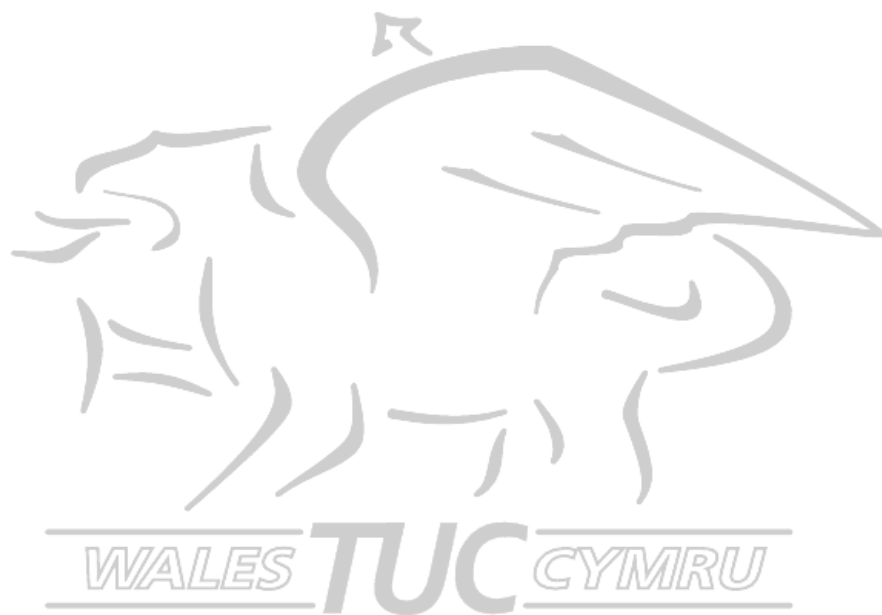


Response to the National Assembly for Wales'
Economic Development and Transport
Committee Review

Economic Inactivity in Wales



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The Wales TUC welcomes the opportunity to submit evidence to the Economic Development and Transport Committee Review of Economic Inactivity in Wales. The Wales TUC represents 56 trade unions who in turn represent around half a million members across Wales.

Section one

Introduction

The National Assembly for Wales' Economic Development and Transport Committee (the Committee) is undertaking a review into economic inactivity in Wales. This report is a contribution to that debate.

As the economy nears full employment, the biggest medium term challenge for the Welsh Assembly Government (WAG) is to reproduce the success in reducing open unemployment in Wales by reducing "economic inactivity" among the rest of the working age population.

We estimate that in Wales there are over 141,000 people of working age not in work or seeking work but who say they want a job. This is exceptionally high by European standards. We have one of the best records on unemployment in the EU but one of the worst when it comes to people outside the active labour market who want a job.

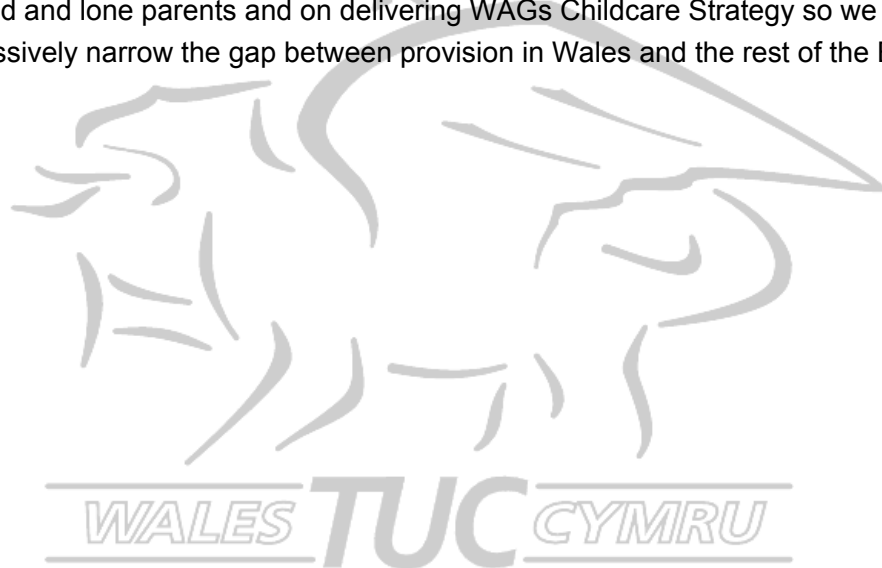
Chronic illness and disability cause more working age inactivity in Britain than in any other EU State, part of the "social tax" on business and the economy identified in the Wanless Report on the future of the NHS. Family care and responsibilities also cause more inactivity than in most of the rest of Europe. For Wales, the figures are even worse than the UK average.

The UK Government (the Government) has already put in place significant measures on tax-benefit reforms, labour market programmes and childcare. WAG has also taken some important steps such as poverty reduction, the imminent introduction of school breakfasts and investment in public services such as the NHS that over time will significantly reduce working age inactivity in Wales. The recent joint Treasury-DWP report Full Employment in every region sets out the significant progress already made and the Government's determination to tackle both unemployment and inactivity in every

region of the UK. We need to build on this and set demanding but realistic targets as part of the Committee's Review:

These targets should include:

- WAG drawing up an "Activity Strategy" targeted on the 141,000 inactive working age people who say they want a job, building on and developing the solid start made to date;
- WAG formally setting a specific overall employment rate figure of at least 76 per cent to be achieved by 2010, a lone parent employment rate of 70 per cent by 2014; and an employment rate for the disabled of 60 per cent by 2014;
- WAG liaising with the UK Government with the aim of ensuring that major new investments in Government labour market programmes in Wales are targeted on the disabled and lone parents and on delivering WAGs Childcare Strategy so we can progressively narrow the gap between provision in Wales and the rest of the EU.



Section two

Inactivity in Wales

Progress towards full employment

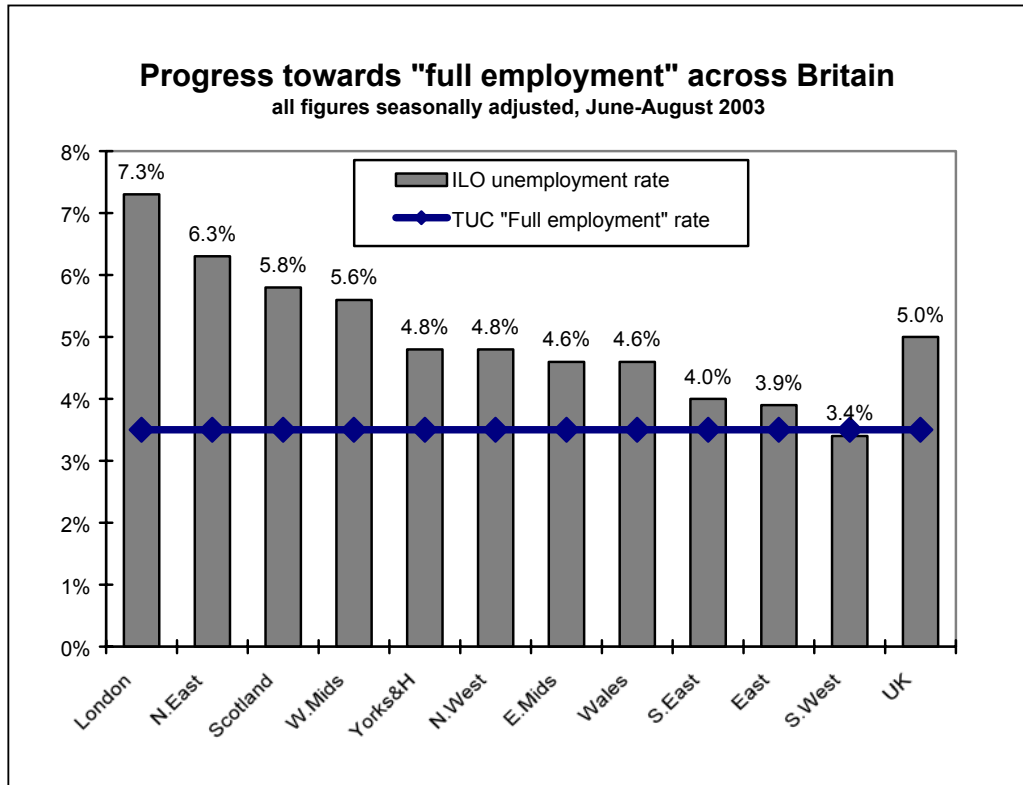
In 1994 the TUC held a major conference on how to achieve Full Employment, on the 50th anniversary of the 1944 Employment White Paper. Critics derided this as a futile and unrealistic exercise. Nearly ten years on and with the election of a Government once again committed to restoring the “highest level of employment possible”, full employment is within our grasp.

Even though full employment was commonly used to describe the UK's post war labour market up until the late 1970s, there has never been an official definition. The best modern measure of unemployment is the ILO definition, which defines all those who looked for work in the past four weeks and able to start a job in 2 weeks time as unemployed. The actual ILO unemployment rate in Wales today is 4.8 per cent. We estimate that an ILO unemployment rate of between 3 and 4 per cent would be the rough equivalent of the “full employment” claimant count unemployment rates that prevailed before 1979.

By this measure the Welsh economy is close to but still not yet at full employment. Unemployment in Wales still poses a challenge to the Government, especially outside of Cardiff. However, all parts of Wales today contain areas of high unemployment and impoverishment and all parts have areas of low unemployment and prosperity.

The logo for Wales TUC Cymru features a stylized dragon in the background. Below the dragon, the text 'WALES TUC CYMRU' is displayed in a bold, sans-serif font, with 'TUC' being the largest and most prominent word. The text is flanked by horizontal lines on either side.

WALES TUC CYMRU

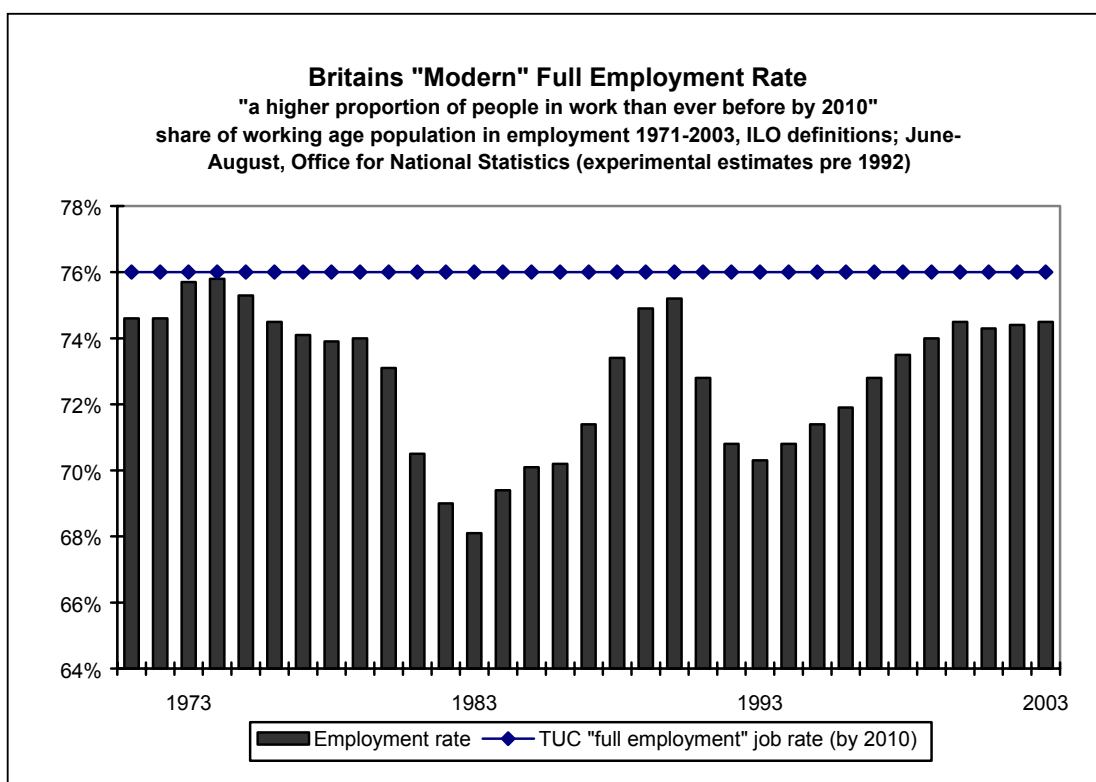


Employment opportunity for all

The Government has coined the phrase employment opportunity for all, which it describes as “the modern definition of full employment”. Taking a wider view than the traditional measure of open unemployment is entirely justified. Open unemployment however measured has never fully captured the need for work in Britain and today has become even less adequate for the task as labour market exclusion has grown.

