

Unemployment, Public Policy and the Changing Labour Market

Edited by Michael White

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Contents

1 Introduction to the Papers	1
<i>Michael White</i>	
2 Flexibility or Polarisation?	7
<i>Eithne McLaughlin</i>	
3 Is There an Underclass? The Lessons from America	29
<i>John Macnicol</i>	
4 Recent Developments in the Macroeconomics of the UK Labour Market	40
<i>Paul Warren</i>	
5 Justifying ‘Workfare’: The Historical Context of the Debate	53
<i>Alan Deacon</i>	
6 The Benefit Fault Line	64
<i>Alan Marsh</i>	
7 Trends in Job Loss and Recruitment in Britain, 1979–1991	80
<i>Joan Payne and Clive Payne</i>	
8 Part-time Work and Employment Regulation: Britain and France in the Context of Europe	96
<i>Jacqueline O’Reilly</i>	
9 Implications of the Changing Spatial Incidence of the Long-term Unemployed for the Planning of Programme Provision and Training	115
<i>Chris Hasluck and Anne Green</i>	

10	Unemployment in Northern Ireland: Causes, Characteristics and Cures	133
	<i>David Armstrong</i>	
11	Employment in the UK Defence Industry: Structural Change or Market Adjustment?	151
	<i>Derek Braddon, Paul Dowdall and Adrian Kendry</i>	
12	Job Search Effort and Motivation in Unemployment	167
	<i>Michael White, Duncan Gallie, Yuan Cheng and Mark Tomlinson</i>	
13	The Employment Commitment of Unemployed People	178
	<i>Duncan Gallie, Yuan Cheng, Mark Tomlinson and Michael White</i>	
14	Countering the Labour Market Disadvantage of Disability	191
	<i>Mary Dalgleish</i>	
15	Just a Load of Dossers? Homeless People and Employment	207
	<i>Hilary Metcalf</i>	

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1 Introduction to the Papers

Michael White

As a new millennium looms up, unemployment continues to be one of the chief economic and social problems of Europe. Ten years ago, one might reasonably believe (and many did) that it was a temporary problem of adjustment and would go away of its own accord. But not now. What is so remarkable, and so chilling, is the way in which this problem keeps reappearing in new forms, under different circumstances, and despite all the policy initiatives arrayed against it in various countries.

The papers collected in this volume are partly about the collapse of old explanations of unemployment, and partly a collective recognition of new realities. It is of course easier to jettison old explanations than to come up with new ones. But if new explanations are to be superior to those that have failed in the past, then perhaps we should devote more effort to understanding the current complexities.

That, at any rate, is one thrust of the publication. Another is a desire to connect research and analysis to issues of public policy. If it takes ten years to understand a set of changes, but a radically new set of circumstances arises with every economic cycle, then our understanding will never catch up with the practical needs of society. There is a need for research and analysis which connect in a more direct way with public policies. This is easier said than done, but the first steps are being taken.

The papers arose from a conference, one of a series on labour market issues sponsored by the Employment Service. It was held in November 1993, and organised jointly by the Employment Service and the Policy Studies Institute. The views expressed in the papers are, naturally, solely those of the authors, but all will join with me in thanks to the Employment Service for the initiative they have taken with these conferences. They have provided a forum in which labour market researchers with an interest in policy issues can meet and exchange findings and ideas. Equally important, they have brought the researchers together with practitioners in government service, for whom policy issues are a daily reality.

The papers

All too often, an editors' introduction becomes an attempt to make other authors' views consistent with their own. This is certainly not the intention of the present

introduction. The collection of papers, like the conference, is meant to represent diversity of discipline, method and outlook. Readers are free to draw their own overarching conclusions, but I do not offer them any. At a lower level, however, it may be useful to explain the grouping of the papers and some of the points of contact and comparison between them.

The order of the papers is one of movement from the general to the particular or from the broad to the specific. Beginning with seven papers of broad perspectives on the labour market and public policies, the book continues with analyses of changes in regional employment, and finally to the level of individual behaviour and the problems of disadvantaged groups.

Eithne McLaughlin, in Chapter 2, and John Macnicol, in Chapter 3, offer critiques of two of the most widely debated conceptualisations of unemployment to emerge from the 1980s. Both, furthermore, are conceptualisations which have largely stemmed from policy-orientated free-market thinkers in the USA, whose ideas have been adopted and freely applied by many in Britain and in other European countries. McLaughlin confronts the notion that unemployment represents a lack of flexibility in the labour market, and that successful policies against unemployment have been those which engender a higher degree of flexibility. Macnicol critically examines the view that the core of unemployment is an 'underclass' based on anti-social, anti-work values and welfare dependence. Both authors use vigorous polemic as part of their method, and in so doing remind us that social goals are formed by debate over values, and not merely by analysis. However, both contributions also test ideas against important evidence. McLaughlin particularly focuses upon the evidence that *non-employment* is becoming a problem on a par with unemployment, and argues that when this is taken into account, the apparent successes of flexible labour market policies tend to evaporate. Similarly, Macnicol points to the complex and large-scale changes in fertility, family formation and lone-parenting which are taking place, changes which transcend simplistic notions of an 'underclass' or of welfare dependence. The issues which these authors raise are likely to be of great importance in research and policy over coming years.

It may seem odd to suggest a connection between macroeconomics and social history, yet such is apparent from Chapters Four and Five, our second pair of broad overview papers. Both Paul Warren and Alan Deacon are concerned, at the conclusion of their very different analyses, with questions about what government can do or should do when unemployment has become prolonged and entrenched. For Warren, unemployment at the macroeconomic level has become a stalemate made inevitable by the dynamics of wages and inflation. He also finds little support in evidence for a number of the policy actions which have been proposed. His argument points towards more radical measures – such as making the State employer of last resort, or centralising wage bargaining – as perhaps the main remaining options. Deacon sets out from the thinking lying behind the Beveridge proposals for full employment, and the reasons why, then and subsequently, the full proposals were never implemented. Compared with other recently

debated options, Deacon finds much to commend in Beveridge's arguments for long-term unemployment benefits to be conditional upon participation in a training programme. Such training would have to be made universally available, which leads back to the State as last resort in the labour market. The interplay between ethical and practical considerations, so central to Beveridge's approach, is well reflected in this contribution.

Alan Marsh's paper, titled 'The Benefit Fault Line', cannot be paired with any other single paper but has points of contact with many, and especially with the preceding four chapters. Marsh's concern is with the identification of real hardship in families, which has certainly been recognised since the days of Beveridge and of Seeböhm Rowntree as central to welfare policy on unemployment. Using recent survey data, Marsh argues that hardship has become a simple function of two factors: benefit and social housing, with those dependent on these two forms of provision (not just currently but in the recent past) suffering from deeply graver hardship and stress. By defining hardship so clearly and starkly, Marsh closes the door on the idea that benefits policy can be an adequate substitute for full employment.

We next come to two papers concerned with salient changes in the workings of the labour market, and especially with those peripheral or precarious parts of the labour market which connect to the 'flexibility' issues in Eithne McLaughlin's paper. Joan Payne and Clive Payne consider the processes of labour turnover which underlie the dynamics both of unemployment and of employment structures, while Jacqueline O'Reilly focuses upon part-time jobs, arguably the central new development in the job market. The two prove to be intimately connected, since Joan and Clive Payne show that a large and increasing role in job turnover has been played by just those industries (such as hotels, catering and retail) where part-time working and female employment has been strongest. Does the association between part-time working and high turnover create a barrier to the integration of part-timers within a highly trained workforce? O'Reilly's case study data, covering banking and retailing in Britain and France, indicate that it need not be so. She shows how employers' business strategies and organisational practices – in turn influenced by legislation and public policy – are crucial and can vary greatly between countries. A common European framework to raise the status and quality of part-time work is far from emerging yet, but could be developing in complex ways. O'Reilly argues that judicious regulation of the part-time segment of employment will be essential to make this into a beneficial development.

One of the largest changes in mind-set which the 1990s has brought concerns our assumptions about regional unemployment. Three papers (Chapters Nine to Eleven) deal with different facets of regional labour markets. Chris Hasluck and Ann Green closely document the astonishing growth of unemployment in the southern regions of Britain, and other previously unthinkable changes, such as high-status finance occupations contributing to unemployment. Their paper also tests the public policy response to the changing regional pattern of unemployment, and finds

that in many respects provision has seriously lagged behind new pressures, or has even been perversely distributed against the trend of the regional changes.

Derek Braddon, Paul Dowdall and Adrian Kendry, in analysing the decline of the defence industry, remind us that some regions (in this case, the South-West) have links with particular industries and, through them, with particular areas of public policy. The decline of defence industries, for example, is coupled with public spending policies which hold back the delivery of any 'peace dividend'. Their analysis has interesting points of contact with O'Reilly's, in its emphasis upon the role of employers' policies, and with Hasluck and Green's, in illustrating the lags and distortions in responses to change, stemming from shortcomings of information and resulting, perhaps, in an aggravation of the original shock. They conclude that market adjustments will be insufficient to correct the impact of defence cuts on unemployment, and argue for a more interventionist public policy.

Northern Ireland is a very special region and its other problems are such that unemployment may almost be overlooked. David Armstrong's paper eschews monocausal explanations for Northern Ireland's unemployment and shows, instead, how the particular situation of the region is expressed in terms of employment growth, migration and re-migration, religious discrimination in the labour market, and a number of other factors. The net result, despite some recent favourable trends, is an entrenched problem of long-term unemployment, which feeds on itself through discouragement. Reviewing the policy options for the province, Armstrong comes to conclusions which have strong affinities to those of Warren for the UK labour market as a whole.

The next two contributions, by Michael White with colleagues Gallie, Cheng and Tomlinson, and by Duncan Gallie with colleagues Cheng, Tomlinson and White, started life hoping to be a single paper. Both papers critically examine and test influential ideas about benefits and work incentives, which have also been addressed in different ways in the McLaughlin and Macnicol papers. White and colleagues show that it is not necessarily an advantage for job seekers to have low wage targets, since higher wage targets are linked to higher levels of job search effort. The outcome therefore depends on the returns which the labour market offers to increased effort. Gallie and colleagues test the view that unemployment reflects a loss of attachment to paid work, resulting from benefits dependency. So far from attachment to work being absent, employment commitment is actually higher among unemployed than employed groups, and unaffected by levels of benefits. These papers suggest that public policy on benefits needs to be firmly grounded on evidence about the attitudes and behaviour of job seekers.

People who become unemployed are not a homogeneous group, but rather individuals in a great variety of circumstances. Some have specific problems which they may find difficult to overcome without policy intervention. The last two papers in this collection concern two such groups which have attracted a great deal of public attention recently: people with disabilities, and homeless people. Mary Dalglish begins by reviewing evidence on the nature of labour market

disadvantage for people with disabilities, and like some of the earlier contributors, she stresses the evidence on the importance of employers' policies, including the inadequate knowledge on which those policies are often founded. She then describes recent changes in public provision, and the linked evaluation research. It is evident that positive developments have been taking place in this field, with useful support from research.

By comparison with disability, homelessness is a problem which has been little explored by labour market researchers. Hilary Metcalf's analysis, which uses recent qualitative case material, is another which stresses the role of employers, but it also suggests that homelessness is not such an intractable problem as stereotypes would suggest. The majority of homeless people are not 'sleeping rough', but still have serious practical problems to overcome, which compound deficits in education, training and work experience. New policy initiatives which bring together temporary accommodation with programmes of training and job search support are more likely to succeed than piecemeal assistance.

Drawing up a balance sheet from these contributions, I begin with causes for continuing anxiety. Alan Marsh's paper, with its stark portrayal of people without resources, is a good antidote to complacency about the consequences of joblessness. Eithne McLaughlin reminds us that, in our customary focus upon claimant unemployment, we may be ignoring half the total problem. Chris Hasluck and Ann Green chart the wide new territories of high or rapidly rising unemployment. Paul Warren depicts the deep economic structure of unemployment, and David Armstrong calculates the depressingly long time involved in recovery. The paper by Derek Braddon and colleagues reminds us that the overall problem is the sum of numerous specific problems, each with its own complex structure, and – in common with several other contributions – casts doubt on the market's capacity to achieve a natural adjustment.

But, on the other side of the balance sheet, there are also some grounds for encouragement. Unemployment signals grossly imperfect markets, and the more we succeed in identifying those imperfections, the more scope there is for improvements through judicious public policies. Several of the papers, notably those by Jacqueline O'Reilly and Mary Dagleish, point to the problems or distortions introduced by employers' practices, an area which has been unduly neglected in past thinking about the labour market. Better information to employers, as to job seekers, may have a positive impact, and so may the identification and elimination of perverse incentives. Practical policies can also be devised to assist groups with labour market disadvantages, here represented by homelessness and disability, and this will also contribute towards an increased and improved labour supply and so make labour markets work better. Improved monitoring of the labour market, and flexibility in provision, could match public resources better to new needs, as indicated by Chris Hasluck and Ann Green.

On the credit side, also, is the growing evidence that the 'underclass' theories of unemployment are alarmist and unfounded, and the labour market consequences of benefits and welfare exaggerated. People remain responsive to any

positive chances they are offered, and the basic values which attach them to employment seem highly resilient against joblessness.

Finally, I draw some encouragement from the efforts of all the participants in the conference, from which this book stems, to think about public policy in the light of evidence and reasoned debate.

2 Flexibility or Polarisation?

Eithne McLaughlin

Introduction

In the title of this paper I have posed the question ‘flexibility or polarisation?’ and I mean this question to refer both to the changing nature of the labour market and to government labour market and associated social policies. In what follows, it will be implicit that I do not regard flexibility as synonymous with deregulation, although that is very much the assumption underlying most government statements which use either word. Indeed I will argue that beyond a certain point, deregulation can contribute to inflexibility through the extent of (both social and economic) polarisation and segmentation that it can entrench. I am therefore critical of the many commentators who seem to have reached the conclusion that because over-regulation of a labour market is possible, under-regulation is not. This is a logical fallacy and one which we need to address much more thoroughly and rigorously than we have to date. The paper draws partly on work prepared for and published by the Commission on Social Justice (which was set up in December 1992 and publishes its final report in October 1994), and partly on my own previous research (for example, McLaughlin et al, 1989, Millar et al, 1989, McLaughlin, 1991, 1992, 1994a, 1994b).

I will first look at the relation between levels of regulation and deregulation and employment and unemployment in developed countries, before going on to suggest that high levels of deregulation are leading to a split labour market composed of a high skill, high wage sector and a low-wage, less skilled, predominantly service sector. This dual labour market in turn is not necessarily evidence of a flexible and dynamic labour market in either national or international terms, if (a) there are few linkages between the two sectors and/or (b) the bottom segment does not meet the basic social reproductive needs and responsibilities of individuals. Instead, in the absence of labour market linkages between the two *and* the absence of what could in British terms be considered quite interventionist social policies, we simply end up with a polarised labour market, and correspondingly polarised society.

Government commitment to deregulation as the route to flexibility

The emergence of long-term unemployment over the past two decades and especially during the 1980s is 'a scar across the face of the modern market economy' (Balls 1993:1), since it indicates that the UK, like most other developed countries, no longer provides its citizens with opportunities to work, to gain human capital and to escape from the threat of poverty.

The UK government has explained the emergence of long-term unemployment in terms of inflexibility and over-regulation of labour markets; for example, in its submission to the EC's current review of competitiveness in Europe, the UK government argued that the upward trend in EC unemployment from cycle to cycle and the increasing proportion of long-term unemployed people were evidence of inflexibility in, and over-regulation of, labour markets.

I do not intend here to review the various ways the UK government has sought to deregulate the labour market (for example, the 1988 Social Security and Employment Acts); see, for example, McLaughlin (1992) and Deakin and Wilkinson (1992), among many others for such reviews. Proponents of the deregulation view, including the British Government, use the USA as their model and it is true that since the 1960s the number of US jobs doubled, while EC employment rates rose by only 10 per cent over the same period. US headline unemployment at 7 per cent is lower than the EC's at 12 per cent. And in the EC almost half the unemployed have been unemployed for more than a year – the equivalent figure for the USA is 11 per cent. So at first sight the theory looks good. However, neither headline unemployment rates nor duration statistics can be taken at face value, as they represent only one element of the labour market as a whole. Politically, the headline figure has a significance way above its actual utility as a measure of what is going on in the labour market, and we should be wary of reading-off from that political significance, a similarly weighty policy significance. As the next section will show, headline unemployment rates represent a particular, largely benefit-determined, measurement of employment and unemployment, and as such these rates have allowed commentators and politicians to claim more for deregulation policies than is justified.

Deregulation vs. regulation = inactivity vs. unemployment?

Balls describes rising [registered] unemployment rates as

only part of the story. Unemployment rates are a partial and misleading measure of the opportunities available in modern labour markets. The reason is that they fail to reflect the nature of the revolution in male and female employment patterns that has occurred over the last decade. (Balls, 1993:1)

The revolution to which Balls refers is characterised as much by rising non-employment among working age men as by registered unemployment rates. Thus headline unemployment rates are misleading because they underestimate the decline in male employment in recent years; they ignore the rise in female employment; and, importantly, they suggest that some countries such as the USA

have escaped the high levels of joblessness evident in Europe, thereby implying that a US-style deregulated labour market is the solution to contemporary labour market problems through its positive effects on flexibility and hence on employment growth.

But the USA is not an especially high employment country where prime-age males are concerned: when both unemployment and inactivity among prime-age males are taken together, the records of the UK and the USA begin to converge with those of continental Europe. On average 12 per cent of US and 14.9 per cent of UK prime-age males were out of work in the 1980s, compared with 9.1 per cent in France and 12.2 per cent in Germany (Balls, 1993:3). It is the *pattern* of unemployment and non-employment rates which is very different across OECD countries. Non-employment rates rose during the 1980s in almost every OECD country. While in continental Europe this rise was largely reflected in unemployment statistics, elsewhere – the UK, Australia, Canada and Sweden – the rise in inactivity was at least as important as the rise in unemployment. The USA shared the same pattern earlier – in the 1970s rather than the 1980s. Thus the more highly regulated labour markets have resulted in high rates of growth in unemployment and the more deregulated labour markets have resulted in high rates of growth of non-employment.

If we examine this in relation to the UK, by 1991, 1.3 million jobless men were actively seeking work and included in the unemployment statistics. But another 1.8 million were out of the labour force and excluded from the unemployment count (Schmitt and Wadsworth, 1994). Over the period 1977–91, the male unemployment rate rose from 5.1 to 9.4 per cent of the active labour force. But the total non-employment rate – the percentage of working-age men without jobs (unemployed or economically inactive) – rose from 9 to 18 per cent. As Balls (1993:7) points out, this rise in male inactivity is only partly explained by early retirement. It is true that the dramatic fall in the percentage of men aged 55–64 in employment (from 81.5 per cent in 1977 to 61 per cent in 1991) was almost entirely due to a shift from employment to inactivity rather than unemployment. But rising inactivity has also occurred among prime-age men. The employment rate of men aged 22–54 fell by 7 percentage points over the same 14 year period, over half of which is explained not by unemployment, but by inactivity. By 1991, over 13 per cent of prime-age men were non-employed compared to an unemployment rate of 8.4 per cent (Balls, 1993:8). This is why, by 1991, there were 2.4 million unemployed claimants, but also 1.7 million claimants of working age on sickness benefit or invalidity benefit and 1.4 million claimants of working age on income support (Gregg, 1993:36).

Where the possibility of moving off unemployment into employment seems remote, and where barriers to employment include not only low levels of demand, but also *types* of demand to which one perceives one's labour supply to be constrained, then the likelihood of a discouraged worker effect is considerable. Schmitt and Wadsworth's analysis (1994) of LFS and GHS data suggests that this has indeed occurred. By 1987 the inflow into inactivity was five times greater than

in 1977, while the outflow rate by 1989 was 40 per cent lower than in 1977; and a quarter of all movements by unskilled people off registered unemployment were into inactivity rather than employment. A considerable proportion of this movement into inactivity seems to have resulted from changes in the nature of demand for unskilled labour, away from the primary and secondary sectors to the tertiary sector, characterised by high levels of casual, temporary, part-time and very low-paid full-time jobs. This kind of demand may be for unskilled labour, but it is also a demand for employees who are not the main or sole earners in their households. Traditionally, these have been married or cohabiting mothers who can rely on another earner for part of their subsistence needs. The majority of unskilled unemployed claimants do not fall into this category. Hence, changes in demand for unskilled labour have been towards the kinds of employment which have been shown to be problematic in terms of income maintenance policies (McLaughlin, 1991). This is a point to which I will return in later sections.

In the meantime, however, note that shifting the focus of attention from unemployment to non-employment rates and concentrating on the position of men undermines many standard explanations for the persistence of unemployment during the 1980s. For example, focusing on both unemployment and prime-age inactivity, means that the relationship purported to exist between the length of entitlement to unemployment benefits and the level of 'unemployment', disintegrates. The OECD regularly and increasingly (for example, in its *Economic Outlook* publications) highlights the correlation between countries with limited unemployment benefits such as the USA and Britain, and those with low or falling unemployment. The USA restricts the duration of unemployment benefit to a maximum of 26 weeks and has relatively low unemployment rates. Britain restricts individual insurance based benefit to 52 weeks and since the ending of pay-related additions and additions for children has a very low level of replacement. In addition Britain has a comparatively tough regime in relation to availability for work tests and voluntary unemployment tests, both of which may well involve curtailment of the duration of unemployment benefit receipt. But once male unemployment rates are replaced with male prime-age non-employment rates, the simple correlation between benefit duration and joblessness breaks down. American men without jobs are less likely to say they are actively seeking work because they do not receive welfare payments if they do. The same points have been made in relation to Britain's regime of Restart, voluntary unemployment and availability for work rules in the late 1980s – that these have contributed to a lowering of the registered unemployment rate, and especially to the long-term unemployment rate (the early 1990s have seen a substantial reduction in the proportion of the unemployed who are long-term unemployed). But this has been accompanied by a rise in the rate of inactivity and receipt of sickness and invalidity benefits. Thus as Balls concludes 'The duration of benefits does not appear to affect total joblessness only how that joblessness is allocated between unemployment and inactivity' (Balls, 1993:4), or between registered and 'hidden' (Metcalfe, 1992) unemployment.

Thus it seems fair to say that the success or failure of British government policies needs to be judged not just in terms of movements of registered unemployment rates but also in terms of the all-too silent rise in the proportions of working-age people who have moved out of employment and/or registered unemployment into that abyss politely called 'economic inactivity'. Estimates of the numbers of 'unemployed' people in Britain therefore vary from the minimal 3 million people registered as unemployed and receiving social security benefits, to the 4 million unemployed and actively seeking work (for example on Labour Force Survey-type definitions), to a maximum of 10 million working-age people who would take employment if enabled to do so (Metcalf, 1992). In these terms, the UK has not in fact performed any better than its more regulated European counterparts – if anything, when unemployment and inactivity are taken together, the 1980s were worse for the UK.

What this suggests is that some at least of the edifice of social security and employment policy built up in the late 1980s and early 1990s in Britain is either unnecessary or unsuccessful. Thinking specifically of changes to social security provision, the *1991 OECD Economic Outlook* (OECD, 1991), in a comparison of the unemployment insurance and unemployment assistance systems of a number of OECD countries, concluded *inter alia* that it is the rules and administration of the systems (particularly the amount of time during which benefits are available and the way in which they change over this period) which most affect the rate of unemployment, rather than the absolute level of benefit paid. Whilst international comparisons are dogged by methodological and technical problems, nevertheless it is true that the UK has a very low level of replacement of earnings with out-of-work benefits and has a singularly 'flat' system of compensation which varies little over time. Whilst the administration and rules surrounding unemployment benefits in the UK reduce the rate of registered unemployment, as I have argued above, it does *not* follow that they increase employment. The very low *level* of replacement of earnings with out-of-work benefits in the UK appears to serve no labour market purpose. This can also be demonstrated by national econometric research on the relationship between benefit levels and unemployment: Atkinson and Micklewright (1991) and Dilnot (1992) in their reviews conclude that the level of unemployment benefits in the UK cannot be said to contribute to an explanation of long-term unemployment, nor unemployment in general, to a degree that is useful when considering policy. It has then been rises in unregistered unemployment and/or economic inactivity which have been the chief result of the Government's supply-side policies. These policies, intended to 'price' the unemployed into work, have not done so. On the one hand, registered unemployment is still historically extremely high and on the other, the combination of deregulation on the demand side with supply-side changes has encouraged many more people to move from registered unemployment into economic inactivity and dependency on other social security benefits, such as invalidity benefit and income support. In terms of the economy, it is now difficult to envisage any policies which could make a big enough impact on these huge levels of prime-age non-employment.

What must not be forgotten is what these policies have meant to jobless people. For unemployed people themselves (and those at risk of unemployment) both access to benefits and the relative levels of benefits have been reduced considerably throughout the 1980s and early 1990s, leading inevitably to increased hardship, poverty and anxiety. Whether misguided policies directed at the levels of benefits have in fact contributed to rigidity rather than flexibility forms the background concern in the next sections. This can be looked at in a number of ways: has the rise in economic inactivity among working-age men contributed to a flexible labour market in terms of international competitiveness? Has the reduction in relative benefit levels contributed to flexibility? Has it instead entrenched social and economic polarisation at the national level?

Is rising economic inactivity a sign of increased flexibility or increased polarisation?

As Paul Gregg points out the problem of the rise in economic inactivity and hence benefit dependence in the UK 'has been primarily a result of declining probabilities of leaving such a state once it is entered rather than higher entry or increases in vulnerable groups in the population... Insufficient job generation is only part of the problem through the 1980s, at most accounting for around half the rise in benefit dependence...' (Gregg, 1993:2,4). In other words, the problem of non-employment in the UK is only partly a problem of the level of labour demand. Certainly, employment generation in the 1980s has been too slow given the modest (by international standards) increase in the population of working age. But two other trends have had at least as much significance, especially in relation to long-term unemployment and rising economic inactivity: a) a large relative demand shift has occurred toward more educated workers, both in jobs which require higher levels of skill and education and in jobs which do not, both of which have resulted in a displacement of a large number of less skilled/educated workers; b) relatedly, the advent of flexible labour forms taken primarily by people in households where at least one other member is already employed (Gregg, 1993:15-16). It is these trends which have made it harder for people to exit unemployment once they have entered it, and this in turn creates a movement towards economic inactivity for some and long-term unemployment for others, the latter of which as we all know has an independent dynamic of its own – as duration increases, so too does 'scarring' of the individual, at least in the view of employers who become increasingly less likely to recruit them, regardless of their individual characteristics and capabilities.

