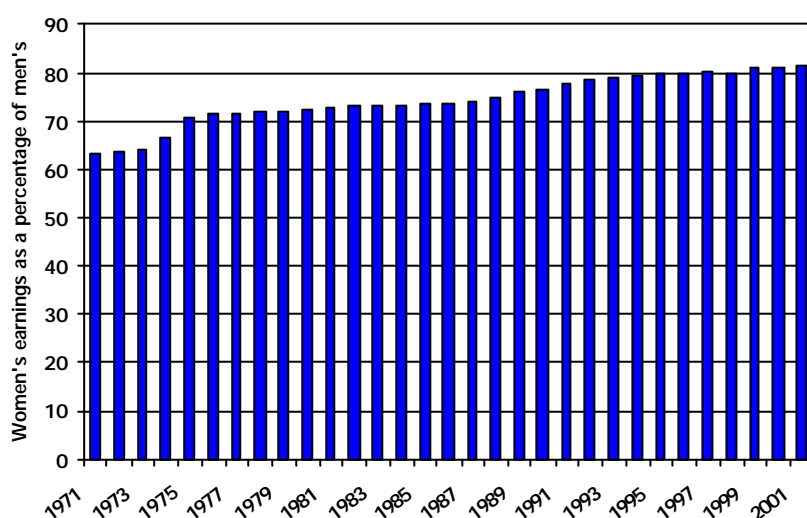
So, while the UK tradition encourages a greater diversity of working hours than other European countries, often to the benefit of both employers and employees, there is still a need to build on this in two ways:

- To make it even easier for young people, older workers, parents etc. to find the working patterns that enable them to enter and remain in the labour market.
- To raise the status of part-time and flexible working - to make it more widely spread across occupations and up and down hierarchies.

Although while most people have become better off in absolute terms, some groups in the labour market continue to do better than others. In many

European countries, the employment prospects of women are much worse than for men. This is not the case in the UK. However, differences in the pay of men and women persist (Figure 3.5). After the effects of the Sex Discrimination Act and the Equal Pay Act worked through during the 1970s, there has been a slow upward trend in women's relative earnings, albeit with larger increases in most recent years. There are a number of reasons for these differences. In part, this is because men and women have different employment patterns (for example in terms of hours worked, when those hours are worked etc). There are also differences in education levels - at least historically - and in time spent out of the labour market. Other significant factors are occupational segregation and the low pay and status of part-time work (see Figure 3.5). Some of the gap may be due to other forms of unequal treatment.

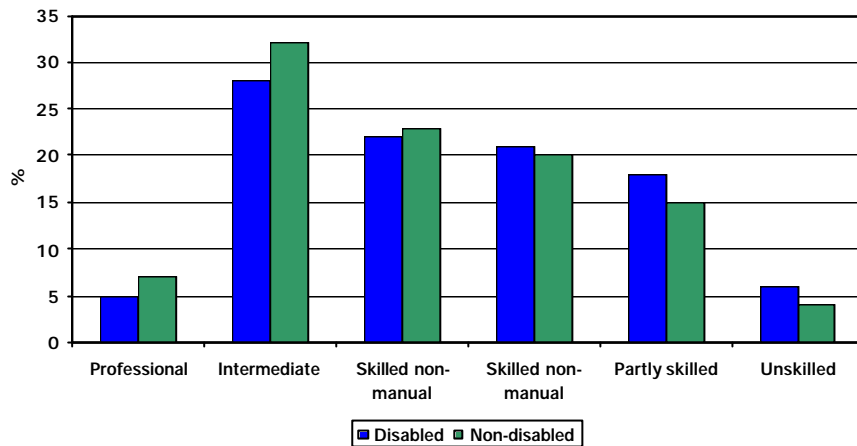
**Figure 3.5: Trends in the gender pay gap, 1971-2001**



UK, full-time employees only excluding overtime earnings.  
Source: New Earnings surveys.

Disabled people have lower employment rates than the non-disabled (see Figure 3.2). Those who are in employment are under-represented by a small amount in professional and other higher-level occupations (Figure 3.6).

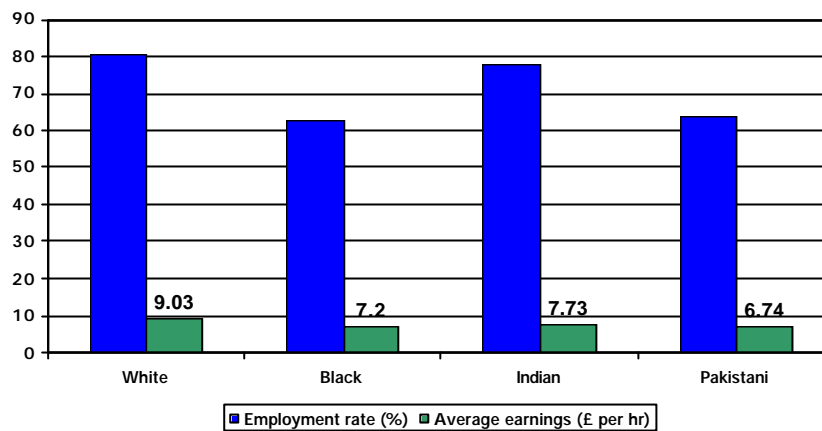
**Figure 3.6: Employment of disabled and non-disabled by social class (based on occupation), 2000**



The analysis is based on the Office for National Statistic's 'broad' definition of disability.  
Source: Summer 2000 Labour Force Survey.

Similarly, people in ethnic minorities fare less well than whites. Most ethnic groups are less likely to be in employment and those in work are less well paid on average than whites (Figure 3.7). These differences do not arise entirely from differences in personal characteristics or education. In particular, there is evidence that the market rewards investment in education by ethnic minorities less well than it rewards similar investment by whites<sup>38</sup>. More recent data shows that Black Africans are the best educated ethnic group in the labour market - they are ten percentage points more likely to have higher level qualifications than whites. But their employment rate is twelve percentage points lower<sup>39</sup>.

**Figure 3.7: Employment and earnings of ethnic minority men, mid 1990s**



Based on Labour Force Survey data for men, 1993-1996.  
Earnings are average per hour in 1997 prices, adjusted for local price levels.  
Source: Blackaby *et al*, 2000.

Reducing disadvantage - both in access to employment and in the rewards from employment - is important for both economic and social reasons. It is not using talent to the full at a time when labour markets are tight in many parts of the country. And it is unfair and unjust. Action has been taken at both European and national level to combat discrimination through legislation. This is part of the solution but action to create greater diversity of employment opportunities is likely to be particularly beneficial for these groups, combined with active labour market policies to raise employability.

## High productivity

Although the UK continues to be a rich country, Chapter 2 showed that a productivity gap remains between the UK and countries such as France, Germany and the US. Reducing this gap through higher productivity growth would increase the trend growth rate and thus the standard of living.

The government's analysis of the productivity gap identified a number of explanations and priorities for government action<sup>40</sup>. Two key ingredients are the skills of the workforce and employee management practices. The government wants to see over time an increase in the skills of the workforce at all levels. This needs to be combined with management practices that generate high quality relationships between employers and their workers based on trust and mutual commitment - what has sometimes been termed the "high performance workplace".

Chapter 2 showed that the UK's position on basic literacy and numeracy skills is below that of many other countries. Likewise, the supply of skills is still low relative to other major European countries, especially at the intermediate level and in broader vocational education.

The position is improving. An important yardstick is the completion of upper secondary education, through attaining NVQ Level 2 or broadly equivalent qualifications. The proportion of the workforce educated to at least this level has increased since 1995 (Figure 3.8).

**Figure 3.8: Qualification levels of the UK workforce, 1995-2001**



Source: Labour Force Surveys.

In terms of higher levels of education, the UK has the highest rate of university graduation in the OECD at 35.6 per cent (of people at the typical age of graduation), just ahead of the USA, Finland and Norway. In terms of broader tertiary level qualifications, the position is improving. Recently the UK has experienced a faster growth rate in enrolments than any OECD country except Portugal, which will feed through into qualification levels in future years.

The demand for higher level skills appears to be strong. In the decade to 2010, one forecaster has estimated that four-fifths of new jobs will be in managerial, professional and associate professional occupations<sup>41</sup>.

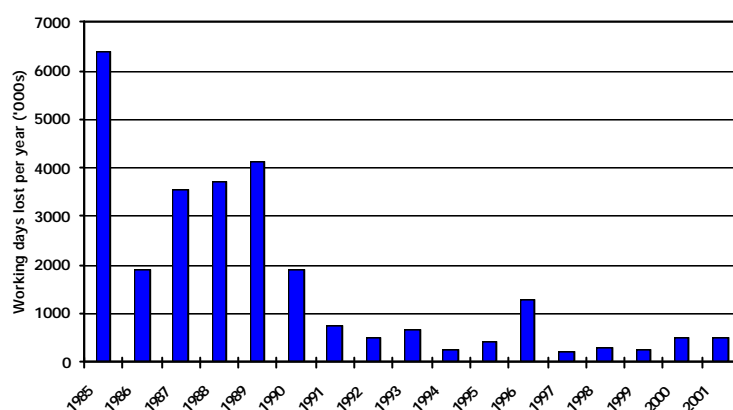
However, there is some evidence that existing skills are not always used to the full. The 2001 Skills Survey found that 37 per cent of people in employment were "overqualified", in that their qualification was higher than the qualification required for new entrants to the same job<sup>42</sup>. Of those, 47 per cent said that their skills and abilities were not being used in the job. Using the skills and abilities of the workforce to the full is at the heart of successful people management.

The debate about workplace employment relations has changed. It used to be about the conduct of collective industrial relations. For much of the earlier post-

War period, strikes were the "British disease" and seen as one of - if not the - most important cause of Britain's poor productivity performance.