Our interpretation of full employment is that it implies at least 76 per cent of the working age population in a job. This was the highest peak reached under ILO Labour Force Survey definitions in the past thirty years (in the mid 1970s) as shown in the chart below. By this measure the South East, South West, and Eastern regions are all at full employment.

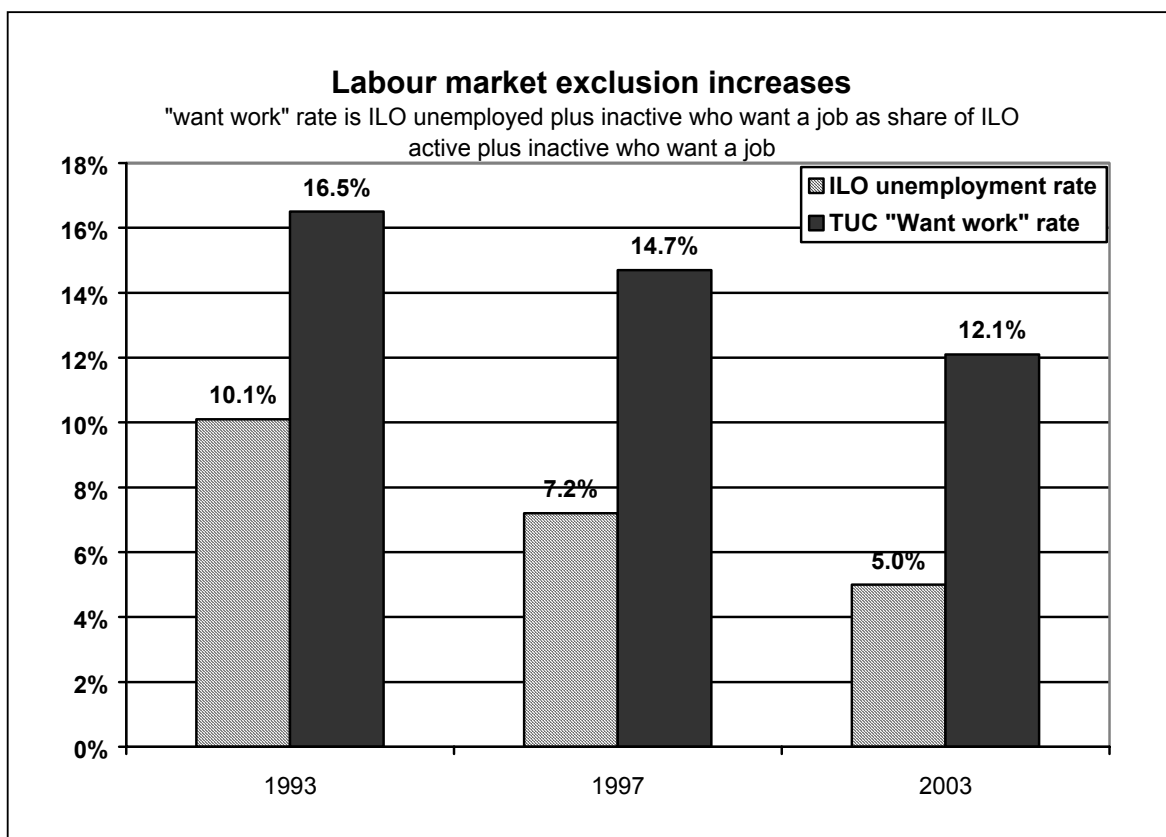
WAGs National Economic Development Strategy ‘A Winning Wales’ targets 2010 for an increase in total employment of 135,000 to place 79% of the working age population in work. At the time the strategy was published, the employment rate was 68.5%.



"Want work" measures of labour market exclusion

However, an employment rate definition of itself does not fully capture the extent of labour market exclusion – the employment rate has increased significantly over the past decade, but the number of working age inactive who say they want a job has also increased. We estimate "want work" rates that include all those who say they want a job. The working age "want work" rate takes the ILO unemployed plus the inactive who want work as a share of the active labour force plus the inactive who want work.

Our estimates of the "want work" rate shows that between 1992 and 1997 the gap between the ILO unemployment rate and the want work rate widened, as the numbers defined as ILO unemployment fell and the number of excluded inactive who wanted work went up. Between 1997 and 2003 the gap between the two rates has stabilised but has not significantly narrowed. Our latest estimate of the Wales "want work" rate (2003) is around 11.2 per cent, or 6.4 percentage points higher than the ILO unemployment rate. The UK "want work" rate is around 12 per cent, or 7 percentage points higher than the ILO unemployment rate.



The full employment target

WAG will struggle to achieve the full employment rate unless it can make significant inroads into working age inactivity and reduce the gap between the ILO unemployment rate and our estimate of the "want work" rate shown above in UK terms. Although the current employment rate of 72.8 per cent in Wales is not far from the implied target rate and WAG has still six years to go to meet the 2010 deadline, achieving and sustaining an employment rate of 76 per cent is more demanding than it looks:

- As ILO unemployment approaches the notional "full employment" level of 3 to 4 per cent it will be increasingly difficult to push up the employment rate by reducing open unemployment;
- the working age population is growing at a faster rate (the Budget assumes between 0.5 per cent between 1997 and 2006 compared with 0.2 per cent per annum between 1986 and 1997) so WAG has to run faster simply to keep the employment rate where it is today;
- as more young people move into full time higher education rather than leaving school at 16, activity among the under 25s will tend to fall, so activity among over 25s must

rise to keep the overall activity rate stable.

The upshot is that WAG will have to make much more progress in getting more of the half million people currently not in work or actively seeking work in Wales into the labour market and into jobs than ever before if it is to meet its 2010 full employment target.

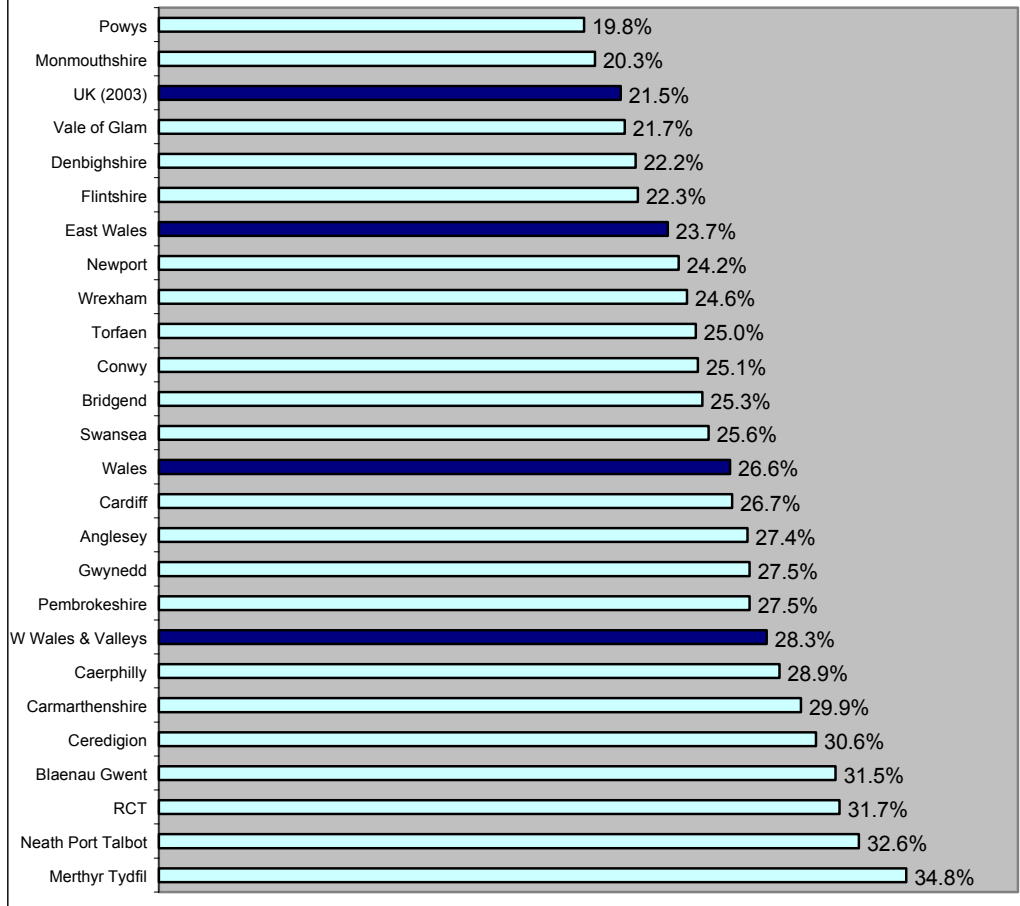
Inactivity in Wales

In 2003 about 470,000 working age people in Wales were classified as economically inactive, around a quarter of the working age population. When full-time students are excluded, Merthyr Tydfil has the highest inactivity rate (33.5%) and Powys has the lowest (17.4%). This compares to about 7.7 million people in the UK, or just over twenty per cent. If the UK experience is anything to go by then 141,000 or roughly 30 per cent of the economically inactive in Wales say they want a job. So about 70 per cent of adult working age people who are inactive say they do not want a job.

The latter will include those opting for early retirement, people with caring responsibilities, or looking after the family, and those with severe chronic sickness and disability problems. It will also include the fastest growing group, students in full time education. Although many students today combine work and study, economic activity is still lower among the under 25s in full time education than among under 25s not in education.