Demand shifts

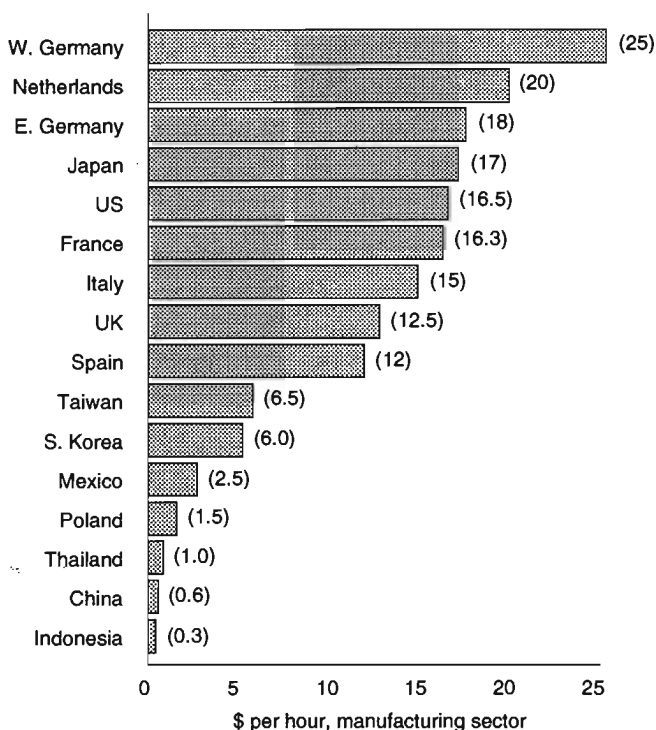
All developed countries have shared a decline in demand for unskilled and semi-skilled male labour in manufacturing industry. Between 1970 and 1987 the share of industrial employment in total employment fell by 7.3 percentage points in the USA, 8.4 in France and 14.9 in the UK. This fall in manufacturing employment has primarily affected unskilled men who could in the past command relatively high

wages, but it is not exclusive to them – in the UK employment of unskilled manual workers fell by 9.7 per cent between 1979 and 1989 but the employment of semi-skilled manual workers fell even faster, by 13.6 per cent over the same period (Balls, 1993:4). This is partly a result of the globalisation of labour-intensive manufacturing but only partly so. Developing country exports to the developed world have grown rapidly over the past three decades – the share of developing country trade in developed country imports of labour-intensive goods has grown from 9.8 per cent in 1965 to 18.7 per cent in 1989. But, contrary to popular opinion, trade with developing countries is still too small to have had a significant negative effect on employment in developed countries. Developing country exports account for less than a tenth of the manufacturing imports of developed countries and only 3.1 per cent of total manufacturing consumption (Balls, 1993:5). So far, it is instead new technologies and production processes in developed countries, and competition *between* developed countries, rather than direct low-wage competition from the developing world, which have been the main reasons for the decline in demand for unskilled and semi-skilled labour in manufacturing. Employers have both employed proportionately more skilled and educated workers and have sought to maintain output but with fewer employees. Productivity growth in manufacturing has been rapid in the UK – growing by an average of 5 per cent a year in the 1980s compared with just 0.9 per cent between 1975 and 1980. Since this rise in productivity has occurred while output has remained static necessarily manufacturing employment has fallen, by more than a third since 1979.

A simple response to such a picture is to say that manufacturing in the developed world would employ more labour if the cost of labour were lower. The kind of manufacturing industries which remain in the UK are, however, those which depend on good quality rather than cheap labour *per se*. Would, then, lower wages induce different kinds of labour-intensive manufacturing industry to locate in the UK? This seems highly unlikely unless the price of semi-skilled labour was to fall to levels current in the Asian-Pacific rim – see Figure 2.1.

Nor is it the case that wage rates have not fallen in Britain. The extent of differentials in wages between the wages of the non-manual and educated workers and the manual and less qualified has risen sharply in the UK in the 1980s, in contrast to continental European countries which have sought to prevent this by relatively high minimum wages, more restrictive regulations on hiring and firing, more generous unemployment benefits or by replacing private with public sector employment. Thus, the statistical survey by the OECD of trends in the dispersion of wages, published in the July 1993 *Employment Outlook*, shows the US as having had the strongest trend for top wages to rise and bottom wages to fall. Britain follows. For the 17 countries for which data are provided, it is clear that the more 'flexible' the labour market – defined by OECD as the less wages are governed by convention or state regulation or collectively bargained agreements, and the more rapidly wages respond to changes in supply and demand and the marginal productivity in labour – the greater the growth in the gap between the first and the ninth decile wage during the 1980s.

Figure 2.1 Labour costs (1993 forecast)



Source: Morgan Stanley

But would further growth in low-wage manual and less qualified employment in non-manufacturing employment provide a solution to prime-age male unemployment and non-employment? Neither the US nor the UK experience suggests that this is so, and the reasons are to do with both the nature of the employment so generated and its hourly wage rate, relative to the needs of households for sustainable weekly income levels. This is a point which will become clearer in the next two sections.

The growth of low-skill, low-wage employment

In international terms, a high proportion of the kinds of jobs which the USA and the UK have managed to create in the 1980s have been relatively low-wage, often part-time, casual or temporary unskilled service sector jobs. Between 1979 and 1992, service sector employment rose by 23.8 per cent in Britain, 21.2 per cent in the USA, but only 13.6 per cent in France. By the early 1990s, about 40 per cent of the employed labour-force in the UK was employed in the low-skill low-wage 'non-standard' and mainly services-dominated section of the labour market

(McLaughlin, 1991). The bulk of these, especially of part-time workers, are women, and married women at that, in the UK. In the USA, what is called the junk-job sector is also dominated by women, but Hispanic-Americans, recent immigrants and young people of both sexes are also well-represented (Esping-Andersen, 1990). The US junk-job sector thus utilises a more heterogeneous mixture of people, though it, like the UK sector, does not generally draw on prime-age, white, men. In continental Europe the growth of this sector has been much slower because of the higher level of labour market regulation and it is this which has prompted the EC and OECD to call for deregulation of continental European labour markets.

If we examine forecasts of future employment growth, it is apparent that while the largest expansion of job opportunities will be concentrated in the managerial, professional and technical levels (Cm 1810, 1992:19), 'personal and protective services represent the main growth area for employment outside the managerial and professional occupations with an additional 300,000 (16 per cent) by the end of the century' (Cm 1810, 1992:20). The only other area showing above average rates of growth will be sales-based occupations. The skill requirements of managerial, technical and professional occupations may justify the forecast that changes in the structure of employment in the 1990s will lead to an increased need for skills, but it should also be noted that these increases may be partly offset by the decline in skilled craft employment in manufacturing, and the continued growth of employment in the relatively low skilled parts of the service sector such as personal and protective services and sales, where part-time employment is also prevalent. It is for these reasons that projections of employment to the end of the century presume continued declines in male employment, continued rises in female employment and continued rises in part-time employment.

To the extent that employment growth in the deregulated British labour market will be dominated by employment in small firms, self-employment, and part-time work, all pre-eminently in the service sector, the argument for the need for higher levels of skills among individuals if they are to obtain employment is overstated. This is not to suggest that the trends towards a higher global requirement for skill within the British economy so commonly proclaimed are wrong. It is simply to point to countervailing developments in the structure of employment which mean that there are, and will be, large areas of employment where skill requirements and training effort are, and will remain, limited. While at the national level skill requirements will continue to grow, there will be sectors and employers which continue to have minimal demands for enhanced skills and qualifications and may indeed be actively deskilling segments of their workforce. Whilst it is true that the high skills route is a necessary one for advanced economies in the long term, nevertheless it is perfectly possible for high-skill, high-wage sectors to co-exist within a national economy that also increasingly harbours low-wage, low-skill sectors (McNabb and Ryan, 1990; King, 1990).

For a number of reasons, however, government policy has been less than vocal about the growing size and significance of this low-wage, low-skill sector. So, for example, the latest White Paper on Training proposes that:

Skills and qualifications will be crucial factors shaping the prospects of individual people at work. For many they may make the difference between success and failure. They have the potential to enable individuals to take control of their working lives and shape them – far more than was possible in the past – into careers that reflect their personal ambitions and preferences. The aim must be to enable them to obtain the skills and qualifications they need and want... It is central to the White Paper as a whole. (*People, Jobs and Opportunities*, Cm 1810, 1992:23)

This statement assumes that the job structures which pertain in professional jobs are also found in other forms of employment. Yet to talk about careers in any meaningful sense for the majority of employees within many industries and occupational groupings, particularly those characterised by low-paid part-time work in the service sector, is simply to ignore reality. Nor is it lack of skills and qualifications which has prevented long-term unemployed and economically inactive men from gaining access to these sectors and occupations where there has been employment growth in the 1980s and where employment is expected to continue to grow in the 1990s.

Exclusion from the growing low-wage, low-skill segment

For men, employment fell from 91 to 80 per cent in the 1977–92 period, whilst for women it rose from 61 to 67 per cent. The decline for men has been made up, as pointed out above, of falling activity (96 to 89 per cent) and rising unemployment (5 to 11 per cent), whereas for women, higher employment has come from rising participation not lower unemployment (Gregg, 1993:4). Aggregate employment numbers understate the degree of change in employment patterns. The number of full-time male employees has fallen by 20 per cent since 1977 and has been partially offset by part-time employment and self-employment. The major growth amongst women has been as part-time employees (Table 2.1). The shifts to part-time labour and self-employment have also been mirrored by rises in multiple job-holding with continued high paid and unpaid overtime working (Gregg, 1993:7). As noted above, the major increase in part-time working

has not been in the occupations requiring higher education but rather in the less skilled manual and non-manual occupations. What's more part-time women are more highly educated for those occupations than men or full-time women. Hence the rise in part-time women in employment has not been in more skilled occupations and thus designed to overcome shortages in these areas... [thus the increase in part-time employment] is not an employers response to labour market imbalances... [instead part-time employment has expanded] in occupations where there was already massive labour over supply. (Gregg, 1993:12)

Table 2.1 Employment patterns 1978–1992 (June each year)

	<i>percentages</i>	
	1978	1992
Male		
FT employee	85	74
PT employee	5	8
FT self-employed	10	16
PT self-employed	1	1
<i>Base (000)</i>	<i>14,572</i>	<i>13,287</i>
Female		
FT employee	58	51
PT employee	38	42
FT self-employed	2	4
PT self-employed	2	3
<i>Base (000)</i>	<i>9,385</i>	<i>11,139</i>

Note: percentages may not add to 100 due to rounding

Source: Gregg 1993: Table 3 (derived from 'Historical Supplement Employment Statistics', *Employment Gazette*, June 1992; *Employment Gazette*, June 1993; *Labour Force Quarterly Bulletin*, June 1993)

This is evident in the most striking feature of the lower halves of the two panels in Table 2.2: employment rates among uneducated/unskilled men fell by 22 percentage points between 1977 and 1992, substantially resulting in inactivity, whilst among more educated workers the falls were more modest (although still substantial in the intermediate group). Among women the sharp rise in employment was among graduates. Women of intermediate educational levels increased their employment propensity somewhat but the unqualified did not – indeed unqualified women saw a small reduction in their employment propensity. Both unskilled women and men then were increasingly excluded from the employment growth which did occur in the 1980s, although this trend was greater among men, despite the fact that much of the growth involved was in unqualified/unskilled occupations. The result has been a growing disparity between 'work-rich' and 'work-poor households'. McLaughlin (1991), Hewitt (1992), and Gregg (1993) have all highlighted the fact that female labour force participation has risen fastest in households with employed male partners so that, for instance, the bulk of female part-time work is taken by married/cohabiting women, overwhelmingly with working husbands:

Thus the rise in female employment was highest amongst the educational group most likely to have employed male partners. Since 1983 as female employment has increased overall the proportion of families with working wives has only increased where the male is also working (from 51 to 59 per cent)... The importance of these changes... derive from the facts that 80

per cent of female part-time work is taken by married women and that 91 per cent of these women have working husbands... hence increased part-time working is almost exclusively taken by those who have access to an alternative source of income in the family. (Gregg, 1993:7)

Table 2.2: Employment participation and unemployment rates 1977–1992

		Employment/ population	Labour force/ population	Unemployment/ labour force
(a) Men				
Total	1977	91.0	96.0	5.1
	1992	80.0	88.5	10.7
Age 16–21	1977	89.1	98.6	9.7
	1992	71.9	91.2	21.1
Age 22–54	1977	93.6	98.0	4.5
	1992	84.5	93.6	9.8
Age 55–64	1977	81.6	85.9	5.1
	1992	58.7	65.0	9.7
Degree	1977	95.7	97.6	2.0
	1992	89.8	93.8	4.3
Intermediate	1977	94.1	97.7	3.7
	1992	83.3	92.4	9.8
None	1977	87.5	94.1	7.0
	1992	66.5	79.2	16.1

(b) Women				
Total	1977	60.8	65.4	7.0
	1992	66.9	71.7	6.6
Age 16–21	1977	77.7	86.0	9.7
	1992	69.2	79.9	13.3
Age 22–54	1977	59.5	63.8	6.9
	1992	68.4	73.8	6.1
Age 55–64	1977	53.8	56.2	4.3
	1992	51.6	53.7	3.8
Degree	1977	71.3	75.2	5.2
	1992	82.3	84.7	2.9
Intermediate	1977	67.7	72.3	6.4
	1992	71.2	96.4	6.8
None	1977	57.0	61.7	7.6
	1992	54.3	59.3	8.4

Source: Schmitt and Wadsworth, 1994

The growth of 'flexible' employment forms and the decline in manual and unskilled wages, resulting from the extent of deregulation in the UK labour market, has then had a polarising outcome in terms of the distribution of employment across classes and households. Is such polarisation either a 'good thing' or necessary?

The limits of deregulation: social reproduction and social exclusion

Social reproduction

Neither continental European nor the US and UK governments have found a way to reverse the fall in male employment that has occurred over the last two decades. But neither the US nor the UK's records suggest that deregulation is the answer. Nor is the continental European status quo the answer either. Continental Europe's inability to produce new jobs over the past decade and deliver new opportunities in more flexible work forms has not been impressive. EC Social Affairs Commissioner Padraig Flynn has published a study plan – the community-wide *Framework for Employment* – to examine the reasons for low levels of employment as well as high levels of unemployment. This report suggests that high non-wage labour costs, employment taxes and rigid working patterns in some continental European countries might explain this poor record. As a way of increasing some forms of employment, some deregulation of continental European labour markets probably makes sense. But the US and UK evidence does not suggest that this will solve Europe's declining rates of male employment. UK deregulation has resulted in very high proportions of unskilled manual men and women not in employment, despite growth in low-wage, low-skill employment, and increasing proportions of multiple earning households, in which the female partner is very likely to be over qualified for the occupation in which she is employed.

As Gregg (1993) comments

increased employment in multiple earning families only generates limited increased revenues but the cost of rising benefit dependency on the state is much greater. Rising inequality of this kind... is clearly at the heart of the rise in social security expenditure now threatening the existence of a welfare state. (Gregg, 1993:7–8)

I would not myself go so far as to say that it is threatening the *existence* of a welfare state but it is threatening what is offered by the welfare state – that is, how much welfare is actually achieved by groups at the bottom of the economic and social hierarchy, and how much of a gap there is between their welfare and that of the rest of society.

In the USA it is alleged that the collapse in real wages for unskilled manual men combined with lack of support for the unemployed is one reason for the rise in crime committed by young men (Balls, 1993:10) – realistically they can make more 'on the streets' either in informal and undeclared economic activity or in illegal activity such as drugpushing, theft, and so on. Many of the indicators of 'social problems' – rising crime rates and especially drug-related crime rates –

have increased faster in Britain's high unemployment areas, although they remain well short of the problems of US inner-cities where non-employment among prime-age men has reached epidemic proportions. Ball concludes that the employment record of the USA and increasingly that of the UK has come at a price: rising wage inequality and the squeezing out of prime-age unskilled, semi-skilled or poorly educated men. Why and precisely how has this squeezing-out occurred and what is its significance? After all it is not the case that no men in the UK accept low-paid employment. Indeed the extent of flexibility shown by those at the bottom end of the labour market is clear in Table 2.3 which shows how the incomes of the bottom section of the population have remained static while those at the top have risen considerably. The incomes of the bottom tenth have actually fallen by 14 per cent and two and a half million working people in the UK now qualify for means-tested top-up benefits. Why, given this evidence of wage flexibility, together with the increased availability of low-wage supplements, is there a problem at all in the UK?

Table 2.3 Median net real income after housing costs by quintile group 1979 and 1988–89, United Kingdom

£ per week at 1992 prices

Year	Quintile group of individuals		
	Bottom fifth	Middle fifth	Top fifth
1979	81	143	253
1988–89	81	176	355

Source: *Social Trends 23*, 1993 Edition, Table 5.18

From: *Learning to Succeed*, National Commission on Education, 1993

This is a complex topic which I will deal with too briefly here (see McLaughlin, 1994b, for an extended discussion). Dawes, in longitudinal survey work in 1990 and 1991, commissioned by the Department of Employment and the Employment Service, found that:

The concept of the reservation wage as it is generally used has little explanatory value in considering the labour market behaviour of long-term unemployed people. This throws doubt on its use as an explanatory factor for other groups too.

The level of unemployment benefits has no explanatory value in considering the labour market behaviour of the long-term unemployed. That is, at the levels of benefits which have been considered, the commonly-held assumption that decreasing the levels of benefits (or withholding benefit) will cause an increase in flows off the unemployment register, is false. The opposite is more likely to be the case as this may exacerbate the process of social exclusion, and thus decrease the effectiveness of this group's best route back into employment, through informal networking.

The financial pressure experienced by long-term unemployed individuals is strongly and positively influenced by their role in the household and the extent of the... household's responsibilities for social reproduction. This pressure does not lead to a higher likelihood of leaving unemployment as the level of income required is also positively associated with these factors. (1993:9)

I have reproduced this passage at some length because, although based on a different methodology, it summarises a number of the key findings of qualitative research work on the same issues (McLaughlin et al, 1989; Smith, and McLaughlin, 1989; Jordan et al, 1992). Dawes' study found no relationship between the level of 'reservation wage' held by individuals and their subsequent chances of getting a job. Dawes' study included interviews with employers as well as unemployed people, and one reason why there was no relationship between individuals' reservation wage levels and their likelihood of getting a job, was that employers did not in general attempt to find out what people's personal 'reservation wage' was and then engage those applicants prepared to work for the least amount, rather than at, for example, the employers' assessments of 'going rates' for the jobs in question. The overwhelming concern of recruiters in this sample was with the quality and suitability of recruits, and never with trying to achieve small adjustments of wage rates downwards (Dawes, 1993:30).

Nevertheless, of some significance is the repeated finding that the main constraint on individuals in terms of the income they need from paid employment comes from the level of financial dependency of other individuals on the job-seeker, or, in Dawes' terms, their responsibilities for social reproduction. Dawes (1993) found that 81 per cent of unemployed people set their 'reservation wage' by reference to their household needs, compared with only 13 per cent who set them primarily by reference to benefit levels and 5 per cent who referred to both. Most commonly the level of household needs depends on whether a person has children, and, if so, how many, and whether a person has another adult financially dependent upon them. In other words, responsibilities for financial provision for other family members limits just how low-paying a job can be. This finding is of importance, even if it appears to be simple common-sense. People cannot (afford to) disregard the pay levels of jobs sought – they have to consider how far these jobs can sustain whatever levels of social responsibilities they have for others in their households. Since benefit levels are related to the level of social responsibilities a household has (e.g. the number of children and 'dependent' adults), whereas wage levels are not (or at least not directly), there can appear to be an association between benefit levels received and wages sought – this relationship must be recognised, however, as an *association* caused by levels of dependency on the job-seeker, rather than a *causal* relationship in itself.

Now, of course, the level of financial dependency of others on a potential earner is not fixed. Whilst children, once born, cannot be undone, the financial dependency of another adult on a job-seeker is far from unalterable, and indeed in couples, the level of financial dependency of children on either one of them is, of course, alterable by employment of both partners rather than one. The 'solutions'

to varying levels of financial dependency on job-seekers are, then, many and varied. Unfortunately, however, the structure of social security provision as a whole, both in and out of work, is predicated on a presumption of adult female dependency on their male partners. In addition to the income maintenance problems caused by the presence of dependent children, the social security system, and labour market policy more generally, generate a higher level of dependency on male potential earners by allowing for (and, to some extent, creating) dependent adult women. There are many aspects to the maintenance and creation of this dependency, and I will consider here only those specifically related to the social security system. This is an issue which affects potentially low-earning men in a way that it simply does not higher-earning men, whose higher earnings allow them to show flexibility in their support of children and partners.

Family Credit as a form of financial help designed around one-earner households

There has been very little research focusing on the effect of Family Credit on the labour supply of non-employed female partners of Family Credit claimants, yet it is possible that the availability of Family Credit creates a poverty-trap situation because of the high level of withdrawal of support if a previously non-employed partner (usually the woman) takes employment (see Marsh and McKay, 1993). This is related to the general poverty-trap effect of means-tested benefits in general. Family Credit is also disproportionately likely to be received by lone mothers, further highlighting the role of the benefit as supporting single-earner families. In effect Family Credit acts as a form of cash childcare allowance for lone mothers (though inadequately so), and a form of childcare allowance for couples where Family Credit 'pays' the female partner to provide what would otherwise be unpaid childcare. The general problem with this function of Family Credit is that it: (i) evades the issue of whether the State should be providing childcare support for families, and whether this should be in cash or in services, or in both; and (ii) relatedly, it certainly does not *encourage*, whether it *discourages* or not, the most secure and sustainable route out of poverty among couples with children, which is for both partners to earn. It therefore represents a short-term and partial solution to the problem that wage-rates and weekly income (a result of both wage-rates and available weekly hours) from jobs at the bottom of the labour market increasingly do not provide the income necessary to sustain single-earner households.

The treatment of adult partners as dependants in out-of-work benefits

Aspects of the social security system which allow for female dependency in 'unemployed couples' include the way the social security system, because of its historical assumptions of wives as 'legitimate' dependants of husbands, has permitted wives who are employed when their husbands become unemployed to leave their own employment without financial penalty and be claimed for by their husbands as adult dependants. In contrast the main claimant is not permitted to leave employment at

will – this would instead be regarded as voluntary unemployment and would be followed by loss of benefit entitlement and reductions of benefit entitlement. Whilst this facility – for the ‘dependant’ to leave employment without sanction once the other earner has become a claimant – technically applies to both sexes, in practice because female partners are far more likely than male partners to have been employed discontinuously, at low wages and part-time, this facility has produced a situation which mainly affects the female partners of long-term unemployed men since the male partner will usually be defined, on the basis of past labour market participation, as the main earner and hence the main claimant.

Again the low level of part-time earnings disregarded for entitlement to income support mainly affects female partners rather than male, since part-time employment is predominantly the preserve of women, and mothers. The low level of disregarded earnings is associated with the withdrawal of the female partners of long-term unemployed men from part-time employment (McLaughlin, 1991 and 1994b).

These presumptions of adult female dependency are of some significance because by permitting, and indeed encouraging, complete female dependency on men during unemployment, the social security system raises the level of financial dependency on men and hence the level of income they will need to secure from future employment. This will mean that many men will have to try to find a ‘family wage’, to cover their female partners’ needs as well as those of their children, or they will have to rely very heavily on Family Credit, thus continuing a single-earner pattern which will make leaving poverty more difficult, or they will have to try to find some position in-between.

The current regime is such that virtually no-one (in rented accommodation, at least) is, hypothetically, faced with an unemployment trap – i.e. where their incomes outside work would be higher than in work, when working 16 hours or more a week. In two-parent families this would only happen if only one partner was working and s/he was being paid less than £2 an hour for 16 or more hours of work a week. In one-parent families, the situation depends on childcare costs and these raise the threshold at which income out of work *exceeds* income in work by £(childcare costs) minus £7–8 a week. Problems remain, however, because government has attempted to solve what is a broad and general problem of income maintenance strategy in a time of great employment change by a narrow social security route. This narrow road has involved cuts in the relative levels of out-of-work benefits as well as promotion of low-wage supplements to single-earner households. Whilst the latter has been unsuccessful in preventing the polarisation of UK society into work-rich and work-poor households referred above, the former has also had polarising effects.

Social exclusion

As Dawes (1993) noted, decreasing the levels of benefits, or withholding benefit, may well exacerbate processes of social exclusion. Increasing levels of long-term unemployment and economic inactivity, the systematic structuring of unemploy-

ment and inactivity along the lines of class, race and locality (see Schmitt and Wadsworth, 1994, and Pissarides and Wadsworth 1992), and (relatively) lower levels of out-of-work benefits, have combined together to produce significantly high levels of exclusion, not only from the world of work but also from participation in social, community and political life generally. The impact of this on the mental health of unemployed people has recently been reviewed by Fryer (1992). Fryer argues that the principal adverse mental health effects of long-term unemployment are caused by the long-term material deprivation (and hence the social exclusion or marginality) they experience, rather than by the absence of integrative and supportive social relationships of employment (as was previously argued by the Jahoda school). Depression, anxiety and passivity are then largely the result of the restrictions imposed on unemployed people by the material context of unemployment, rather than being either the cause of (continued) unemployment or the effect of the absence of the discipline of work, structured time, etc. The effect of long-term material deprivation, marginality and social exclusion is to further disempower unemployed people, and restricts their proactivity in relation to employment, training, education, voluntary work etc., contributing to reduced outflows from registered unemployment to employment, and increased outflows from registered unemployment to economic inactivity.

For these reasons, low levels of out-of-work benefits are not efficient in terms of increasing 'flexibility'. In addition, it is highly likely that the children of currently long-term unemployed people are affected by the social, economic and political exclusion experienced by their parents. However, the extent of adverse educational and social effects for the children of long-term unemployed people has not been mapped, not least because of the difficulties of disentangling the many factors which come together to affect children and young people's achievement levels. Notwithstanding some of the wilder speculations about the creation or existence of an underclass (for example, Murray 1989, 1990), contemporary high levels of social exclusion caused by the nexus of long-term and structured unemployment and economic inactivity, material deprivation caused by the low levels of out-of-work benefit levels, and the increasing polarisation of households with work against those without, cannot be favourable in terms of either efficiency or social cohesion.

Whilst the Murray-type formulation of a concept of underclass, based on the idea that the underclass hold different moral values than everyone else, does not stand up to rigorous testing, nevertheless many British social scientists have concluded that an underclass is in the process of emerging (Dahrendorf, 1987; Giddens, 1973; Hall, 1987; Smith, 1992), and that it has one main characteristic – exclusion from the primary labour market. That is, that the 'same people' are ending up in unemployment over and over again and when they are employed are in a secondary labour market of temporary, marginal jobs, and many have been gradually edged out into permanent economic inactivity (Pissarides and Wadsworth 1992). Typically, the groups of people so affected are disabled people, working-class women, unqualified working-class men, black people, people in

specific geographical areas (either inner-cities, or peripheral and rural regions). It is also true that the experience of unemployment and non-employment for these groups is significantly different than it was in the past. First of all, changes in the occupational structure and the nature of employment mean that un- and non-employment is more likely now and in the future to be more or less permanent. And secondly, higher levels of economic exclusion are occurring at the same time as higher levels of exposure to a consumption oriented society – that is, there is a much wider gap between the haves and the have-nots now than was the situation even 20 years ago (when the haves didn't have so much) and awareness of this gap is higher than it was in the past. It is in such a contemporary context that the social isolation experienced by long-term unemployed and non-employed people could become permanent social exclusion and marginality and hence membership of an underclass. And it is true that in some areas of high unemployment, large changes in housing, courtship and family formation (that is, changes in social reproduction) do seem to be taking place among economically 'excluded' young people (see, for example, White, 1991).