The position now is radically different. The number of days lost due to strikes has plummeted to a rate well below the EU and OECD averages (Figure 3.9).

**Figure 3.9: Working days lost due to industrial stoppages, 1985-2001**



Source: Office for National Statistics

The savings in terms of days lost are sizeable. However, a decline in overt and collective conflict does not mean that all problems have been solved. Recent research<sup>43</sup> suggests there could be hundreds and thousands of disputes or disagreements every year between employers and their employees. Many of these are resolved quickly and amicably. But a significant proportion cause long term damage to the employment relationship, even causing it to end either by employer action or by the employee walking out. Over 100,000 a year of these cases are reaching Employment Tribunals. In a sizeable minority of cases, there appears to have been little effective dialogue to try and resolve a dispute before going to law. A survey of tribunal applications found that, in 37 per cent of cases, no meeting was held to resolve the dispute, there was no use of disciplinary or grievance procedures and no other attempt was made to solve the problem<sup>44</sup>.

Taking a case to a Tribunal involves significant costs to both parties in terms of financial and legal costs, damage to job opportunities, damage to workplace relations and stress.

The best way to avoid these costs is to try and resolve disputes within the workplace. The essential elements to achieving this are effective procedures for dialogue and discussion between employer and employee together with a relationship based on trust.

There is increasing evidence that the quality of the relationship between employers and employees can affect business performance<sup>45</sup>. The 1998 Workplace Employee Relations Survey shows that high quality workplace relations (as measured by perceptions of the quality and "climate" of management-employee relations) can be found in a variety of settings, with or without trades unions<sup>46</sup>.

The factors that seem to be most important and that are usually in place - and thus help define the high performance workplace - are:

- Modern employee management practices that develop workforce skills and use them flexibly within the workplace.
- Good communications that work both upwards and downwards and enable employee involvement.
- A spirit of trust and mutual commitment to common goals between employers and employees.

Examples of these policies and practices include teamworking, joint problem solving, quality circles, strong appraisal systems, team briefings, and effective structures for information and consultation. Nor are these practices confined to large firms - though they may be easier to measure here - and indeed relations between managers and employees are often better in small workplaces, perhaps because people know each other better. The literature on job satisfaction tends

to suggest that, other things being equal, job satisfaction is greater in small workplaces.

The problem in the UK is not that these practices are unknown. It is that they are not applied widely or deeply enough. The 1998 Workplace Employee Relations Survey asked managers whether they had any of a list of fifteen identified "high commitment management practices" present in the workplace. These practices covered a range of issues, most of which would be well known to specialist personnel managers. Yet the results show that only 14 per cent of workplaces had a majority (eight or more) of these practices in place; 29 per cent had three or less in place<sup>47</sup>.

It is difficult to say why this is. It could be due to a lack of information. It could be because moving from an adversarial to a co-operative employer-employee relationship can be risky. It could also be due to a lack of skills and capabilities. If these are lacking - especially in management and worker representatives - then change may be stymied even with goodwill on both sides. A recent EEF survey of engineering businesses<sup>48</sup> collected data on perceived barriers to high performance workplace practices. By far the most common barrier cited was attitudes to change (almost half of companies surveyed). Insufficient time, a lack of understanding of the benefits and a lack of workforce or management skills were each mentioned by about 15 per cent of respondents.

## Conclusions

Our vision of the labour market aims high in terms of outcomes while being based upon a realistic assessment of the strengths and weaknesses of the UK economy and labour market.

Full employment is again an achievable goal. The Government's modern concept of full employment is more than a target rate - it is about opportunity for all. Compared to other EU and OECD countries, the UK has high levels of participation but there is still progress to be made for disadvantaged groups and areas.

The flexibility in the UK economy and its legislative framework is one reason why there is a great diversity of outcomes in the UK. It is also one reason why - in employment terms - the UK scores well on the employment of women, young people and older workers. We wish to see this diversity maintained and indeed expanded. This will enable more people to enter employment - especially those in disadvantaged groups and areas. We also want to see disadvantage within the workplace - in terms of pay or occupational status - reduced. A major contribution could be made here through changing perceptions of part-time, reduced hours and other forms of flexible working and what these mean for people's careers. This links with an improved perception of work-life balance.

Productivity needs to be improved. A modern, high-performing labour market can make a significant contribution. We want to see a culture of lifelong learning to expand and continually replenish the skills base of the workforce. This must be combined with high performance workplaces where relationships between management and workforce are based on trust and mutual commitment. There is no single way of achieving high performance and this will be a major challenge for employers and their workforce.

Are there trade-offs between these goals? It has been claimed that governments may have to choose between high levels of employment and high productivity. Trade-offs can exist. For example, if labour is expensive, then firms will substitute capital for labour and increase measured labour productivity at the

expense of employment. And some countries with high labour productivity have low employment rates. At the same time, an either-or choice is not axiomatic. There are examples of countries that have combined high employment rates with strong labour productivity - the USA, the Netherlands, Denmark, Norway, Iceland and Switzerland. There is variation between these countries in the apparent degree of social inclusion (if measured by variables such as income equality). There are certainly big differences in culture and institutions. This suggests that there are a variety of routes to achieving prosperity for all.

In moving towards this vision, it is important to be sensitive to the UK's specific economic and institutional characteristics:

- An approach to regulation that concentrates on setting minimum standards and defining parameters within which employers and individuals make their own choices, both individually and collectively.
- A comprehensive system of support for those in and out of employment that is funded and managed in the main by the state rather than through the social partners.

The policies that the UK is following in order to move towards these goals are the subject of the next Chapter.

## CHAPTER 4

### THE POLICIES TO ACHIEVE OUR VISION

The previous chapters set out our vision for the labour market - one based on:

- Full employment.
- Diversity and choice.
- High productivity.

This chapter sets out how we propose to move towards this vision. It outlines the framework and discusses what has been achieved so far. It also discusses future commitments already announced or entered into. Although specific policies continue to change and evolve - learning from experience - we believe that the basic policy framework is sound. It is comprehensive in both the range of delivery mechanisms and in the problems it tackles. Deep-seated economic and social problems require joined-up policy solutions.

Many government policies have the potential to affect the performance of the labour market. This chapter discusses those most often identified as labour market policies and those with the greatest impact on the labour market. But this is not the full story. Policies on education, competition or transport, for example, also influence the labour market behaviour of businesses and individuals.

Nor can labour market policies close the productivity gap on their own. There is also a need for policies to promote competition, investment, innovation and higher quality and more efficient public services<sup>49</sup>.

The material is organised in terms of the type of government intervention involved:

- Delivering macroeconomic stability.
- Promoting work for those who can and providing security for those who cannot.
- Making work pay.
- Investing in childcare.
- Promoting skills and lifelong learning.
- Minimum employment standards.
- Providing information.
- Promoting high performance workplaces.

Most of these policy mechanisms contribute towards realising more than one of the broad goals set out above. For example, a national minimum wage can raise participation by making work more attractive. It may tackle unfair treatment where this exists. It can contribute to productivity by reducing staff turnover and absenteeism. And for the policy to be effective, it needs to be underpinned by reliable and accessible information on entitlements and advice on good practice for employers in adjusting to a minimum wage. Similarly, active labour market policies help people into employment. By increasing the employability of those who are often the most disadvantaged, they also increase the productive potential of the workforce.

Government is not the only driving force for improvement. Labour market performance depends on the decisions of businesses and individuals as much as government - such as whether or not to look for work, or invest in skills, or change working practices. Government policies often try to influence these decisions - through financial incentives, legislation or the provision of information and guidance on best practice. Policies must therefore go with the grain of the

labour market and recognise the diversity of the people and the businesses that engage in it.

### **Delivering macroeconomic stability**

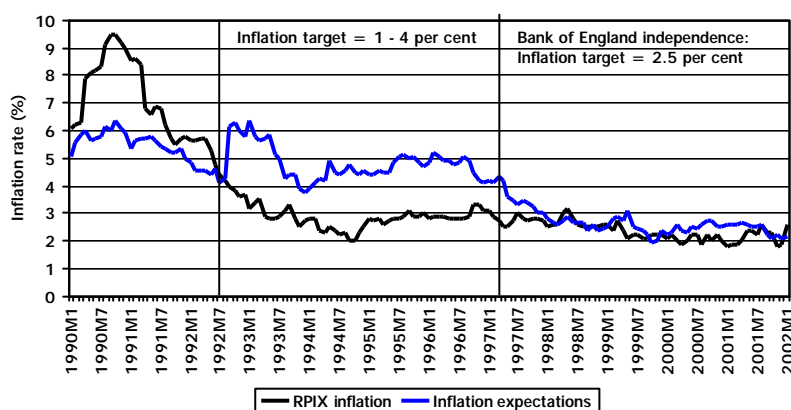
Macroeconomic instability can have damaging consequences for both employment and productivity. The severe recessions of the early 1980s and early 1990s led to very sharp falls in employment and increases in unemployment. There is evidence to suggest that the length of time unemployed can itself contribute to diminishing job prospects (sometimes called "hysteresis")<sup>50</sup> because job seekers become discouraged or because skills become out of date. Hence instability can generate greater persistence of unemployment that leads to a lower overall level of employment in the medium term.

A volatile macroeconomic environment can also inhibit investment - because it increases both interest rates and the uncertainties over returns - including investment in skills and the development of best practice. Conversely, buoyant and stable labour market conditions provide incentives for employers to maintain and enhance good employment practices that meet the needs of valued employees<sup>51</sup>.

The Government's macroeconomic policy framework is based on the principles of transparency, responsibility and accountability, and is designed to ensure lasting economic stability to allow businesses, individuals and the government to plan effectively for the long-term. The Bank of England has operational independence to set interest rates to meet the Government's inflation target, while fiscal policy is underpinned by two strict fiscal rules which ensure sound public finances over the medium-term. The fiscal rules underpin a public spending framework that reinforces incentives for long-term planning and delivers a sharper focus on the quality and outcome of public service provision. These policies work together in a coherent and integrated way.