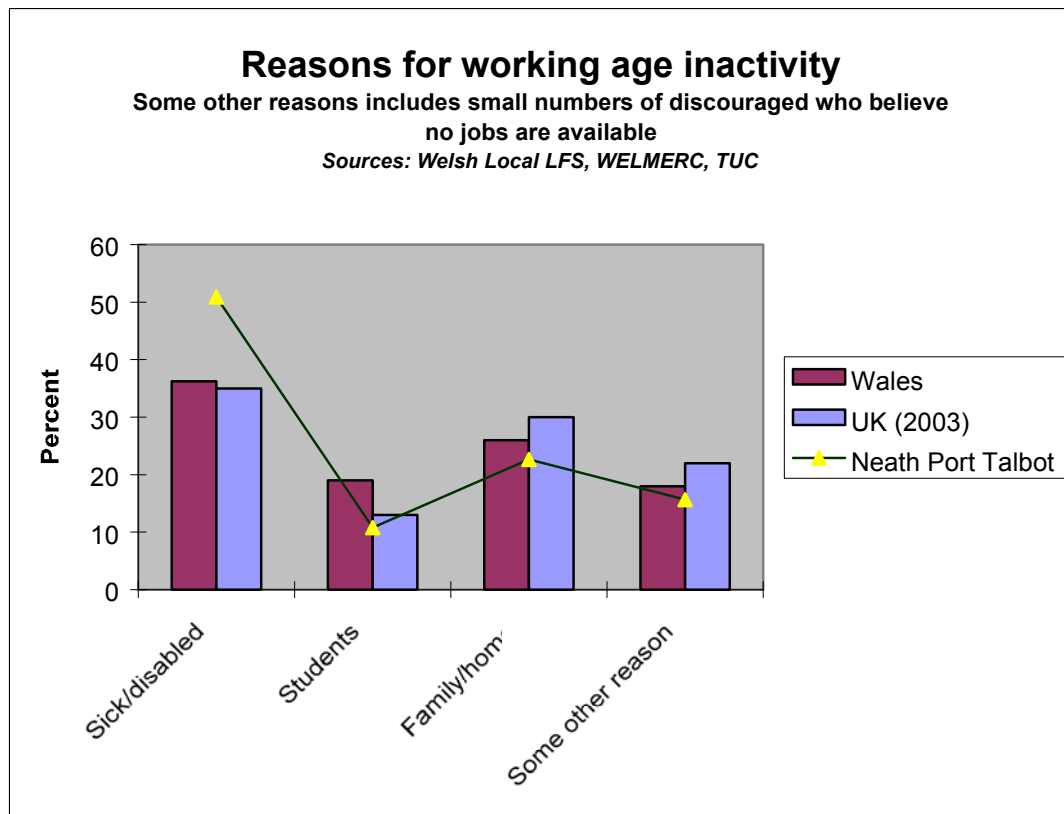
Economic inactivity Rates for people of working age by Unitary authority, 2001 *Source: Welsh Labour Force Survey*



The inactive who want a job

The most common reason given among the inactive who wanted a job for not looking was long-term sickness and disability, covering about 36 per cent of the total in Wales. This compares to around 35 per cent in the UK but around 51 per cent in Neath-Port Talbot Unitary Authority (UA). The next most common was family and care responsibilities, accounting for another 26% per cent in Wales. This compares to around 30% in the UK and 23 per cent in Neath-Port Talbot UA. There were a group of students, about 19 per cent of the total. This compares to around 13 per cent in the UK and 11 per

cent in Neath-Port Talbot UA. However, nearly 18 per cent gave “some other reason” (including a small number of discouraged workers who think there are no jobs available). This compares to around 22 per cent in the UK and 16 per cent in Neath-Port Talbot UA. This is shown in the chart below. These figures are for 2001 except the UK figures that are from May-July 2003.



WALES TUC CYMRU

However, recent work by the Office for National Statistics has questioned a small sample of people in more depth about why they gave the answers they did to this particular question in the Labour Force Survey. This suggest that people are interpreting the question in different ways – as a result, some groups such as the disabled and long term sick may be under-represented and others such as some early retirees may not be very serious about wanting a job. Some working age disabled and older workers were saying they did not want a job because they thought their prospects of entering the labour market were so remote it was not worth considering as an option. In contrast, some disabled people were reported as downplaying their condition and highlighting other reasons to the survey question before mentioning disability as a factor and hence were more likely to be classified as “other reasons” rather than long term sick or disabled. Either way, we suspect the present statistics are likely to under-report the importance of

sickness and disability as a barrier to labour market activity. The ONS is developing a more sophisticated set of questions for future surveys that will give a better overall picture of the underlying reasons for inactivity and how many people might be realistically drawn back into the active labour market.

Across the UK most of the inactive who want work are women (60 per cent) and the most common reason they give for inactivity is family and care responsibilities. This is the reason for 63 per cent of all working age women who want a job remaining inactive. However, nearly 28 per cent of women gave “some other reason” suggesting more complex reasons for inactivity among women are not being captured by the pre-set categories in the survey questionnaire. For men, long term sickness and disability was the most common reason, with over 51 per cent of inactive working age men who wanted a job saying it was the main reason they remained inactive. However, significant numbers of women who want work also say sickness and disability was a reason for inactivity.

Why the inactive who want a job were not actively looking for one

May-July 2003		Men		Women		Total	
Reason	000s	%	000s	%	000s	%	
Long term sickness	418	51.2	268	23.7	685	35.1	
Family/home	69	8.5	521	63.8	590	30.3	
Student	136	16.7	118	14.5	254	13.0	
Some other reason	194	23.8	225	27.6	419	21.5	
<i>Total of above*</i>	816	100.0	1132	100.0	1949	100.0	

Note: excludes inactive who want a job who were actively looking for work but could not start a job within 2 weeks. Some other reason includes small number of “discouraged” workers who said they thought no jobs were available for them.

Source: Office for National statistics

These reasons are age related, with sickness and disability much more likely to be given as a response by older workers, while family and home tends to be a more common response from prime age women.

Inactivity: a snapshot across the UK

Inactivity is more evenly distributed across the UK than open unemployment, but significant differences still exist. Inactivity rates in 2003 varied from around 18 per cent in non-metropolitan Southern England (South East, South West, Eastern) to between 24 and 27 per cent in the North East, Wales and London. We estimate “want work” rates across the UK that takes in to account all those who say they want a job, both the ILO unemployed and the inactive who say they want a job. The North East, London, and Scotland have the highest “want work” rates at between 14 to 15 per cent compared with around 9 per cent in non-metropolitan Southern Britain (South East, South West, Eastern). The UK “want work” rate shown in the table is somewhat lower than the

national rate quoted above because regional data for the inactive who want work are only available seasonally unadjusted.

Unemployment and "Want work" rates by region in 2003

May-July 2003	ILO rate	Want work rate
North East	6.4%	15.0%
London	7.3%	14.7%
Scotland	5.7%	13.7%
W. Midlands	5.6%	11.8%
Yorks and H	5.0%	11.4%
North West	5.0%	11.3%
Wales	4.7%	11.2%
East Midlands	4.9%	10.8%
South East	4.1%	9.4%
South West	3.5%	9.6%
East	3.7%	8.9%
UK	5.1%	11.0%

Notes: inactive who want work are working age only and seasonally unadjusted. Want work rate is inactive who want work as share of active labour market (employed plus ILO unemployed) plus inactive who want work. Source: Office for National Statistics, TUC estimates.

The reasons given for why the working age inactive who want a job are not seeking work show a complex regional pattern, but sickness and disability shows a "North-South" divide. Long term sickness and disability is more common as a reason in Northern England than in most of Southern England and London. In the North East and North West between 37 and 38 per cent of the inactive who wanted jobs said sickness and disability was the main reason they were not looking compared with 29 percent in the South East and 25 per cent in London. However, this was also an important factor in the South West, where 34 per cent said it was the main reason for not looking.

Why labour market exclusion has increased

As section one showed, the number of inactive of working age who said they wanted a job went up between 1992 and 1997. We identify four key reasons why this form of labour market exclusion has worsened despite the strong labour market recovery over the past decade.

- The growth of lone parent families: many lone parents in Wales have found it hard to combine work and bringing up a family because of the tax-benefit system, lack of affordable child care, and few local jobs that paid enough to make work worthwhile;
- Industrial restructuring: many older workers displaced by the huge job cuts in traditional and manufacturing industries were "encouraged" into longer term sickness

and disability benefits or to take early retirement as an alternative to swelling the unemployment totals;

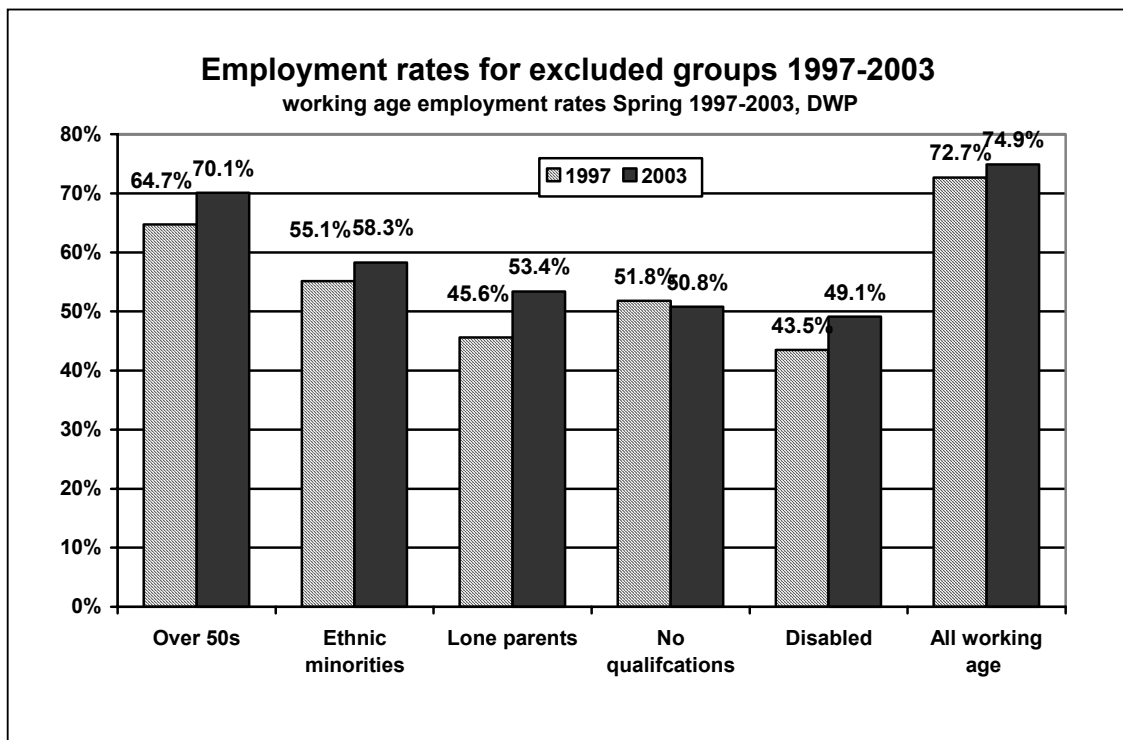
- Political indifference: until 1997 there was little interest in the increase in working age inactivity as long as the numbers claiming unemployment benefit came down. After benefit reforms in the mid 1990s fewer people claimed Jobseekers Allowance, but the numbers of older working age people classified as inactive who wanted a job increased;
- More students: as more people stay on in higher education rather than leaving school at 16, inactivity among the under 25s will increase. Moreover, the numbers of students wanting a job but not yet able to enter the labour market, for example, waiting to complete their course will also tend to rise.
- Not all of the rise in inactivity among the working age population has been a bad thing. The Government has done much to encourage more young people to stay on in higher education rather than leave school at 16 and enter the jobs market immediately. This will both increase their productivity in later life, benefiting the economy in the long run, and increase the chances of individuals moving directly from education to better quality jobs.