Thus, although the differences between the UK and the USA on the one hand, and the continental European countries on the other, are usually summarised as whether to compete on low-skill, low wage and non-wage labour costs grounds, or on high-skill, high-wage grounds, this does not accurately represent the 'choices' involved. The USA and the UK are *both* high skill, high wage countries *and* low-wage low-skill countries at the same time. And so it is more a question of whether one wants to have a highly polarised economy and hence society – with a low-wage sector divorced from a high-skill high-wage sector and the emergence of an underclass – or not. The preceding sections have shown that high levels of polarisation is the road the UK and the USA have taken during the 1980s. This polarisation does, of course, bring its own costs – rising social security expenditure, rising crime rates and penal costs, rising health care costs, etc. – all of which are well documented in the volume edited by Glyn and Miliband (1994). These costs clearly reduce the strength of the argument that such polarisation is 'cost-effective' in either the USA or the UK.

In addition, however, the UK's increasingly polarised economy and society is not the same as the USA's. It is in fact considerably more rigid. In the USA a large proportion of the junk job sector is taken by people on their way to somewhere else – although by no means all of it, as the anxieties about the US underclass have demonstrated. The likelihood of someone who takes a junk job straight after school or indeed right up to their late 20s in the UK, ever moving over to the high-skill high-wage sector is almost certainly less than would be the case in the USA. This is partly to do with our very different culture of and expenditure (public and private) on training and further/higher education, but it is also probably due to a higher instance of structural discrimination on the grounds of class, sex, and race in the UK than in the USA. These significant differences suggest that the UK case calls for more regulation of a certain kind, not less. In the next section, I will argue that two main kinds of intervention are required if

the UK is to have the best of both worlds – the greater social cohesion of continental European countries and the greater flexibility of the USA. These are more regulation of service sector employment and more intervention in training and education. Whether I am right about the nature of the interventions called for or not, the spiral of damaging effects on efficiency, formed by diverse but related processes of economic, social and political exclusion, once begun, certainly requires pro-active, imaginative and creative intervention by government.

Can we afford more regulation and if so, what kind?

Ironically the fall in relative manual wage rates has affected the service sector much more than the manufacturing sector in the UK where the use of manual labour is very low, so that the scenario is one of increasingly highly paid skilled manual and educated non-manual workers benefiting from increasingly low-paid service sector workers – and we can see this happening quite well, I think, in the huge increase in the proportion of national income spent on private consumption in the late 1980s and early 1990s. Both public and private levels of consumption as a share of GDP are at historically all-time high levels, having risen by 10 per cent since the end of the 1970s. Yet there are no international competitive reasons why the bulk of the service sector should reduce its wages costs. It is really not important whether hairdressers in Calcutta earn 20 pence an hour whereas hairdressers in Rotherham earn £2.50 an hour. None of the Rotherham customers are about to up-sticks and fly to Calcutta to get their hair cut once every six weeks. This constitutes a fundamental difference between the home-based service sector and the manufacturing and financial/commercial sectors. The bulk of the service sector is not transportable and hence wage costs can be determined within a national, not international, context of disposable income levels.

Indeed this is necessary, not just possible, to prevent massive levels of social exclusion among certain groups. The extension of employment protection (unfair dismissal, unemployment benefit, sick pay, maternity pay and pension arrangements) and tax/benefit reform favouring low-income people, would not be internationally uncompetitive for the new flexible service sector, though it may raise the costs of a hairdo or a weekend holiday break. Indeed a realistic minimum hourly wage rate for the service sector is also not internationally uncompetitive. The rise in the price of some goods and services which would follow would not prohibit the middle to well-off from consuming, while the labour market improvement would enable those in the rump end of the service sector also to afford the increase. All of this seems a small price to pay if it means that both men and women are enabled to support their households more effectively. Such reforms are necessary if women are to become less financially dependent on men, freeing men at the bottom of the labour market from some of the financial responsibilities they currently face. An additional reform, however, is also necessary and that is the ending of the historic undervaluing of these kinds of labour – that is, effective implementation of equal pay for work of equal value is necessary if flexible forms of work are ever to be more than small additions to household incomes

contributed by the female partners of 'family wage' earning men. In addition competition for these jobs needs to be eased by avoiding the crowding of over-qualified women into them. A requirement on all employers to allow all employees, including those at senior levels, part-time working if they desire it, is long overdue and together with broader attempts to counter discrimination against part-timers in promotion, would go a long way to reducing wasteful and inefficient competition for lower-skilled part-time jobs between educated women and less-educated men and women.

While the kind of regulation outlined above would improve the conditions of employment of those in the bottom segment of the labour market, and improve access to that segment for long-term unemployed and currently economically inactive men and women, ideally one would want to establish linkages between this segment and the rest of the labour market. In other words, whilst some individuals would enter and remain in the bottom segment, dynamic labour market and associated social policies would allow for some to move out of this segment and up to the others. In addition, labour market and associated social policies need to ensure that the children of those in the bottom segment are not automatically assigned to a future in that segment. It is in relation to both these aims that reform of education and training provision becomes necessary. Integrating academic and vocational education in schools and colleges, increasing tax incentives for employers and employees to train and increasing government support for training and further education provision must all be part of the solution, and the beginning of the UK's path to flexibility without polarisation.

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3 Is there an Underclass? The Lessons from America

John Macnicol

Introduction

Over the past decade, there has been a revival of the broad 'underclass' idea to describe the growth of an apparently new and frightening social problem in Britain and the United States of America. A group at the bottom of society seems to have emerged, suffering devastating levels of unemployment and poverty, said to be heavily reliant upon state welfare, and seemingly trapped within a tangled web of social pathologies – notably, single parenthood, crime and, in the USA, drug dependency – to an extent that is unparalleled in history. The word 'underclass' has now passed into popular usage as a convenient shorthand term to encapsulate this highly complex problem. It also presents us with a very disturbing question: after decades of rising prosperity and relative economic optimism, just what will the 21st century be like? Will there be growing social polarisation based upon a 'two-thirds/one-third' society, in which the 'contented classes' (as John Kenneth Galbraith has described them) (Galbraith, 1992) gaze fearfully downwards, in some kind of *Blade Runner* scenario, upon a seething mass of dispossessed lumpenproletariat?

The 'underclass' debate is kaleidoscopic and multi-layered, operating on both an empirical and a symbolic level. Politically speaking, it is also highly controversial. A quick glance at the debate in America reveals this. On the right, there are the conservatives who see the underclass as a product of 'over-generous' welfare policies since the 1960s, plus a general decline in moral standards and a disintegration of the family. On the left, there is a small band of black radicals who believe that the idea of an underclass has been propagated by the white power structure in order to justify a policy of virtual genocide against the working class black community: that the catastrophic levels of homicide, violent crime, incarceration, drug dependency and sheer hopelessness amount to a covert policy of genocide by neglect, legitimated by the 'victim-blaming' idea of an underclass. The urban working class black male, they argue, is becoming an endangered species, and in many inner-city ghettos there exists a virtual Third World situation. In between these two ends of the political spectrum, there is a good deal of puzzlement over why the American dream should have turned sour for a growing minority of citizens.

Is there an underclass? No thoughtful visitor to the now-blighted inner city areas of Britain or America, whether Meadowell or Chicago's South Side, could deny that *something* new and frightening has happened: that there seem to have emerged groups of people who are suffering high levels of long-term unemployment and who may be permanently excluded from the labour process, and that this has had pronounced effects on social life in such communities. A 'concentration effect' is taking place, whereby acute, long-term poverty is becoming spatially focused. At the national level, the proportion of the US population living in census tracts of 'concentrated poverty' (40 per cent or more of the local population living in poverty) doubled between 1970 and 1980, though this still only amounted to 1 per cent of the total US population. At a local level, social commentators have examined certain obvious 'underclass estates', such as the Robert Taylor Homes (a project housing estate) on Chicago's South Side where, in 1983, all households were black, 93 per cent of families with children were headed by a single parent, 83 per cent of non-elderly families received welfare, and the unemployment rate was 50 per cent. The Ely estate in Cardiff has recently been singled out for similar notoriety. The 'concentration effect' on such estates is undeniable.

However, problems arise immediately we move from apparently common-sense observations (in which we may, in fact, be blinded by our class-prejudiced social judgements) to more rigorous definitions involving precise quantification. The idea of an underclass has recently been used as a 'catch-all', involving the lumping together of enormously diverse social groups – single mothers, 'TWOCers' and ram-raiders, soccer hooligans, black ghetto youths, educational under-achievers, and so on. There are as many definitions of the underclass as there are sociologists. Also, the underclass idea tends to be hopelessly riddled with contradictions: for example, Charles Murray's central thesis is that the underclass in the USA and Britain has been largely caused by 'over-generous' welfare benefits, and that Britain is roughly a decade behind the US in the development of its underclass (Murray, 1992:3–4). But how can this be, if Britain has a much more comprehensive social assistance system? Logically, the reverse should be the case. In fact, a more likely conclusion is that comprehensive welfare *inhibits* the growth of an underclass. Again, in the USA the root of the underclass problem is often seen as the inability of the black community, for cultural reasons, to sustain marriage; yet when attention is turned to the white underclass of Britain, this racial factor is abruptly removed from the analytic agenda.

Throughout history, this 'lumping-together' of diverse social conditions under the distinctly rickety underclass umbrella has been undertaken in order to present the underclass as a large and growing problem. Yet, at the same time, a process of reductionism goes on, and this enormous diversity is said to be caused by a single factor: 'over-generous' welfare benefits, libertarian education, or 'the 1960s'; or, on the other side, unemployment, 'Thatcherism', or housing shortages. Again, throughout history the identification of the underclass has involved what I believe to be a wholly unacceptable conflation of behaviouristic criteria (involving social judgements that focus on the alleged depravity of the poor and

always ignore the rich) with artefactual administrative definitions based upon the claiming of welfare benefits (which are, of course, primarily affected by the availability of such benefits). Hence in the early 1930s in Britain E.J. Lidbetter – an underclass-hunter of his day – tried to argue that there was an hereditary underclass (growing in number) which was characterised by anti-social behaviour caused by poor genetic endowment. But in order to quantify this alleged underclass he had to resort to the criterion of reliance on the Poor Law (or ‘chargeability’). The size of Lidbetter’s underclass was thus affected not by the behaviour of its members but by the relative strictness or generosity of Poor Law Boards of Guardians (Lidbetter, 1933). Similarly, in a recent published symposium David Green defines the underclass in behavioural terms (‘the term underclass refers to particular types of behaviour which are either self-injuring or anti-social, or both’), but a few pages earlier his ideological bedfellow David Willetts tells us that ‘the simplest definition of the ‘underclass’ is long-term or frequent claimants of income support’ (Green, 1992:68; Willetts, 1992:49).

Behavioural definitions of the underclass are distinctly risky, for it can be argued that ‘underclass pathologies’ such as single parenthood, reliance on transfer payments from the state or educational under-achievement are to be found at all levels of society – including the Royal Family, Tory cabinet ministers and even some Sunday newspaper editors. This became very evident during the debate on single mothers in Britain in the autumn and winter of 1993/4. A series of sexual scandals involving prominent Conservative politicians hoisted John Major with his own ‘Back to Basics’ petard. One correspondent to the London *Evening Standard* mischievously (but accurately) pointed out that, out of twenty-four Prime Ministers to hold office between 1809 and 1937 (the golden age of Tory mythology), no less than fifteen lost a parent in childhood and a sixteenth knew neither of his natural parents: thus 63 per cent were products of single-parent families. The very same edition of the *Evening Standard* carried the headline ‘New Row Flares on Single Mothers’ alongside (for entirely different reasons) a picture of Princess Diana – possibly the most famous single mother in Britain (*Evening Standard*, 12 November 1993). The contrasting front-page images of fear/loathing and adulation tell us much about the political iconography of the 1990s.

The history of the idea

The term ‘underclass’ is often credited to popularisers of the 1980s, such as Ken Auletta and Charles Murray. In fact, the diligent compilers of the *Oxford English Dictionary* inform us that John Maclean, the Scottish socialist, is recorded by Hugh MacDiarmid as using it in 1918 to describe the oppressed majority that were ruled by a minority capitalist ‘over-class’. The broad idea is by no means the exclusive property of the political right: the idea of an economic underclass created by the vagaries of the capitalist system has a long history. Likewise, the first modern usage of the term was by the prescient Gunnar Myrdal, in *Challenge to Affluence* (1963), to identify those in the USA increasingly being displaced from the labour process by new technology. In the 1960s, a number of left-liberals

in Britain used the term, including Richard Titmuss and Peter Townsend. A fascinating snippet recorded by the *O.E.D.* is a quote from the *Observer*, from 12 January 1964, that ‘The Negro’s protest today is but the first rumblings of the ‘underclass’’. We should note, therefore, that its first modern usage in the 1960s described the casualties of capitalism who were victims of economic re-structuring. Indeed, the early planning behind the US War on Poverty was based on the observation (for example, by the economist Robert Lampman) that ‘pockets of poverty’ were developing amidst rising affluence, within which were trapped those thrown out of work by structural shifts in the production base. Unlike the conservatives of the 1980s, these economists of the early 1960s had no doubt that what they were witnessing were long-run trends that originated in the 1940s or possibly even earlier: Southern black farm workers were being displaced by mechanisation, were migrating northwards and were experiencing difficulty finding jobs. By the 1980s, these blue-collar, entry-level jobs had almost completely dried up. What today is called the ‘underclass problem’ thus originated well before the 1960s. (For a brilliant account of northwards migration by sharecroppers, see Lemann, 1991.)

In Britain, the broad idea of an ‘underclass’ dates back to the 17th century Poor Law, with its concerns about vagrancy and its attendant distinction between the ‘impotent’ poor person and the ‘lusty beggar’. (The sexual imagery here is analogous to recent neo-conservative fears of the power, energy and sexuality of the black ghetto male, (e.g. Gilder, 1978).) Moral judgements were based primarily upon the labour-market relevance of different claimants. Thus the 1834 Poor Law Report concerned itself almost entirely with the able-bodied male; single mothers made the occasional appearance, and the elderly and disabled hardly any. By the end of the 19th century, therefore, the essence of the subsequent underclass concept had been shaped, based on the twin concerns of the labour market behaviour of young males and, to a lesser extent, the reproductive behaviour of young females. As Michael Harrington pointed out, this concern over ‘violent men and immoral women’ was also the basis of the underclass debate of the 1980s (Harrington, 1984). At the heart of these twin concerns were fears of social disorder and an apprehension over the redistributive potential of welfare – a strong *class* motive. Idle men and unmarried mothers have aroused greatest moral disapprobation when they have been consuming welfare resources: this explains the flagrant double standards that operate whenever behavioural criteria have been used to define the underclass.

In the last hundred years, the underclass debate in Britain has periodically reappeared in six versions: the ‘residuum’ of 1880s–1914; the ‘social problem group’ of the inter-war years; the ‘problem family’ of the 1940s and 1950s; the ‘culture of poverty’ of the 1960s; the ‘cycle of deprivation’ of the 1970s; and, finally, the ‘underclass’ of today (for an exploration, see Macnicol, 1987, 1989). The historical continuities are very striking. For example, the famous 1834 Poor Law Report – probably the most brilliant exposition of classical economics as applied to welfare – argued that, by introducing the system of allowances in aid of

wages in response to economic recession, the 'sentimental and misguided' magistrates of Speenhamland in 1795 fatally distorted the wage/price equilibrium, and this led to escalating demands for more relief. The Report argued that instead the magistrates should have let the free market adjust of its own accord: prices would have fallen in the wake of falling wages. 'But things were not left to take their course', commented the Report sternly: 'Unhappily no knowledge is so rare as the knowledge when to do nothing' (*Poor Law Report of 1834:207*). This uncannily echoes Charles Murray's account of how interventionist, liberal poverty warriors of the 1960s ended the 'natural', market-led progress of the 1950s and created a welfare-dependent underclass (Murray, 1984, Chapters 3 and 4).

Versions of the underclass idea

There are two really important disagreements that divide participants in the underclass debate. The first is whether what we are witnessing is a new kind of poverty, or merely the bottom end of a widening social polarisation. The second, and much more bitter controversy, is over the question of causation.

In order to begin somewhere, it is useful to think of two distinct 'underclass' concepts in use today. This is, of course, a deliberately stark polarisation: in practice, there is much overlap between these two. The first causal model is that propagated so successfully by conservatives in the 1980s and is based upon a neo-Malthusian, supply-side view of the world: that the 'new underclass' is the product of 'over-generous' welfare, plus other liberalising tendencies since the 1960s (for example, affirmative action policies in the USA, or easier divorce), all of which have added up to a 'change in the rules' whereby socially dysfunctional behaviour has been rewarded. The period of underclass growth is thus said to be the 1970s and 1980s. Welfare expansion is seen as corrosive of the 'traditional' intact family; the disintegration of the family has produced the 'feminisation of poverty', whereby poverty is increasingly concentrated in households headed by single women. Thus in the USA 30 per cent of all poor black families were headed by a woman in 1959, but by 1980 this had risen to 80 per cent, and by the late 1980s 46 per cent of black children and 40 per cent of Hispanic children (but only 16 per cent of white children) were living below the poverty line.

On this scenario, rational economic man or woman has responded to a new 'incentive structure' by refusing to look for jobs or by having babies out of wedlock. The children of the underclass are socialised into these patterns of behaviour, and so the underclass grows. In much conservative literature, the stereotypical underclass area is portrayed as consisting almost entirely of helpless single mothers and lawless, violent, workshy young men. (Ironically, this is also the picture portrayed – from a feminist viewpoint – in Beatrix Campbell, 1993).

According to this model, the defining characteristics of the underclass are behavioural: illegitimacy, drop-out from the labour force and violent criminality have been cited as the unholy trinity of underclass membership, all of which, it is argued, have been freely chosen (Murray, 1990:4). As one New Right commen-

tator has asserted 'social trends are the result of individual choices' (Taylor, 1992:95). The solution thus cannot come via government policy: it can only be achieved by a remoralisation of the underclass, assisted by savage cuts in benefits in order to change the 'incentive structure' back to one favouring the work ethic, marital stability and births within wedlock. Sometimes, the remedies suggested are even more draconian, punitive and explicitly stigmatising: Poor Law workhouse-type hostels for single mothers, forcible adoption, or even political disenfranchisement of welfare claimants. 'For adults', argues Charles Murray, 'the stigma would be institutionalised by taking away the right to vote from anyone who had no source of income except welfare' (Charles Murray, quoted in Kozol, 1988:166). We should immediately note that this is a suspiciously convenient argument in an era when the thrust of Government policy is to reverse income distribution, and have it flow back from poor to rich.

One interesting assumption behind this model is that historical change is essentially caused by cultural, 'human agency' factors: we are asked to suspend disbelief, and accept that a 'new class' of liberal-intelligentsia, welfare professionals somehow conspired in the 1960s and 1970s to smuggle liberalising policies onto the political agenda, deceiving the general public and, most importantly, the poor themselves. In this bizarre scenario, ordinary people are presented as totally powerless to resist the ideological conspiracies of the opinion-making 'social affairs intelligentsia' – a view which completely contradicts the other part of this model of social change whereby, apparently, we all make free, well-informed moral choices and must therefore take the consequences of our actions (for a recent example of this *genre*, see Dennis, 1993).

The second, opposed viewpoint sees the underclass as a product of long-run economic changes originating well before the 1960s and associated with the complex phenomenon that we call 'de-industrialisation'. If we look at the USA, we see this vividly illustrated. Profound sectoral shifts in the labour market have had a devastating effect on unskilled working class males (particularly blacks) who hitherto formed the backbone of the industrial army or the pre-mechanised Southern farm workforce. Thus in Chicago in 1954 there were 10,000 manufacturing establishments providing 600,000 blue collar jobs; by 1982, this had shrunk to 5,000 establishments providing only 270,000 jobs. In short, there has been a catastrophic decline in entry-level jobs for black males; and such new jobs that have been created in the last 20 years (mainly in the service industries) have either been in the wrong areas (the 'spatial mismatch') or the wrong sectors of the economy (the 'skills mismatch'). Racism also means that young black males are culturally 'walled off' from the new service jobs that involve person-to-person interaction (more so than are black women). Unemployment and long-term poverty have become spatially concentrated in certain Northern urban ghettos, where previously they were hidden away in the rural South. In these ghettos, a 'critical mass' effect has led to a breakdown of social support networks and an escalation of social pathologies. The high level of single-mother households in such areas is the result of a decline in the pool of 'marriageable males', either

because unemployed men are poor economic partners or because of high levels of incarceration, mortality, drug dependence, and other social dysfunctions associated with a collapse of the economic base. Unemployment is thus the cause; alienation from mainstream values has followed in its wake, as surely as night will follow day, but so-called 'underclass pathologies' are responsive, adaptive and possibly even functional, rather than causative. (Broadly speaking, this is the central thesis of Wilson, 1987).

The empirical controversy

Let us examine the first model of underclass formation. How convincing is it? In a paper of this length, I shall confine myself to making three points, in relation to the USA: (1) That it is not welfare that has caused a rise of single-parent families and new family forms, but rather changes in marital and reproductive behaviour in society at large; (2) That unemployment is the most important factor destroying social life in inner city ghetto communities; (3) That the economic forces which have produced the 'underclass problem' are long-run trends originating well before the much-maligned 1960s.

In the USA, 'welfare' usually refers to Aid to Families with Dependent Children (AFDC). This overwhelmingly targets single mothers, and is administered by the states with federal funding. Virtually no social assistance exists for males who are ineligible for social insurance-based unemployment benefit. For complex political reasons, America developed a two-tier welfare state: the top level – originating in the New Deal programme of 1935 – is called 'social security', is based upon the social insurance principle and thus benefits the middle classes, and is popular with nearly everyone. The bottom level is AFDC and is heartily disliked. Even though it costs less than 1 per cent of the US Gross National Product, it is blamed for all kinds of social ills. For example, the British *Sunday Times* held it largely responsible for the Los Angeles riots of May 1992 ('Focus', *The Sunday Times*, 10 May 1992). I am sure that, had it existed then, AFDC would have been blamed for the destruction of Sodom and Gomorrah.

It is easy to see how, starting with the benefit structure, the hypothesis of a welfare-created underclass can easily be constructed, and can attain public acceptance. Hence Charles Murray's underclass specifically excludes New Deal recipients: for example, in *Losing Ground* he declares from the outset that the elderly poor are not part of his remit (Murray, 1984: 13). Yet the greatest 'feminisation of poverty' occurs in old age.

Aid to Families With Dependent Children was introduced in 1940 (named Aid to Dependent Children) and was hedged in with criteria so strict as to exclude most black Americans. During the 1950s, AFDC claims were stable. In the 1960s, however, there occurred a long-overdue relaxation of these eligibility criteria. Not surprisingly, AFDC claims trebled – and this aroused considerable comment. However, during the period in which the underclass is said to have been created in the USA – the 1970s and 1980s – AFDC claims stabilised again, and even fell a little, rising slightly at the end of the 1980s:

Total AFDC recipients (parents and children, millions)

1960	1965	1970	1975	1980	1985	1990
3.1	4.4	9.7	11.4	11.1	10.9	12.1

Yet during this stabilisation of claims, there was a steady rise in the overall number and proportion of children in single-parent families. Put another way, the proportion of single mothers on AFDC declined from 63 per cent in 1972 to 45 per cent in 1988. It is thus impossible to argue that welfare has been a major cause of single parenthood. The stabilisation of welfare claims in the US in the 1970s and 1980s is a massively inconvenient statistic for conservatives, and their usual response is to ignore it. Thus Charles Murray, in *Losing Ground* (1984) chose instead to contrast the relative attractiveness of AFDC 1970 compared with 1960 (in his famous 'Harold and Phyllis' vignette). Again, in 1992 a publication by a leading British conservative think-tank could claim on its back-cover blurb that a contributor therein 'investigates the increase in single mothers on welfare' in the USA (Quest, 1992).

A neo-Malthusian explanation also breaks down when we examine state-by-state variations in the level of AFDC payments: for example in 1990 Mississippi had a higher proportion of its households on AFDC (11.4 per cent) than did California (9.4 per cent), yet its average AFDC monthly payments were less than one-fifth those of California (\$124 as against \$640). To a very small extent, the wealthier US states do appear to act as 'welfare magnets'; but such migration is much more often a search for jobs.

Longitudinal analysis of welfare 'spell duration' in the US shows that the majority of AFDC claims are short-term, lasting two years or less; fewer than one-sixth are long-term, lasting eight or more years. Cross-sectional analysis shows that half of all AFDC recipients are in the middle of long-term spells; longitudinal analysis shows considerable movement on and off the welfare rolls – consistent with the dilemmas that single mothers face in trying to juggle work and child-care in the low-paid, feminised, bottom end of the labour market. Nearly half of all AFDC spells begin with divorce, separation or widowhood. To be sure, there is some concern over the sub-set of AFDC recipients who begin as never-married teenage mothers, and stay on welfare longest. But the evidence of intergenerational transmission is weak (see, for example, Duncan and Hoffman, 1988).

If we turn to the vexed question of illegitimacy, we observe a curious situation in the USA. The total number of live births to unmarried mothers has risen from 398,700 in 1970 to 1,094,000 in 1989 yet, as has been shown, a decreasing proportion of these have been supported by the welfare system. The illegitimacy 'problem' is more one of a rising ratio (the annual ratio of births to unmarried women aged 15–44 per 1000 total births) rather than a rising rate (the annual number of births per 1000 unmarried women aged 15–44), exacerbated by the larger cohorts of mothers (consequent upon high birth rates in the past). The paradox is illustrated most clearly in the black community (the focus of much of

the underclass debate): by the late 1980s, six out of ten black babies were being born out of wedlock; yet the illegitimacy rate had fallen (from 95.5 births per 1000 unmarried women aged 15–44 in 1970, down to 80.9 in 1986). How had behaviour changed? The answer is that an unmarried black woman was *less* likely to give birth to an illegitimate child in 1990 compared with 1970. The explanation for this paradox is to be found in declining rates of marriage, declining marital fertility and more unmarried women 'going it alone' by having a child which they could support by working. In other words, the rising illegitimacy ratio has been created by the behaviour of *non-underclass* women. Welfare is largely irrelevant.

In the black community, two labour market trends have intersected to help bring this about. First, there have been improved job opportunities for women (consequent upon the growth of service industries and other 'feminised' occupations): thus the black female labour force participation rate rose from 46.1 per cent in 1954 to 58.0 per cent in 1992. Second, black male labour force participation rates have fallen from 85.2 per cent to 69.7 per cent over the same period. For young black males, the situation is even worse: the unemployment rate for black males aged 16–19 has risen from 14.4 per cent in 1954 to 42.0 per cent in 1992.

The result has been, quite simply, that black males have become economically less and less attractive marriage partners. As the sociologist Erol Ricketts has put it:

Economic uncertainty and a surplus of black women available for marriage means that black men increasingly will not marry or will delay marriage as they hedge their bets in response to uncertain economic prospects and the certainty that there will be a spouse available should they decide to marry. Black women, faced with the uncertainty of spousal support and an increasing ability to support themselves, may also opt for parenting outside of marriage, divorce, or loose consensual unions as a means of coping with increasingly uncertain prospects (Ricketts, 1989:36).