Since the new policy frameworks were introduced, the economy has experienced a period of stability and growth. Employment has risen to record levels. Unemployment has been the lowest since the 1970s on either count. The claimant count is below one million for the first time since December 1975. Inflation has been lower and more stable than in the past. Expectations of future inflation have converged more or less on the Government's target (Figure 4.1). The whole economy earnings growth is broadly consistent with the Government's inflation target and trend productivity growth in the medium term.

**Figure 4.1: Inflation expectations and performance**



Inflation expectations are 10 year ahead expectations derived from differences in yield between index-linked and conventional bonds.  
Source: Bank of England.

The new fiscal policy framework since 1997 has put the public finances on a sustainable footing, freeing up resources for investment in public services and allowing fiscal policy to support monetary policy during the slowdown in the global economy in 2001.

**Promoting work for those who can and providing security for those who cannot**

The UK's welfare state comprises a universal benefits system underpinned by a "rights and responsibilities" agenda. This fusion is central to delivering work for those who can and security for those who cannot for all in society.

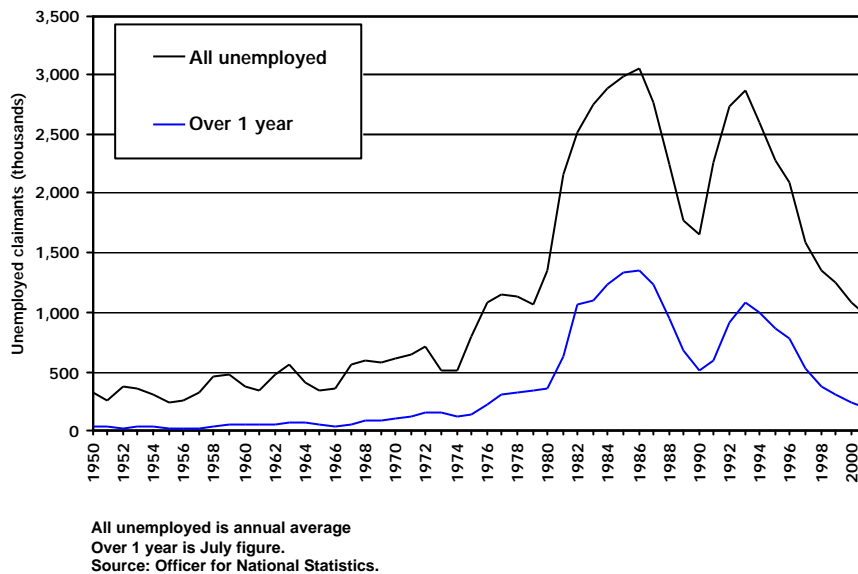
Unlike many other countries, most benefits are paid centrally by government rather than by the social partners or local government (the main exception is housing benefit). This makes a “rights and responsibilities” or “activation” agenda possible as the central delivery of help and support can be linked to the administration of paying benefits.

The administrative system can be used to offset the disincentive effects of the benefit system by ensuring that people keep looking for work until they find it. This improves the functioning of the labour market by reducing the extent of long-term unemployment and economic inactivity. Expanding the size of effective labour supply in this way not only increases the productive potential of the economy but also improves the distribution of work across society.

The UK’s public employment service is key to this “activation” policy. This was recognised when the service was set up in 1948, though was lost from the 1970s until the mid-1980s when people did not have to go to a Jobcentre in order to receive benefits. As a result, many claimant unemployed stopped looking for work and, because they were not looking, had no chance of taking up the jobs that came up even if they were suitable.

Since 1986, an activation regime has been re-established. This comprehensive and centralised intervention regime ensures that job search behaviour is maintained throughout the duration of the claim for everyone. It also enables active help to be increased the longer people are on benefit. This has led to an underlying improvement in the rate at which people who become claimant unemployed flow off the benefit. In 1986, 20 per cent of people making a claim for unemployment reached one year’s duration. Now it is only 6 per cent. And the stock of people unemployed for more than a year has fallen from over 1.3 million in the mid-1980s to just 160,000 now, the lowest for over 25 years (Figure 4.2).

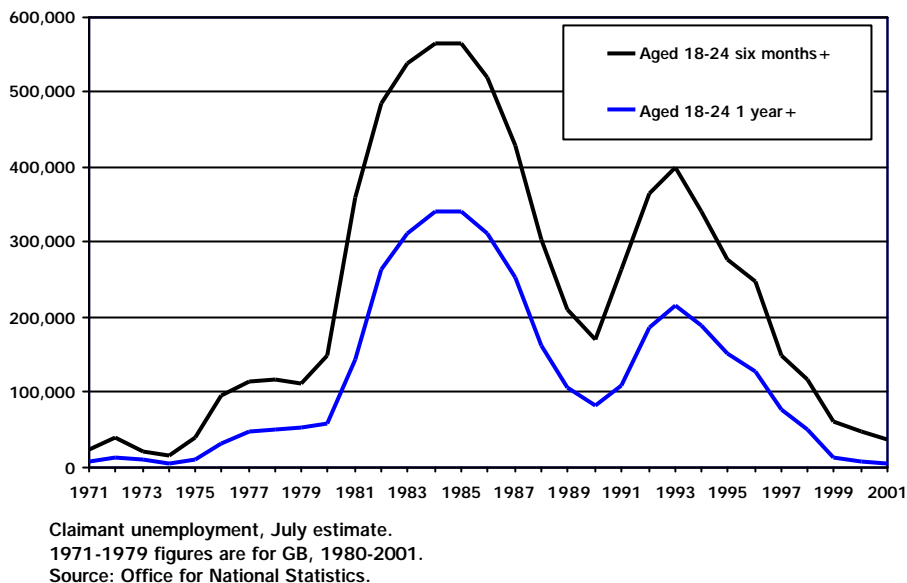
**Figure 4.2: UK claimant unemployment, 1950-2001**



This re-integrated work and welfare system has been built on further, to strengthen the battle against benefit dependency. April 1998 saw the start of the New Deal for Young People aimed at unemployed claimants aged 18-24 who reach six months unemployment. The New Deal for Young People has helped to virtually eradicate long-term unemployment on benefits for young people (Figure 4.3). Over 750,000 young people have started New Deal since it went national in April 1998 and over 350,000 have moved into work.

Evaluation shows that it works. The independent evaluation of New Deal for Young People found that, after two years, long-term youth unemployment was half the level it would have been if the programme had not been introduced. It also found that the benefit of the programme to the wider economy, through higher levels of employment and increased output, already exceeded the net cost of the programme to the Government.

**Figure 4.3: Long-term youth unemployment, 1971-2001**



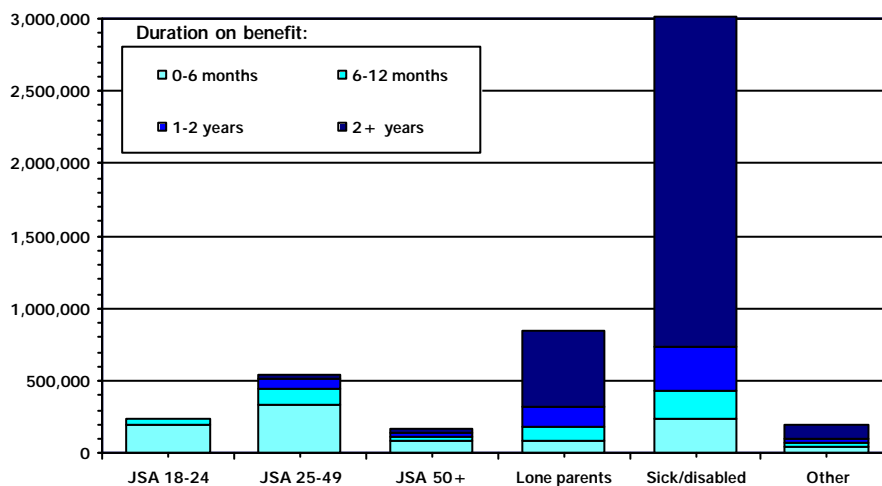
There was also a New Deal for the adult unemployed. Drawing on the successful lessons of the New Deal for Young People, this programme - the New Deal 25 plus - was enhanced in 1 April 2002 and aimed at those aged 25 and over who are unemployed for 18 months or more. Over 450,000 adults have so far started New Deal 25 plus and 95,000 have moved into work. The New Deal is currently working through people who are already long-term unemployed but it seems that claimant unemployment of more than two years for people aged 25 and over could also be virtually eradicated.

Part of the reason why long-term unemployment is disappearing is that people have to move on to an option and so exit from unemployment. Some participants will return to benefit but, even for those who return, the New Deal appears to have made a difference. Second time around, they exit again at least as quickly as those becoming newly unemployed. Exit rates for the short-term unemployed have continued to improve, even though they now include more of these second-timers.

This success in tackling unemployment is now being applied to other groups on state benefits or who struggle to find work. These groups are large – there are over four million people on inactive benefits – and tend to have been on benefits for longer – years rather than months (Figure 4.4). But the Government believes it can make a difference. It has set up:

- A new department to bring together work and benefit policy.
- A new public employment service to deliver the policy.
- A new work-focused approach for all people on benefits.
- Access to a New Deal for both unemployed and inactive clients.

**Figure 4.4: Key benefits by duration of claim**



JSA figures relate to April 2002, and others to November 2001.  
Source: Department for Work and Pensions.

The Department for Work and Pensions brings together the Ministry that traditionally developed the policy for the unemployed with the Ministry that was responsible for paying benefits, not just for the unemployed but for all jobless people on benefits. The fruit of this new Department was officially launched in April this year: Jobcentre Plus, the new public employment service.