Progress in reversing labour exclusion since 1997

The huge increase in employment since 1997 has kept pace with the rise in the working age population and cut ILO defined unemployment, but has not reduced the numbers classified as economically inactive. The share of the inactive who say they do not want a job has actually gone up slightly since 1997.

However, this is because Government policies in the short term have pushed in opposite directions. The expansion of the full time student population reduces activity among the under 25s as full time students are less likely to work than non-students, while activity has been increased for the non-student working age population by, for example, getting more lone parents into jobs. Overall, the two effects have tended to cancel each other out, leaving the overall inactivity rate unchanged.

A better idea of the progress that has been made can be gauged by looking at specific excluded labour market groups with low employment rates, most notably for lone parents and other working age families. The employment rate for lone parents has increased by nearly 8 percentage points against a national average of just over 2 percentage points. The major exception has been those with low qualifications where the employment rate in 2003 was slightly lower than in 1997. For all age groups, Wales had a higher percentage who were inactive and had no qualifications than for the rest of the UK.



Since 1997 the number of inactive women who say they want a job has fallen by 15 per cent, while the number of working age men who say they want a job has remained static. Almost all of the fall has been among women who said they had not been looking for work because of family responsibilities. In contrast, there has been no change in the number of inactive because of long-term sickness or disability. This might suggest that the improvement shown above has had most impact on those already active in the labour market.

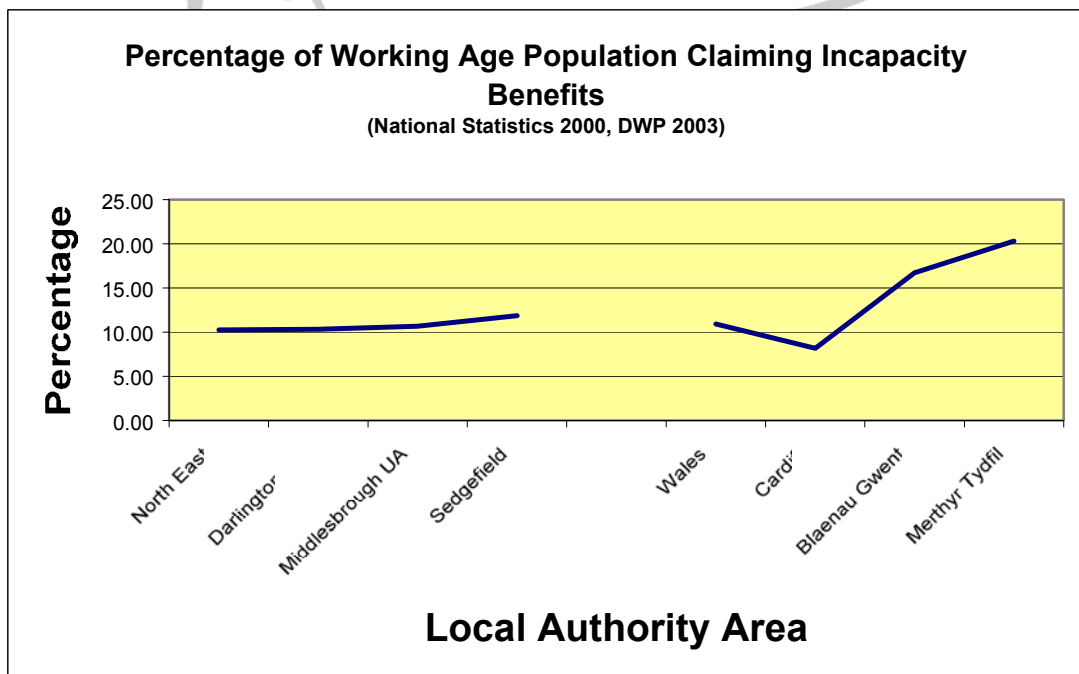
Invalidity Benefit – the regional disparity

One of the aspects of inactivity that marks Wales compared to other parts of the UK is the proportion of those claiming incapacity benefit. By taking the working age population

(based upon the National Statistics publication 'Regional Trends 2000 edition' as a baseline) and calculating in the number of Incapacity Benefit Claimants (DWP year ending August 2003) we can compare the claimant rate as a percentage of the working population. Within Wales, unsurprisingly, there are wide disparities, with Merthyr Tydfil and Blaenau Gwent recording the highest percentage rate and Monmouthshire and Flintshire the lowest rates.

To put this into context however, we have extended the exercise to make a useful contrast with another part of the UK with similar characteristics to Wales, the North East of England.

In 1998, the North East of England had a population of 2.6 million, similar to Wales, which had a population of 2.9 million. The employment rate for people of working age in the North East of England was the lowest in the UK at 64.9% just below Wales at 68.4%. Like Wales, the economy of the North East was largely geared towards manufacturing which accounted for some 28.2% of the regions GDP, similarly in Wales at 27.9%. In the North East, mining accounted for greater wealth than in Wales. With economies so similar and with incapacity a key part of economic inactivity, one might expect similar rates of Incapacity Benefit Claimants as a percentage of the working population, especially within Unitary Authorities with similar characteristics.



While Wales as a whole has a slightly higher rate of its working population claiming Incapacity Benefits than the North East of England, the manufacturing, mining and steel communities of Middlesbrough, Darlington and Sedgefield have a noticeably lower rate of Incapacity Benefit Claimants when compared to Blaenau Gwent or Merthyr Tydfil.

Whilst real comparison can be notoriously difficult, the ex-mining town of Sedgefield in County Durham has characteristics that many Welsh communities will identify with. The local Index of Deprivation 2000 suggests that the Borough's levels of disadvantage rank amongst the worst 40 districts in the UK. The extent of this disadvantage is shown by the fact that 18 of the Borough's 22 wards are within the 20% most disadvantaged wards nationally. Three wards are amongst the worst 5% of all wards (Sedgefield District Council). With all of these factors, it might be expected that claims for Incapacity Benefit might bear comparison with statistics in Wales, yet eight local authorities in Wales have higher figures, topped by Blaenau Gwent (16.74%) and Merthyr Tydfil (20.3%).

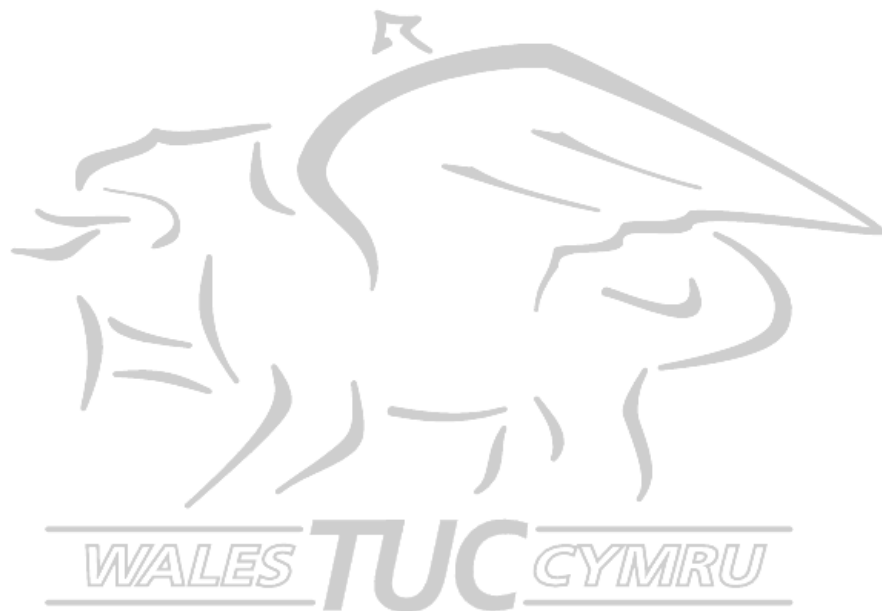
Whilst some may use these statistics as evidence of 'sympathetic, over crowded valley surgeries', we do not make that judgment, especially as there may be a whole raft of other factors, not least the condition of housing stock and the availability of local health services. We believe that the Committees Review should recommend further research in this particular area.

Main points

- Wales has made good progress towards full employment, whether measured by the ILO unemployment rate or the Government's preferred indicator, the employment rate;
- The number of working age inactive who want work increased significantly before 1997 and progress in reversing this since 1997 has been modest: in 2003 there were still around 141,000 inactive people of working age who wanted a job;
- The rise in working age inactivity was in part due to a historically poor record in getting lone parents into jobs and political indifference to rising claims for sickness benefit as long as the numbers claiming unemployment benefits was falling. More recently, more people going into higher education has reduced activity among under 25s;
- As a result, Wales still has a high "want work rate" – a TUC estimate which takes into account all those who want a job. Wales' want work rate in 2003 is estimated at 11.2 per cent, 6.2 percentage points higher than the ILO unemployment rate of 5 per cent;
- Progress has been made with specific groups, notably lone parents and the disabled, where the employment rate has increased faster than for the working age population as a whole since 1997, but there has been no improvement in the employment rate

for those without qualifications;

- Most inactive people of working age who want to work are women (60 per cent). The most common reason for female working age inactivity is family and care responsibilities;
- For men the most common reason for working age inactivity was chronic sickness or disability; a significant minority of mainly older women also gave this as a reason.
- There are considerable differences within Wales of Incapacity Benefit Claimants as a percentage of working age population, which might be expected. There is some evidence that compared to many areas of English regions with similar industrial characteristics to Wales, Incapacity Benefits Claimant rates are stubbornly higher in Wales.



Section three

Inactivity in Europe – Britain compared

Inactivity across Europe

This section of the report looks at inactivity across the European Union in 2002, the latest year for which we have comparative figures. We use the EU definition of the working age population that covers the ages 15 to 64, which is wider than the UK national definition of 16 to 59/64. We also look at the reasons for inactivity across the working age population as a whole, and not just those who say they want a job. The figures for the UK will therefore differ to those in the previous section.

The UK labour market has historically had a high employment rate and low overall inactivity rate compared with many other European economies. Latest figures from Eurostat show that the overall inactivity rate among the working age population (here defined as ages 15 to 64) of the EU15 was 30.3 per cent in 2002 compared with 24.4 per cent in the UK. The UK ranked fourth out of the EU15, behind only Denmark, Sweden and the Netherlands.

Successive governments have claimed this is the result of a particular set of policies, most notably the extensive deregulation of the labour market in the 1980s. However, a very similar claim could have made in any decade from the 1950s onwards. In 1975, for example, the UK had the third lowest inactivity rate in the EU, with only Sweden and Denmark having lower rates. The progressive re-regulation of the labour market since 1997 has made no difference to the UK's relative position as a high employment European economy.

Most of the difference between the UK and Europe in 2002 was accounted for by the shorter working lives in the rest of Europe, where people typically enter the labour market later and leave earlier than in the UK. The UK has some of the lowest inactivity rates in the EU for younger and older workers, but inactivity among prime age workers is similar to the EU average and the UK ranks only 9th out of the EU15.