We can see this if we look at the declining rate of marriage for the black and the white communities in the US. Historically, black marriage rates were always higher than white rates (thus refuting the thesis that there is something in black culture hostile to marriage). But the black rate began to decline significantly from about 1950, and fell even more sharply from about 1960. Between 1960 and 1990, the proportion of black women who were married fell from 66.3 per cent to 43.0 per cent. It is clear that this fall is associated with rising black male unemployment. Far from being a cause, the War on Poverty of the mid-1960s was a *response* to this situation.

Conclusion

Throughout history, the 'underclass' debate in both Britain and America has been extraordinarily complex, and it is thus important not to essentialise it down to a simplistic, reductionist conclusion, such as 'blaming the victim'. All in all, however, the evidence from the USA convincingly refutes the case that 'over-generous' welfare is to blame. What we are witnessing today is the revival of an

age-old concept, which in its current manifestation has three components. First, it masks the very real problem that there has been a long-run shift to a 'post-industrial' economy which has marginalised young, unskilled (and, in the USA, ethnic minority) working class males; the economic recession of the last fifteen years has accelerated this. There have been enormously significant social trends associated with this economic shift – trends which began well before the 1960s, and to which the American War on Poverty was an inadequate and politically-compromised *response* rather than a cause. Second, we are moving into a new phase of the demographic transition – occurring at all levels of society – which, unless radically checked by AIDS, will increasingly involve new forms of reproductive and family behaviour (cohabitation before marriage, high illegitimacy ratios, high divorce and re-marriage rates, and so on): because of the first factor, this has created especial problems for young women with lowest incomes who now find themselves confronted with a lack of 'marriageable' males. Third, there has been a well-orchestrated propaganda campaign to legitimate and popularise the 'welfare-created' underclass model. If we allow ourselves to be swayed by this campaign, we will be in danger of misunderstanding what may turn out to be the major item on the social agenda of the 21st century.

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4 Recent Developments in the Macroeconomics of the UK Labour Market

Paul Warren

Introduction

In an influential article Layard and Nickell (1985) develop a model of the UK labour market which many economists now regard as the standard macroeconomic explanation of recently observed UK labour market phenomena.

Layard and Nickell, and subsequently Layard, Nickell and Jackman (1991) focus on an idea which has been central to macroeconomic thought for at least 25 years. They conclude that a constant rate of inflation will only occur if the rate of unemployment in the economy is at a level known as the *natural rate*. Whenever the unemployment rate dips below the natural rate, inflation will begin to increase; when unemployment exceeds the natural rate, inflation will fall. The implied tradeoff between unemployment and inflation is one of the most widely accepted notions amongst academic economists, and has permeated the mind set of the majority of policymakers. Layard and Nickell describe the rate of unemployment at which inflation will be constant as the Non-Accelerating Inflation Rate of Unemployment (NAIRU).¹

Insofar as Layard and Nickell analyze the factors determining the NAIRU, they present a model that recognizes the *political economy of unemployment*. In their model it is possible to drive unemployment below the NAIRU. It seems increasingly unlikely however that any UK government would be willing to pay the inflationary price of doing so. Any reduction of unemployment must therefore result from policies aimed at the reduction of the NAIRU itself. Part 2 of this paper outlines the model developed by Layard, Nickell and Jackman. Part 3 discusses a number of policy options for bringing down unemployment without increasing inflation, i.e. reducing the NAIRU. Part 4 contains a summary of the conclusions. The presentation is heuristic throughout.

A macroeconomic model of unemployment

Recent UK economic history

Figures 4.1 and 4.2 illustrate the movements in the rates of unemployment and inflation in the UK over the last three decades. Over this period, unemployment

has increased dramatically and – crucially – appears to exhibit a ‘ratchet’ effect whereby any increases in unemployment are seldom reversed completely.

Figure 4.1 Unemployment (000s)

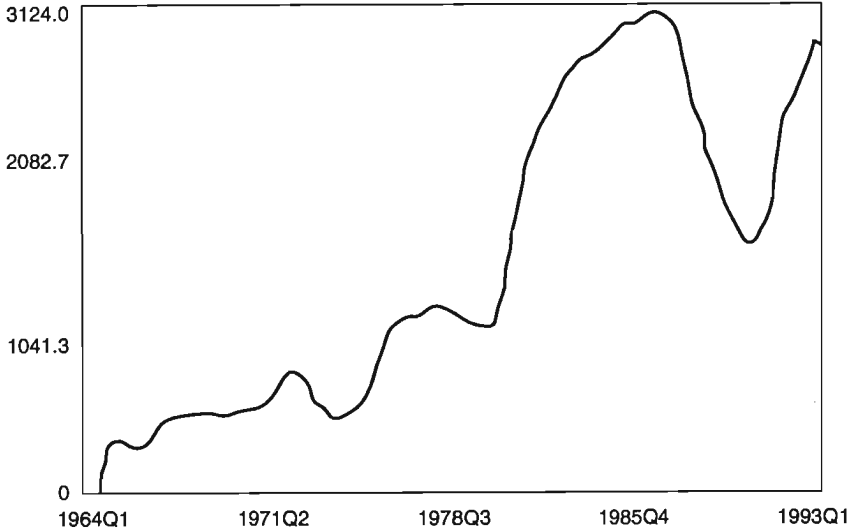
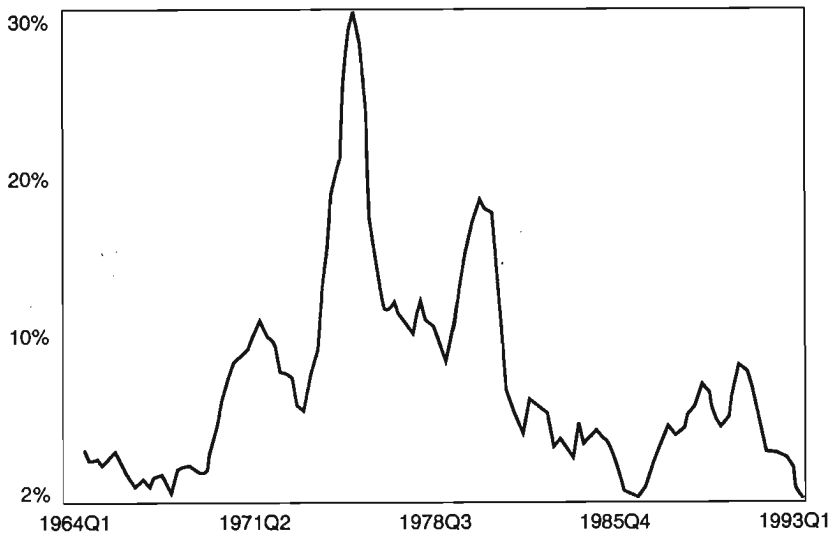


Figure 4.2 Annual Inflation



The UK inflationary experience over the last three decades contains roughly four periods of rapidly increasing rates of inflation. The first period lasted from the second half of 1969 until late 1971, the second (featuring a more dramatic increase) from the first half of 1973 until mid-1975, and the third from early in 1979 until late in 1980. The most recent period lasted from the start of 1987 until 1989.

Overall, movements in unemployment and inflation display a negative correlation, particularly since 1979. Generally speaking, periods of rapidly increasing inflation have been followed by periods of rising unemployment. This is consistent with the notion of an initial inflationary impulse leading to a wage/price spiral which is eventually slowed and halted by rising unemployment.

The evidence supports the idea that the NAIRU has increased over time. The 1969/71 increase in inflation started in the face of a level of unemployment of 465 thousand; the 1973/75 episode began when unemployment was around 100 thousand higher. The 1979/80 increase commenced with the level of unemployment at 1.1 million, and finally in 1987/89 the period started with unemployment figures over 3 million. Former notions that increased competition in labour markets would lead to a drop in the NAIRU, allowing stable inflation to co-exist with low unemployment, are unsupported by the evidence of the past decade or so. Recent work by Cromb (1993) however lends support to the notion that the NAIRU may have decreased somewhat over the recent past. Cromb examines a set of 44 pieces of empirical work since 1969, comparing estimates of the NAIRU in that work. His results are presented in Table 4.1.

Table 4.1 NAIRU Estimates for the UK (claimant definition)

	<i>Periods within which estimates fall</i>			
	1969–73	1974–80	1981–87	1988–90
NAIRU Range	1.6–5.6	4.5–7.3	5.2–9.9	3.5–8.1
Actual (Percent)	2.5	3.8	10.1	6.8
Number of Estimates	11	13	15	5

A Model of the NAIRU

The earliest version of the model examined below was presented in Layard and Nickell (1985). The most recent version may be found in Layard, Nickell and Jackman (1991) (henceforward LNJ).

Stripped of the complexities of its derivation as outlined in LNJ, the model is surprisingly simple. Its antecedents include Blanchard's 'The Wage/Price Spiral' (Blanchard(1986)), and it could be argued that LNJ's version should be thought of as a model of a spiral rather than as a model of unemployment. Heuristically, the model focuses on the 'struggle' between employees and firms to obtain shares of output.

Employees prefer a high level of nominal wages (less tax and national insurance contributions) relative to the price level; firms prefer a higher level of prices relative to the nominal wages they must pay, and which constitute the major part of their costs – i.e. a higher *markup*. It is important to recognize that the real wage can be considered the inverse of the markup – i.e. an increased real wage is equivalent to a decreased mark-up, and *vice versa*. If a situation arises in which either employer or employee is unwilling to accept the current level of the real wage (employees because they think it is too low, firms because they think it is too high – which is the same as saying their markups are too low) each will attempt to ‘leapfrog’ the other in their price and wage setting behaviour. Successive rounds of bargaining and price setting will be characterised by employers increasing prices to recoup any cost increases due to wage concessions they have been forced to make, followed by employees forcing wage increases sufficient to cover the increased cost of living they have experienced. Prices will accelerate – i.e. inflation will rise.

LNJ argue however that employees will pursue higher real wages less aggressively when unemployment is higher, for the reasons discussed below. They describe the existence of a rate of unemployment that encourages employees to settle for real wages that coincide with what firms are prepared to concede. In order to reduce the real wage which firms are required to pay (i.e. to increase their desired markup) higher levels of unemployment have to be a factor. Otherwise workers would not accept a lower real wage without attempting to increase the rate of nominal wage inflation.

In this model, a higher level of unemployment is associated with a lower level of real wage aspirations by workers. Layard and Nickell posit a process of wage determination whereby those currently employed at the time the wage bargain is to be struck on their behalf by union wage negotiators will aim to achieve the highest wage consistent with their own jobs not being at risk. This implies that the target wage – the minimum wage workers are prepared to accept without initiating industrial action – is decreasing in the level of employment in the previous period. The more employees are party to the current wage bargain, the less pressure they can exert on wages without fear of risk for their own jobs.

Thus, currently employed workers involved in wage bargaining within any firm will set a target dependent on the wages which may be obtained elsewhere, modified by the chances of finding another job in the event of job loss. Since the probability of finding another job depends upon competition from unemployed job-seekers, an increase in the level of unemployment will tend to reduce the target wage. Crucially, however, the long term unemployed are considered less effective competition than the recently unemployed for jobs, for reasons discussed below. The higher the proportion of long term unemployed in the stock of unemployed, the less the moderating influence on employee wage aspirations. This is the source of the so called ‘hysteresis’ effects discussed in LNJ. The more rapid the *increase* in unemployment which has led to a given *level* of unemployment,

and hence the fresher the unemployed stock, the greater the moderating influence which that level of unemployment will exert on wage aspirations.

Why will the long-term unemployed compete less effectively for jobs, relative to an individual who is newly unemployed? Explanations focus on two main ideas. Firstly there is evidence that long-term unemployment *causes* demoralization amongst job-seekers, and results in long-term unemployed people performing badly at interview (see Robinson (1988)). Secondly, many employers refuse to short-list long-term unemployed job-applicants for interview (see Meager and Metcalf (1987)). If employers believe that on entering unemployment individuals will be occasionally called for job interviews, then a person's having remained unemployed for a relatively long duration may be regarded as evidence of that individual's having been evaluated and rejected by several potential employers already. Employers will be reluctant to incur the trouble and expense of interviewing such individuals. Prior to the rapid increase in unemployment which occurred in the early 1980s there may be thought to have been at least an element of rationality in the refusal of such an employer to interview long-term unemployed individuals; in a relatively buoyant labour market an individual who had remained unemployed for a long period generally had some characteristic which had led to their rejection by successive potential employers. Today, the refusal of many employers to consider long-term unemployed individuals for jobs may be due to their failure to recognize that in the labour market of the last decade it has been possible for individuals with outstanding work records to remain unemployed for long periods.

Turning to factors influencing workers' 'target wage' other than the level and composition of unemployment, any factors which decrease the 'attractiveness' of the unemployed state will tend to reduce the wage target. Such factors include relatively low replacement ratios,² limits on the length of time for which an individual is eligible for benefit, and the severity with which benefit regulations are enforced.

In the full LNJ model both taxation and foreign trade play an important role in determining the NAIRU. What is of concern to both employers and employees is their command over goods and services – i.e. how much they are able to consume. Any development in the labour market which tends to reduce that command over goods and services will be resisted by those whose consumption level was at threat. So – for example – an increase in the level of taxes or national insurance contributions which must be paid by employees will trigger attempts by workers to raise their pre-tax wage until the command over goods and services which they had previously enjoyed is restored. Since such an attempt must be futile in the long run (i.e. government will reduce employees' discretionary spending power), the result will be an increase in the level of unemployment, since it is only at a higher level of unemployment that employees will be prepared to accept the lower real wage which an increase in government taxation implies.

When we consider an open economy, the fact that workers' attempted resistance to real income cuts implies that a higher level of unemployment will be the consequence of any erosion of worker incomes from whatever source, has a rather

surprising implication. Traditional Keynesian economics suggests that (under most conditions) a devaluation in an economy's currency will reduce unemployment as the demand for domestically produced goods and services increases. As a result of the presence of imports in workers' 'consumption baskets', and in contrast to the Keynesian model, the model described above implies that a devaluation will lead to an eventual increase in unemployment. The reasoning is as follows: since workers consume some imports, and since a devaluation will lead to imports becoming more expensive in terms of domestic currency, a devaluation will have the consequence of eroding workers' command over goods and services. Workers' attempts to regain their old consumption levels will lead to the 'leapfrogging' process outlined above – a process which will end only when unemployment has risen to a level high enough to reconcile workers to their new, lower, real incomes.

Policies to Reduce Unemployment

It appears increasingly unlikely that any UK government in the foreseeable future will be willing to incur the inflationary cost of reducing unemployment below the NAIRU. Policies to reduce unemployment must therefore be designed to reduce the NAIRU itself – i.e. to bring down the level of unemployment which is consistent with constant inflation.

Role of the Long-Term Unemployed

Layard, Nickell and Jackman's model highlights the role played by the long-term unemployed in the functioning of the aggregate UK labour market. Insofar as they are ineffective in competing for jobs with recently unemployed jobseekers, an increase in their number will not significantly reduce the perceived chances of a currently employed worker obtaining another job if they become unemployed. Hence they will not exert the moderating influence on employees' wage aspirations which would tend to decelerate the wage/price spiral discussed above. Any policy tending to reduce the number of long-term unemployed, or else to increase their effectiveness as job-seekers, will tend to reduce the NAIRU.

Income Maintenance, Benefit Administration and the NAIRU

Layard Nickell and Jackman view 'a tougher line on benefits' as one way of improving the effectiveness – and thus reducing the unemployment duration – of individuals engaged in job search.

Empirical evidence on the role of income maintenance schemes of various types on unemployment durations is inconclusive, however. Amongst recent studies, Lancaster and Nickell (1980) conclude that the sensitivity of unemployment duration with respect to benefits was such that a 10 per cent rise in benefits would be associated with an increase in duration of only 1 week (taking average duration as 17 weeks). Subsequent work by Atkinson and Micklewright questioned even this rather small effect, finding that the impact of the benefit level on individual unemployment durations was statistically insignificant when calcula-

tions were based on the amounts which individuals *actually* received rather than their *hypothetical* entitlements.

Given that it is the long-term unemployed who are particularly relevant in the model presented above, it is interesting to note that Nickell (1979a, 1979b) in his study of unemployment durations in Britain found that after 20 weeks benefit levels did not effect the probability of an individual's returning to work. A more detailed UK data set indicated that a significant benefit effect persisted beyond six months only for teenagers. Reviewing this evidence, Atkinson and Micklewright conclude that '[I]n the case of the U.K...income support for most of the long term unemployed may be *increased* to a higher level without concern for incentives' (Atkinson and Micklewright (1991)).

No scheme of income maintenance for the unemployed can be adequately summarised by referring only to the level of benefits available to those who actually receive benefit however. Many of the principal changes in UK income maintenance schemes over the past decade may reasonably be interpreted as having tightened the conditions on *eligibility* for benefit. Schmitt and Wadsworth (1993) present the principal changes in unemployment insurance and unemployment assistance between 1983 and 1989. They estimate that as a consequence of these changes, some 200 thousand workers in 1989 no longer received the state support that would have been forthcoming in 1983. They found that 'the observed movement of the benefit system away from unemployment insurance towards means tested unemployment assistance' over the period had not significantly effected the job search activity of those who still received support, but that those excluded from the system may have had their job search activity impaired.

'Toughness' could take other forms. Unemployed individuals are currently allowed a degree of discretion over the acceptability of employment opportunities. If individuals with 'unrealistic' minimum wage requirements, or those who exhibited other forms of 'self-limiting' behaviour such as unwillingness to consider employment in occupations other than those in which they had worked prior to becoming unemployed were disqualified from receiving benefits, would this increase their effectiveness in the job search process? Recent research on this issue using detailed information from a sample of 'Restart' questionnaires suggests self-limiting behaviour by long-term unemployed individuals has little or no effect on the probability of their leaving the unemployed register (see Warren(1992)). Except for young males, the 'minimum acceptable weekly wage' which long term unemployed individuals are prepared to accept appears not to affect their chances of obtaining employment, nor do factors such as the distance individuals are prepared to travel to work daily, or a willingness to consider part-time employment appear to be a statistically significant determinant of unemployment durations.

The Role of Training in Reducing the NAIRU

One reason that the long-term unemployed are unable to compete effectively in the labour market is that they possess either *too few* skills or the *wrong* skills. A

study of the characteristics of individuals attending Restart interviews in February 1989 found that only 1 in 3 had any educational/vocational qualifications; individuals who had been claimant unemployed for just 6 months were twice as likely to have a qualification as those unemployed for over two years. In addition ‘..the great majority of male Restart clients were previously in occupations which have shown a decline, or little increase in employment in recent years.’ (Kerr, 1990).

Economists recognize that market forces alone are unlikely to eliminate the ‘mismatch’ between the desire for employees exhibited by firms in expanding areas of the economy, and the unemployment suffered by individuals with skills and qualifications obtained in declining areas. Firms are reluctant to invest in training individuals who may then be ‘poached’ by other (non-training) firms, particularly if those individuals are older workers, or if the fact of their being long-term unemployed is regarded as calling their motivation into question. Long-term unemployed individuals have traditionally found it difficult to invest in their own training because of the reluctance of financial institutions to advance loans to finance such training. Since the area of training in general, and the training of the long-term unemployed in particular, is characterised by *market failure* government has adopted the role of ‘trainer of last resort’ for the long-term unemployed in many economies, including the UK.

How effective are government training programmes currently available to the long-term unemployed and/or young people? Until recently the main training programme targetted at the long-term unemployed was Employment Training (ET)³. Training places on ET were aimed at those who had been unemployed for over 6 months – the stated objective of the programme was ‘to train the workers without jobs for the jobs without workers’. Evidence on Employment Training (ET) reveals that almost three-quarters of those engaged on the programme between April 1992 and March 1993 had previously been unemployed for 6 months or longer, 34 per cent for more than a year.

Direct evidence on the impact of training programmes for the long-term unemployed on their subsequent employment probabilities is somewhat scarce. A survey of the destinations of individuals who left Employment Training between July 1991 and June 1992 however, found that 58 per cent of them were unemployed. Amongst the criticisms which were levelled at ET were that the training period of 6 months was too short, and that trainees tended to leave the programme without having gained any kind of qualification.⁴

More recently however, a study by the OECD (OECD, 1992) found that training programmes were effective in increasing the chances of long-term unemployed individuals obtaining employment – particularly when training included a workplace-based component.

Wage Bargaining in the UK

The nature of the wage bargaining process is central to the model outlined in the previous section. The extent to which ‘insiders’ will bring about wage increases which will preclude unemployed ‘outsiders’ being hired will depend upon both

the extent to which insiders (or more accurately their representatives in the bargaining process, unions) *desire* such wage increases, and the power which they have to bring them about.

Recent work on union preferences lends support to the hypothesis that, broadly speaking, unions are willing to risk adverse employment consequences in order to obtain higher wage increases. Table 4.2 is reproduced from Clark and Oswald (1992) and tabulates the responses of 57 UK unions when asked to choose between a 5 per cent increase in employment with pay and effort unchanged, a 5 per cent decrease in workers' effort at the firm with unchanged pay and employment, or a 5 per cent increase in wages with employment and workers' effort unchanged.

Table 4.2: Union Wage/Employment Preferences

Choice	Number of Unions
Wages preferred	34
Employment preferred	18
Effort reduction preferred	0
Don't know/no answer	5

Trades unions representing a workforce in negotiations with an employer will have more power to achieve these preferred outcomes the higher the number and proportion of workers in that employer's workforce who are members of unions, and the more effectively unions are able to conduct industrial action. Membership of trades unions has declined substantially over the past 15 years, from over 13 million in 1979 to 9.5 million in 1991. In addition to the decline in their membership, UK unions have had their ability to pose a credible threat to employers in pursuit of their objectives severely limited in recent years. The statutory right to picket was restricted in both 1971 and 1980, and a 'code of practice' now suggests that the number of pickets at the entrance to a workplace should not exceed six. Industrial action for which a union is legally responsible – which includes most 'unofficial' action as well as action called in accordance with union rules and procedures must have prior support of the workers concerned obtained in a secret ballot; there is no longer any immunity for 'secondary' action.

Other things being equal, both the reduction of trade union membership in the UK and the reduced ability of unions to pursue industrial action will tend to reduce the NAIRU within the framework outlined above. The degree of centralisation in the wage bargaining process is also an important determinant of the NAIRU however, and remains an area in which room for improvement exists. Wage bargaining in the UK remains fairly decentralised in comparison to countries such as Germany, Austria or Sweden. Layard, Nickell and Jackman identify two alternative wage bargaining institutions which may be regarded as 'ideal' from the perspective of attempts to minimize the NAIRU. One is the 'US model'

of low union coverage and low union power. The alternative 'Scandinavian model' involves high union coverage, but with wage bargaining taking place in a highly centralised manner – typically with national unions dealing on equal terms with employers federations. The key to the success of the Scandinavian model lies in the possibility (and indeed necessity) that the bargaining process involve the development of a consensus about the 'going rate' for wages. The way that this might be achieved in the absence of a formal corporatist bargaining framework is discussed in the concluding section.

Conclusions

The lesson for the policymaker in Layard, Nickell and Jackman's analysis is not only that the long-term unemployed represent those individuals for whom the experience of unemployment is likely to be the most traumatic, but that by their inability to compete effectively in the labour market they also fail to moderate the wage aspirations of the 'insiders' in the UK labour market – i.e. those in employment. According to their model, increased unemployment acts to stabilise the cycle whereby the struggle over shares in national output leads to a wage/price spiral and unemployment. Only those unemployed individuals regarded by employed 'insiders' as potential competitors in the job search process will exert such a stabilising influence however – as things stand currently the long-term unemployed are not regarded in this way.

Policies aimed at reducing the NAIRU should focus on

- preventing individuals from becoming *long-term* unemployed, insofar as this is possible
- improving the effectiveness of those who *do* become long-term unemployed as job seekers

There is scope for government intervention at two stages in individuals' unemployment spells. Individuals who can be identified as being 'at risk' of becoming long-term unemployed should be helped at the outset of their spell of unemployment;⁵ help should continue to be given for as long as they remain unemployed.

It is also important to recognize however that even an individual who does not appear – *prima facie* – to be particularly 'at risk' may become long-term unemployed if job search undertaken early in their spell of unemployment is unsuccessful. The longer an individual has been unemployed, the longer they can expect to remain unemployed, regardless of their personal characteristics, local labour market conditions, etc.

What form should government interventions take? There is no reliable evidence that a reduction in the level of income maintenance for the unemployed will significantly reduce the length of their unemployment durations. Reducing the degree of choice which the unemployed may exercise in their job search behaviour has no significant effect (except where the minimum acceptable weekly

wage demanded by young jobseekers is concerned). The evidence is consistent with the view that employers simply will not consider certain groups as potential employees.

Marginal employment subsidies offer one way of combatting employer reluctance to employ workers who belong to these groups. A marginal employment subsidy takes the form of a subsidy on the wages of workers employed in excess of some level. The approach has been used in the UK before; in the late 1970s such a subsidy was offered to small firms located in unemployment 'blackspots'. Firms were offered a subsidy equal to almost one third of the average wage for every additional worker they took on. The evidence gathered during this experiment was encouraging; employment grew by 12 per cent more in subsidized firms than in similar but unsubsidized firms (see Layard (1979)).

More recently, government has focussed on training as a means of increasing the employability of the unemployed. Evidence from countries other than the UK suggests that *high quality* training can significantly increase the chances of a long-term unemployed individual's obtaining employment. However Layard (1993) makes the point that 'To reskill the unemployed is a serious business [and] cannot be done on a shoestring. Sweden spends as much on an unemployed trainee as on a university student [while the UK spends] half.'

The 'employment principle' advocated by Layard, Jackman and Philpott among others would increase the search effectiveness of the unemployed. Under this approach the state would act as employer of last resort, providing a guarantee of temporary work to those who have difficulty obtaining a job. Adoption of such a principle would provide the involuntarily unemployed with some form of income support, whilst presenting any who would remain unemployed voluntarily in the absence of such a policy with the need to either choose a job themselves, before the expiry of their benefit eligibility, or else be directed into a job over which they had no choice. Crucially, it could help prevent the newly unemployed becoming long-term unemployed.

Finally, in the area of wage bargaining, the model suggests that a more 'corporatist' approach to wage bargaining such as is found in Scandinavia and some other European countries would reduce the tendency of the UK labour market to generate high inflation at times of low unemployment. The key here is the measure of agreement over 'dividing the national pie' which such a corporatist approach would tend to produce. In the absence of formal corporatist institutions, LNJ suggest there is role for 'an informed national debate about what rate makes sense'; unfortunately the recent abolition of the National Economic Development Council (the so-called 'Neddy') which provided a forum in which employers' and employees' representatives could engage in such a debate suggests that government does not share their enthusiasm.