The creation of Jobcentre Plus will extend to all inactive benefit recipients – including lone parents and those on sickness or disability benefits – the help that has been available to unemployed jobseekers for a number of years. By ensuring that as wide a spectrum of people as possible are able to compete effectively for jobs, Jobcentre Plus will help to deliver our aim of employment opportunity for all.

Jobcentre Plus will bring together help with work and help with benefits. All benefit claimants of working age, both unemployed and inactive, will receive an active work-focused service for the first time. Anyone making a claim for benefit at a Jobcentre Plus office will have an initial interview with a personal adviser to discuss the opportunities for taking up work.

This will allow us to help people to consider work, to realise that there are jobs they can do coming up all of the time and to provide help for people to take them. The purpose is to persuade people to join the labour market, perhaps not immediately but when it suits them. This involves persuading them to stop being economically inactive and to start looking for work –possibly increasing the numbers unemployed at the same time – and then, with the active help of the state, to move into work.

Following the initial work-focused interview, lone parents will have a regular series of mandatory interviews during their benefit claim aimed at rekindling an interest in the world of work. For others on inactive benefits, particularly the sick and disabled, there are also follow-up mandatory interviews but these are less regular as we are still learning what the most effective approach for these groups might be.

There is also access to a New Deal. Building on the success of the New Deals for the unemployed, individuals will have access to a personal adviser to talk through how best to return to work, to provide the necessary help and to remove unnecessary barriers. This includes help tailored to individual needs and circumstances, for example help with childcare for lone parents.

Employers also have a key role in this. We have built their views into the fabric of both policy and delivery. By working closely with employers, Jobcentre Plus aims to help unemployed people and inactive welfare recipients by making available to them job vacancies, information, advice, training and support, and encouraging employers to open up more opportunities to them. In return, Jobcentre Plus offers high quality demand-led services to employers, helping them to fill job vacancies quickly with well-prepared and motivated employees.

Although ground-breaking, these developments in active labour market policies for all benefit claimants are securely founded on the best national and international evidence – including national evidence from JSA, New Deal, the ONE pilots (precursors to Jobcentre Plus), and international evidence from the EU, the US and the rest of the OECD.

But there is an important difference. Our policies for the unemployed are based on compulsion and conditionality as well as help. The policies for people on “inactive benefits” are based on persuasion. This is a new venture, certainly for the UK, and, in its scale at least, one of the first in the world. This means it is prudent to proceed cautiously and sensitively, particularly as we are dealing with some of the most disadvantaged people in the country. Although there is a fair degree of acceptance that this is the right way to go, there are questions about how far and how fast.

### **Making work pay**

Active labour market policies are strengthened by effective work incentives. Those out of work and on benefit will be more motivated to look for work if they see a clear financial gain in obtaining employment. The government's reforms to help improve work incentives are designed to tackle two key problems:

- The unemployment trap, when those without work find that the difference between in-work and out-of-work incomes is too small to provide an incentive to take a job.

- The poverty trap, when those already in work may be discouraged from working longer hours or taking a better paid job because it may leave them little better off.

We are committed to tackling these problems by ensuring that work pays more than welfare and by improving incentives and support for all groups to move in to work and up the earnings ladder, while still providing a safety net for those who cannot work. We also want to improve the choices faced by families seeking to balance work and family responsibilities.

One element of this strategy is the National Minimum Wage, introduced in April 1999. It ensures fair minimum standards of pay and underpins our tax and benefit reforms. In October 2001, the National Minimum Wage was increased to £4.10 an hour for workers aged 22 and over and to £3.50 an hour for workers aged between 18 and 21. These rates will be increased to £4.20 and £3.60 respectively in October 2002. The National Minimum Wage is estimated to have benefited about 1.5 million workers, 70 per cent of these being women. We have also implemented a major change in the way that financial support is delivered to those in work. Support is now delivered through the pay packet as Tax Credits rather than as social security benefits. We have also increased significantly the level of support to working families.

As part of the next steps in tax and benefit reform, from April 2003, we will be introducing two new tax credits: the Working Tax Credit and the Child Tax Credit. Following the success of Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC), the Working Tax Credit is designed to help tackle poor work incentives and persistent poverty among working people. It will carry over the adult elements of WFTC and DPTC and extend in-work support to workers without children or disabilities. It will also replace the Employment Credit 50+ by including a return-to-work element for people aged 50 or over who have been receiving certain out-of-work benefits for at least six months.

The new tax credits will:

- Increase support for single earner families and lone parents. For a family with one earner working full-time with one child the minimum income guarantee will increase from £227 a week in 2002 to £237 in April 2003. The minimum income guarantee for a single earner working 16 hours will increase from £167 a week in 2002 to £179 in 2003.
- Improve the work incentives of second earners in couples with children, for example, in a family with two children where the first earner has an income of £14,100 (half average earnings) and the non-working partner takes a part-time job at typical entry wages, the gain to work will increase by over £14 a week in 2003-04 compared to the current system.
- Help with childcare costs to families further up the income distribution. For example, a family with two children, maximum childcare costs and an income of £35,000 a year can, as a result of the Working Tax Credit and Child Tax Credit, receive up to £50 a week in financial support.
- Reduce the extent of the poverty trap. Many low income families, who often face very high marginal deduction rates, now keep more of each additional pound that they earn, losing less through reduced benefits and higher taxes. In 1997, almost 750,000 families faced marginal deduction rates of over 70 per cent. As a result of measures introduced by the Government, this number has fallen by nearly 500,000.
- Increase the minimum income guarantee for a single disabled person working full time from £172 a week in 2002 to £194 a week in April 2003.

The Working Tax Credit will also for the first time extend support to those aged 25 or more without children or a disability where they work at least 30 hours a week. For this group, the Working Tax Credit means:

- A guaranteed minimum income from full-time work of £183 for couples and £154 for single people.
- Improved gains to work - for a couple where one person moves into full-time work, the gain to work will rise to nearly £50 a week compared with £20 now.

### **Investing in childcare**

Chapter 3 showed that lack of access to available, affordable and suitable quality childcare could be a barrier to labour market participation, especially for women. It is a vital part of the economic infrastructure. There is also a growing body of research evidence showing that pre-school provision makes a positive difference to children's development, although the evidence for this is less strongly developed for the impact of childcare than it is for the effect of early education provision<sup>52</sup>. Childcare can thus help parents enter and stay in paid work, train and learn, as well as providing a safe and stimulating environment from children themselves can benefit.

We are committed through our National Childcare Strategy to ensuring that accessible, affordable and quality childcare is available in every neighbourhood. Great progress has been made in expanding the childcare provision available in a wide range of settings (day nurseries, childminders, playgroups, out of school and holiday clubs) and sectors (private, voluntary and state) to provide diversity and real choice for parents.

At December 2001, over 497,000 new childcare places had been created since 1997, benefiting 906,000 children. (Taking account of turnover, this had added more than 291,000 places, for over 547,000 children, to the stock of places available.) We are well on track to meeting our strategic target of creating 900,000 new childcare places for 1.6 million children by 2004.

We are investing heavily to support the Strategy. Childcare Grant funding has trebled from £66 million in 2000-01 to over £200 million in 2003-04, with an

additional £155 million from the New Opportunities Fund to increase provision in disadvantaged areas.

Despite this huge recent increase in provision, in some parts of the country childcare remains scarce. Consequently, a key element of our policy is the focus on extending provision in the most disadvantaged areas to address the “childcare gap” that exists between those areas and the more affluent neighbourhoods. The local Early Years Development and Childcare Partnerships will be responsible for developing provision in disadvantaged areas and Regional Development Agencies will have an important role in working with them to take this agenda forward. Much of the increased Government funding in the period to 2004 will support the Neighbourhood Childcare Initiative targeted on the 20 per cent most disadvantaged areas. The Neighbourhood Nurseries programme is a key component of the Initiative creating up to 45,000 places in state of the art daycare centres. At £300 million over three years, the programme is the biggest ever single investment to increase childcare provision.

A wide range of support is available to help families meet the cost of childcare. Lower income families are helped through the childcare tax credit component of Working Families Tax Credit. The tax credit is proving increasingly popular with working families, with 158,000 now receiving it. Families with one child, and two or more children, can claim up to 70 per cent of, respectively, £135 and £200 per week - £94.50 and £140.00. From April 2003, childcare tax credit will be extended to enable parents to receive support with the costs of approved childcare in their own home.

Support with costs does not simply benefit those in work. It is also a feature of the New Deal, particularly the New Deal for Lone Parents, and we are continuing to help widen access to further and higher education through a combination of grants and support funds to help ensure that parents with young children are not denied the opportunity to learn and study because of childcare costs.

In addition to seeing an increase in the stock of places in their area and receiving help with costs, parents need the reassurance that their childcare is of a high standard. We have introduced a new national framework of quality standards for under-eights childcare, which is being regulated by OFSTED, to ensure a good minimum level of care.

We have just consulted on proposals for the regulation of childcare to children over 7 and are developing a new quality rating system, Investors in Children, for both early education and childcare settings to help deliver more informed choice for parents and as good business sense for providers. Proposals were published in March and responses are currently being analysed with a view to the scheme being launched in March 2003. By 2004, at least 40 per cent of providers should have been accredited by a quality assurance scheme

Carers working with young children need the appropriate qualifications and training so they have the skills and expertise to deliver quality services. We are therefore also investing heavily in training and developing staff and increasing the size of the childcare workforce through a high profile recruitment campaign

Recently, in October 2001, we set up an interdepartmental review of childcare led by Baroness Ashton to establish a vision for childcare over the next ten years and agree the steps to be taken to get there. As part of its work, the review has taken a close look at the lessons that can be drawn from research; and what can be learnt from services, provision and initiatives that are working well<sup>53</sup>. The review is now concluding so its work can feed into the Spending Review.