INACTIVITY by AGE ACROSS EUROPE IN 2002

Share of working age population economically inactive

	Young ages 15-24		Prime ages 25-54		Older ages 55-64
N ^l ands	26.3%	Austria	11.9%	Sweden	28.8%
Denmark	31.4%	Finland	12.0%	Denmark	39.6%
UK	36.0%	Denmark	12.2%	UK	44.6%
Austria	44.0%	Sweden	12.3%	Portugal	47.1%
Ireland	47.6%	France	13.9%	Finland	47.9%
Finland	48.5%	Germany	14.3%	Ireland	50.7%
Germany	49.6%	Portugal	14.6%	N ^l ands	56.7%
Sweden	50.9%	N ^l ands	15.2%	Germany	57.0%
Portugal	52.4%	UK	16.0%	Spain	57.3%
Spain	57.1%	Belgium	18.1%	Greece	58.6%
France	62.7%	Lux	18.2%	Belgium	62.2%
Greece	63.9%	Ireland	20.9%	France	63.3%
Belgium	64.3%	Spain	21.9%	Austria	68.2%
Italy	64.5%	Greece	21.9%	Italy	69.8%
Lux	65.3%	Italy	24.3%	Luxembourg	71.7%
EU average	52.3%	EU average	17.2%	EU average	57.2%

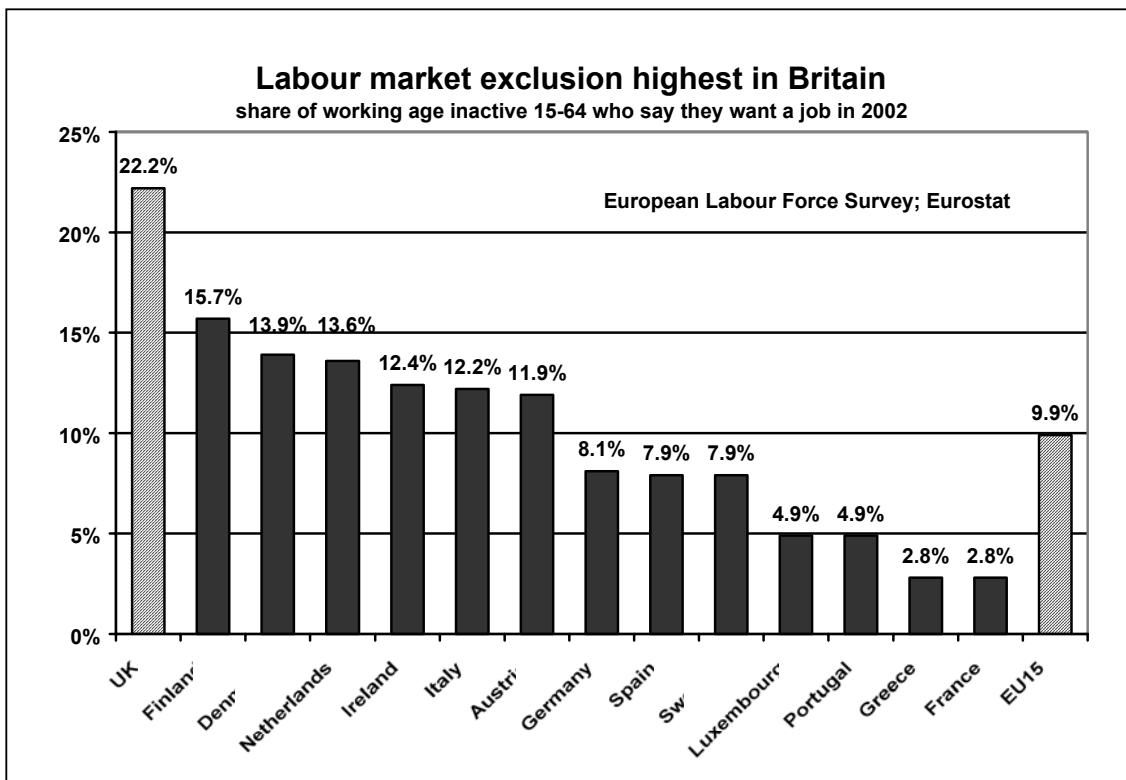
Note: working age is wider than national UK definition and includes all between 15 and 64.

Source: *Employment in Europe 2003*, pp 209-226, EU Commission.

The gap between the UK and the rest of Europe is starting to narrow. Inactivity among under 25s in the UK is likely to increase as more young people go into full time education rather than directly enter the labour market at 16. Moreover, a recent analysis suggests that some EU States have made significant progress in reducing inactivity among older workers over the past decade. In 1993 the inactivity rate among those in the 50-59 age group in France was 46 per cent compared with 32 per cent in the UK, a gap of 14 percentage points. By 2002 the inactivity rate in France among this age group was down to 38 per cent compared with 30 per cent in the UK, a gap of 8 percentage points (Economic inactivity in selected countries, Labour Market Trends, June 2003).

Inactive who want work

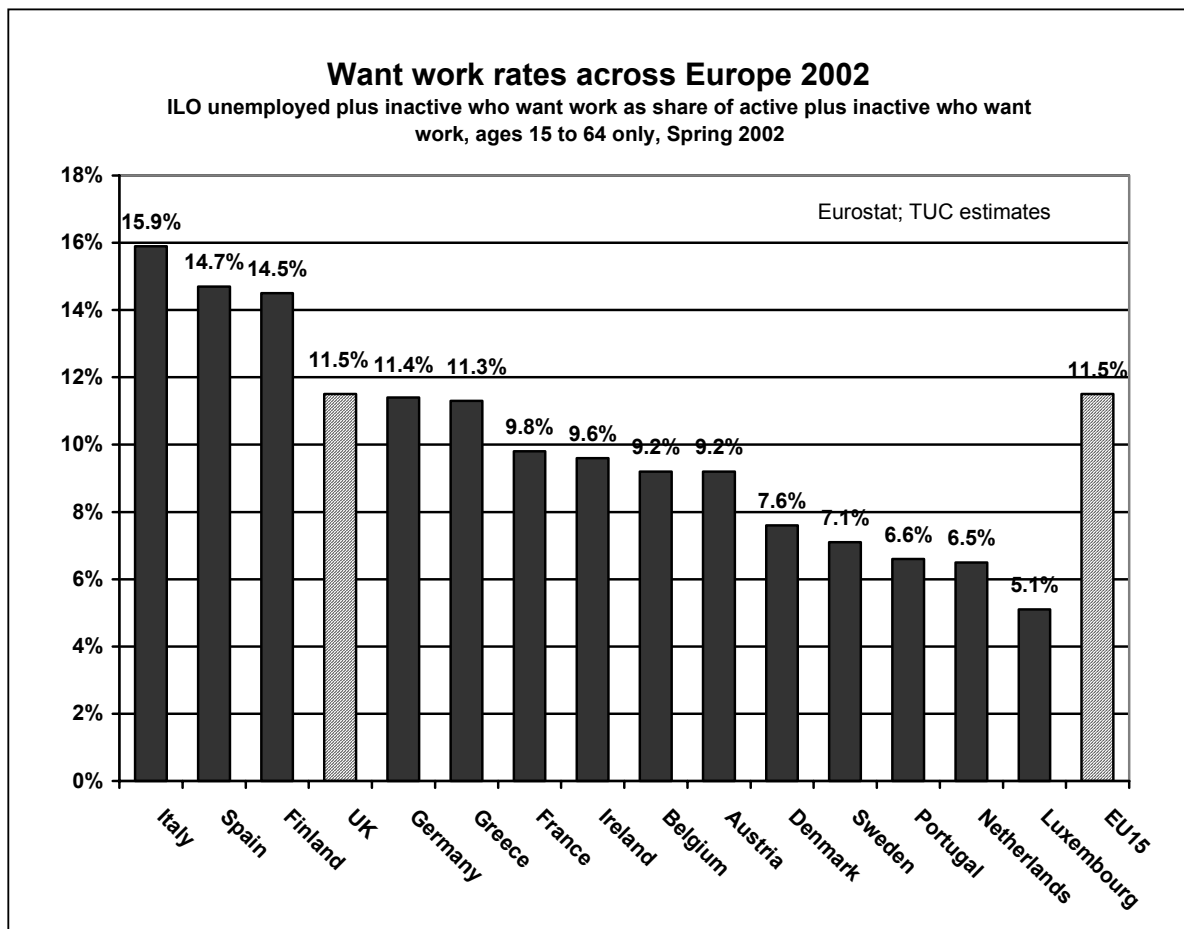
In 2002 the UK had the highest level of labour market exclusion in Europe, measured by the share of working age inactive who say they want a job. In 2002 about 22 per cent of the inactive between the ages of 15 and 64 said they wanted a job in the UK, compared with a European wide average of just under 10 per cent. The share was 12 per cent in Italy, 8 per cent in Germany and Spain and just 3 per cent in France. This is shown in the chart below.



Want work rates across Europe

In 2002 ILO unemployment rates in the UK were significantly lower than the EU average, at 5 per cent against a EU15 average of 7.7 per cent. However, once all those who want a job are taken into account this labour market advantage disappears. The TUC estimates that “want work” rate for the UK in 2002 was the same as the European average, at 11.5 per cent. This was similar to the want work rate for Germany (11.4 per cent) and higher than in France (9.8 per cent).

The working age inactive might be more likely to say they want a job in high employment economies like the UK, especially when unemployment is low and the chances of actually getting a job are seen to be improving. Other high employment economies such as the Netherlands and Denmark also have above average levels of labour market exclusion measured by the number of working age inactive who want work (in both cases about 14 per cent of the working age inactive say they want work). However, the “want work” rates in Europe’s other high employment economies are much lower than in the UK, as shown in the chart below.



Although the UK has made significant progress by European standards in reducing open ILO unemployment, it has been less successful in reducing labour market exclusion. Since 1997 labour market exclusion has fallen faster across the Eurozone economies than in the UK. However, there were significant variations between national labour markets. There was little or no change in Germany, France, and Luxembourg and only

modest improvements in the UK and Italy. Greece and Sweden saw increases. But all other EU economies saw substantial improvements, with falls of between 30 and 40 per cent in Denmark, Belgium, and Spain and between 20 and 30 per cent in the Netherlands, Portugal, Austria, Ireland and Finland.

Broadly speaking, those EU economies with above average falls in open ILO unemployment between 1997 and 2002 also saw above average falls in the inactive who want work. However, there were exceptions, such as the UK and Sweden, where this was not the case. In the UK the numbers classified as ILO unemployed fell by 22 per cent compared with the EU average of 18 per cent. However, the number of inactive who wanted work fell by only 4 per cent in the UK over this period compared with 12 per cent across the EU15.

Labour Market Progress Across Europe 1997-2002

	ILO unemployed 000s		Inactive who want work 000s
Sweden	-47.8%	Denmark	-39.6%
Ireland	-47.4%	Belgium	-34.8%
Netherlands	-38.5%	Spain	-31.1%
Spain	-26.1%	Portugal	-28.4%
Finland	-24.5%	Netherlands	-27.3%
France	-22.9%	Austria	-26.3%
UK	-22.3%	Finland	-25.7%
Belgium	-18.2%	Ireland	-22.8%
Portugal	-17.3%	Italy	-6.7%
Italy	-18.6%	UK	-4.0%
Denmark	-12.8%	Germany	-1.9%
Germany	-10.3%	France	No change
Austria	-0.1%	Luxembourg	No change
Luxembourg	No change	Greece	+4.5%
Greece	+3.3%	Sweden	+12.4%
EU15	-19.9%	EU15	-11.6%

Note: ILO unemployed is annual average, inactive who want work is 1997Q to 2002 Q2.