Notes

- 1 The term Non-Accelerating Inflation Rate of Unemployment is a misnomer in that the term is generally used to define a level of unemployment such that inflation is *constant* rather than merely *non-accelerating*. Nevertheless, we shall use the term NAIRU as it is usually used – to mean the level of unemployment that brings about a *constant* level of inflation throughout this paper.
- 2 Note that – since the real wage is a ratio – it is perfectly possible for that real wage to be achieved with steady rates of inflation of 5 per cent p.a., 10 per cent p.a. etc.
- 3 In April 1993 ET was replaced by ‘Training for Work’ (TfW) with 1.4bn pounds planned to be spent in providing one and a half million training and employment opportunities targeted particularly at the long-term unemployed. TfW is open to people who have been unemployed for 6 months or more; returners to the labour market who have been out of the labour market for 2 years; and people with disabilities, those needing training in literacy, numeracy or basic English, and victims of large scale redundancies after any period of unemployment. Currently, around 300 thousand individuals per year undertake TfW.
- 4 In addition, Layard, Jackman and Philpott (1991) estimate that only 43 per cent of those who joined the programme actually completed it. This compares poorly with – for example – drop out rates found in the United States’ ‘Comprehensive Employment and Training Act’ programmes (see Card and Sullivan, 1988).
- 5 Certain observable individual characteristics are a good guide to the length of time which an individual can expect to spend out of work having once entered unemployment. These observable characteristics include age, the local unemployment rate faced by the individual, and the level of skills possessed by the individual.

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Unemployment, public policy and the changing labour market

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5 Justifying 'Workfare': the Historical Context of the 'Workfare' Debate

Alan Deacon

The focus of this paper is upon the principle of conditionality: to what extent should the payment of social security benefits be subject to the condition that those who receive them behave in particular ways, or participate in specified activities? This question has long been the focus of a heated debate within the literature on social policy. In recent years, however, it has been discussed primarily in the context of provision for the long-term unemployed, the so-called 'workfare' debate.

The paper has little to say about what might be termed 'pure workfare', a system in which the unemployed effectively 'earn' their benefits. Contary to popular belief, such schemes are extremely rare in the USA, where they are generally known as 'work relief' (Walker, 1991; Handler and Hasenfeld, 1992), and they are not on the political agenda in Britain. This is because it is widely believed that the creation of public sector employment on the requisite scale would be extremely expensive and would have a considerable impact upon the demand for other workers. What is high on the agenda, however, is the question posed by Prime Minister John Major in February 1993; 'I increasingly wonder whether paying unemployment benefit, without offering or requiring any activity in return, serves unemployed people or society well'. As several commentators were quick to point out, there is a world of difference between 'offering' activity and 'requiring' it, and it is the notion of compulsion which has attracted most attention and aroused most controversy.

The purpose of this paper, then, is to provide a brief discussion of the arguments which have been put forward to justify the imposition of work requirements and other conditions upon those claiming benefits on the grounds of unemployment.

Much of the current debate is focused around the idea of 'reciprocal obligations': those of the government to create opportunities for work or training and those of the unemployed to take advantage of them. This notion of mutual obligations has been debated extensively in the USA, where, as Ellwood has noted, it formed the basis of a new consensus on welfare policy;

The notion of mutual responsibility is not controversial any more. It seems that in both the liberal and conservative policy-making communities, there is widespread acceptance of the notion that it is legitimate to ask people to fulfil some obligations and that, in exchange, the government must provide some training, jobs, or other programs (1988 p.226).

This new 'welfare consensus' was manifested in the Family Support Act of 1988 which greatly extended the scope of work-welfare schemes (King, 1992). It should be noted in passing, however, that the new emphasis upon conditionality in the USA goes far wider than the imposition of work requirements. During 1992, for example, a total of 11 states had received Federal approval for amendments to the operation of the principal welfare scheme, Aid to Families with Dependent Children (AFDC). In Arkansas no additional benefit is paid for children born to families already on AFDC; in California benefits are reduced by 10 per cent after six months, and the reduction is increased to 15 per cent if the family includes an able bodied worker; in Oklahoma financial sanctions are imposed upon families whose children do not attend school until the age of 18; in Georgia there are penalties for families who fail to comply with immunization requirements for pre-school children. As Michael Wiseman has observed, this is 'a major change in the landscape of welfare reform' (1993 p.18). In Britain conditionality has primarily taken the form of an increasing linkage between the administration of benefit and the work of the employment services. The most important aspect of that linkage is the requirement that claimants attend a Restart interview and, in some circumstances, a Restart course. The growth of such links has been extensively documented and discussed elsewhere (Brown, 1990; White and Lakey, 1992). They do, however, embody a significant shift in the perception of the role and purpose of training. For much of the post-war period, training was seen as an instrument of economic policy, its purpose was to equip the labour force with specific skills and capacities for which there was a demonstrated demand. Increasingly, however, work and training programmes seem to have been viewed at least in part as a means of checking the bona fides of claimants and of changing the attitudes and behaviour of the unemployed. Moreover, in recent years a number of economists have called for a major expansion of training schemes and other employment measures as a central element in a strategy to reduce the level of long-term unemployment. These proposals involve an even closer link between an individual's entitlement to benefit and his or her willingness to accept work or training (Layard and Philpott, 1991).

Broadly speaking, this kind of linkage is justified in one of three ways:

- (i) in terms of *deterrence* – that the imposition of benefit conditions is necessary in order to maintain work incentives and to detect and forestall abuse of benefits.
- (ii) in *utilitarian* terms – that the imposition of benefit conditions may be harsh in individual cases, but that it is necessary for the good of the majority.

- (iii) in *paternalistic or moralistic* terms – that the imposition of benefit conditions is in the best interests of the long-term unemployed themselves because it will ensure that they will accept work or training which they would not undertake of their own volition.

These are not of course discrete categories, and it will be seen that commentators sometimes advance more than one justification. It will also be seen that all three share a belief that conditional benefits can in some way improve the character or activities of the individuals to whom they are paid. The important point here, however, is that these three justifications for conditionality stem from different analyses of the causes of unemployment, and, more specifically, rest upon different assumptions about the extent to which work is available.

The 'deterrence' argument for 'workfare'

There is broad agreement that the provision of unemployment benefits inevitably reduces the pressure upon those who receive them to seek work or to accept whatever work is available. There is absolutely no agreement, however, as to how far changes in the aggregate level of unemployment are determined by such benefit effects. At one extreme, it was the central tenet of the nineteenth century poor law that unemployment – or 'idleness' – was always due to individual failing. The more generous the provision, the greater the temptation to idleness, and the larger the numbers of able-bodied men and women in receipt of relief. There are striking parallels between this analysis and that of the present day American conservative Charles Murray.

In his most famous book, *Losing Ground*, Murray claimed that the effect of the American War on Poverty programmes of the 1960s and 1970s was to worsen the problems they were supposed to relieve. On any indicator – jobs, incomes, crime, the family – the relative disadvantage of the poor was greater after those programmes than before. Murray argued that this was because the welfare programmes created 'perverse incentives'. They induced people to behave in ways which were attractive in the short term but self destructive in the longer term. They did this, he said, because they reduced or took away the sanctions which had been previously imposed on those who didn't keep or accept a job, who didn't work at school, who broke the law, who didn't accept responsibility for their families. Because these things attracted fewer penalties, more people did them and more poverty was the result. 'We tried to provide more for the poor and produced more poor instead' (1984 p.9).

The tangible incentives which any society can realistically hold out to the poor youth of average abilities and average industriousness are mostly penalties, mostly disincentives. 'Do not study and we will throw you out; commit crimes and we will put you in jail; do not work and we will make sure that your existence is so uncomfortable that any job will be preferable to it.' To promise much more is a fraud (1984 p.177).

Murray's solution was to effectively withdraw all assistance in cash – save for short-term insurance benefits – in favour of relief schemes which were funded

and administered by local communities. Local voluntary agencies would be able to impose whatever conditions for relief they felt were necessary, and would be far more effective in discriminating between the deserving and the undeserving and in ensuring that the latter mended their ways.

The utilitarian argument for 'workfare'

There is now an extensive literature upon the notion of behavioural dependency. This asserts that it is possible to distinguish between poverty which is caused by a lack of income or opportunities and that which 'springs in significant measure' from the behaviour of the poor themselves (Novak, 1987 p.5). It further argues that a strategy of penalising those who exhibit such behaviours and attitudes will serve to deter others, not least because such a policy will also enhance the status and financial rewards enjoyed by those who are or become self-reliant. The solution here, then, is not to withdraw state welfare but to use it to reform the character of the poor. Much of this writing is focused upon the increase in the number of teenage mothers, but it also affords a powerful justification for 'workfare'.

The central figure here is another American writer, Lawrence Mead. Mead's *Beyond Entitlement* started from the premise that poverty in the USA was due largely to the failure of the poor to accept the jobs which were available. This problem, however, was ignored by benefits which were paid without regard to the conduct of those who received them. 'The damage seems to be done, not by the benefits themselves, but by the fact that they are entitlements, given regardless of the behaviour of clients' (1986 p. 65). The answer was not to withhold benefits as Murray had proposed, but to pay benefits in a manner that diminished rather than deepened dependency. In short, make the poor work, teach them that 'willing work in available jobs was a defining obligation of the American polity' (p.230). Mead's analysis rested upon the explicit assumption that the poor would find work if they looked for it and should be prepared to make their own arrangements for child care in the same way as everyone else. It followed from this that governments would be justified in introducing work requirements into welfare without themselves giving undertakings about the quality of the work or training on offer, or the prospect of more permanent employment for those who met their obligations. The objective was not so much to train people for better jobs as to change their habits and attitudes. Again, the historical parallels are striking, this time with the authoritarianism of Beatrice Webb. In 1931, for example, she told the Royal Commission on Unemployment Insurance that, 'The provision of training is for the purpose of preventing deterioration by idleness. It has nothing to do with preventing future unemployment. The question is what effect it has on the person' (Ministry of Labour, 1932, p. 1336).

In Mead's case the 'question' was also what effect it had on others who were in danger of becoming dependent. As he put it, the choice facing society was 'whether to stigmatize the least cooperative of the disadvantaged in order to integrate the rest' (p.247). This, of course, is the language of pure workfare and most British commentators recoil from such uncompromising individualism. The

familiar and established objection to such an approach is that it fails to address the fundamental, structural causes of unemployment. This means that it is bound to be ineffective and to damage still further the morale of the unemployed. This view was forcefully expressed, for example, in the Supplementary Benefits Commission's *Annual Report for 1979*. 'To increase incentives while unemployment accelerates upwards is like trying to encourage somebody to jump into a swimming pool while the water is drained out' (SBC, 1980, p. 41). From this perspective, the imposition of a work condition is tantamount to throwing somebody into the emptying pool. It is this which makes the third justification so striking.

The paternalistic argument for 'workfare'

This justification is rooted in a broader concern at the impact of unemployment upon the character of its victims. This concern was a central theme of the ethical socialism of Tawney (Halsey and Dennis, 1988), and it was also expressed with stark clarity in the writings of two men closely associated with the establishment of the 'classic welfare state' of the 1940s – William Temple and William Beveridge. In *Christianity and the Social Order*, for example, Temple argued that the 'worst evil of unemployment' was that it created in the unemployed 'a sense that they have fallen out of the common life... That is the thing that has the power to corrupt the soul of any man not already far advanced in saintliness.' Because 'the man has no opportunity of service, he is turned upon himself and becomes, according to his temperament, a contented loafer or an embittered self-seeker.' This 'moral isolation' is the 'heaviest burden and most corrosive poison associated with unemployment.' Generous benefits would not in themselves solve this problem. Indeed they would 'only make him content with idleness; and we have enough people suffering from that deadly sin ... at the other end of the social scale' (1976 ed. p.34). Beveridge was similarly concerned that the long term unemployed would become 'demoralised'. It is this which explains why he wrote so powerfully about unemployment as 'a problem of industry' (and not individuals), but also advocated the introduction of a training condition for benefit.

It is generally known that the Beveridge Report proposed that unemployment benefit should be unlimited in duration, but that after a period of some six months it should become conditional upon attendance at a work or training centre. The rationale for this was quite straight forward. The purpose of social insurance was to provide a subsistence income in return for contributions. It was clear that needs tended to increase rather than diminish if unemployment was prolonged, and so it would be wrong in principle not to pay benefit for as long as the insured person remained genuinely unemployed. At the same time, Beveridge argued, the provision of benefits 'which are both adequate in amount and indefinite in duration' brought with it the danger 'that men, as creatures who adapt themselves to circumstances, may settle down to them'. It followed from this that the 'correlative' of unlimited benefit was the 'enforcement of the citizen's obligation to seek and accept all reasonable opportunities of work ... [and] ... to co-operate in measures

designed to save him from habituation to idleness' (BR p.58). In his first paper to the other members of the committee Beveridge insisted that 'indefinite cash allowances to men of working age represent fundamentally wrong treatment, since such men need rehabilitation or training for transfer' (PROa).

For Beveridge, then, the training condition was necessary to offset the demoralising effects of prolonged unemployment. By this, however, Beveridge did not mean a process of corruption by idleness leading to malingering or fraud. Rather he viewed demoralisation as something which arose out of the experience of rejection. It was the feeling of worthlessness engendered by being unwanted, the loss of self esteem suffered by those denied the first condition of happiness – 'the opportunity of useful service' (1944 p.122).

The difference is important, because the two forms of demoralisation could be expected to affect different types of claimants, and to require different remedies. Demoralisation as a 'temptation to idleness' would be most likely amongst those who already had a weak commitment to the labour force and would call for a deterrent response. Beveridge certainly envisaged that deterrence would be necessary in some cases, but he expected that malingerers would be receiving assistance rather than social insurance. Indeed, Beveridge emphasised the need to distinguish between the two benefits in language strikingly similar to that of Mead. 'An assistance scheme', he told the committee, 'which makes those assisted unamenable to economic rewards or punishments while treating them as free citizens is inconsistent with the principles of a free community' (PROa), while the Report concluded that assistance should always be provided in a way that did not condone any 'breach of citizen obligations' (BR p.70). The number of such cases would be relatively small, however, and it was demoralisation in the second sense which was the real problem. This, of course, could affect those with excellent work records, and it could be forestalled only through measures which, far from conferring the stigma of pauperism, were intended to restore confidence and rebuild morale. This view was also expressed powerfully in a memorandum to the Cabinet from the wartime Minister of Labour, Ernest Bevin. Bevin argued that social security should incorporate 'a preventative and curative element':

A man who remains compulsorily unemployed for many months gradually adjusts himself to a lower level of mental and physical activity. He does so in self protection and often he develops a protective ailment: he loses heart, and the better man he is the more he deteriorates, for the chief sufferers in this respect are those to whom it is morally intolerable to be one of the unwanted (PRO (b)).

It is true, of course, that Beveridge's proposal was rejected by both the wartime Coalition and post-war Labour governments. Bevin himself argued that training should be a privilege, and that it would be devalued if it became simply a condition for receipt of benefit. Moreover, employers would only co-operate if trainees were 'the best available', and not those whose motivation was most suspect (PROc). This rejection, however, should be seen in context. The central issues were whether or not benefit should be paid indefinitely as Beveridge had

recommended and, if so, how effective his training condition would be as a safeguard against malingering. For his part, Bevin was convinced that there was 'no practicable way of preventing serious abuse' without a definite limit on the time for which benefit could be drawn, and he eventually persuaded his colleagues to retain such a limit (Deacon, 1981). This decision ended all discussion of a training condition, which was considered solely as a safeguard against abuse. Bevin's broader argument that the 'social security service should be not merely eleemosynary but diagnostic and remedial' was effectively ignored (PROc).

The administration of benefit and the provision of training were to remain separate for over 30 years. Indeed the links between the two were progressively weakened by the introduction of separate Job Centres and Unemployment Benefit Offices and by the abolition of the requirement that claimants register with a Job Centre. That policy was reversed in the 1980s with the creation of the Employment Service, the introduction of Restart, and the strengthening of the formal tests of availability for work (Finn, 1988; Wikeley, 1989; Deacon, 1992). At the same time there were calls from the Commons Employment Committee and others for the introduction of a jobs guarantee for the long term unemployed (EC, 1985). These proposals were summarily dismissed as impractical by the government (EC, 1986, pp.vii-xii), but they have subsequently been developed by Layard and Philpott.

In *Stopping Unemployment* (1991), Layard and Philpott outline a package of measures which they claim would all but eliminate long-term unemployment. To become genuinely employable, they argue, those out of work for long periods need to acquire new skills and motivation, and a work record which makes them acceptable to employers. To achieve this they propose a combination of training schemes, work search programmes, job subsidies, and temporary public sector employment which would together ensure that no one would remain without a job for more than 12 months (1991 p.12).

In some respects Layard and Philpott's ideas differ sharply from those of Beveridge, most obviously in their insistence that benefit be limited to 12 months. In this they are closer to the scheme of transitional assistance which David Ellwood proposed in *Poor Support*, and which he is now trying to implement as Assistant Secretary of State for Health and Welfare in the Clinton administration. Nonetheless, they do see themselves as calling for a return to the 'contract between the state and the citizen' which Beveridge had first drawn up. Most importantly, they are explicit about the conditionality of their proposals. If governments are to guarantee the offer of work or training, then 'any individual on benefit' must 'accept one such offer (out of a reasonable selection). The purpose of benefits is to help those who have been deprived of opportunities – not those to whom opportunities are offered' (p.6). Just as Beveridge saw a training condition as a 'correlative' of indefinite benefits, so Layard and Philpott believe that a corollary of a job guarantee is a benefit system 'based on active job search rather than passive dependency' (p.31).

Conclusion

The work of Murray and Mead has highlighted questions about human behaviour and motivation which have been neglected within the British literature on social policy. Indeed, it has been argued elsewhere that the normative tradition which has dominated academic writing on social policy has been reluctant to acknowledge the pattern of labour market incentives and sanctions which are necessary for wealth creation, and that its suspicion of conditionality has left it ill-equipped to resolve the issues raised by the 'workfare' debate. (Deacon, 1993a, 1993b). That said, it is not the intention here to argue that what have been termed the 'deterrence' and 'utilitarian' arguments provide a convincing justification for 'workfare'. The forms of 'workfare' which would follow from an acceptance of those arguments would not address the full causes of unemployment, and so could not make an effective response to it. Moreover, they would require that individuals be punished for circumstances beyond their control, and so could not be just. In the case of the 'moralistic' justification, however, the arguments are more complex, and more interesting.

A full discussion of the feasibility and the likely outcome of measures such as those proposed by Layard and Philpott is beyond the scope of this paper. In outline, however, there are two sets of questions. The first relate to the problem of compulsion: can the unemployed benefit from schemes in which they are forced to participate and for which they may have no enthusiasm and no commitment? Is it likely that employers will cooperate in the establishment of such programmes in view of their well documented reluctance to take on people who have been out of work for long periods? The second set of questions relate to the probable impact of employment measures on such a scale: will they provide work for people who would have found a job anyway ('deadweight') or simply create opportunities for some by displacing others ('substitution'). It is this latter phenomenon – often known as 'shuffling the pack' – which has attracted most attention and has done so from such diverse commentators as the Treasury (in criticising the first proposals for a jobs guarantee) and David Donnison (in challenging the government's preoccupation with work incentives) (1991 p.154).

The counter argument is that measures which improve the efficiency with which the unemployed seek jobs will result in vacancies being filled more quickly and thereby reduce the overall level of unemployment. More importantly, such schemes enhance the capabilities and job readiness of a hitherto unused section of the labour force, and thus represent a significant improvement in the supply side of the economy. Layard and Philpott argue, 'There is not a predetermined pool of jobs. If we can improve the supply of labour, we can have new jobs without inflation rising' (1991, p.13). There are several pieces of evidence which can be cited in support of such claims; most notably the impact of the introduction of Restart on the relationship between unemployment and vacancies in the late 1980s (Philpott, 1990), surveys of different labour markets which have highlighted the inefficient and inadequate way in which at least some of the unemployed search for work (Meadows *et al*, 1988; BLMS, 1990), and the recent evaluation of Restart

by White and Lakey (1992). More formal – if less pronounceable – support is afforded by the so-called Hysteresis theory. As White and Lakey explain, the essence of this theory is that the very existence of high unemployment has effects upon the labour market which remain even if the initial causes of that high unemployment are reversed. These changes are said to include; 'deterioration of the skills and work habits of people who have been affected by lengthy or recurrent unemployment [and] the diminishing effectiveness of financial incentives to work or search for jobs as unemployed people become accustomed to a reduced standard of living.' Perhaps the most important factor, however, is the 'growing use by employers of unemployment as a recruitment filter, leading to widespread discrimination' (pp.35–6). In principle, however, this is the very problem which is addressed by the kind of measures proposed by Layard and Philpott. Whether or not it is alleviated in practice will depend upon the response of both the unemployed and the employers.

The difficulties which arise from the use of compulsion are clear and well documented. As a recent study of the Employment Training scheme noted, the 'psychological motivation' of anyone coerced into attending 'will be well nigh zero' (Banks and Davies, 1990, p.2). Similarly, Bryson and Jacobs have argued that 'regulations premised on the assumption that claimants needed the threat of benefit loss to make them seek work sent perverse signals to employers. It merely confirmed the image of claimants as 'dependent' – a group who needed to be forced to do things' (1992, p. 157).

The counter argument is usually expressed in contractarian terms – if the government meets its side of the bargain, then it is entitled to insist that the unemployed fulfill their obligations in return. At root, however, the justification for compulsion rests upon the assumption that the initial reluctance to accept training is itself a manifestation of the deleterious effects of unemployment upon the individual – part of the problem which has to be tackled in the interests of the person concerned. It is now rare for such paternalism to be expressed with the candour of Temple but it remains the crux of the argument. Moreover, there is at least some evidence to support it. The research recently undertaken as part of the ESRC initiative on Social Change and Economic Life is only the most recent to document the continuing – perhaps even deepening – social isolation of the long-term unemployed (Smith, 1992, pp.91–95).

There is often a reluctance to discuss, or even accept, the damaging consequences which long-term unemployment can have, because it can appear that to do so is tantamount to suggesting that unemployment becomes voluntary over time. To talk of the 'demoralisation' of the unemployed seems to some to come too close to adopting the language of Lawrence Mead. And yet not to consider the consequences of unemployment may be to neglect or even deny its most pernicious effects. Back in the 1930s Tawney argued that it was the debilitating effects of prolonged unemployment upon those who endured it which constituted the most compelling reason why it should never be tolerated. This remains the most powerful argument in support of an approach which not only provides benefits but

Unemployment, public policy and the changing labour market

also requires those who receive them to participate in measures which seek to renew skills and confidence and to re-establish links with the labour market.

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6 The Benefit Fault-Line

Alan Marsh

Introduction

Families with children make up nearly all of the working poor in Britain. The growth of lone parenthood has meant that, below pensionable age, they now make up a large proportion of the non-working poor too.

This paper looks for evidence for the formation of an underclass among Britain's low income families with dependent children. It develops an argument put forward in *Families, Work and Benefits* (Marsh and McKay 1993) that social tenancy, experience of means-tested benefits, lack of educational qualifications, unemployment, and manual work are all 'markers for disadvantage'. These markers combine to increase families' risk of being in severe hardship by whole orders of magnitude, additionally to the effects of family income. This is true for couples as well as for lone parents. So powerful are these effects that they create a deep 'fault-line' in the social geography of low income families. There is a steep visible discontinuity in the fortunes of tenants-on-benefits compared with other families. This may not yet amount to an underclass of families who have sole experience of hardship, but it may do so in future.

The study

In 1991, the Policy Studies Institute carried out on behalf of the Department of Social Security a survey of 2,200 low income families. The main purpose was to study the effects of benefits upon work and well-being among families with dependent children. There was strong interest in the effects of 'in-work' benefits, especially the effect of family credit. Nearly all parents of dependent children get child benefit and, where appropriate, one-parent benefit. Anyone in low paid work may claim some means-tested benefits such as housing benefit and help, then, with their community charge and now with their council tax. Family credit is also means-tested, but only *working families* may claim it. Seven families in every hundred receive family credit nowadays and they get an average of about £42 a week.

Thus, among working families, eligibility for family credit is the most important marker for low income *relative to the size of the family*. Family credit is a cash

benefit, with some associated welfare provisions, that may be claimed by parents who work more than 16 hours a week (though at the time of the survey, in 1991, the weekly qualifying hours were 24), whose children are of dependent age and whose net family income falls below a specified level. This threshold level is determined by the numbers and ages of the children in the family and is compared to the family's total income. The amounts paid are linked to the amounts of income support and associated benefits that would be paid if the parents were not in full-time work.

For this reason, it is possible to define low income families as families who are within range of the qualifying provisions of family credit – including those who *might* claim the benefit if their circumstances changed, as well as those who actually received it. These potential claimants may be either seeking or entering low-paid work, working and eligible to claim, or have incomes just beyond the scope of the benefit. It was an important aspect of the study to find among those families who were working and, though eligible for family credit, had nonetheless failed to claim it. These are referred to as eligible non-claimants (ENCs).

In this way, we defined low income families as:

families whose total income from all sources was less than 25 per cent *above* the most they could receive before their entitlement to family credit expired.

It is important to note that this definition of 'a low income family' depends on the numbers of children in the family and their ages. Thus a couple with one four year child earning £162.50 a week net would not be selected by our definition. A couple with four children over 12 earning £180 a week net would be selected. The definition includes the bottom 25 per cent of the *equivalent* income distribution among families.

However, the focus of the content of the study also meant that we needed to talk to unequal numbers of the families in different groups. We needed a lot of family credit claimants, for example, but rather fewer higher income or out of work families.

The real problem was that low income families with children, *in the population as a whole*, are not common. Our total sample population was hidden away in only 12 per cent of all addresses.

The solutions found to the sampling problems are described in detail in the main report (Marsh and McKay, 1993). In brief, it was decided to carry out a postal sift of families included on the child benefit record system in the DSS computer in Washington, Tyne & Wear. This sift would take the form of a postal self completion questionnaire that would identify low income families among those who replied. 14,400 families were sampled and each sent a postal questionnaire asking about work, income, and receipt of benefit of maintenance. 9,700 families replied, most of whom returned sufficient information to admit them to the selection procedure for the interview stage.

In addition, the DSS family credit record in North Fylde was programmed to select in each of the same postal areas used for the child benefit sample, twice the number of family credit recipients discovered by the sift.

The interviews with selected low income families were carried out by NOP. Interviews were obtained from 82 per cent of those approached, though 7 per cent were interviews where only one partner in a couple had been personally interviewed and the partner data, where possible, completed by proxy.

Work and earnings

It is worth looking in detail at the patterns of work and earnings that distinguish low income families from the rest. Social security benefits apart, what is low income? What do low paid families earn?

The details are given in Table 6.1, which shows, separately for low income and higher income families the proportions of men and women working full time or part time (adopting the 1991 family credit rules of 24 hours a week or more) and their median earnings, and Table 6.2, which shows earnings in greater detail.

Being a low income family is largely a matter of having no job or low pay, often low female pay. Being a higher income family is largely a matter of being a two earner family or having high male wages, or both.

Among lone parents, almost all the higher income group worked full time, and a quarter of them were men. Among the low income group, only 19 per cent worked full time and 11 per cent part time. These were nearly all women.

Among couples, the pattern was naturally more complicated. Nearly all the higher income men had full time jobs, of course, and the majority of these had working wives too: only 3 in 10 higher income couples relied solely on male earnings, almost none on sole female earnings. In contrast, only 15 per cent of low income couples had two earners, 40 per cent had sole male earnings, and, again unlike higher income couples, 10 per cent had sole female earnings, though half only part time. A third of low income families had no work at all.