### **Promoting skills and lifelong learning**

We want to see a significant increase in the skills of the UK workforce at all levels. The role of government is to provide the framework within which people, their families and employers can create a learning society. We will provide much of the basic investment and secure standards. But individuals and employers must share the costs in line with their capacity to pay and the benefits they receive.

We have three objectives for learning after the age of 16:

- To ensure that all young people gain the skills essential to enable them to cope with change, achieve security in their lives and benefit from growing prosperity. Our intention is that about half of the population will qualify at level 2 (5 good GCSE passes or vocational equivalent) before the age of 16 and that most will go on to gain a Level 3 qualification through the general or vocational route, whichever suits them better.
- To provide the higher-level skills needed for a successful, innovative knowledge based economy. We have committed ourselves to a target of 50 per cent of those under 30 participating in higher education by 2010. Drawing in people from social groups traditionally under-represented in higher education is essential to achieving this objective and important in its own right.
- To ensure that everyone of working age and beyond has the skills to meet the needs of employment and to lead rewarding and fulfilling lives. All adults who have a basic skills need must be able to return to learn, to improve their literacy, numeracy and language skills. But they must also have the opportunity to go beyond the basics and to develop their skills in their community or workplace.

We also need to drive up standards across our education and training system to achieve these objectives. Standards in teaching and learning must be maintained and built on where they are good and improved where they are bad. Learners will want to learn only where the learning they are offered is worthwhile<sup>54</sup>.

Raising skills levels is essential to our economic growth. Modern Apprenticeships prepare young people for an economy based on high skill levels. They aim to radically increase the supply of skills at craft, supervisory and

technician (intermediate) level, precisely where the gap between the UK and countries such as Germany is greatest (see Chapter 2). We are committed to having over a quarter of 16-21 year olds going through the apprenticeship route by 2004. An entitlement to a place for all 16 and 17 year olds with five or more GCSE passes at grades A\* to G will come in from September 2004, fulfilling a Manifesto commitment.

Looking more widely across the economy, the challenge is to embed workforce training and development in all businesses large and small – and Investors in People has a central role to play in this.

- It has the highest penetration of all of the quality frameworks and those who have used it successfully are its greatest proponents - especially amongst small firms.
- It has been firmly at the heart of DfES plans for workforce development and commands the solid support of both the CBI and the TUC.
- Employers with Investors in People status recognise that success in businesses comes from a motivated and well-trained workforce - as the 25,000 who have received the Standard during its first decade will testify.
- In a recent study 73 per cent of Investors companies surveyed said that it helped them to meet their business objectives. Half reported a positive impact on business growth or performance. More than half said they had seen customer satisfaction improve.

The Learning and Skills Council (LSC) has responsibility to work with employers to meet local and national skills needs. Skills development is central to its remit. One of its key functions is to strengthen link between learning and employment – ensuring post-16 learning meets and responds to the needs of individuals, businesses and communities. The LSC is currently developing its first workforce development strategy to be published in the summer.

We are looking at new approaches to stimulating the demand for learning, including the piloting of a new approach that will test the role of financial incentives in increasing take up of learning through six Employer Training Pilots.

We are supporting **learndirect**, which provides on-line learning to increase the skills of individuals, and flexible e-learning solutions to business problems for employers. We are also ensuring that as many people as possible have access to ICT and the opportunity to develop their skills and confidence by establishing UKOnline centres, particularly in disadvantaged communities.

We also need to ensure that everyone has access to high quality and impartial information, advice and guidance about learning and work. The national **learndirect** helpline and internet-based services provide free information and advice on learning opportunities which complements that provided through the Learning and Skills Council's local Information, Advice and Guidance partnerships. The Department for Education and Skills is spending £5 million to pilot models of funding and delivery for in-depth guidance to help the most disadvantaged in society and to assess the feasibility and value of guidance activities. The evaluation report of the 20 projects is expected in late Spring 2003.

### **Minimum employment standards**

Minimum employment standards that are sensitive to business conditions are essential to a modern labour market. Employees contemplating a job move know they are entitled to certain conditions of employment (e.g. minimum pay or holiday entitlements) and are protected from specified forms of unfair treatment (e.g. discrimination on the grounds of sex, race or disability). Businesses know that competitors face the same requirements. They need worry less about the unscrupulous who cut corners by short-changing their staff.

Since 1997 we have introduced a programme of employment legislation (see Box 4.1) covering both individual employment rights and collective employment relations. This puts in place a comprehensive framework of job-friendly

minimum standards for the first time. It also acts alongside an extensive architecture of health and safety legislation.

#### **Box 4.1: The government's record on minimum employment standards**

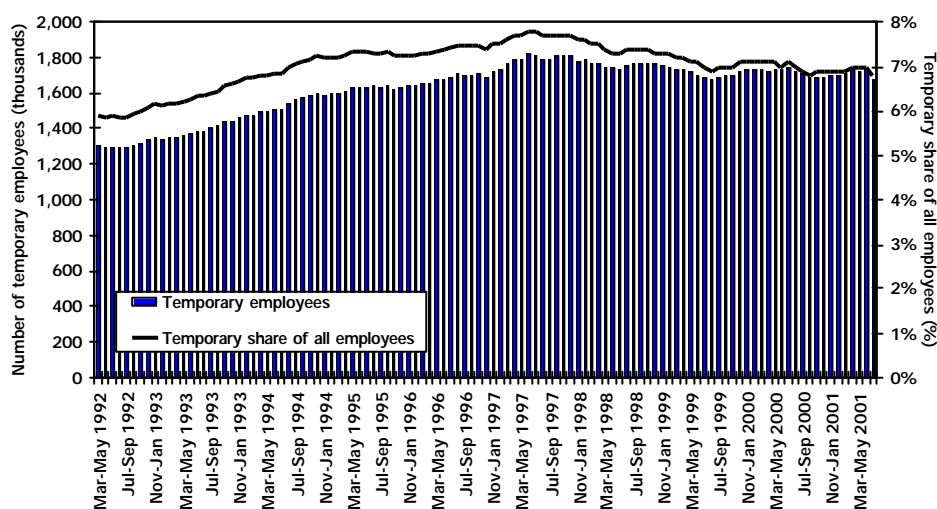
Since taking office in 1997 the government has:

- Introduced in 1999 for the first time a National Minimum Wage, which currently benefits nearly 1.2 million people (and their families), around 70 per cent of whom are women.
- Implemented the Working time Directive giving an entitlement for the first time to paid annual leave of 4 weeks.
- Given workers the option of limiting their working week to 48 hours if they choose to do so.
- Introduced an entitlement to minimum rest breaks (at least one day off per week, 11 hours uninterrupted rest each day, rest breaks during the day).
- Implemented the Parental Leave Directive giving the parents of young children an entitlement to up to 13 weeks unpaid leave.
- Introduced a right to time off for domestic emergencies.
- Reduced the qualification period for protection for unfair dismissal from two years to one year.
- Increased the upper limit on compensation for unfair dismissal over fourfold to over £50,000.
- Protected workers from dismissal or victimisation for whistleblowing.
- Implemented the Part Time Work Directive, giving 6 million part-time workers protection from unfair treatment on the grounds of part-time status (including matters such as pay, training and access to other benefits).
- Raised statutory maternity leave from 14 to 18 weeks for all women, regardless of length of service.
- Restored trade union rights at GCHQ within 13 days of coming to power.
- Simplified the law on 'Check off' procedure (deductions of trade union subscriptions from pay), removing bureaucratic burdens on unions and employers.
- Introduced a statutory procedure for trade unions to obtain recognition when there is a clear majority of the workforce in favour.
- Simplified and improved the law on industrial action ballots;
- Given employees a right to be accompanied in disciplinary or grievance hearings by a trade union representative;
- Introduced additional protection against unfair dismissal for employees taking part in lawfully organised industrial action.

It is still early to judge the impact of many of these changes. However, from the available evidence, some broad conclusions can be drawn.

There appears to have been little if any impact on employment levels. The Low Pay Commission looked at this in particular for the NMW and found no evidence to suggest that overall employment prospects have been damaged. Employment has increased by 1.5 million since 1997. Nor is there evidence of unexpected effects at a more disaggregated level. For example, the share of total employment accounted for by women has remained stable since 1999. Similarly, temporary work as a share of total employment has fallen since 1997 (Figure 4.5). This suggests that employers have not found the new legislation so onerous that they have shifted away from permanent employment towards other forms of working arrangement.

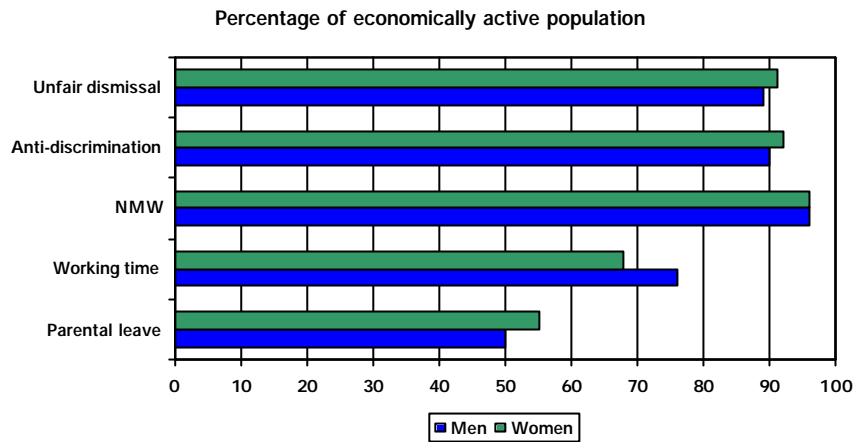
**Figure 4.5: Temporary employees in the UK, 1992-2001**



Source: Labour Force Surveys.