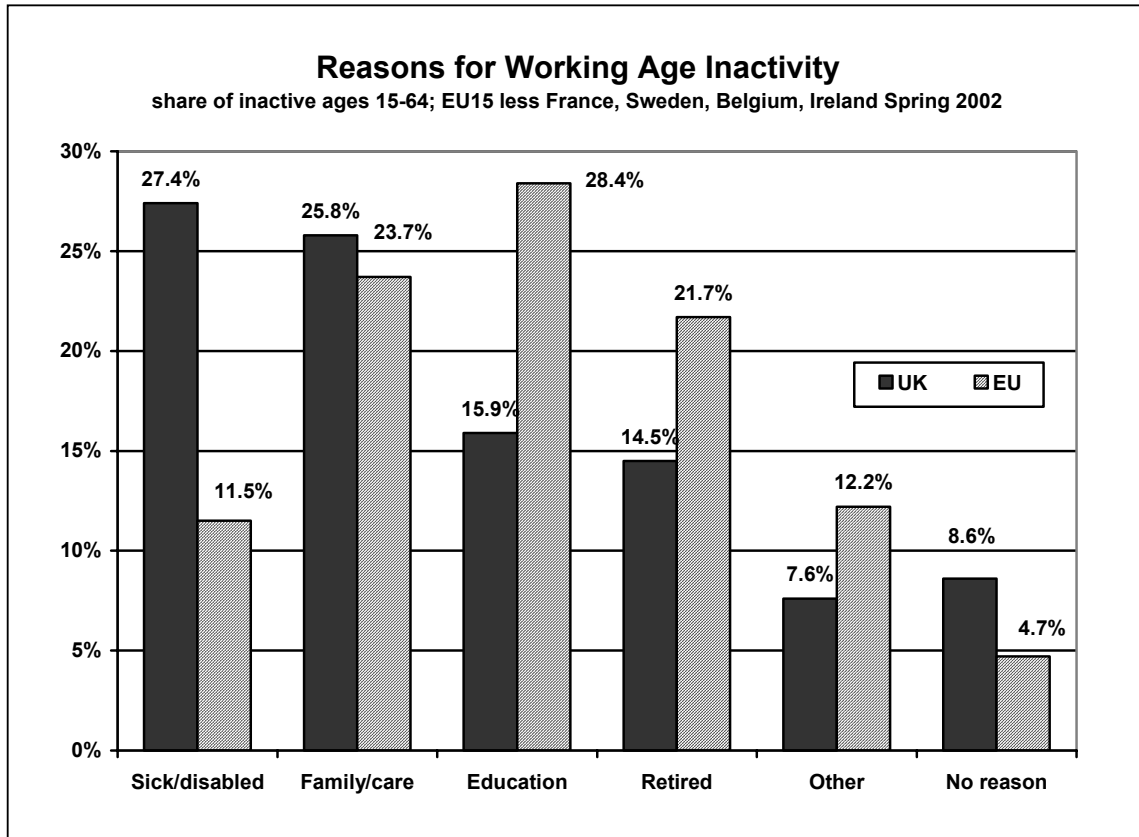
Source: *Employment in Europe*; Eurostat, TUC estimates

Reasons for inactivity across Europe

Taking the responses to the European Labour Force Survey at face value would suggest that working age inactivity in the rest of Europe is more likely to be caused by students in full time education and early retirement than in the UK, whereas sickness and disability and family and care responsibilities were a more important reason for working age inactive people not seeking work in the UK than in Europe.

We are confident that this general picture is true, but the precise figures on a country-by-country basis have to be interpreted with some caution because of a lack of consistency in the way some national surveys have classified the responses to this question. The French and Swedish surveys appear to have classified virtually everyone who did not say they were in full time education into the “no reason given” category and the Belgium

survey has recorded almost everyone who did not say they were retired as saying they did not look for work because they “believe no work is available.” The latest survey for Ireland gives no reasons at all. We have therefore excluded the above four national surveys for France, Sweden, Belgium and Ireland from the following analysis when estimating the EU average.



Sickness and disability

In the UK about 27 per cent of all working age inactive said they were inactive because of sickness and disability compared with just under 12 per cent across the EU. Sickness and disability were also an important source of inactivity in Denmark, Finland and the Netherlands. In the rest of the EU for which we have comparable data sickness and disability was much less likely to be recorded as a cause of working age inactivity.

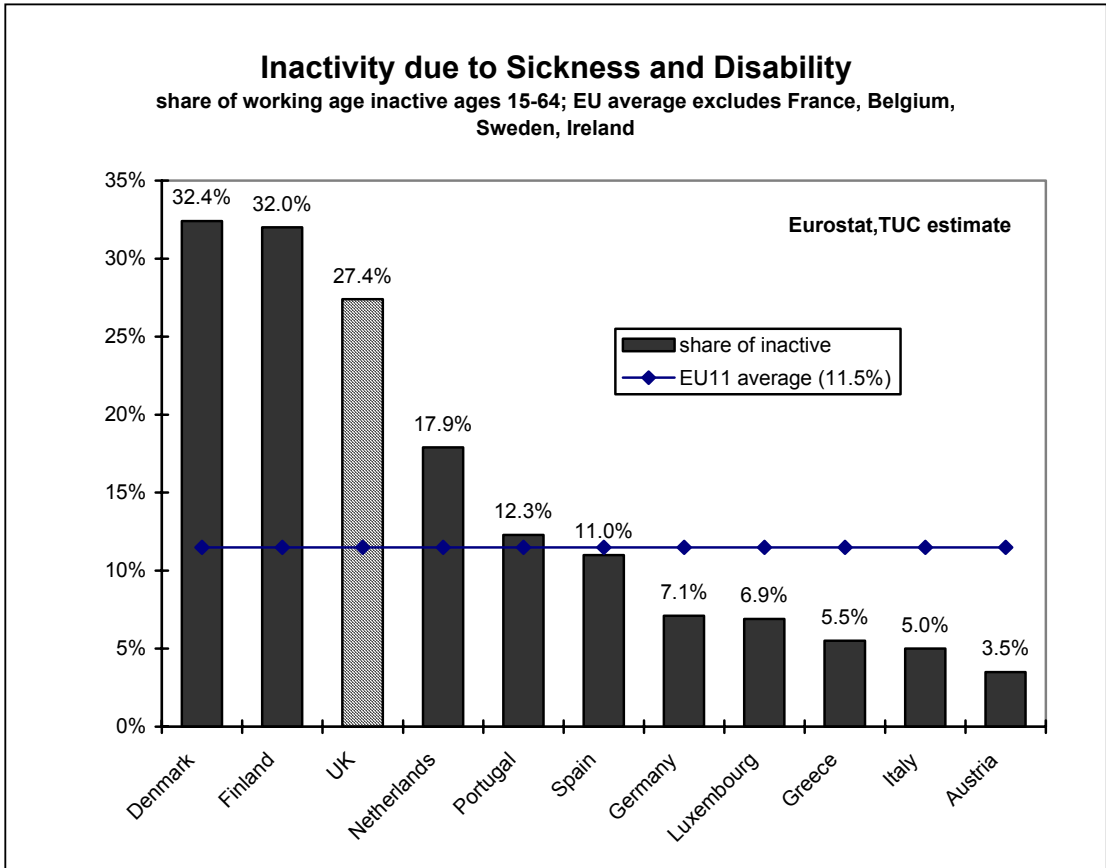
A key question is how far this response is shaped by differences in national labour markets such as the benefit systems and how much by genuine differences in the health of the inactive working age population. The European Labour Force Survey does not directly answer that question. However, while we think labour market factors are important, there may also be some genuine differences in health.

The Wanless Report showed both that some health outcomes in the UK are worse than in other European economies and that health inequalities between those in better paid white collar employment and those in less skilled jobs have worsened in the UK over the past twenty years. The UK also experienced a major increase in poverty and social deprivation that was not true in Europe, and we know there are strong links between poverty, ill health and inactivity. So it would be no surprise if a higher share of the working age inactive population in Britain was in poorer health than in some comparable EU economies. Moreover, long waits for treatments for chronic conditions that prevent or limit work in the UK compared with, say, France or Germany, would also tend to increase reported sickness as a reason for inactivity.

The historic under-investment in Britain's public health services and tolerance of widening social inequalities may therefore have had significant economic costs by reducing potential labour market activity among the working age population. If we are right, the combination of record investment in the NHS and the Government's drive against poverty will help increase labour market activity rates in the future. Wanless in fact describes sickness as a "*hidden social tax on business and society which undermines competitiveness and reduces productivity*".

We nonetheless think two labour market factors have been especially important and may out-weigh greater ill health as a cause of people reporting sickness and disability as a reason for working age inactivity:

- *Benefit systems:* older workers in some other EU economies may be more likely to say retirement rather than sickness and disability, either because retirement ages are lower than in the UK (eg France, where men can retire at 60) or because it is much easier to move from long term unemployment and sickness related benefits to early retirement benefits (eg Germany);
- *Barriers to re-employment:* working age people with health related problems in high employment economies such as the UK, Denmark and the Netherlands may have higher expectations of getting a job than similar individuals in low employment economies. However, in the UK they may face bigger barriers to actually getting a job such as an unhelpful benefit system or the lack of specific measures to help them (the UK invests less than almost any other EU economy in measures specifically targeted on the disabled and sick).