Among main wage earners – lone parents and husbands – the earnings distributions comparing low income with higher income families scarcely overlapped. Among low income families, take home pay was typically less than £200 a week; among higher income families, £200 was almost universally a minimum take home wage. Higher income families did not merely earn more, they earned twice as much as low income families. For example, among lone parents working full time the median earnings of low income families were £105 a week, among higher income families, £207 a week in take home pay. Among full time working husbands, the gap was widest: £150 a week among low income husbands, £378 a week among higher income husbands.

Table 6.1 Patterns of work and median net weekly earnings among low income and higher income families with dependent children

	Low Income		Higher Income	
Lone Parents (n=2007)	%	Median earnings (£s p.w.)	%	Median earnings (£s p.w.)
Working 24 hrs a week+:	19	105	95	207
Working less than 24 hrs a week	12	28	2	–
Not working	69	–	3	–
	100%	100%		
Married women (n=6218)	%	Median earnings (£s p.w.)	%	Median earnings (£s p.w.)
Working FT	9	82	37	134
Working PT	17	39	34	67
Not Working	74	–	29	–
Married men (n=6218)	%	Median earnings (£s p.w.)	%	Median earnings (£s p.w.)
Working FT	54	150	97	293
Working PT	1	(56)	*	(247)
Not Working	44	–	2	–
Couples with children (n=6218)	%	Median earnings (£s p.w.)	%	Median earnings (£s p.w.)
Both work, >24hrs	4	171	36	340
He works, she works PT	11	169	34	278
He works, she does not	40	140	29	260
She works FT, he does not	5	97	1	224
She works PT, he does not	5	40	*	–
Neither work	34	–	*	–
All	100	139	100	292

Table 6.2 The earnings of low income and higher income families

Take home pay in £s per week	Low Income			Higher Income		
	Lone Parents	Married Women	Married Men	Lone Parents	Married Women	Married Men
	%	%	%	%	%	%
1-50	34	53	3	0	24	0
50-100	32	35	12	3	35	0
100-150	28	10	38	8	20	0
150-200	5	1	42	36	0	10
200-250	1	*	4	30	7	22
250-300	0	0	*	15	3	22
Over 300	0	0	0	8	3	46
	100%					
Average earnings	79	57	144	228	114	378
Median earnings	77	49	150	206	88	293
Average pay, (£s per hour)	3.10	2.9	3.2	6.1	4.5	7.0
Median pay, (£s per hour)	3.00	2.9	3.3	5.4	3.6	5.4

The composition of low income families

Having identified our sample of low income families, the next step was to divide them into the four target groups that formed the basic design – or rather eight groups since we would want to look at lone parents and couples separately.

These are actual numbers interviewed:

Table 6.3

	Eligible Non- Claimants	FC Claimants	Moderate income families	Out of FT work families
Lone Parents	57	322	72	432
Couples	157	496	416	239

When the numbers above are re-weighted to reflect their true position, relative to one another, this is how the eight groups appear in the population of *low income families*.

Table 6.4 Sampled target groups: total percentages

	Eligible Non- Claimants	FC Claimants	Moderate income families	Out of FT work families
Lone Parents	2%	5%	3%	38%
Couples	6%	8%	20%	18%
ALL	8%	13%	23%	56% (=100%)

The pre-eminence of *out of work* lone parents as a presence among all low income families is very striking: nearly 4 out of 10 of them. Together with the minority who had jobs, lone parents make up nearly half of all low income families. Thus, 73 per cent of adults in low income families are women. Nearly all of those we have called the moderate income group (families between 1 per cent and 25 per cent above their FC threshold) are couples.

A social profile of low income families is constructed in Table 6.5. They are divided into the eight groups in Tables 6.3 and 6.4 above,¹ but re-arranged to compare families receiving means tested benefits on one side, and families not receiving them on the other. This is a contrast we will look at again below. Meanwhile, in summary: 1 in 10 of the couples had yet to marry. Most of the lone parents were formerly married, though more of the out of work lone parents were single. Lone parents had fewer children than couples and the point made earlier about working lone parents having older children is seen very clearly. Black people, of all kinds, are about 4 per cent of the British population but are 10 per cent of low income families.

Among couples in low income families, it is usually the male partner who has a paid job, if either of them have a job, though about one in seven of the working couples have two earners and one in ten of the out of work couples have some part time work.

The women tend to be found in junior non manual grades, selling and personal service jobs, or they are cooks and cleaners. In fact the majority of low paid women do one of five jobs that all begin with 'C': cooks, cleaners, cashiers, child minders and clerks. The men are found more often in the less skilled manual grades in production, construction and food industries; others are drivers and warehousemen.

Table 6.5 A social profile of the four target groups among low income families
cell percentages

	'Benefit families'				'Non-benefit families'			
	Lone Parents		Couples		Lone Parents		Couples	
	Out of work	FC clmts	Out of work	FC clmts	Elig clmts	Mod. non-income	Elig non-clmts	Mod. non-income
Per cent who were..								
...legally married			85	83			91	93
...never married	49	43			31	19		
...3+ children	22	18	36	48	16	7	40	30
...youngest 0-4	52	21	52	54	21	13	53	51
...non-white	9	6	10	15	18	12	18	7
...social tenants	65	52	61	52	27	18	29	27
...no qualifications								
women	46	47	56	52	29	11	39	42
men			58	51			45	37
...manual workers	53	34	83	78	18	17	63	64
Total disposable income (£s pw)	£82	£148	£111	£162	£138	£203	£126	£259

Low Income Families In and Out of Work: A Summary

Apart from their low incomes, low income families are different from other families in a number of key aspects:

The lowest income strata 'capture' most of the lone parent families; nine out of ten of them. Nearly *half* of our sample of low income families were lone parents. Two thirds of these lived on income support, sometimes doing a little part time work. They remained on income support for a long while, typically twice as long as IS claimant couples. The barriers they faced entering work were familiar but intractable: little education, training or work experience; a lack of really suitable jobs; uncertain child care; a lack of regular maintenance payments; and a loss of all income support on earnings above £15 a week that debarred lone parents from a gradual increase in working hours as their children grow older. To get into work, they needed full time hours or very few.

But lone parents are not low income families just because they are lone parents. Most of them are women, so the one third of lone parents who get paid jobs tend to be offered lower wages. A quarter of low income lone parents work full time and nearly four out of ten of these in full time work have incomes low enough to qualify for family credit (compared with 5 per cent of all couples and 16 per cent of low income couples), even though they have fewer children than couples have.

Couples, on the other hand, are found among low income families when only one of them works full time, when the main earner's wages are low (though not necessarily the lowest, by any means) and when the children are young. A couple's route out of low income is to become a two earner family.

However, wives² in low income couples face similar disincentives to work that conspire to keep lone parents at home: similarly low levels of education, training and really suitable jobs. They too are offered wages that would pay for little child care if they needed to; usually they do not. If it does, they will soon find going out to work becomes economically irrational. They have an advantage in being able to ease themselves into work more gradually, increasing their hours as children grow. But if they are on family credit this advantage vanishes. The wives in family credit couples have the same problems as lone parents on IS. True they lose 'only' 70 per cent of family credit (though more if they are on HB & CCB too) for each pound they earn, but they get no £15 a week disregard as those on IS do. The fixed 6 month term of FC awards cushions this disincentive a little, but nearly all of the 1 in 6 low income couples getting family credit were one earner families – though some of them are women full time workers.

A surprising number – 1 in 6 of working low income families – were self employed.

Thirty years ago, when families had two parents and one job, a survey of low income families would have placed unskilled manual work at the fore of any social construction of their position. No longer – the growth of out of work lone parenthood, and higher unemployment generally has changed it. A fifth of lone parents who work had the poorest jobs in cleaning and catering, the rest worked in junior non manual, retail and personal service jobs. The same is true of wives and even of their husbands, still less than half of whom are manual workers. Our definition of low income includes many moderately paid non-manually employed families, especially if they have more than two children. But the emphasis has shifted from work to benefits: 59 per cent of low income families claimed means tested benefits; another 8 per cent were entitled to them but did not claim; 33 per cent had only earnings and non-means-tested benefits.

The gap in earning power 'caused' by having children occurs at the point of greatest family needs. It happens as families move through a quite narrow band of time in their life cycle as they bring up young children. Thus, the central definition of low income (eligibility for family credit) tends to include lone parents whose children are old enough to look after themselves, and couples whose children are not.

The 'Benefit Fault-Line'

The characteristics of low income families described above are not shared uniformly. Low income families are not all alike. We argue that there is a kind of geological fault-line that runs through the population of low income families. It places the two 'benefit families' (those in work and claiming FC, or out of work and claiming IS) on one side and the two non benefit families (eligible non-claimants of FC and the moderate income families) on the other.

The benefit families, compared to the others, tend of course to be lone parents. Among lone parents, they tend to be single or separated from a cohabitation, rather than formerly married or widowed. Among couples, they marry less and cohabit more. They tend to be younger and to have more children. They are less well educated and have fewer qualifications. They are more often found in unskilled jobs, including the most routine non-manual jobs. More than anything, though, they tend to be social tenants rather than owner occupiers, usually in council housing.

What are the effects of the fault-line?

Let us introduce a dependent variable into this analysis: relative material well-being or, better perhaps, hardship. If there is one factor common to competing definitions of the underclass it is that they are poor: the poorest, or at least the poorer, of the poor. We call our variable hardship because poverty is a wider concept that embraces the antecedents of hardship. Poverty is a coincidence of economic and social conditions. Hardship is what you are most likely to experience when you are poor and it is used here as a diagnostic measure.

This is how the Index of Relative Material Hardship was constructed:

A seven point index (lowest=0, highest=6) was constructed, adding one point for each 'yes' answer to the following questions:

Does the family have:

1. Two or more problem debts?³
2. Two or more out of six items of types of food that the family say they do not have each week and they say the reason they do not have each item is that they are 'unable to afford' it, rather than they '...do not want it'?
3. Three or more out of nine items of clothing and leisure activities scored 'unable to afford'?
4. Four or more out of eleven items of consumer durables scored 'unable to afford'?
5. Additional unmet need spontaneously listed for *both* the children and for the adults in the family?
6. *Both* the financial anxiety measures scored at the highest point ('Always worried about money' *and* 'In deep financial trouble')?

The six scale items were derived from over 50 measures. Yet the scale ignored community charge arrears (these were an uncertain mess in July 1991), overlooked entirely the amounts owed in debts (counting only the number of problem debts, and even one of these was ignored), did not count up to six items of basic expenditure scored 'unable to afford', disregarded spontaneously-cited unmet need for adults if children's cited needs were met, ignored those who worried constantly about money unless they (only 4 per cent overall) *also* said they were in real trouble, and disregarded the lack of any savings. This meant that to get any kind of score on this scale meant to experience some hardship. Such difficulties are not that uncommon among low income families, so the scale was designed to pinpoint severe hardship. This is because severe hardship, at these levels, is the target of social security benefits. This is what it is hoped to avoid. Its successful avoidance is the keenest measure of the *relative* effects of being without work and on benefits, being in work and on benefits, and being in work without benefits.

Table 6.6 provides this comparison and draws attention to a rule of thumb measure of severe hardship: the proportion scoring 3 or more on the 7 point scale.

Table 6.6 Index of relative material hardship by type of family

Number of problems	Lone parents				Couples			
	Out of work	FC clmt	ENC	Mod inc	Out of work	FC clmt	ENC	Mod inc
	%	%	%	%	%	%	%	%
none	30	40	62	63	35	35	59	72
one	22	27	16	17	22	22	19	18
two	18	17	11	14	19	18	11	6
three	16	11	6	3	10	11	6	2
four	9	4	2	1	10	8	4	1
five	4	2	2	1	3	4	1	*
six	2	0	0	0	1	1	0	0
	100%							
mean no.	1.7	1.2	0.8	0.7	1.5	1.5	0.8	0.4
% having three or more problems:	30%	16%	11%	6%	24%	24%	11%	4%

Overall, one in five low income families met this definition of severe hardship: scoring three or more on the scale. Our initial hypothesis was that severe hardship of this kind would be most commonly found among out of work families. Among those in work, the moderate income families should report the least

number of problems, the eligible non-claimants ought to report the most, and the family credit families should be somewhere in between the ENC's and the moderate income families.

As Table 6.6 shows, we were only half right:

We were right about the out of work families: they were worst off, especially the lone parents among them, nearly a third of whom reported severe hardship.

We were right about the moderate income families, they were best off with only 1 in 20 reporting severe hardship. So the scale 'works' in the sense of sharply discriminating between two groups of families whom we would expect to share differing fortunes.

We were wrong about the eligible non-claimants. They did report more hardship than the moderate income families, but not much more.

We were wrong about the family credit families. They reported only a little less hardship than the out of work families; among couples, the same amounts.

Crucially though, we were most wrong about the relative standing of the family credit and eligible non-claimants families: the family credit families were significantly *worse* off than the eligible non-claimants.

Why? Why were the family credit recipients not further ahead of the out of work families than they were? And why did they lag behind the eligible non-claimants, who ought to have been worse off than everyone else in work but who instead looked more like the moderate income families?

Perhaps the better question is which kind of family was the one out of line? Are the eligible non-claimants 'too well off' on the well-being index, or are the family credit families 'too badly off' relative to what we should really expect? We expect that because income is related to well-being, and they have different incomes, their well-being will differ accordingly.

The answer to this vexing question is found in the social profile of the benefit and non-benefit families seen earlier in Table 6.5. Also against expectation, the eligible non-claimants tended to inhabit the favoured side of the fault-line: owner occupiers, better educated, somewhat better paid non-manual workers. The absence of markers for disadvantage was protecting them from the risk of severe hardship. The more we investigated the puzzle, the clearer the effects of the fault-line became. For example, 4 out of 10 ENC's had claimed family credit in the past. Who were they? They were the smaller numbers of social tenants among them. Similar numbers said they might claim in the future. Again: the social tenants. This too was reflected in hardship: the ENC's who had *never* claimed FC were better off than those who had, as free of severe hardship, in fact, as the moderate income families who had nearly twice their income. Almost all the difference in hardship scores between claimants and ENC's was accounted for by social tenancy.

Another important example of the power of claimant status to determine risks of hardship independently of work or income was that families who had moved up the income range and who had prior experience of claiming means-tested benefits, were still much worse off than those who had never claimed. What we are really

looking at here is the power of the coincidence of social tenancy and acquaintance with means-tested benefits to determine *trend* income. Families on the favoured side of the fault line seem to be able to keep their domestic welfare intact even during periods of low earnings, sometimes to the extent of not even realising they are eligible for benefits or feeling the need to find out if they are. Families on the other side always seem to be struggling to catch up or make ends meet, even during times when they are earning more.

The magnitude of these effects is quite startling (Table 6.7). One in three of the social tenants claiming benefit (this included those working on FC or getting housing benefit or community charge benefit) were in severe hardship compared with only the smallest handful of low income owner occupiers who had *never* claimed. The tenants/claimants' disposable incomes after housing costs were 63 per cent of the owner/non-claimants'. This seems a huge increase in the risks of being in severe hardship that is out of proportion to the gap in disposable income.

Outside the ranks of current claimants, both owner occupiers and social tenants who had claimed in the past, but who were no longer receiving benefits, were between 3 and 5 times more likely to be in severe hardship compared with those who had never claimed, *despite having almost as much incomes*.

Table 6.7 Disposable net income after housing costs, and the proportion in severe hardship, by housing tenure and experience of claiming means-tested benefit
cell percentages

	Owner Occupiers	Social Tenants	Private Tenants
Income £s per week			
Claiming now	103	98	87
Claimed in the past but not now	142	164	—
Never claimed	157	173	—
Proportion in severe hardship			
Claiming now	18%	33%	18%
Claimed in the past but not now	6%	16%	—
Never claimed	1%	6%	—
WEIGHTED BASES			
	744	1908	210
	236	153	16
	726	131	30

Does this amount to an underclass of families, often in severe hardship, living in social housing, unemployed or in low paid work supplemented by means-tested benefits? They are nearly half of all low income families and 1 in 3 are in severe hardship according to our (pretty severe) definition. Perhaps an even more

relevant contrast is that 8 out of 10 families who never claimed benefit had *none* of the problems listed in the severe hardship scale. Only a quarter of the social tenants on benefits managed to avoid any score on the hardship scale. Either way, this is a risk of severe hardship among tenants on benefits three times higher than occurs outside this group, even including the current benefit claimants who are not social tenants among those outside. And the residual hardship of the former claimants in social housing is very telling.

In fact, this last point can be illustrated quite starkly (Table 6.8) by contrasting the social tenants on benefits with other families. It is particularly interesting to note that, although lone parents are half again more prone to severe hardship than are low income couples, this is almost entirely due to the greater numbers of social tenants on benefits among them.

Table 6.8 Proportion in severe hardship by combined tenure and benefit status

	Proportion in severe hardship		
	All	Lone Parents	Couples
Social tenants, claiming means-tested benefits:	33%	34%	31%
Other families, either owners and private tenants who claim now or who claimed in the past, or social tenants who claimed only in the past:	15%	16%	14%
Never claimed benefit, all tenures	3%	3%	3%
ALL LOW INCOME FAMILIES	20%	24%	17%

Does Table 6.8 support the conclusion that social tenants on benefits are an underclass distinct in their poverty from other low income families? Probably there is sufficient severe hardship present among low income owner occupiers to resist this conclusion, though such resistance is looking marginal. Among low income families, 44% of the owner occupiers are acquainted with means tested benefits, though most of them are lone parents divorced or separated from marriage. We also suspect (and are doing more research to discover) that owner occupiers in hardship are disproportionately right-to-buyers. And 1991 was a period of exceptionally high interest rates that were putting pressure on owner occupiers' budgets. If these factors were placing unusually larger numbers of owner occupiers in hardship at that time, their position will have improved since but the tenants' will not have improved. Even in 1991, tenants on benefits made up 7 out of 10 of all families in severe hardship.

What aspects of social and economic disadvantage are most closely associated with the increased risk of severe hardship among social tenant claimants? We know from Table 6.8 that it was not lone parenthood as such, couple tenant

claimants were equally at risk. Significant bi-variate relationships can be shown between increased risk and having no educational qualifications, being a never-married lone parent or a cohabiting couple, doing manual work (among workers), belonging to a non-white ethnic group, and of course, income. None of these relationships except income were as strong as either benefit receipt or social tenancy, but do they add an independent risk of hardship? And how does income compare with other factors? To answer this we carried out a logistic regression analysis, predicting whether or not a family was in severe hardship (see Table 6.9). Two equations were estimated, the first using as predictors all the main markers for disadvantage discussed earlier; the second repeated the first but added disposable weekly cash income to the predictors.

What these equations appeared to tell us most clearly was that if you want to make a guess about whether a low income family is experiencing severe hardship, or whether they are managing to avoid it at the moment, then you really only need to know two things about them: are they social tenants and are they claiming means-tested benefits. Among lone parents, social tenancy has a rival, substitution variable: having left school with no educational qualifications. Likewise, among couples, a guess is improved by knowing that the main wage earner has no qualifications. In social and economic terms, at least, nothing else really helps: certainly not income itself, which is entirely accounted for by the other variables.

This, it must be said, is beginning to look like a problem in social geography. If a substantially increased risk of severe hardship is the chief badge of underclass membership, then it is worn in great numbers by a very visible, easily identifiable group: families who are tenants on benefits. It is not worn very often by other families with children, except by tenants who used to be on benefits. There are other low income families who, like the tenants on or recently off benefits, have not much education, do manual jobs, experience marital instability, and so on. But their risks of severe hardship are nothing like the same.

My own guess is that there is not one underclass emerging in Britain at the moment but several. Tenant families on benefits seem strong candidates to become one of them. Over the past 20 years or so, the pollution line in British society (to borrow an image from the Indian caste system) was moved downwards one whole social class. It was moved from the space between manual and non-manual workers, down to the widening gap between employed families above the range of means-tested benefits, and employed and unemployed families below. The growth of non-manual work, and the recruitment of skilled workers to owner occupation (partly through right-to-buy) left a number of groups exposed at the bottom of the income distribution. The growth of lone parenthood and high unemployment has increasingly detached social class from income. It is as though the mass of lower paid workers which formerly existed has broken up into a number of dispossessed groups, all competing for a diminishing social wage.

Table 6.9 Logistic regression equations predicting whether or not the family was in severe hardship

	Lone parents		Couples	
	B	S.E	B	S.E
On IS	1.34	0.20***	1.26	0.15***
On FC	0.44	0.23	1.14	0.15***
Tenant	0.30	0.15*	1.04	0.15***
No qualifications	0.38	0.11***	0.23	0.13
Manual worker	-0.17	0.13	0.24	0.15
Partner man worker			-0.20	0.13
Partner no qualifications			0.31	0.13**
White	-0.34	0.18*	0.16	0.21
Never married	0.10	0.12		
Cohabiting			0.07	0.18
Constant	-2.24	0.26***	-3.45	0.26***
	B	S.E	B	S.E
On IS	1.26	0.20***	1.22	0.16***
On FC	0.58	0.23**	1.12	0.15***
Tenant	0.18	0.16	1.03	0.15***
No qualifications	0.36	0.11***	0.24	0.13
Manual worker	-0.17	0.13	0.24	0.15
Partner manual worker			-0.20	0.13
Partner no qualifications			0.30	0.13**
White	-0.35	0.18*	0.17	0.21
Never married	0.06	0.12		
Cohabiting			0.07	0.18
Income	-0.00	0.00	-0.00	0.00
Constant	-1.69	0.34***	-3.31	0.29***

Note: IS = Income Support

FC = Family Credit

Asterisks indicate levels of statistical significance

In the case we are looking at here, the case of low income families with young children who are tenants on benefits, probably the crucial event in their lives was leaving school without any educational qualifications in the 1970s. It was in that decade that the connection between getting qualifications and getting a better paid job (and subsequent access to a better provided marriage market) was so much strengthened. This blocked their route out of social tenancy and into better paid, more secure work.

Since the 1970s, economic conditions, trends in family formation and change, housing policy and opportunities, have all moved decisively against their interests. The outcome is seen in these data.

Acknowledgement

Much of the work reported in this paper, and some shortened or paraphrased text, was drawn from work carried out jointly with Stephen McKay and published in Alan Marsh and Stephen McKay, *Families, Work and Benefits*, Policy Studies Institute, London, 1993.

Notes

1. A much more detailed profile is available in *Families, Work and Benefits*, Chapter 2, Table 2.7.
2. By 'wives' we mean the women in the sample who said they had a partner who usually lived with them.
3. A 'problem debt' is one whose re-payments you cannot service. For example: not being able to pay the minimum payment asked by your credit card account, or being unable to meet a hire purchase repayment.

7 Trends in Job Loss and Recruitment in Britain, 1979–1991

*Joan Payne and Clive Payne*¹

Introduction

A certain level of labour turnover is necessary for the labour market to work efficiently, achieving a good match between jobs and individuals, and permitting employers to match the size and characteristics of their workforce to the needs of production. For many employees, job changing is the mechanism through which career mobility is achieved (Dolton and Makepeace 1992), while for some groups of young people, 'job sampling' has been an accepted part of the transition from school to work, enabling them to gain information about a range of jobs before settling into a preferred line of work (Cregan 1991).

Balanced against these benefits are the costs of too high a level of turnover. Apart from the direct costs of recruitment, induction and possible redundancies, employers can face the loss of firm specific skills and experience, investments in training, and workforce loyalty. For employees, the costs include insecurity, domestic disruption, devaluation of any firm specific human capital which they may possess, and the risk of unemployment. For the country as a whole, high labour turnover combined with a lack of mechanisms for sharing industry training costs between employers encourages poaching, and may produce a low level of investment in training and a culture of short-termism. This view is supported by a recent comparative study (OECD 1993).

The policy of the British government since 1979 has been to promote flexibility in the labour market by reducing constraints on its free operation. The same period has seen the decline of Britain's primary and secondary sector industries with traditions of 'a job for life', and the growth of service industries where labour turnover has always tended to be higher. In addition, 'non-standard' forms of employment have increased, particularly part-time and self-employment. It is plausible to suppose that these changes have had an impact on the level of labour turnover.

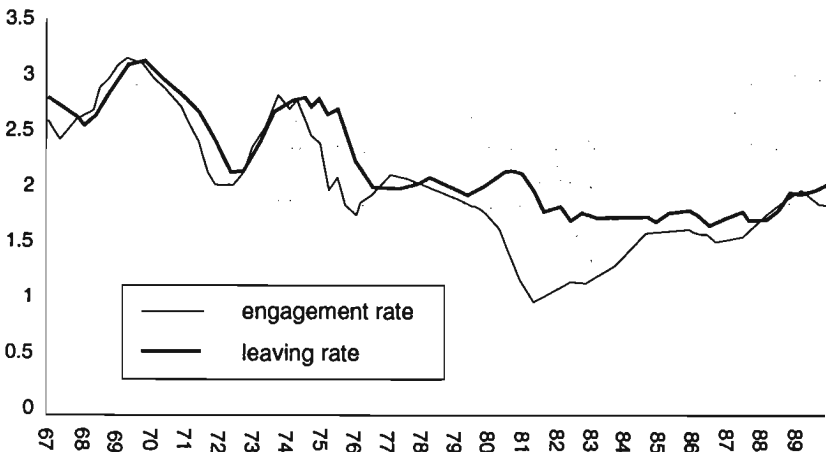
There are, however, relatively little data on labour turnover available. Between 1967 and 1989 the Employment Department collected information on net turnover over a four week period from a sample of employers in manufac-

turing industry. As far as the authors are aware, no comparable aggregate data are available for the 1990s, or for other industries. Micro-data are available from the General Household Survey, but sample numbers are small and separate estimates can be quoted only for very broad subgroups. We therefore have constructed measures of turnover for all employees using the British Labour Force Survey (LFS) for the period 1979 to 1991. We can thus explore how trends in labour turnover differ between industries and types of occupations, how they vary by sex, age and full and part-time working, and how these different factors inter-relate with each other.

Long term trends in labour turnover in manufacturing

Figure 7.1 shows the complete time series from the Employment Department data on turnover in manufacturing industry, expressed as quarterly moving averages for engagements and leavers as a percentage of all employees. There is strong cyclical variation in both measures. For most of the 1960s and 1970s the leaving rate shadowed the engagement rate, but the deteriorating employment situation of the 1970s is indicated by the way that, in each successive recession, there was a longer delay between the fall in the engagement rate and the fall in the leaving rate. The huge shake-out of labour in the early 1980s is revealed in a divergence between the two rates, with the leaving rate climbing as the engagement rate fell. By 1987 the two rates had converged once again, but the figures for 1989 suggest the beginning of a repeat of the situation in 1980, with the leaving rate climbing while the engagement rate fell.

Figure 7.1 Labour turnover in manufacturing industry, 1967–89
 (Source: *Employment Gazette*, various years)



If we ignore cyclical variation, the underlying trend in turnover from 1967 to 1980 appears to be downwards, with each succeeding peak and trough in both the engagement and leaving rates lower than the previous one. After 1981, however, the picture is somewhat different. While the engagement rate climbed relatively steadily for most of the 1980s, the leaving rate remained flat. Extrapolating the trends beyond 1989, it seems that the leaving rate was set to peak at a higher point than in 1980. By using LFS data, we can explore what happened during the 1980s and beyond in much more detail.