Levels of awareness on the part of business and employees vary. A survey of the economically active population carried out in 2000 collected data on the prompted awareness of various employment rights, that is whether people said they had heard of an employment right having been prompted on its existence. There was considerable variation of response (Figure 4.6). Although 96 per cent of respondents had heard of the National Minimum Wage, this fell to just over 50 per cent for parental leave<sup>55</sup>. Nor were small businesses uniformly aware of all employment rights, especially some of the newer legislation (Figure 4.7)<sup>56</sup>.

**Figure 4.6: Prompted awareness of individual employment rights, 2000**



Awareness here is in response to a prompt.  
 Source: N. Meager *et al.*, *Awareness, knowledge and exercise of individual employment rights*, DTI ER Research Series, 2002.

**Figure 4.7: Small firms' prompted awareness of individual employment rights**



Source: R Blackburn and M Hart, *Small firms' awareness and knowledge of individual employment rights*, DTI ER Research Series, 2002 (forthcoming).

Business surveys point to concerns about the costs of implementation. A DTI survey of small businesses (1-50 employees) in 2000 found that 17 per cent cited government legislation or regulation as having been the main constraint on their growth over the previous two years. In most cases, this concern was about employment legislation. When probed, the administrative burdens of the legislation and the requirement to seek more legal advice were most often identified as the problems<sup>57</sup>. However, an early study of the impact of the

Working time Regulations suggests that the perceived burdens diminish as businesses become familiar with the new requirements<sup>58</sup>.

Further information on the impact of employment legislation to date can be found in Appendix 4.1.

The Employment Act 2002, just enacted, addresses a number of areas:

- Greater support for working parents through paternity leave, adoption leave, better maternity pay and leave, and placing a duty on employers to give serious consideration by requests from the parents of young children for flexible working arrangements.
- The previous chapter emphasised the importance of workplace relations built on trust, commitment and effective dialogue between employers and employees - especially when problems occur. It is impossible to establish trust by legislative fiat. But it is possible to ensure that disciplinary and grievance cases are handled using basic workplace procedures. Provisions in the Employment Act establish that framework.
- It is important to get the balance right between giving employers and employees freedom to strike contracts for fixed periods when this suits them and allowing employers in sectors with market power to evade or potentially evade their responsibilities as an employer through the use of multiple fixed term contracts. Proposals implementing the Fixed Term Work Directive give protection against unfair treatment to those on fixed term contracts.
- We are building on the success of the Union Learning Fund by putting union learning representatives (ULRs) on a statutory footing. Evidence from union learning activity clearly shows that ULRs have had a significant impact in increasing enthusiasm for learning, both among employees and employers. In particular, it shows that ULRs raise interest in training and development amongst the lowest skilled workers and those with literacy and numeracy problems who would often otherwise miss out on learning opportunities.

In addition:

- We have also agreed to the Article 13 Employment Directives. These will for the first time establish protection against discrimination in employment on the grounds of age, sexual orientation and religion.
- We have announced our intention to review the issue of employment status.
- We have announced our intention to review the Employment Relations Act 1999.
- We have agreed to adoption of the European Directive on Information and Consultation.

We will adhere to best practice in policy-making and draw on the lessons learned from experience to date. In particular, we will consider the position of small firms.

### **Providing better information**

The Better Regulation Taskforce<sup>59</sup> has recently highlighted the need for better information and guidance. Employers may not know about their responsibilities. Employees may not know what their rights are. Government can provide or facilitate the provision of accurate and impartial information - or channels through which people can seek information and advice.

Better information on rights and responsibilities helps employers and individuals make better informed decisions. This can help more into work, especially those in disadvantaged groups, and can help employers provide the diversity and choice of opportunities that individuals value.

The Advisory, Conciliation and Arbitration Service (ACAS) has always been a major source of information and advice, and demands on its helpline are growing, both from employers and workers.

Government also supports other parts of the employment information infrastructure, including the Citizens' Advice Bureaux network and the provision of information to small firms through Business Links advisers and through the SBS gateway.

The internet is becoming an increasingly important source of information and advice for employers and individuals alike. Developments such as the TIGER web site<sup>60</sup> provide opportunities for workers and businesses to seek guidance in their own time.

### **Promoting the high performance workplace**

Developing and spreading more widely the high performance workplace, capable of delivering the high quality goods and services that people want when they want them, is a challenge for business and employees. The UK has a good record of corporate social responsibility. Many businesses recognise the value of good relations at work and offer beyond the minimum required by legislation. We have been a strong supporter of "The 100 Best Companies to Work" which celebrates those companies who build their success by motivating, stimulating and enabling their workforce (Box 4.2).

#### **Box 4.2: 100 Best Companies to Work For**

The 100 Best Companies to Work For list was published in March 2002. It was the second year such a list was published - the first in 2001 was of 50 companies. The idea originated in the USA, where it is seen as an important recruitment and retention tool by those companies appearing on it. The UK awards provide evidence for a link between economic success and a good workplace. Over the past five years the share and dividend performance of the 100 companies on the list has grown by over 25% year on year, compared to 6.3% for the rest of the All-Share Index.

There is an additional role for government in promoting good practice. Employers may not be aware of the full range of techniques and courses of

action open to them, or of what best practice is and how to achieve it in their business. Employees and their representatives may be unsure how to seek better relationships with management. There may be misperceptions of the costs and benefits involved. Demonstration projects - subsidised by government - can provide improved information to the market.

Good relations underpin good business. A partnership approach, based on joint commitments to problem solving in an atmosphere of trust, can deliver real gains in terms of productivity, profitability and lower staff turnover. We launched the Partnership Fund in 1999 as a grant scheme to encourage the development of partnership at work. The Fund has so far supported 160 projects across the UK. The Fund has now allocated £5 million in public funding, which has been more than matched with contributions from the organisations themselves, giving a substantial investment building partnership in the UK.

The Government's Work-Life Balance Campaign, launched in March 2000, aims to persuade employers to introduce ways of working which aim to meet the needs of the business and customers while simultaneously improving the work-life balance of their employees. As well as promoting good practice, the campaign includes the Work-Life Balance Challenge Fund, which provides free consultancy advice to employers on how to introduce working practices that benefit their business and improve their employees' work-life balance. To date nearly 400 organisations have been awarded funding totalling £11.3 million.

Government has a clear role in breaking down the barriers that deter organisations from adopting best practice. This was recognised by the CBI and TUC in their joint report on ways of improving productivity published in November 2001. The report proposed a national best practice campaign. The Government is responding positively by:

- Providing a £20 million package of support to forward the conclusions of the CBI and TUC's joint work.
- Expanding the Partnership Fund through the development of more strategic sectoral and regional projects.

- Continuing to develop the business led Fit for the Future campaign.
- Disseminating the outcomes of Partnership Fund activities.

ACAS has always been an important means of disseminating guidance about best practice employment relations and the processes required to achieve this is. ACAS is strengthening its best practice work.

### **Conclusions**

The UK is implementing a broad mix of policies. Some originate at EU level, many nationally. They are a combination of voluntary policies, government funding and policies backed up with regulation.

Experience has shown the importance of a holistic and joined-up approach. For example, tackling poverty includes help in finding jobs and with skills, Tax Credits and a minimum wage to provide support in work. Similarly, careful links need to be made between the design and implementation of legislation and providing support and information to business and employees. The right support and advice can assist the smooth implementation of new changes and reduce one-off dislocation to business or confusion for individuals.

## **Appendix 4.1: The impact to date of minimum employment standards**

This Appendix provides a brief summary of evidence that has emerged to date on the impact of significant pieces of employment legislation enacted since 1997.

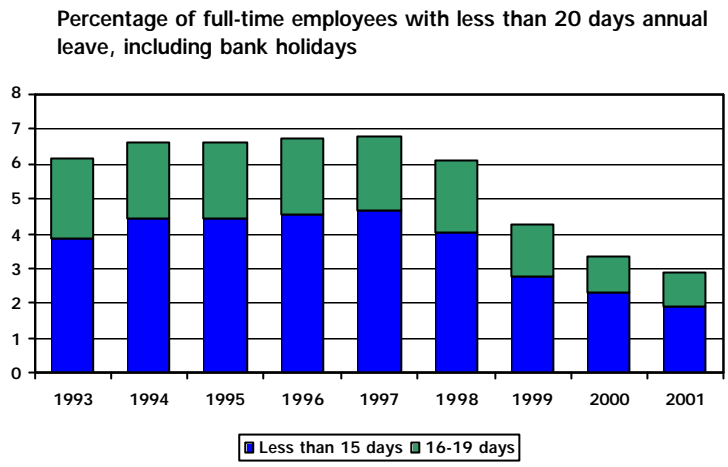
### **National Minimum Wage**

The Low Pay Commission has paid close attention to the impact of the National Minimum Wage since its introduction in April 1999. About 1.5 million people have benefited from the introduction of the NMW, the majority being women and part-time employees. This appears not to have been at the expense of employment levels. While the generally buoyant labour market conditions may have been a factor, the NMW was set at a prudent level precisely in order to safeguard job prospects.

### **Working Time Regulations**

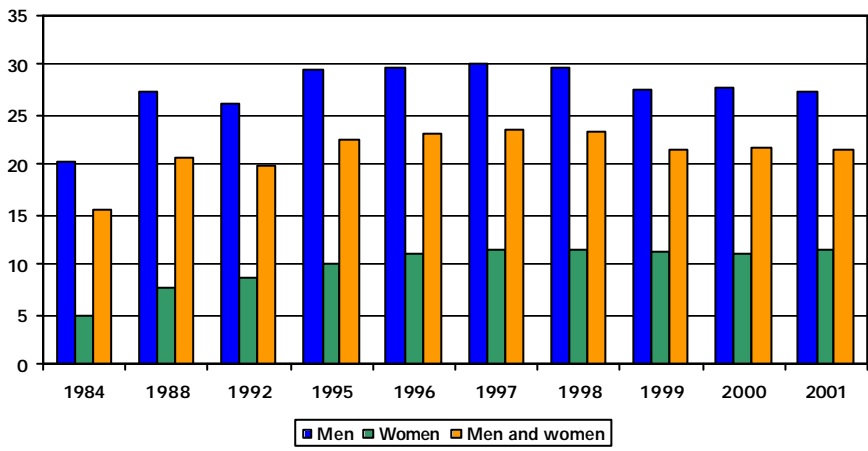
There has been a significant reduction in the numbers of employees saying they were entitled to less than four weeks paid leave since 1999 (Chart 4.8). The proportion of employees who said they usually worked more than 48 hours a week has fallen slightly since the Regulations came into force. This follows a period of time when the proportion had been increasing by small amounts (Chart 4.9).