“Early” retirement

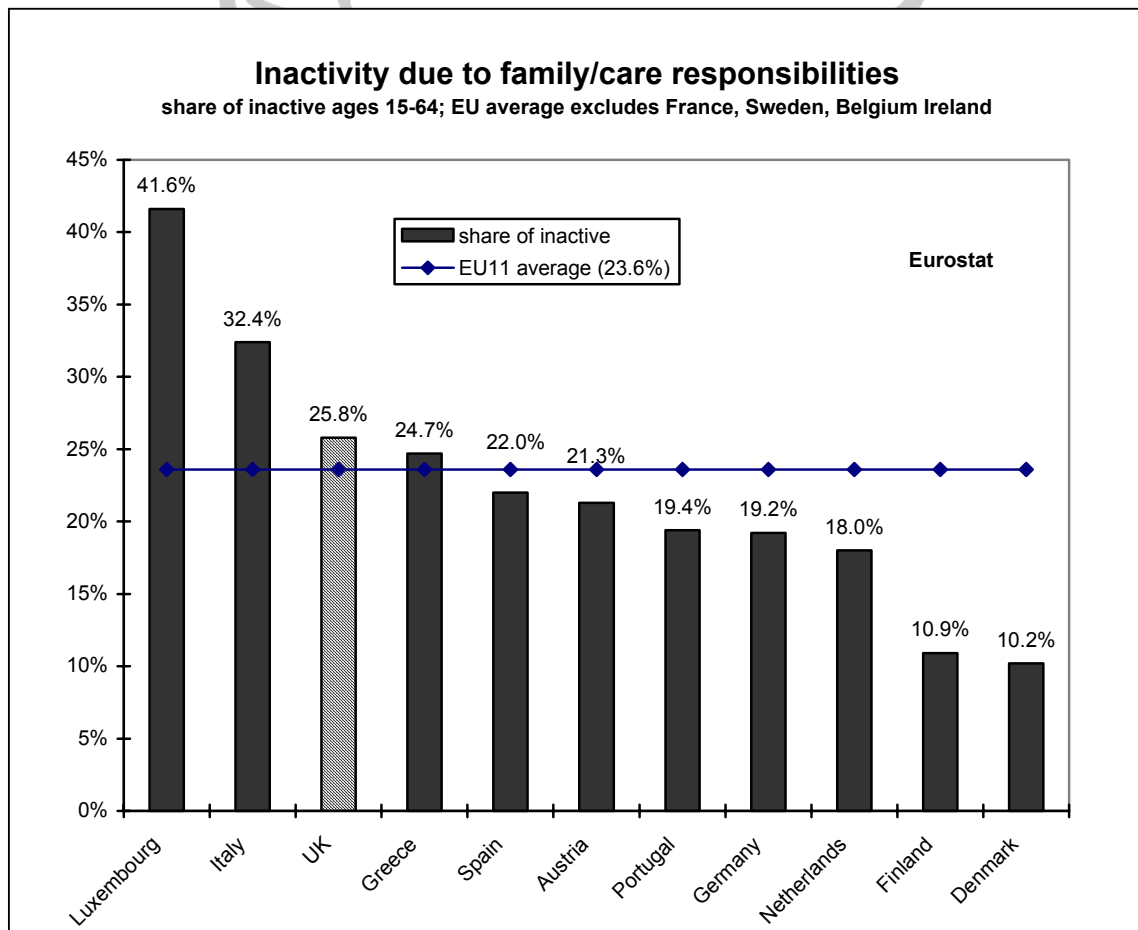
Working age inactivity caused by people retiring before 64 accounts for about 22 per cent of working age inactivity across the EU because they were retired compared with just under 15 per cent in the UK. The differences within the EU can however be much larger. In Germany for example 32 per cent of all working age inactivity can be explained by early retirement compared with only 7 per cent in Spain. As we suggested above, in many EU States moving people onto long term sickness and disability benefits (the UK) or into early retirement (Germany, France) or both has been one way of coping with

industrial restructuring. We suspect that for older workers whether they say “retirement” or “sickness” to the survey is significantly influenced by differences in national benefit and labour market systems.

Inactivity and the family

Working age inactivity caused by family and caring responsibilities, both child, elder and dependents, is also above the European average, accounting for 26 per cent of all inactive against a EU average of just under 24 per cent. However, the UK ranked ninth out of the 11 comparable economies, behind only Italy and Luxembourg. In contrast, this was a less important cause of inactivity in Northern European economies such as Germany and the Netherlands where it accounted for between 18 and 19 per cent of working age inactivity, and was even less common as a cause of working age inactivity among economies such as Denmark, Finland or Austria.

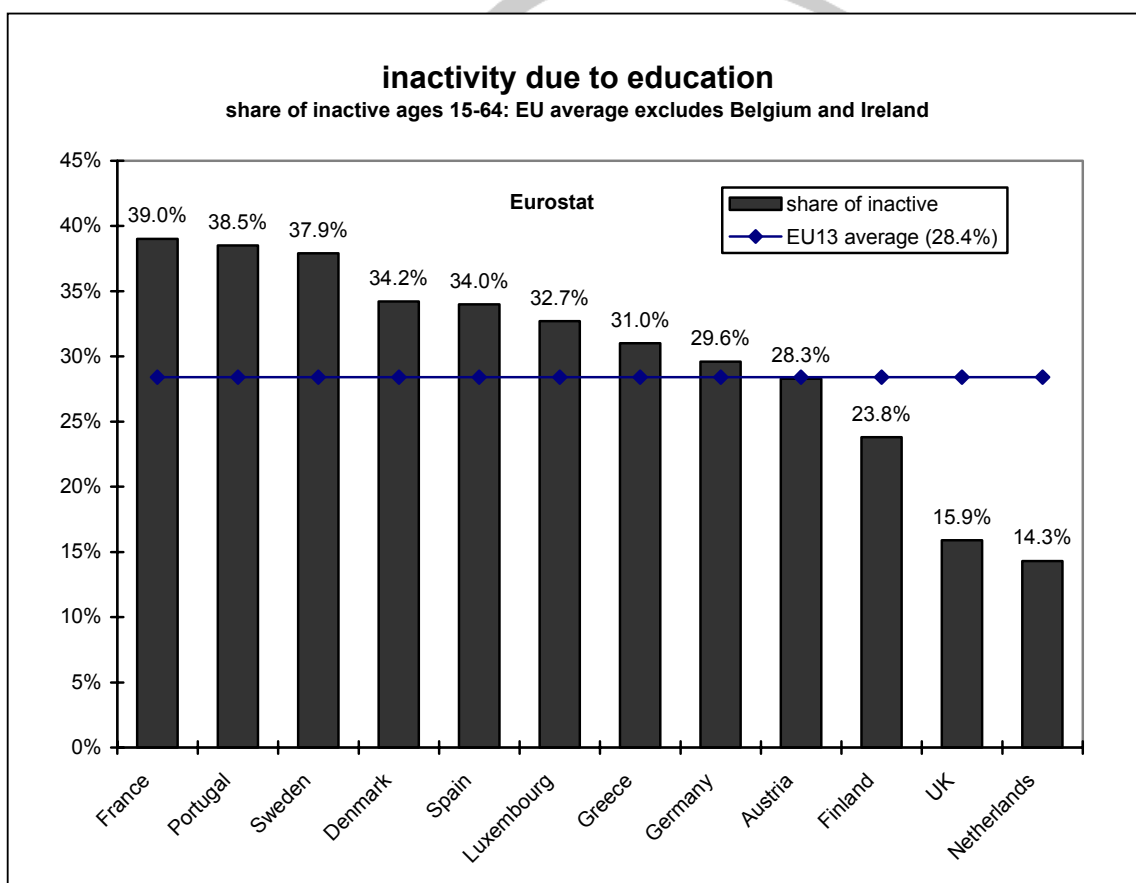
The UK’s poor record is linked to the large number of single parent households within the UK population and the UK’s historically very poor record in employing them. The OECD has estimated that in 2001 the “non-employment” rate for lone parents in the UK was 51 per cent, compared with 40 per cent in the Netherlands, around 35 per cent in Germany and France, between 23 and 26 per cent in Denmark, Italy and the United States, and just 13 per cent in Sweden.



Inactivity and education

Across Europe, a significant share of working age inactivity is caused because of the European wide policy of maximising participation in full time education for under 25 year olds. Overall, about 28 per cent of working age people across the EU were inactive due to full time education compared with only 16 per cent in the UK. This figure increased to between 34 and 39 per cent in France, Spain, Austria, Portugal and Sweden, and Denmark. Only the Netherlands matched the UK.

Participation in education explains relatively little working age inactivity in the UK because we have fewer young people in full time education compared with most other EU economies and because in most of the rest of Europe few students seem to combine work and study in the way they do in the UK (and also in the Netherlands). In the UK and the Netherlands students now make up a key part of the part time workforce.



As we saw above, the UK appears to compare favourably against the EU when it comes to activity among the under 25s. However, in most EU economies almost all of the under 25s who are inactive say it is because they are in full time education. In France, Germany, Italy and Spain around 90 per cent of the under 25s who are inactive are in full time education compared with 73 per cent in the UK and 66 per cent in the Netherlands.

Much of the inactivity among the under 25s appears to be voluntary, in that in most EU economies less than 10 per cent of inactive under 25s said they wanted a job. In contrast, in the UK, the Netherlands, Denmark, and Finland between 20 and 30 per cent of inactive under 25s said they wanted a job. The UK figure was 24 per cent against a EU average of 11 per cent. However, we suspect this is more because combining work and study in economies such as the UK is considered as far more the norm than in the rest of Europe, rather than an indicator of genuine labour market exclusion.

Main points

- The UK is a high employment economy, with the third highest “activity” rate in the European Union: however, this was just as true in the 1970s and has nothing to do with the deregulation of the labour market in the 1980s and 1990s.
- The UK’s relative overall success is because, on average, people start their working lives earlier and finish later than in the rest of Europe: for “prime age” workers between 25 and 54, we rank only 9th out of the EU15 and only just above the EU average when comparing inactivity rates (the share of the prime age population neither in work or actively seeking work);
- The UK has one of the best records on open ILO unemployment in Europe and the worst record on labour market exclusion, measured by the share of inactive working age people who say they want a job. In 2002 over 22 per cent of the working age inactive said they wanted a job in Britain – the highest share in the EU and compares with an EU average of 10 per cent;
- If all those who want a job are taken into account, the UK’s “want work” rate (ILO unemployed plus the inactive who want a job as a share of the active labour force plus the inactive who want a job) in 2002 was the fourth highest in the EU at 11.5 per cent, behind only Italy, Spain and Finland;
- The UK’s working age inactive are more likely to say they are inactive because of sickness and disability than in most other EU economies and also more likely to say family and caring responsibilities;
- In contrast, participation in full time education was far more likely to be given as a reason for working age inactivity in most of the rest of Europe (27 per cent of working age inactive compared with 16 per cent in the UK), as was early retirement (22 per cent against 15 per cent in the UK).

Section four

Policy priorities

The undoubted success of WAG and Government policies in reducing open unemployment now needs to be repeated in tackling involuntary inactivity among working age people in Wales. The priority must be to provide employment opportunities for the 141,000 working age people who say they want work in Wales today.

Too often the inactive have been seen as a social problem a government must be seen to be doing something about, rather than as an essential part of the drive to increase prosperity for all. Reducing working age inactivity is a major opportunity to sustain employment growth and hence the overall sustainable economic growth rate. This in turn will allow higher average living standards throughout the economy. As the recent Bank of England Inflation report notes, *“Even though individuals are more likely, on average, to move into employment from unemployment than from inactivity, the size of the inactive population is such that it can make a substantial contribution to employment growth”*.

The Government has already put in place a number of initiatives to tackle worklessness, help lone parents and give help to people with disabilities. Many have already generated encouraging results – most notably in boosting the employment rate of lone parents and reducing worklessness. Together with investment in the NHS, child-care strategies, and the anti-poverty drive we believe these policies will secure a significant reduction in working age inactivity in Wales.

However, we believe this Review is an ideal opportunity to take a fresh and wider look across all WAG Departments and set out an “Activity Strategy” for the medium term beyond 2004, building on and extending the work already done.

We recommend that as part of this Review the Committee draw up an “Activity Strategy” targeted on the 141,000 inactive working age people who say they want a job, building on and developing the solid start made to date.

It is important to emphasise the importance of the intra-Wales dimension. There are two aspects that any strategy for tackling inactivity will need to take into account. Firstly, as we showed above, some Unitary Authority areas have a much higher incidence of inactivity than others.

We strongly welcome the emphasis on the regional dimension to employment policy, as set out in the Treasury-DWP joint report, Full Employment in every region, as part of the overall strategy to reduce economic inactivity across the UK.

We fully support the Government's efforts to engage and reconnect the public employment services with the inactive so that people are aware of the opportunities that exist and the help available. For much of the past twenty years, the working age inactive have been ignored other than periodic political attacks on lone parents. The sickness and disability benefit system has, in effect, been used as a dumping ground for the social casualties of the previous Government's approach to industrial restructuring. However, the New Deal programmes have now provided a great deal of evidence to show that when economically inactive people participate in such programmes the results are encouraging. The key problem has been to persuade excluded groups to take-up their rights to participate in labour market programmes in the first place.