Trends in turnover from the LFS

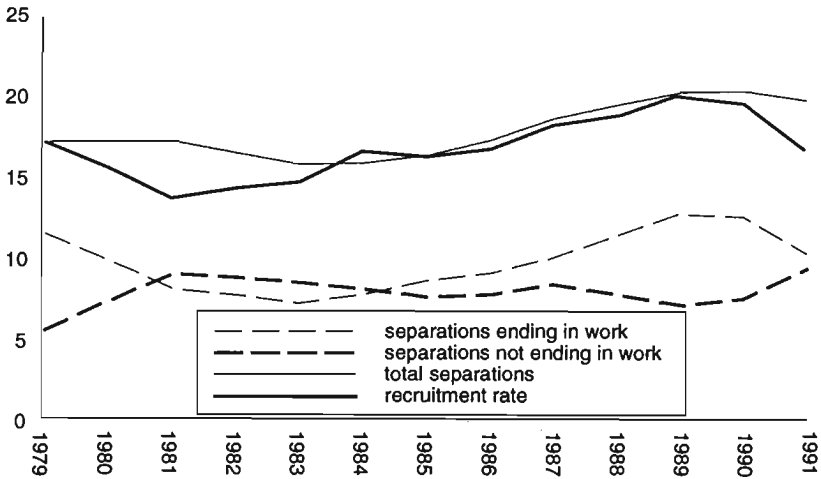
Our data cover each year from 1979 to 1991, apart from 1980 and 1982 when there was no LFS. Figures are weighted by region, sex, marital status and age to be representative of the GB population as a whole. We use data for people of working age only, that is, men aged 16–64 and women aged 16–59.

The LFS contains a question on the economic activity of respondents 12 months before interview. We define job separations as cases where the respondent was in employment as an employee 12 months previously, but at the time of interview was either not in employment as an employee, or was working for a different employer. This excludes people who were self-employed 12 months earlier, but includes people who moved from employee to self-employed status. We define recruits as people in employment as employees at the time of interview who, 12 months previously, either were not in employment as an employee or were working for a different employer (this excludes people who were self-employed at interview but includes people who moved from self-employed to employee status). In calculating the rate of job separations we take as the base the total number of respondents who were in employment as employees 12 months previously, and in calculating the recruitment rate we take as the base the total number of respondents who were in employment as employees at the time of interview.

It should be noted that these measures of job separations and recruitment rely on respondents' recall about their position 12 months previously. Recall data have a greater degree of unreliability than data pertaining to respondents' current situations, though fortunately recall biases in the LFS appear to be fairly consistent across years (Payne and Payne 1993a). Nevertheless our analyses are indicative only of broad trends rather than precise differences between subgroups or from one year to the next. Our measures also take no account of changes taking place between the two time points by which they are defined, and so are underestimates of total separations and total recruitment in any particular year.

In Figure 7.2 we show job separation and recruitment rates for all industries from 1979 to 1991 (top two lines). Note that, because we calculate turnover over 12 months rather than four weeks, it appears much higher than in Figure 7.1. In addition, while Figure 1 gave quarterly changes, Figure 7.2 gives biennial changes between 1979 and 1983 and annual changes thereafter. For both these reasons, the peaks and troughs in Figure 7.2 lag behind the peaks and troughs in Figure 7.1. Nevertheless, the major features of Figure 7.1 are very recognisable in Figure 7.2.

Figure 7.2 Job separations and recruitment, GB 1979–91 (Source: LFS)



In 1979 and from 1984 to 1989 job separation and recruitment rates were very similar; however they diverged sharply when recruitment dropped in the two recessions. As seemed likely from Figure 7.1, the 1991 peak in the separation rate exceeded the 1981 peak. Over the 1980s as a whole the separation rate remained steadier than the recruitment rate, never falling below 16 per cent though the recruitment rate fell to 14 per cent in 1981.

The separation rate is composed of both voluntary and involuntary job departures from jobs, and we might expect these to behave in very different ways. It is not possible with the LFS to construct a time series spanning the whole of the 1980s which distinguishes voluntary and involuntary separations, except in the case of respondents who were not in work at the time of interview. Thus as a proxy for this, we make a distinction between separations where respondents were in work at the time of interview, and separations where they were not in work at interview ('work' here includes full-time and part-time employment, and self-employment). The justification for using this as a proxy is that voluntary separations are much less likely than involuntary separations to be followed by unemployment: people who wish to change jobs do not generally give up a job until they have secured a new one, and people are more likely to experience dismissal or redundancy if they are old or poorly qualified, and hence disadvantaged in the competition for jobs. This justification does not apply in the case of people who give up a job with the intention of leaving the labour market, either for domestic reasons or to take early retirement, and we note below where this seems to play a major part in the trends that we observe. However, the distinction between separations which end in work and those which do not is of interest in itself, quite apart from its role as a proxy for voluntary and involuntary quits, as a measure of the

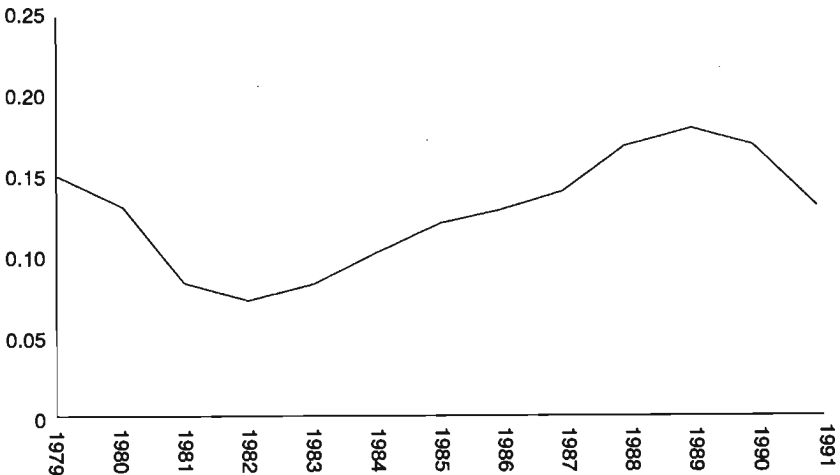
risk associated with leaving a job and the relative insecurity of different types of employment. We need to remember, however, that a separation which ended in work 12 months later may have been immediately followed by a spell outside work, and *vice versa*.

As Figure 7.2 shows, these two types of separations were much more responsive to fluctuating economic conditions than the overall separation rate, and indeed formed mirror images of each other. As the rate of separations not ending in work rose, so separations ending in work declined, presumably because employees who might have been in a position to change jobs started to feel that the risk was too great. As we would expect, the rate of separations ending in work shadowed the recruitment rate quite closely. Note, however, that in 1981–83 the recruitment rate rose whilst the rate of separations ending in work continued to fall, and in 1984 a sharp rise in recruitment was not fully reflected in the rise in separations ending in work. These features could be explained by employers recruiting people who were not previously employed, most probably school leavers and women returners rather than older unemployed people (Payne and Payne 1993b).

In the boom years of the late 1980s, separations ending in work reached a high point of 13 per cent, compared with a pre-recession 1979 figure under 12 per cent. However, as Figure 7.1 shows, the engagement rate in manufacturing industry in 1979 had been declining since 1976, and it is probable that the rate of separations ending in work between 1976 and 1978 equalled or exceeded the 1989 peak.

Following a steep rise between 1979 and 1981, the rate of job separations not ending in work fell gradually in most years in the 1980s, but at its lowest point in 1989 still remained well above its 1979 level. By 1991, the rate of such separations had slightly exceeded the 1981 peak.

Figure 7.3 Average number of changes of employer in the 12 months before interview per working person, GB 1979–91 (Source: GHS)



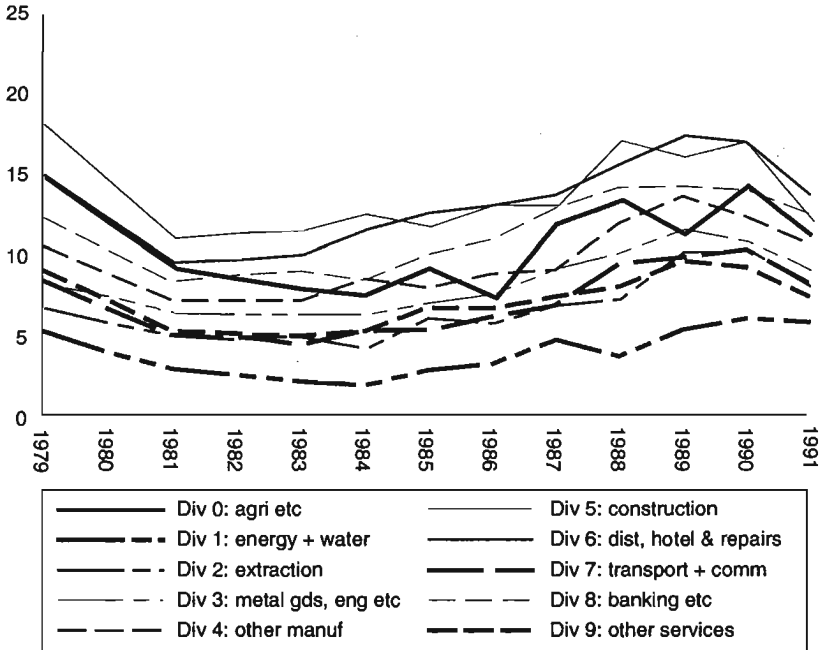
The relevance of our distinction between separations ending in work and separations not ending in work is further supported by Figure 7.3, which gives the average number of changes of employer in the 12 months before interview per working person, plotted from the published General Household Survey (GHS) figures for 1979–91. This follows the trend in separations ending in work calculated from the LFS very closely. The only differences of any note are in 1980 and 1982, where the GHS has real data, while in the LFS plots we have simply drawn straight lines between the points for 1979, 1981 and 1983.

Industry and occupation profiles

In the case of the smaller SIC divisions, LFS sample numbers are relatively small, and so trends in separations are subject to sampling fluctuation. Distinctive trends in certain industries are nevertheless apparent.

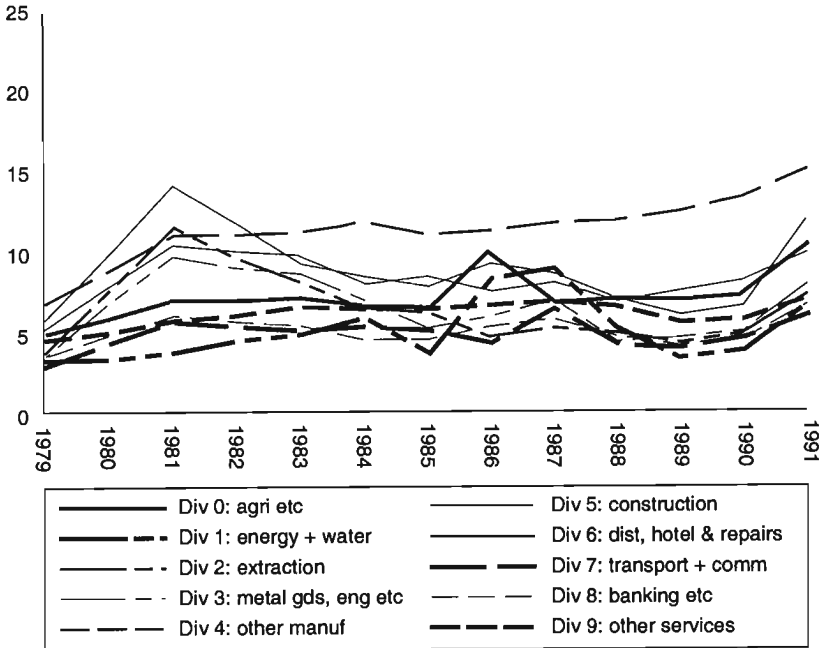
As Figure 7.4 shows, industry differences in the rate of job separations ending in work are wide, indicating the continuing strength of distinctive traditions of labour use. SIC Divisions 5 (construction) and 6 (distribution, hotels and catering and repairs) had high rates of separations ending in work throughout the period, while in Division 1 (energy and water) the rate was consistently low. Industry differences tended to narrow as the recruitment rate declined, presumably because voluntary quits fell. Thus in 1979 there was a difference of 13 percentage

Figure 7.4 Job separations ending in work, by industry (Source: LFS)



points between the industries with the largest and smallest rates of separations ending in work, but by 1981 this gap had fallen to eight points. By 1989 the gap had widened again to 12 points, but it shrank back to eight points in 1991.

Figure 7.5 Job separations not ending in work, by industry (Source: LFS)



On the whole, industry differences in separations not ending in work (Figure 7.5) are smaller, but show more variability, being heavily influenced by the pattern of redundancies in each industry. These peaked during the recession of the early 1980s, whose differential impact on industries is evident in the plots. However, Division 6 is particularly striking, for there the rate of job separations not ending in work continued high throughout the 1980s, apparently unresponsive to the changing economic climate. We explore this finding in more detail later on.

To examine patterns within occupational groups, we use the Goldthorpe class schema (Goldthorpe and Heath 1992), where the term 'upper service class' refers to senior managers and professionals and 'lower service class' to junior managers and associate professionals. The LFS in 1979 and 1981 did not ask about organisation size, making it impossible to distinguish OPCS Socio-Economic Groups 1 and 2 (SEGs being used to approximate the Goldthorpe class schema); thus we give figures for the combined service class in these years.

The pattern for occupational groups is the reverse of that for industries, with a much narrower spread in the rate of separations ending in work (Figure 7.6) than

Figure 7.6 Job separations ending in work, by occupational class (Source: LFS)

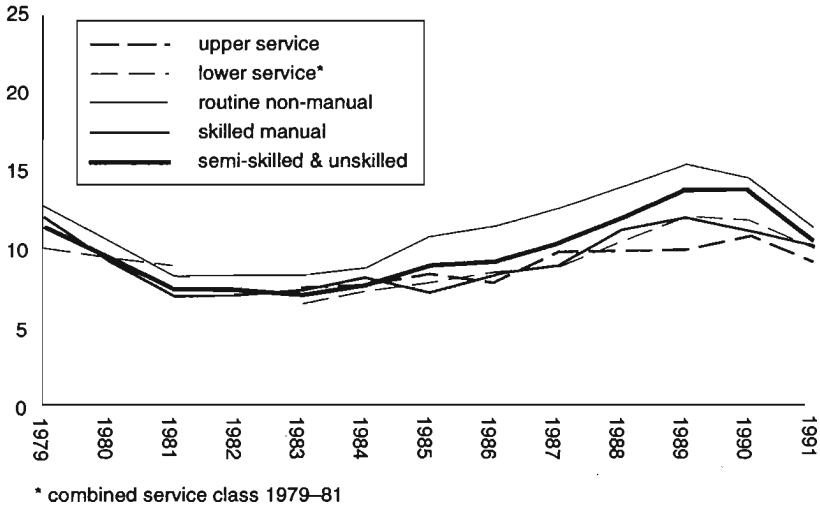
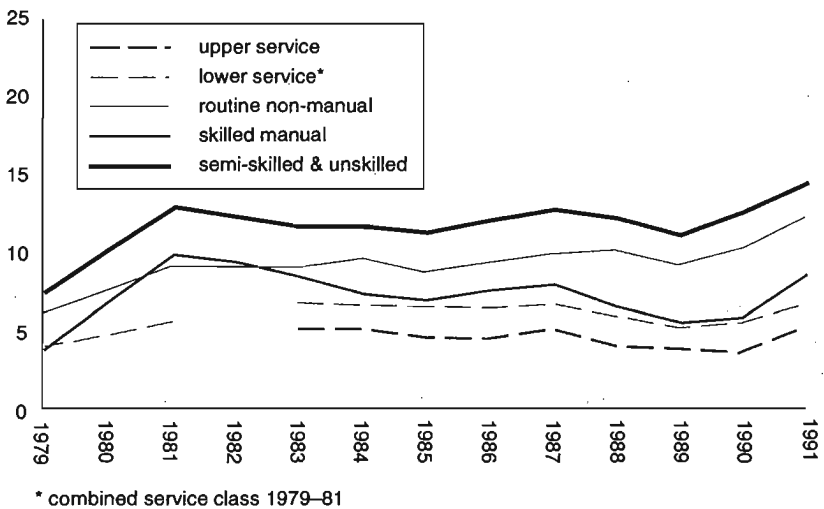


Figure 7.7 Job separations not ending in work, by occupational class (Source: LFS)



in the rate of separations not ending in work (Figure 7.7). Figure 7.6 suggests that low skill occupations do not necessarily have high turnover, as a simplistic interpretation of dual labour market theory might lead one to predict. This account is supported by McCormick (1988) who shows that, other things being equal, variations in the frequency of entering unemployment across occupations tend to be associated with large variations in the likelihood that a job change results in a spell

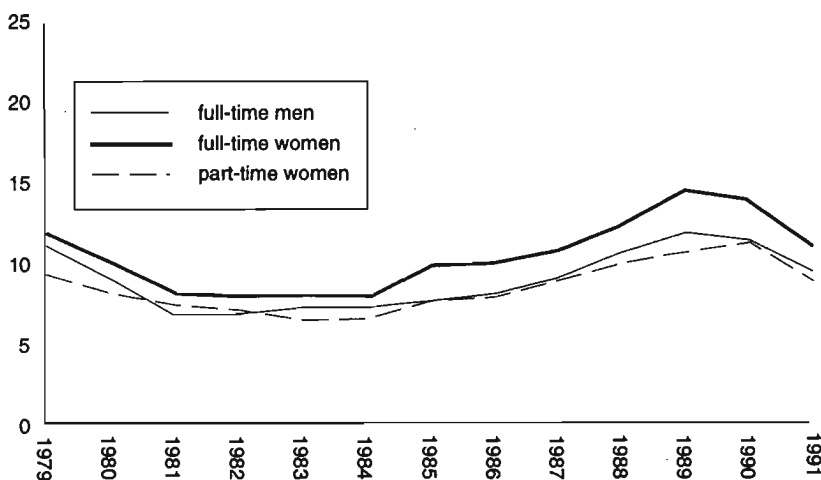
of unemployment, rather than with variations in job turnover. In most years, the highest rate of separations ending in work occurred in routine non-manual occupations, which have a high proportion of women employees, differences between men and women being discussed below. As with industry, occupational differences in the rate of separations ending in work widened as the recruitment rate peaked in 1989.

Given what is known about the characteristics of the unemployed workforce and the nature of the demand for labour, it comes as no surprise that Figure 7.7 shows semi-skilled and unskilled occupations to have had the highest rates of separations not ending in work and the service classes the lowest. The gap between these two groups widened substantially between 1979 and 1981, narrowing only a little in the mid 1980s and widening out still further in 1990–91.

Sex differences and part-time work

As the large majority of part-time workers are women, and part-time workers are often said to be less committed to their jobs than full-timers, in investigating sex differences in separation rates we control for full-time or part-time status. In 1983, the LFS omitted to ask respondents who were in work 12 months previously whether they were in full-time or part-time jobs then, so in all our graphs which distinguish full-time and part-time jobs, figures for 1983 are interpolated alongside figures for 1980 and 1982. Contrary to expectation, Figure 7.8 shows that women full-timers had higher rates of separations ending in work than women part-timers, whilst the rate for part-time women followed that for full-time men quite closely, sometimes exceeding and sometimes falling below it. Women full-timers as a whole had consistently higher rates of separation ending in work than

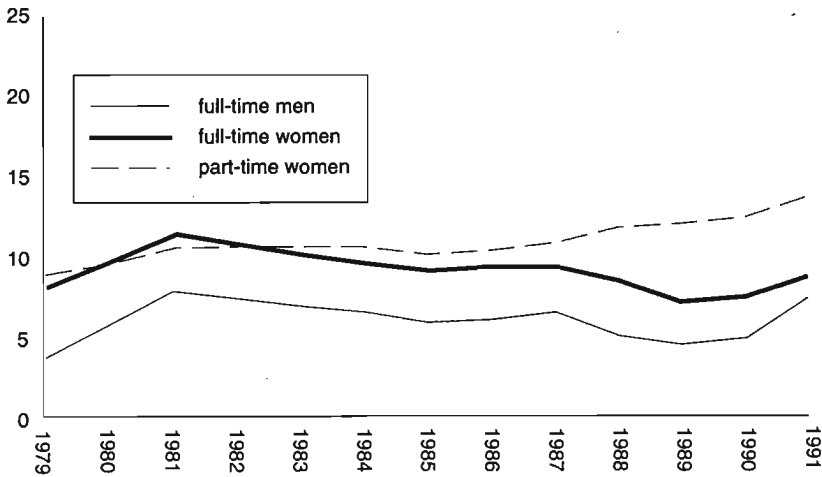
Figure 7.8 Job separations ending in work, by sex and whether full-time or part-time (Source: LFS)



men full-timers, a pattern also apparent in GHS figures over the period 1979–91 for the percentage of full-time workers having at least one change of employer in the 12 months before interview.

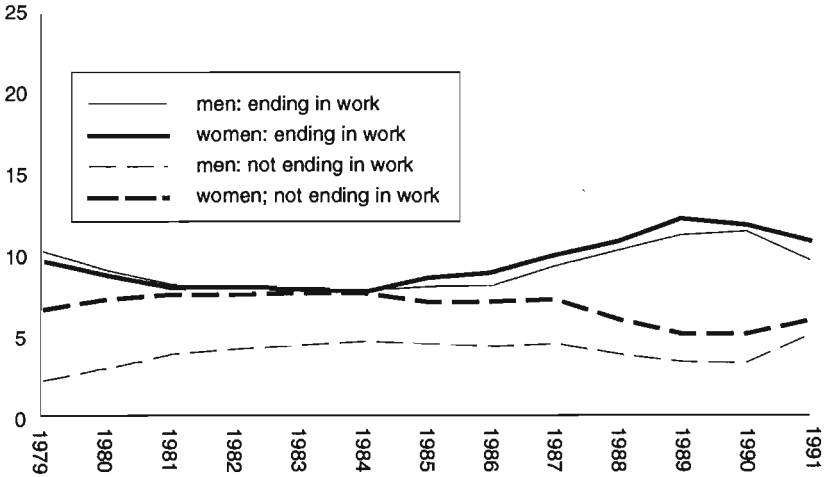
Figure 7.9 shows sex differences in separations not ending in work, where the outcome for male prime age workers is generally unemployment, but for women the outcome can be either unemployment or withdrawal from the labour market. Throughout the period, the rate of separations not ending in work was lower for full-time men than for either part-time or full-time women, though by 1991 the rates for men and women full-timers had converged substantially. This convergence between the sexes was particularly marked in service class and routine non-manual occupations. As Figure 7.10 shows, in full-time upper service class jobs there was by 1991 very little justification for the traditional argument against hiring women that they will leave to have babies, with an excess for women over men of only 1.1 percentage points in the rate of job separations ending in work and 0.9 points in the rate of separations not ending in work. The picture for full-time routine non-manual jobs was not much different, with excesses for women of 1.5 and 1.1 percentage points respectively in 1991.

Figure 7.9 Job separations not ending in work, by sex and whether full-time or part-time (Source: LFS)



Returning to Figure 7.9 and to women part-timers, we see that in the early 1980s their rate of separations not ending in work was similar to that for women full-timers, and higher than that for men. Thereafter the rate for male and female full-timers fell as the recruitment rate increased. However, in the case of women part-timers, the rate of separations not ending in work did not respond to the improvement in the recruitment rate, but stayed on a high plateau, rising still further after 1986.

Figure 7.10 Job separations of full-time employees in the service class, by sex
(Source: LFS)



This pattern echoes the trend in SIC Division 6 which we remarked on above. In this industry the proportion of part-time employment is higher than in any other and the growth of part-time employment has been faster. All separation rates in this industry are higher than average, but the patterns of change for full-time and part-time workers are different. For full-timers, the difference between SIC 6 and other industries was more substantial for separations ending in work than for separations not ending in work, but in both cases the gap between SIC 6 and other industries remained relatively constant throughout the period of our study. For part-timers in SIC 6, the rate of separations ending in work showed a tendency to diverge from other industries, but the difference remained fairly small. However the rate of separations not ending in work amongst part-timers in SIC 6 shows a quite distinctive trend. This rate increased from 11 per cent in 1979 to 27 per cent in 1991, and the gap between SIC 6 and the average for all industries widened from two to more than ten percentage points.

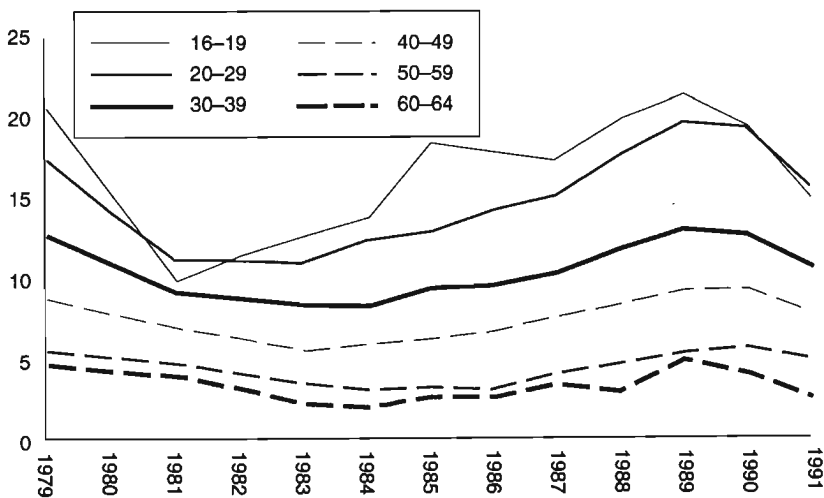
The question arises of whether this trend in SIC 6 and the similar, though weaker, trend for women part-timers observed in Figure 7.9 arise from changes in the characteristics of the part-time workforce or from changes in the way that employers use part-time labour. In the former case, we might speculate that the rapid growth in part-time employment has encouraged people into the workforce whose commitment to work is low, and who are hence quite likely to leave a job regardless of whether they have another job to go to. In the latter case, we might speculate that diminished employment protections and weakened trade union influence have increased the tendency of employers to treat part-time labour as disposable. Probably both explanations play a role, as people who seek secure employment do not take insecure jobs unless they have no choice.

The number of male part-time workers sampled by the LFS is too small to produce smooth annual trends. However, whilst for male part-timers the rate of separations ending in work fluctuates around the figures for male and female full-timers and female part-timers, their rate of separations not ending in work is far higher. In 1979, at 20 per cent, it was more than double the rate for part-time women, and in most years thereafter it pulled away still further, flattening out around 46 per cent in the late 1980s. Part of the explanation for this trend lies in the distinctive composition of the male part-time workforce, which includes much greater proportions of students and people who have taken part-time work because they cannot find a full-time job than is the case for women. In 1987, 23 per cent and in 1989 16 per cent of all male part-time workers had been unemployed 12 months earlier, compared to eight per cent in 1979. This fact in itself increases the likelihood of job separations not ending in work, as a previous history of unemployment is a very powerful predictor of future employment chances.