**Figure 4.8: Employees with less than 20 days paid annual Leave entitlement, 1993-2001**



Source: Autumn Labour Force Surveys.

**Figure 4.9: Percentage of full-time employees who usually work over 48 hours each week, 1984-2001**



Source: Spring Labour Force Surveys.

An interim evaluation, based on visits to a set of companies one year apart from each other, found that quite a few of the businesses interviewed expressed concerns about the administration of the Regulations shortly after they were introduced. A year later, much of the initial concern had eased, in part because of changes to simplify the Regulations.

The study also showed that firms used to long hours working exhibited a range of responses to the Regulations. While some changed their practices little and used workforce agreements and individual opt-outs to maintain the status quo, there were instances of companies using the Regulations as a stimulus to look again at their working patterns. One security company reduced the very long shifts of its managers without loss of pay but still found the move beneficial because it reduced staff turnover by 60 per cent<sup>61</sup>.

### **Parental leave and time off for dependents**

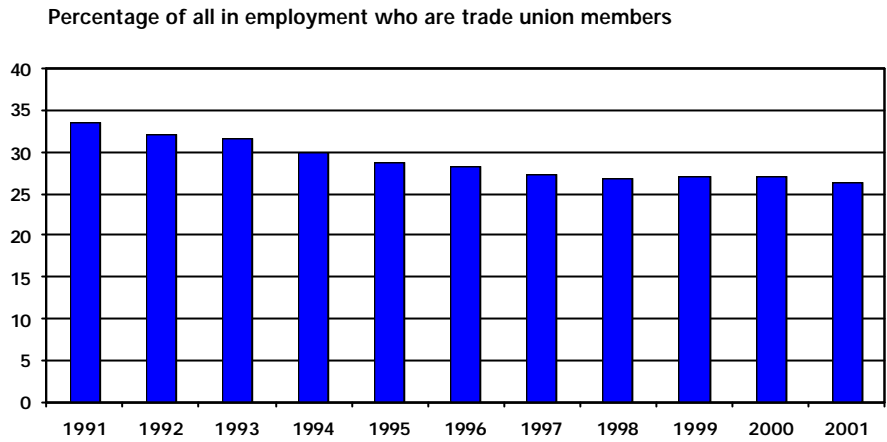
In 1999, the UK implemented the Parental Leave Directive. This provided for two new sets of individual rights. Parental leave was not common practice in UK firms before the Regulations were introduced, with only about 30 per cent of workplaces saying they provided a parental leave scheme. In contrast, the new entitlement to time off work for domestic emergencies largely cemented existing practice. The 1998 WERS found that very few employees (about 3 per cent) were prevented from taking time off work to deal with emergencies although some employers required this to be taken from annual leave.

The limited information to date suggests that awareness of these new entitlements is relatively low. Take-up of parental leave has been limited (estimated to be between 3 and 12 per cent of eligible parents), although the recent change to the Regulations extending the right to parents of all children born from 15 December 1994 should lead to increased demand.

### **Statutory trade union recognition**

The Employment Relations Act provided a mechanism for the recognition of trade unions for the purposes of collective bargaining. Union membership appears to have stabilised after a period of significant decline lasting nearly twenty years (Chart 4.10). There are indications that the same has happened with union recognition and collective bargaining<sup>62</sup>. These trends can be linked to a significant increase in voluntary trade union recognition deals in the past two or three years<sup>63</sup>. But the numbers involved are still relatively small.

**Figure 4.10: Trade union membership, 1991-2001**



Source: Labour Force Surveys.

### **European Works Councils**

European Works Councils have been implemented. Best estimates from monitoring bodies are that there are 700 such agreements in Europe. Many UK companies have now had them for some years (i.e. those who had to introduce one because of their operations in other EU countries) and they appear to have adapted them well to meet their own circumstances. Research into a number of early examples found that firms could identify benefits from having EWCs<sup>64</sup>.

## CHAPTER 5

### CONCLUSIONS AND NEXT STEPS

We demand and deserve a lot from the labour market. It occupies a central role in everybody's lives – either as a participant or as a consumer of goods and services. Its performance is key to delivering prosperity for all. We established in chapter one that labour markets need to modernise in keeping with the changes in society, or else they will work less effectively.

In shaping that modernisation we share common objectives with our European partners and others in the OECD. The way we intend to take forward the achievement of these common objectives is through:

- Full employment.
- Diversity and choice.
- High productivity.

In delivering more jobs, diverse jobs and better jobs, we look and will continue to look to both Europe and the US for examples and ideas but the solutions will always need to be developed to work in the UK. Chapter two shows the similarities and differences between our labour markets and those in other countries.

Intervention across a range of areas is required to deliver joined-up solutions. Chapter three shows the challenge that we face in delivering on these objectives. The UK is further forward in some areas than others. The UK employment rate is high by historic standards and is among the highest in the EU. Yet there are still groups and areas in the labour market where employment opportunities need to be enhanced. Basic minimum standards such as the minimum wage, rights to paid holidays and rights for working parents have

helped to bring more people into the workplace as well as to protect people already there.

Government interventions, to prevent discrimination, to encourage more flexible working, to offer options on working hours, can help to bring about greater diversity and choice of job opportunities. Terms and conditions, above and beyond the minimum standards set by government, will remain determined at sectoral, firm or individual level to maintain a greater diversity of employment patterns to suit the needs of individual workers and employers. If this system is to work effectively, we need to expand choice for individuals by giving them access to opportunities to improve their skills. There also needs to be flexibility in practices, attitudes and institutions to facilitate change.

We can also raise productivity by increasing skills levels and by creating the kinds of workplaces where there are high levels of commitment between employers and employees. Solving these problems will not be easy but are key to raising our living standards or making it easier to cut back on excessive working hours. However, the UK's productivity lags many of its major trading partners. We have to tackle the deep-rooted causes of the productivity gap.

Chapter four set out a range of policies we are following in order to move towards our vision and deliver prosperity for all. Many of the broad themes will be recognisable from the recommendations of the OECD Jobs Study, the EU Broad Economic Policy Guidelines and the Employment Guidelines. In some areas the available evidence indicates signs of clear progress.

Looking forward to the medium term, how will we judge whether we have progressed towards delivery of the vision?

One test will be the extent to which the themes of full employment, diversity and choice and high productivity are built into the policy debate - and policy decisions - at national and international level. For example, the progress made in the last five years in embedding employment at the heart of Europe's economic reform agenda needs to be maintained. The Lisbon targets have not been

achieved yet. And even though the UK already meets the Lisbon targets, we have recognised that more needs to be done.

When we review policies and regulations, the objectives in this paper provide a test. Are they employment-friendly? Is there the flexibility for individuals and businesses to find the solutions that suit them best? Are there the incentives for good management and skills development?

The Lisbon targets provide one test of outcomes, as does our goal of a 75 per cent employment rate over the cycle. The Public Service Agreements provide other high-level indicators.

We will need to underpin these with success measures from individual policies and practices that will develop over time. This has to be done in a flexible and considered way. We do not wish to set prescribed outcomes which cannot be delivered - or where achievement would be at the cost of unnecessary distortion to the decisions of individuals and businesses.

However, areas where we might expect to see change are:

- More provision - and take up - of flexible working opportunities.
- Less of the long hours culture that permeates too many of our workplaces.
- Fewer barriers to the advancement of women in organisations.
- Greater and deeper spread of best practice in people management.
- Reductions in the gender pay gap.
- Fewer women with dependent children citing lack of availability of childcare as a barrier to employment.

- Reductions in employers' perceptions of the administrative burden of employment legislation.

The concerns set out in this paper are not unique to the UK. Other governments grapple with the same problems. In Europe we have the chance to tackle some of these together through establishing a framework of decent minimum standards leaving discretion as to their method of implementation to each Member State. In the UK we have the chance to tackle those issues that are particularly a problem for us. The objectives we have set demand co-ordinated intervention to modernise our labour markets to deliver social justice and economic progress at the same time. We will deliver that co-ordinated intervention in order to deliver prosperity for all.

So we are clear on our vision and objectives. We have the policy framework in place to move towards the labour market of the future. We will continue to learn from experience and adjust the detail of our policies within this framework. And we need to continue working on how we monitor and measure the success of our initiatives. In doing this we will maintain a dialogue with business, employees and their representatives and others both in the UK and with our European partners.

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<sup>1</sup> The employment rate among adults aged 15-64 is 76 per cent in Denmark and just 54 per cent in Italy (see Figure 2.4).

<sup>2</sup> *Report of the High level group on industrial relations and change in the European Union*. European Commission 2002.

<sup>3</sup> Available at <http://www.hm-treasury.gov.uk>

<sup>4</sup> The Stockholm summit subsequently agreed an interim target of 57 per cent by 2005.

<sup>5</sup> Joint report from the Commission and the Council, requested by Stockholm European Council: *Increasing labour force participation and promoting active ageing* (March 2002).

<sup>6</sup> *Regional Unemployment Clusters*, H.Overman and D.Puga, *Economic Policy*, No. 34, 2002

<sup>7</sup> *Employment in Europe*, European Commission, 2001.