However, it is important to recognise that for some inactive working age people a job is neither desired nor deliverable. This means having realistic expectations about how far working age inactivity can be reduced, even over the medium term. People have legitimate reasons for either not wanting to work or being unable to hold down a job at different points in their lives. We would not support an approach that forces all inactive lone parents, the chronic sick, carers and the disabled into the active labour market regardless of circumstances or the chances of employment.

There are some forms of inactivity we should not be over-concerned about. Higher inactivity among the under 25s caused by more people staying on in higher education rather than leaving school at 16 should be seen as a good thing. It will pay off in higher productivity and higher prime age activity rates in the future. Indeed, the past failure to extend good educational opportunities to all our young people may well be one reason why Wales compares less favourably with the rest of Europe on prime age inactivity rates.

We strongly recommend additional research into why rates of Incapacity Benefit Claimants are diverse, not just within Wales, but also in regions of England with similar industrial characteristics.

Setting demanding but realistic targets

Target setting has got a bad name under previous Reviews - there were too many, often poorly defined and with inadequate statistical information to properly assess whether they had been met. Others have been criticised as being too vague or set in such a way it would be hard for any Government not to achieve them.

For example the Government's labour market targets set down in the Public Service Agreements between the DWP and the Treasury have few specific figures. There is an overall objective, joint with HMT, to "demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle". There is also a bundle of objectives which demands the DWP should "*over the three years to Spring 2006, increase the employment rates of disadvantaged areas and groups, taking account of the economic cycle – lone parents, ethnic minorities, people over 50 and over, those with the lowest qualifications and the 30 local authority districts with the poorest initial labour market position, and significantly reduce the difference between their employment rates and the overall rate.*" The disabled get a separate but similar objective "*in the three years to 2006, increase the employment rate of people with disabilities, taking account of the economic cycle, and significantly reduce the differences between their employment rate and the overall rate*".

There is little to quarrel with over the target groups or intention behind the objectives, but it is hard to judge when whether they are being met or not. Strictly speaking, taking account of the economic cycle means distinguishing between those changes we would have expected to happen depending on whether the economy is expanding or contracting and those changes more directly attributable to the efficacy of the DWPs policies. In practice this is very hard to do with any precision especially over very short periods such as three years. And "*significantly*" could mean almost anything unless we have a benchmark to judge it against.

Oddly, there is an exception in a highly specific PSA target for children in workless a household that is not qualified by the economic cycle. The DWP has to "*reduce the proportion of children in households with no one in work over 3 years from Spring 2003 to Spring 2006 by 6.5 per cent*". This looks demanding by recent standards. Over the previous three years, Spring 2000 to Spring 2003, the share of children in workless households dropped marginally, from 15.7 per cent to 15.2 per cent. This is a percentage point fall of only 0.5, but even expressed as a percentage of a percentage the fall was only 3.2 per cent.

The UK has endorsed more specific labour market targets set down for all EU States by the Lisbon Conference. EU Employment Action Plans are submitted to the EU

Commission annually by member States, allowing progress against key objectives to be assessed. However, the Lisbon targets are framed in terms of overall EU averages and none refer directly to the inactive who want work. The UK consequently already comfortably exceeds most if not all of the Lisbon employment targets.

We suggest that forming some more specific targets relevant to the Welsh labour market conditions and policy priorities would help give an Activity Strategy greater credibility and bite. We suggest the following might form part of a strategy

- We recommend WAG spells out the employment rate the “modern” definition of full employment implies is the overall objective by 2010 (we suggest 76 per cent);
- An employment rate for long term disabled people in work of 60 per cent, making Wales a world-leader for disability employment rates by 2014;
- an employment rate of 70 per cent for lone parents, taking Wales up to the best in Europe and matching the United States by 2014.

At present, half of all disabled people are in work. Our suggested target figure of 60 per cent would transform Wales into a world leader in the employment of disabled people – the USA, Sweden and Canada all have disability employment rates of over 50 per cent, and Norway and Switzerland both manage over 60 per cent.

In fact, the 60 per cent employment figure is already being achieved in the South East England, and the South West and Eastern regions. If the employment rate for long-term disabled people across UK were the 60 per cent achieved in the SE England, we would have 4.1m long-term disabled people in employment. That is, an extra 750,000 disabled people moving into jobs, not far off the 'one million disabled people on benefits who want jobs' the Government often mentions.

In this report we have picked out the disabled and lone parents because chronic sickness and disability and family care responsibilities are such important causes of working age inactivity in Wales. But we would also urge WAG to at least consider the value of also setting more specific and longer term targets for older workers, ethnic minorities, and the less qualified.

We have not in this report been able to estimate the implications for the overall employment rate of moving towards the 60 and 70 per cent specific employment rates suggested above. We have also allowed ten years from 2004 for the specific employment rate targets to be achieved (ie by 2014) whereas the existing overall employment rate target is for 2010. Moreover, one factor hard to predict is how much inactivity will increase among the under 25s as participation in higher education rises. So

clearly more work will be needed to ensure that any adopted targets are consistent over time. But if achieving the specific targets implied, for example, a more ambitious overall employment target for 2014, this would clearly be a matter of congratulation for any Government.

The TUC report *Disabled people, work and poverty* sets out a number of specific suggested reforms on the benefit system, the Disability Discrimination Act, and labour market programmes which would help disabled people, including many disabled lone parents, back into work. However, there are two strategic priorities that are key to the Review for the medium term:

- **Help for the disabled:** the UK invests less in labour market programmes for the disabled than almost any other EU State yet the success of New Deal in reducing long term open unemployment and existing schemes for the disabled such as Access to Work suggest there could be major gains in concentrating more resources in this area and progressively closing the gap with Europe;
- **Delivering the WAG Childcare Strategy:** WAG has increased investment in affordable quality childcare substantially and the Government is developing highly successful initiatives through the New Deal and schemes such as Sure Start. However, this will need to be significantly strengthened if the lone parent employment rate is to be raised to 70 per cent. In addition more attention needs to be focused on elder and dependent carers.

Rehabilitation: doing better

Unions would like to prevent every single case of injury and illness. We have embraced the targets set for reducing injuries by 10%, illness by 20% and work days lost due to work related ill health by 30%, which have been set by the Health and Safety Commission and the Government. But even if we hit those targets, far too many people will still be developing the sort of illness and injury that currently leaves them off work for long periods of time, or out of work indefinitely, a fair definition of economic inactivity.

Unions traditionally have always been able to secure compensation for our members who are injured at work. Annually, unions unveil yet another record year for compensation payouts, and over the last five years they have 'won' ten of millions for their members in Wales. But many unions are now favouring a different approach.

The radical approach is to get people back to health and back to work, in other words, rehabilitation and the challenge is enormous. That effort will include a number of different responses including,

- medical treatment provision - both traditional hospital medicine, but also especially physiotherapy, chiropractic and osteopathy. It will also include occupational health services
- adaptations to the workplace - to make sure both that people with an injury or illness can do the job they left, but also so that they don't suffer the same problems all over again; and
- retraining - so that where they cannot do the same job in the same way as they used to, they can still make their contribution and perhaps even do more.

Addressing the issue of rehabilitation and enabling people to resume their economic activity by getting back into work is an issue that should not only be central to the National Assembly's overarching objective of making Wales a better place to live and work but also in raising the competitiveness and productivity of business in Wales.

Rehabilitation is used widely elsewhere in the world to facilitate an injured person's return to work. The timely implementation of a planned rehabilitation programme, structured to meet the individual needs and capabilities of the injured person, has been shown in other countries to improve recovery from injury or illness.

Yet we lag behind other industrialised nations in our provision of long-term treatment for people injured or made ill by work. There is a clear need to improve the current healthcare provision to optimise the opportunities of returning to the workplace.

The London International Reinsurance Market Association published its UK Bodily Injury Awards Study in 1997, into the medical, legal and actuarial trends over the previous decade in personal injury claims from motor accidents. This Study highlighted that the UK lagged behind other industrialised countries in its long-term treatment of injuries. It stated that a paraplegic injured through work stood a:

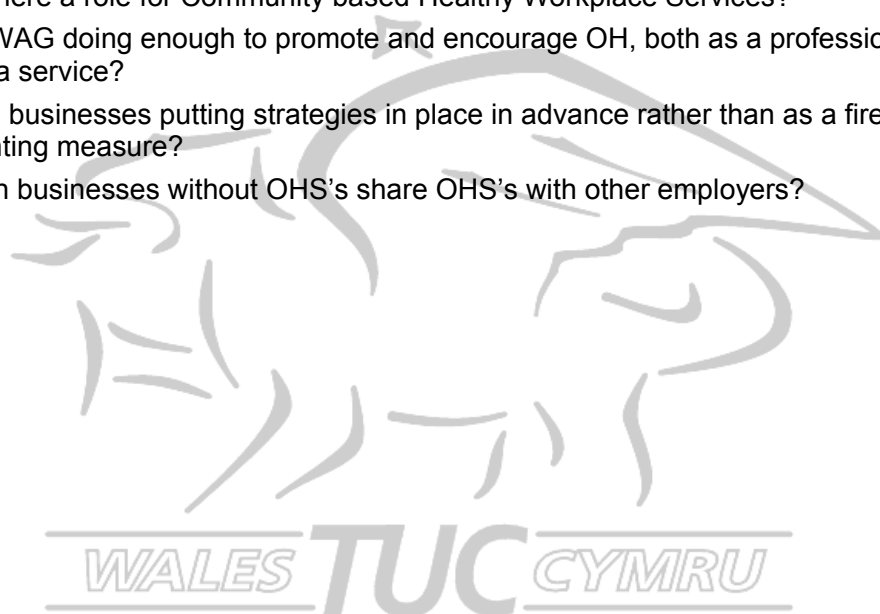
- 50% chance of returning to work in Scandinavia;
- 30% chance in the US;
- but only a 15% chance in the UK.

And what of the role of occupational health? Is this seen as someone else's problem, a singular role of the NHS, the local doctors surgery or the personnel department?

Most larger companies have some sort of occupational health service (OHS) but the majority of workers in the UK, especially those in small firms, do not have access to any sort of OHS. The NHS currently lacks the resources or expertise to provide a national

occupational health service available freely to all. What services there are tend to be medically driven, often used as a disciplinary tool and, as they are not integrated into the health and safety systems at work, lack preventative effect. Training in occupational health is optional for medical professionals and therefore expertise is lacking. Consequently ill-health related to work is poorly diagnosed, poorly treated and many workers suffer long periods of ill-health without adequate referral or treatment and little chance of rehabilitation. Britain is one of the few countries in Northern Europe where all workers do not have access to an OHS.

- In 2000, the NHS in Wales was undertaking a stock-take of rehabilitation services. What needs were identified?
- Can the NHS in Wales do more to provide rehabilitation?
- Is there a role for Community based Healthy Workplace Services?
- Is WAG doing enough to promote and encourage OH, both as a profession and as a service?
- Are businesses putting strategies in place in advance rather than as a fire fighting measure?
- Can businesses without OHS's share OHS's with other employers?



Some evidence within this report draws upon research undertaken by the Welsh Economy and Labour Market Evaluation and Research Centre (WELMERC), based at University of Wales, Swansea.