<sup>8</sup> "New European Labour Markets, Open to All, with Access to All". Communication from the European Commission to the Council of the European Union. 5 March 2001.

<sup>9</sup> Comparisons of this kind are affected by differences in size of geographical units, population etc.

<sup>10</sup> P Auer and S Cazes, *The resilience of the long-term employment relationship*, *International Labour Review*, Vol. 139, No. 4, 2000.

<sup>11</sup> *Benchmarking Industry-Science Relationships*, OECD (2002)

<sup>12</sup> Institute for Employment Studies, *Working Long Hours: A Review of Literature, Secondary Data Analysis and International Case Study Research*, DTI research report, forthcoming, 2002.

<sup>13</sup> The patterns of hours worked in individual Member States show the importance of national legislation and collective agreements in framing the number of hours that people work. Source: *Industrial Relations in Europe*, European Commission report.

<sup>14</sup> *Employment Options for the Future* survey, European Foundation for the Improvement of Living and Working Conditions.

<sup>15</sup> OECD and Statistics Canada reports cited in Campbell et al 2001.

<sup>16</sup> UNICE (Union of Industrial and Employers' Confederations of Europe), ETUC (European Trade Union Confederation), CEEP (European Centre of Enterprises with Public Participation).

<sup>17</sup> *What have two decades of British economic reform delivered?*, D.Card, R.Freeman, NBER Working Paper 8801 (February 2002)

<sup>18</sup> Comparative data for the 1980s and 1990s are available only for the narrower series.

<sup>19</sup> *Product and labour market interactions in OECD countries*. G Nicoletti, A Bassanini, E Ernst, S Jean, P Santiago, P Swaim OECD Working Paper No 312 (December 2001).

<sup>20</sup> The Government's employment strategy was set out in the Green Paper "Towards Full Employment in a Modern Society" (HMSO March 2001).

<sup>21</sup> Labour Force Survey.

<sup>22</sup> R Layard, S Nickell and R Jackman, *Unemployment: Causes and Consequences*, 1991.

<sup>23</sup> See K Rake (ed.), *Women's incomes over the Lifetime*, Women's Unit, 2000.

<sup>24</sup> Source: 1999 DfEE survey of demand for childcare, I La Valle, *et al.*, Parents' Demand for Childcare, DfEE Research Report No. 176, 2000. Note that respondents could give more than one reason so the numbers quoted here cannot be added together.

<sup>25</sup> Source: *It doesn't get any better*, Bynner and Parsons, Basic Skills Agency, 1997. The study found that men assessed as having low basic skills had entered the labour market earlier, so giving them a higher level of employment initially. But they bore the brunt of the early 1980s recession, with the proportion of this group in employment falling from around 90 per cent at age 21 to about 80 per cent at age 23. By contrast, levels of employment among those with better skills had changed very little. By age 31, 75 per cent of men with low literacy skills were in full-time employment, compared with over 90 per cent of men with good literacy skills. By the age of 37, men with poor literacy skills had spent an average of three years less in full-time employment compared with those with good literacy skills.

<sup>26</sup> The evidence suggests that there is a positive wage premium of 3-11 per cent for the acquisition of basic skills, other things equal, and by definition a wage penalty for

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the lack of these skills (L Dearden *et al*, *The Returns to Academic Vocational and Basic Skills In Britain*, DfEE Research Report RR192, 2000).

<sup>27</sup> See *The Changing Welfare State: employment opportunity for all*. HM Treasury and DWP 2001.

<sup>28</sup> See P Gregg and J Wadsworth, *The State of Working Britain*, Manchester University Press, 2000.

<sup>29</sup> NVQ Level 1- Competence which involves the application of knowledge in the performance of a range of varied work activities, most of which may be routine and predictable.

NVQ Level 2 - Competence which involves the application of knowledge in a significant range of varied work activities, performed in a variety of contexts.

NVQ Level 3 - Competences which involves the application of knowledge in a broad range of varied work activities performed in a wide variety of contexts, most of which are complex and non-routine. NVQ Level 4 - Competence which involves the application of knowledge in a broad range of complex, technical or professional work activities performed in a variety of contexts and with a substantial degree of personal responsibility and autonomy.

NVQ Level 5 - Competence which involves the application of a range of fundamental principles across a wide and often unpredictable variety of contexts.

<sup>30</sup> Source: Labour Force Survey.

<sup>31</sup> Source: Labour Force Survey, autumn 2001. The definition of home working here includes people who work away from their home but use it as their base (e.g. traveling tradespeople). About 2 million fall into this group with the remaining million working either at home or in the same grounds and buildings. There are about 350,000 people who work exclusively as teleworkers - who will also be counted in the homeworker figures mentioned above - with the remainder teleworking for part of the time.

<sup>32</sup> Source: 2000 Work Life Balance Baseline Survey.

<sup>33</sup> Usual hours worked including paid and unpaid overtime.

<sup>34</sup> This can be tested using the longitudinal element of the Labour Force Survey. In the spring 2001 survey, 21.5 per cent said they usually worked over 48 hours. But only 16.1 per cent said they usually worked more than 48 hours in two consecutive waves (i.e. in survey waves three months apart) and 10.3 per cent said they worked more than 48 hours in waves one year apart.

<sup>35</sup> Institute for Employment Studies, *Working Long Hours: A Review of Literature, Secondary Data Analysis and International Case Studies*, DTI research report, forthcoming, 2002.

<sup>36</sup> Source: Working in Britain survey, 2000.

<sup>37</sup> Source: British Social Attitudes Survey series.

<sup>38</sup> D Blackaby, D Leslie, P Murphy and O'Leary, "White/Ethnic Minority Earnings and Employment Differentials in Britain: Evidence from the LFS", University of Swansea Discussion Paper WP-013, December 2000.

<sup>39</sup> B Twomey, *Labour Market Trends*, January 2001, based on summer 1999-spring 2000 LFS data.

<sup>40</sup> HM Treasury and DTI, *Productivity in the UK: Enterprise and the Productivity Challenge*, June 2001.

<sup>41</sup> Institute for Employment Research.

<sup>42</sup> See F Green *et al.*, *Workskills in Britain*, 2001.

<sup>43</sup> N Meager *et al.*, *Awareness, Knowledge and Exercise of Individual Employment Rights*, DTI Employment Relations Research Series No. 15, 2002.

<sup>44</sup> *Findings from the 1998 Survey of Employment Tribunal Applications*, DTI Employment Relations Research Series No. 13, 2002.

<sup>45</sup> See the joint CBI-TUC report on best practice, 2001, or the Engineering Employers Federation report, *Catching up with Uncle Sam*, 2002.

<sup>46</sup> A Bryson and D Wilkinson, *Collective Bargaining and Workplace Performance*, DTI Employment Relations Research Series, 2002.

<sup>47</sup> The details can be seen in M Cully *et al*, *Britain at Work*, 1999, Chapter 5.

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- <sup>48</sup> Engineering Employers Federation, *Catching up with Uncle Sam*, 2002.
- <sup>49</sup> HM Treasury and DTI, *Productivity in the UK: The Enterprise and Productivity Challenge*, June 2001.
- <sup>50</sup> See R Layard, S Nickell and R Jackman, *Unemployment: Causes and Consequences*, 1991.
- <sup>51</sup> Recent qualitative research in the highly buoyant East Anglia area provides some corroboration for this point. Small and medium sized firms were taking steps to offer "family-friendly" employment practices to valued employees because of the difficulty in finding replacements (F Scheibl and S Dex, *SMEs and Flexible Working Arrangements*, Joseph Rowntree Foundation, 2002).
- <sup>52</sup> Provisional findings from a DfES-supported study on Effective Provision of Pre-school Education highlight that children in all types of pre school provision show a positive impact on cognitive attainment at school entry compared with those from a home group - those not attending any pre-school provision. In addition, children who started at their centre (mainly day nurseries) at a younger age have better cognitive development at age 3+.
- <sup>53</sup> Further details about the Review, including membership and terms of reference, can be found at <http://www.cabinet-office.gov.uk/innovation/2002/childcare/main.shtml>.
- <sup>54</sup> The DfES strategy for education and skills is set out in the DfES Strategic Framework *Delivering Results – a Strategy to 2006*.
- <sup>55</sup> A survey of working parents commissioned by WEU, DTI and DfEE in 2000 produced corroborating results (S Brooker, *Parents' perceptions of and attitudes towards Government WorkLife Balance Initiatives*, Women and Equality Unit, 2002).
- <sup>56</sup> These surveys also looked at the extent to which awareness led to knowledge of the content of these employment rights. Many individuals and managers in Small and Medium Enterprises who said they were aware of these employment rights were not able - when tested - to correctly identify what these rights meant in practice. It is a matter of debate whether this is a significant problem or not.
- <sup>57</sup> R Blackburn and M Hart, *Small Firms' Awareness and Knowledge of Individual Employment Rights*, DTI research report, forthcoming, 2002.
- <sup>58</sup> F Neathey and J Arrowsmith, *Implementation of the Working Time Regulations*, DTI Employment Relations Research Series No. 11, 2001.
- <sup>59</sup> *Employment Regulation: striking a balance*. Better Regulation Task Force report on employment law, May 2002
- <sup>60</sup> Tailored Interactive Guidance on Employment Rights ([www.tiger.gov.uk](http://www.tiger.gov.uk)). Guidance currently exists for the National Minimum Wage and for maternity rights.
- <sup>61</sup> Neathey and Arrowsmith (see above).
- <sup>62</sup> Comparable data from the Labour Force Survey on the proportion of employees who say their pay is affected by a collective agreement is only available from 1999 onwards (autumn quarter). Since then, however, numbers have remained broadly constant.
- <sup>63</sup> See the annual TUC surveys of new recognition agreements.
- <sup>64</sup> See T Weber *et al.*, *The Costs and Benefits of the European Works Council Directive*, DTI Employment Relations Research Series No. 9, 2000.