Age

Figure 7.11 shows that, as expected, the rate of job separations ending in work declines rapidly with increasing age. The younger the age group, the more sensitive the rate to the economic cycle, responding more quickly and dramatically to changes in the overall rate of recruitment. In 1981 and again in 1991 the rate of separations ending in work fell so steeply for 16–19 year old workers as to dip below the rate for 20–29 year olds, but by 1983 the rate for 16–19 year olds was already rising fast while the rate for older age groups was still falling. In 1985 there was an upsurge amongst 16–19 year olds in the rate of separations ending in work, suggesting perhaps a release of pent-up pressures as young people who

Figure 7.11 Job separations ending in work, by age (Source: LFS)



had held back from trying to change jobs whilst the demand for labour was low took advantage of improving conditions. However a glance back at Figure 7.2 reveals that this upsurge occurred a year after a similar upsurge in the overall recruitment rate. This suggests that, as in the previous decade, to meet their increasing labour needs employers turned first to school leavers, before they began to consider young people who had been in the labour market for a year or more (Payne 1985).

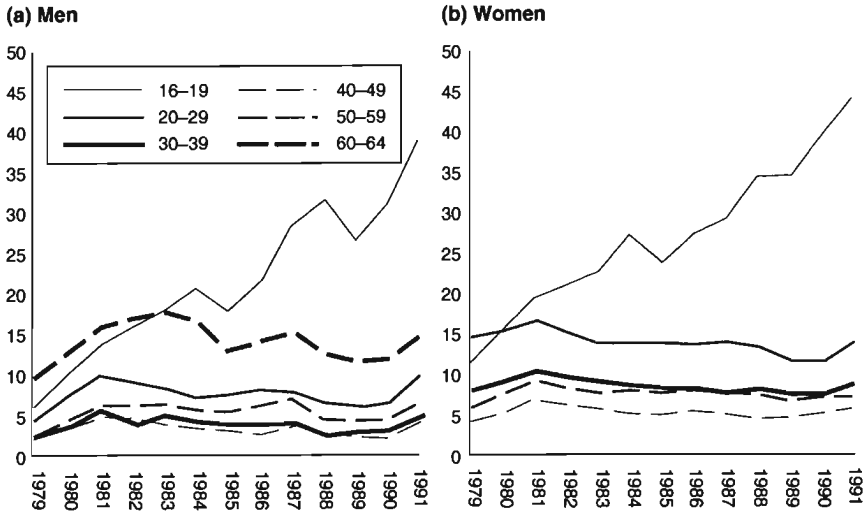
In Figure 7.11, trends for 60–64 year olds relate only to men, and so are based on relatively small sample numbers and are more subject to random fluctuations than trends in other age groups. However until the late 1980s their rate of separations ending in work shadowed the rate for men and women aged 50–59 fairly closely, but in the recession of 1990–91 it declined much more sharply than for 50–59 year olds. This decline was also much steeper than it had been between 1979 and 1981. Possibly, having learned in the previous recession how poor were the employment prospects of older people, over-sixties who were fortunate enough to have a job saw the advantages of sitting tight even more clearly than their younger colleagues.

In the age groups 20–29 and 50–59 men's and women's rates of separations ending in work were similar throughout most of the period. In the age groups 30–39 and 40–49 however, differences between the sexes emerged, so that by the second half of the 1980s, the rate of separations ending in work had increased for women relative to men. In 1985 there was an upsurge in such separations amongst women aged 30–39, not unlike the upsurge described earlier for 16–19 year olds, though slightly less prominent. This was possibly symptomatic of a growing preference on the part of employers for mature women workers who would accept part-time working. In the age group 16–19, the rate of separations ending in work was lower for men than for women in all the years of our study. Very possibly this was a by-product of the much larger number of apprenticeships that are available for young men, which tie the young worker to a particular employer for three or four years.

In Figures 7.12(a) and (b) we show age trends in the rate of separations which did not end in work, plotting them separately for men and women. The picture is remarkable for the enormous growth in such separations amongst 16–19 year olds. Starting in 1979 from a position not very different from that of 20–29 year olds, by 1991, 39 per cent of all young men and 42 per cent of all young women aged 16–19 who had been in employment as employees 12 months earlier were no longer in work when interviewed.

Figure 7.12(a) also reveals a very high rate of separations not ending in work amongst men aged 60–64. Having climbed to 16 per cent in 1981, this rate continued to grow until 1983 after the rate for prime age workers had started to fall, and it remained at a very high level for the rest of the decade. The decline in economic activity amongst older men was a marked feature of the labour market in the 1980s, and it is probable that many of these separations ended in withdrawal from the labour market.

Figure 7.12 Job separations not ending in work, by age (Source: LFS)



Amongst women, it was not older workers, but women in the peak age-groups for childbearing who had the highest rate of separations not ending in work after the 16–19 age group. It is interesting to note, once again, that as the recruitment rate peaked in 1989, differences between the age groups diminished.

Modelling trends

So far, we have looked at trends in job separations controlling for only one or at the most two variables (such as age or sex) at a time. In order to examine systematically the inter-relationships between the all various factors we have discussed above, we fitted a logistic model to the data. Limitations of space prevent us from describing this in detail here; however we outline the main findings.

We defined the sample as those in employment as employees 12 months before interview, and the dependent variable as whether or not a job separation occurred, regardless of whether or not it ended in work. The predictor variables included year, industry, occupational group, whether full-time or part-time, age and sex, and we also included a measure of educational and vocational qualifications. Because of variations between surveys in who was asked about these, we restricted the model to people under 50.

In broad terms, the results confirmed what we have seen in the graphs. Even after allowing for differences in all other variables, we found that the effect of age on the probability of a separation occurring increased as time went by, with 16–19 year olds incurring an ever greater risk of a separation relative to the older age groups. Similarly, working part-time rather than full-time was associated with a generally increasing risk of a separation over the period. In contrast, after allowing

for the different profiles of men and women with regard to industry, occupational group, part-time working and other relevant factors, the higher risk of separations amongst women declined over the period to become virtually negligible in 1991. However, the very distinctive trend of separations in SIC Division 6 was much weakened once we took into account the full range of predictor variables, indicating that it was associated with an unusual workforce composition.

Discussion

The figures on labour turnover in manufacturing industry shown in Figure 1 suggest that the 1980s marked the end of a gradual decline in the underlying level of turnover which had taken place between 1967 and 1980. The Thatcher years undoubtedly saw a much greater readiness on the part of employers to shed labour, which contributed substantially to turnover levels. However our analysis confirmed that job changing is very susceptible to changes in the recruitment rate, and that because of this, despite a fairly long period of growth after 1983, voluntary job quits probably remained below the levels seen in previous decades even in the 1987–89 boom.

We have also found evidence that part-time employment, which grew enormously in the 1980s, has become increasingly insecure, though we are unable to determine whether this results from the changing composition of the part-time workforce, or from changing labour use strategies on the part of employers. Whichever the cause – and we suspect that the two are inextricably entangled – our results are certainly consistent with core/periphery descriptions of the labour market.

Our results regarding young workers are striking. The fall in economic activity rates amongst young people is well documented: for example, it is estimated that while 63 per cent of 16–18 year olds in England were ‘mainly in employment’ in 1979/80, ten years later this was true of only 47 per cent (DES 1991). However the growth of special government schemes for young people and the withdrawal of most under–18s from the unemployment count has made it difficult to get a clear picture of what has been happening in the youth labour market. What we see from our analysis is that the youth labour market is in the process of disappearing. By the beginning of the 1990s, if a young person left employment, whether voluntarily or otherwise, they were more than two and a half times more likely to end up without a job as to end up in work. With risks as high as these, clearly the labour market cannot operate efficiently, and job sampling is a luxury of the very few.

Finally, we found that the gap in turnover rates between full-time male and female workers is narrowing fast, and that much of what remains can be accounted for by the different industry and occupation profiles of the two sexes. May we therefore whisper a hope that the erosion of this familiar rationale for preferring men over women will be reflected in a greater degree of equality in the workplace?

Note

1 The research on which this paper is based was carried out under a programme funded by the ESRC, whose support we gratefully acknowledge. We also thank the Employment Department for permission to use the Labour Force Survey, which is Crown Copyright, the ESRC Data Archive for supplying the data, Jane Roberts for mounting the files on the Oxford University mainframe, and Martin Range for expert programming. The authors bear sole responsibility for analysis and interpretation.

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8 Part-time Work and Employment Regulation: A Comparison of Britain and France in the Context of Europe

Jacqueline O'Reilly

Introduction

During the 1980s debates on labour market flexibility were largely concerned with whether or not a radical break in employment practices had occurred with a shift towards the use of 'peripheral' part-time and temporary workers (Millward and Stevens 1986; Pollert 1987 and 1991; MacInnes 1987; Hunter et al. 1993; O'Reilly 1992 and 1994). In general, the conclusion to be drawn from much of this research has been that, where change is taking place, it has on the whole been less extensive and less strategic than earlier research assumed (Atkinson and Meager 1986; Hakim 1987).

More recently, with the attempts to develop a more integrated single European market two key debates have emerged. First, at the heart of these concerns is an apparent conflict between goals based on social justice and those based on economic efficiency (Schmid 1993). To what extent are these goals mutually exclusive, or can they be integrated? Whilst the British government has argued that regulation will restrict the competitive basis of British industry, colleagues in mainland Europe are reluctant to undermine their existing levels of social protection. The second major debate revolves around the concept of convergence. Will integration and attempts to harmonise diverse practices lead to a common European model? This raises the issue of how supra-national regulation effects harmonisation at the national level. This paper seeks to address these issues by focusing particularly on the case of part-time work.

With these debates in mind this paper has four aims. First, it sets out to examine changes in the use of part-time work at a national level in various European countries on the basis of Labour Force Survey data. This section seeks to identify trends in the use of part-time work over the past 10 years and examine the evidence for convergence. Second, drawing on comparative case-study research conducted in Britain and France, the rationales in employers' use of part-time work are examined. Third, explanations for their behaviour are identified.

Fourth, an account is given of current developments at the European level. Finally, the implications of these findings are examined in relation to their relevance for labour market policy makers.

Trends in the use of Part-time work

At the National level

The rate of part-time work in the European community varies significantly between countries. High levels of use are found in the Netherlands, Denmark and Britain, whereas Germany, France and Belgium are examples of countries with relatively low rates of part-time work (Maier 1991; Eurostat 1993). Table 8.1 illustrates the rate of growth of part-time work in each of these countries since 1973.

Table 8.1: Trends in the use of part-time work in Europe^a (as a percentage of the total labour force)

	Netherlands	Denmark	Britain	Germany	France	Belgium
1973	8.7	na	16.0	10.1	7.2	3.8
1975	9.5	21.2	17.1	11.2	6.4	4.9
1977	9.7	22.0	17.2	11.7	7.8	6.1
1979	11.2	22.7	16.4	11.4	8.2	6.0
1981	21.8	23.7	17.9	12.0	8.3	6.4
1983	28.1	26.7	22.4	15.3	10.3	11.3
1985	29.3	26.5	24.2	15.2	11.9	12.5
1987	34.6	26.3	24.7	15.1	12.9	14.3
1989	36.6	25.2	26.3	16.0	13.4	14.9
1991	37.0	24.6	24.5	18.1	13.4	16.3

Sources: Maier 1991; Eurostat Labour Force Survey 1993: Table 28 p.77

^a Figures for 1973–1981 are based on unpublished Labour Force Survey data presented in Maier (1991). Figures for 1983–1991 are based on published Eurostat (1993) data. Figures for 1983–7 available from Eurostat 1993, appear to be higher than those presented by Maier (1991) although they also come from Labour Force Survey. This indicates one of the problems of the reliability of comparisons drawn from such data. Nevertheless, whether the later figures are an over-estimate, or the earlier figures an under-estimate, they still reinforce the pattern of differentiated uses of part-time work in Europe.

The Netherlands, which during the 1970s had a low use of part-time work, experienced a rapid acceleration after legal deregulation in 1979 (de Neubourg 1985). In Denmark the use of part-time work has remained high and relatively stable. In Britain there has been a notable increase during the 1980s, tailing off slightly at the beginning of the 1990s. Germany has had a moderate increase in the use of part-time work. In low use countries, like France and Belgium, the increase in part-time work has nearly doubled, although it remains comparatively limited and somewhat stagnant compared to other European countries in recent years.

If we break down these aggregate national trends we can identify distinct areas where the use of part-time work has increased in each of these countries. An analysis from Eurostat data presented by Maier (1991) shows that in all countries by far the greatest growth in female part-time work has been in 'other services'. In Germany and the Netherlands this rather heterogeneous industry accounts for over 50 per cent of the growth in the use of part-time work. The banking and finance industry is another interesting case, where part-time work has increased in four of the six countries. An unprecedented use of part-time work has occurred in banking and finance in Germany; in Denmark this is the industry where the highest growth in part-time work has occurred. Only in Germany and Denmark has there been an increase in the use of part-time work in manufacturing or in transport and communications.

It is possible to identify three patterns of growth in the use of female part-timers, outside the developments in 'other services': the Franco-Belgian paradigm where public administration accounts for a substantial percentage of growth; the North European model including Germany and Denmark where part-time work has grown in banking and finance, and has been diversified to other sectors; and the Anglo-Dutch model where the growth of part-time work in retail trade, hotels, banking and finance has been associated with limited employment protection. These differences indicate the difficulty of identifying one common European model of part-time work. This suggests that individual countries are following different paths of development, rather than converging around a common single pattern.

Although labour force data can allow us to measure the rate of growth, and the age and sex ratios of those who are employed part-time within a specific country, several problems occur when we want to make direct comparisons between countries. These difficulties arise because in each society employment status and occupational categories may be defined in a somewhat different way, as a result of a different evolution over time. (These problems are discussed more fully in Beechey 1989; Dale and Glover 1989 and 1990; Gregory 1989; ILO 1989; and O'Reilly 1994). A further problem with survey data of this kind is that they cannot tell us why particular employment contracts are used by employers. Such information can only be provided by more qualitative case-study data, which also permits us to take account of differences in the meaning of part-time and full-time work across countries.

Comparing case-study evidence of part-timers in retailing and banking in Britain and France

Eurostat data indicate that retail trade, hotels, banking and finance are significant sectors where part-time work has developed in recent years. Comparative case-study research has been conducted by Gregory (1989, 1991 and 1992) for the large scale distribution sector in Britain and France, and by O'Reilly (1992 and 1994) for the banking sector in the same countries.¹ This research has identified distinct differences in the use of part-timers and the reasons they are employed in each country.

In general, part-timers in France work longer hours than British part-timers (Barrère-Maurisson et al. 1989). This was supported by data from the case study banks and supermarkets. In France part-timers were more likely to work between 19–30 hours a week in both sectors. In Britain there was a trend to shorten the length of shifts in both sectors: in the banks ‘week on week off’ contracts were being replaced by 2–3 day a week contracts; and in retailing shifts of less than 4 hours a day were being introduced.²

Length of shifts and the variety of tasks performed appear to be linked. Gregory argues that part-timers in the French supermarkets were more multi-skilled than those in Britain. She attributes this to the fact that they work longer hours. A similar pattern was also found in the banking sector where French part-timers were better qualified and more likely to say they were expected to do a variety of tasks compared to part-timers interviewed in Britain (O’Reilly 1992a). Part-timers working longer hours are more likely to receive training, however minimal, than those on very short hours.

In Britain employers were able to offer a diverse range of part-time contracts, and to change these as and when they needed (O’Reilly 1994a). In France the use of part-time work is more formalised than in the UK, according to regulations in the Code du Travail. In France employees had more opportunity to select the type of shifts they wanted than in the UK. For example, in the French supermarkets semi-autonomous groups allocated shifts amongst themselves; and in the banks individuals negotiated their preferred type of part-time work. This element of choice in the French supermarkets was introduced to reduce labour turnover on unpopular shifts. In Britain part-time hours and shifts were stipulated by the employers. In Britain an on-call system was used in both sectors. An on-call system means that the company can call up a former employee at very short notice and ask them to come in to work for a specific time period. According to Wood and Smith (1992) this is a common procedure in British firms. This practice did not exist in the French banks and was rare in the French supermarkets. In the banks in Britain part-timers were used to meet daily workload fluctuations, which was not the case in the French banks.

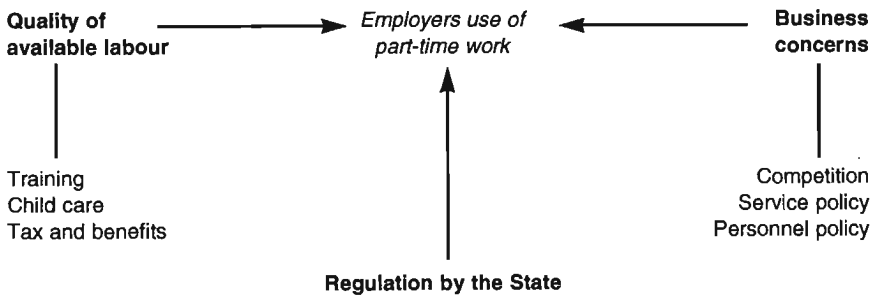
In the banks in France employers rarely perceived any strategic advantage for the company in the use of part-time work. Managers in the banking sector in France were more hostile to the use of part-time work, in a society where full-time employment was seen to be the norm. Part-timers were segregated to an area where their absence would not be too disruptive to an organisation centred on full-time employment.³ Managers and supervisors interviewed often said that the advantages of part-time work accrued primarily to the employees, rather than to the company. In France employees could request to work on a part-time basis because of government legislation and negotiations accepting this with the unions. In the supermarkets employers were more willing to use part-timers to meet peaks in workload associated with customer activity, although this was associated with higher rates of labour turnover. Gregory argues that the issue of part-time work has developed differently in France: the concept of ‘temps choisi’, where

employees should have more choice over their working time, is more significant in France than in the UK. This case-study evidence indicates that the use of part-timers in Britain and France varies between the two countries. We have seen differences, not only in the length of their contracts, and their levels of skill, but also in employers' attitudes to these types of employees. Further research also indicates that there are significant differences in the attitude of part-time employees in each country which are discussed in more detail below (Dex et al. 1993; Gregory 1989; O'Reilly 1994a).

Explanations for the differences

Three major factors can be identified which account for the differences in employers' use of part-time work in Britain and France. The model illustrated in Figure 8.1. outlines the approach developed here. First, *business concerns* account for the way firms identify their labour needs. The main elements of business concerns are the forms of competition, the way service policy has developed, and the key issues in personnel management for these companies. Second, in order to understand what type of labour firms can draw upon to meet these business concerns, we need to identify the characteristics and preferences of the available *labour supply* in each country. This includes taking account, not only of their levels of training and qualifications, but also how the provision of child care, tax and benefit systems affect their ability and desire to participate in paid employment. Finally, account needs to be given to the nature of *employment regulation* in each country and how this shapes the way employers construct their labour demand.

Figure 8.1. A Model of Labour Market Practices



We now turn to examine this model to explain the differences in the use of part-time work in Britain and France.

Business concerns

The use of part-time work is closely related to the way in which firms compete. Competition can take place on several levels. Companies can compete in terms of opening hours, access to services, or the quality of service provided. Firms can opt

to offer a high quality service where staff are expected to have a broad product knowledge provided by the same employee; in other circumstances firms can fragment the services they provide, so that a number of different staff provide specialised services requiring a more limited or specialised product knowledge. Where a more integrated, high quality service with detailed product knowledge is the major element of competition, as in the French banks, less use is made of part-timers; where services are more fragmented and product knowledge is limited, a more extensive use of part-timers is found, as in the retail sector.

In France the banks were more advanced in developing a policy of task enlargement, whereas in Britain the banks have been segmenting the services they offer in the branches (O'Reilly 1992a). In supermarket retailing, part-time shifts are used more extensively to cope with longer working hours. In France, part-timers in the supermarkets are encouraged to become more polyvalent which is related to the fact that they work longer hours. Maruani and Nicole (1989) have argued that specialisation of services has encouraged supermarkets to compete in terms of the quality of service provided by certain staff, which constrains the way part-timers are used in France, compared to their use in Britain.

In terms of personnel policy part-time work has often been seen as an alternative source of labour in times of labour shortages; it has also been used to reduce full-time staff and cut labour costs by employing staff for peak periods. In the banks in France, as a result of recruiting thousands of low qualified staff during the period of branch expansion in the 1970s, the banks are now faced with a disproportionate number of relatively low skilled, middle aged staff in the middle to low grades of their organisations (Cossalter 1990; CNC 1989; Bertrand and Noyelle 1988). Part-time work has been one 'legitimate' way for the banks to tackle the 'problem' of the age pyramid and reduce the number of full-time staff, in particular amongst older women employees. In French supermarkets part-timers have been used as a means to reduce labour costs as well as allow extended opening. In Britain the situation was somewhat different. During the boom period at the end of the 1980s companies were more concerned with the predicted decline in the number of school leavers entering the labour market. Several firms among our case-study companies tried to adapt their traditional recruitment practices to encourage more women to work part-time to make up for this shortfall. However, at the beginning of the 1990s with the effects of recession, the pressure to reduce staff numbers and costs became a greater concern. Part-time work has been seen as a potential method to achieve these cost reductions in Britain.

The different use of part-time work in each country was also related to the differences in the way staff allocation was decided. Part-timers can be most effectively used when they can be fitted precisely into a total labour hours schedule. In Britain, in both sectors, a more detailed measurement system allowed the British companies to employ more part-timers than in France. For example, in the banks time and motion studies were commonly used and staff numbers were allocated to within a decimal point; in France the number of accounts determined the number of staff in a given branch. In British supermarkets a more sophisticated labour

allocation system allowed a more extensive use of part-timers than in France, where these systems were less well developed.

Employee preferences and the characteristics of labour supply

Significant differences in the attitudes of French and British part-timers have been identified in recent research (Maruani and Nicole 1989; Gregory 1989; O'Reilly 1994a). In this work it has been argued that French women are less interested than British women in working part-time. Only a minority of French women, approximately 17 per cent, want to work part-time (Belloc 1986; O'Reilly 1994). British and French women have different reasons for working part-time. In Britain women give greater emphasis to hours which suit their domestic responsibilities. Gregory (1989) and Dex et al. (1993:101–2) have argued that in France there is a distinction between women who choose part-time work,⁴ and those who do it because they cannot find full-time employment. As a result, especially in low skilled jobs, there is greater dissatisfaction with part-time work in France than in the UK (Gregory 1991; Maruani and Nicole 1989). British employers benefit from, and construct part-time jobs according to, the fact that women in Britain need to work part-time, if they are going to work at all during the period when they are raising a family. The differences in the use of part-time work in the two countries is closely tied to the fact that the characteristics, preferences and availability of female labour in each country differ significantly.

It has frequently been argued that these differences in women's attitudes to employment in each country are closely related to child care provision. Limited provision in the UK severely constrains British women's ability to take up full-time employment and therefore makes them more willing to accept part-time jobs. Data from *Social Trends* indicate that less than 50 per cent of British children between the ages of three and four are in some form of child care which is usually provided on a part-time basis, compared to over 90 per cent of French children who are in full-time care (Dex and Walters 1989; Moss 1990; Horrell and Rubery 1991; Alwin et al. 1992; HMSO 1991a).

Apart from child care a further factor which affects women's labour market participation is related to tax and social security payments. In Britain the threshold for National Insurance contributions in 1994–5 is £57 per week.⁵ In France no comparable threshold exists: employees pay contributions on every franc earned. In Britain the effect of this threshold can be seen to encourage women to restrict the hours they work so as to avoid these payments (Dex and Walters 1989). This is because once they go above the threshold all their earnings are taxed which means they have to work significantly longer hours to be able to take home equivalent pay. This also encourages employers to offer shorter hours so that they avoid paying employers' contributions (Maier 1991).

Another significant factor which affects women's labour market participation is their level of education. In general people with higher levels of education are more likely to want to work continuously, and they usually have higher career aspirations. British women, in comparison to French women, tend to be less well

qualified (Eurostat 1989, Table 24). The effect of this could be seen when the British women interviewed in the banking sector reported lower career expectations compared to French women in comparable jobs (O'Reilly 1994). Steedman and Hawkins (1993) have shown for other sectors how the skills and characteristics of the available labour force shape the way employers structure jobs.⁶ In countries like Britain, which Finegold and Soskice (1988) have called a low skill low wage equilibrium, the skills of the available British workers tend to be lower than those available to French or German employers (Quack et al. 1993). There is evidence to suggest that in a lower skill equilibrium employers are more likely to develop part-time work contracts. For policy makers this implies that labour market reforms around part-time work and training need to be integrated with other aspects of social policy related to child care and taxation, rather than being seen as discrete initiatives.

Employment regulation

For countries like the UK high levels of part-time work are often explained by the limited protection provided to these types of workers: employers exploit this type of contract because it is comparatively cheap and flexible. A similar explanation has also been given to account for the explosion of part-time work in the Netherlands during the 1980s. When the Dutch government removed restrictions and costs of employing part-timers there was a massive increase in part-time work (de Neubourg 1985).

In Britain the trend of national policy has been to facilitate competition on the basis of low wages and limited protection. Employment protection for part-timers in Britain has been accorded on the basis of the number of hours part-timers work. Up until March 1994 part-timers working less than 16 hours required 5 years continuous service with the same employer before they were entitled to employment protection. Since a legal ruling that this was discriminatory, all part-timers working more than 8 hours a week are now entitled to protection and other benefits after 2 years continuous service (Financial Times 4/3/94). Those working less than 8 hours still receive no protection. It is easier for British employers to use a diverse range of part-time contracts, which are cheaper and involve lower levels of protection. Employers have had greater flexibility to create and re-organise the part-time contracts they offer: part-time work in Britain can include anything less than 30 hours a week.

In France the development of regulations on part-time work have been closely linked to the goals of reducing unemployment, improving employers' flexibility, and encouraging more choice over working time regimes for employees. French employers are only allowed to contract employees according to the provisions stipulated in the Code du Travail. In 1981, the Mitterrand government amended the Code du Travail to develop the use of 'mi-temps' or half time working; in 1982 this was extended to include part-time work as 80 per cent of a full-time job, and subsequently a range of modules between 80, 70, 60 or 50 per cent has been developed. One impact of this has meant that part-time work

takes a more structured form in France compared to Britain. Also, the principle that there should be no discrimination between full-timers and part-timers is clearly specified.⁷

Despite initiatives to encourage part-time work in France during the early 1980s, the response from firms was limited; the data presented earlier indicated part-time work has been more extensively developed in the public sector. When the Chirac government came to power in 1986 it introduced legislation to reduce the social security costs paid for part-timers, as a financial incentive to employers.⁸ This reduced payments for accident insurance, family allowance, pensions and unemployment insurance; however sick pay, maternity, sickness and invalidity insurances were paid at the same rate as for full-timers. More recently, with the return of the political right to power, further reductions in labour costs have been introduced with the removal of employers' contributions to employees' social security costs. This aimed to further encourage the use of part-time work (MISEP 1993)⁹ However, as Maier (1991) points out, such measures have in the past only had marginal effects.

The approach in France to regulating part-time contracts can be seen as part of a wider pattern. Working time in France, in general, has been subject to greater legal regulation than in Britain. For example, in the banking sector the 1937 government decree on working time stipulated that bank employees in France were entitled to two consecutive days holiday, one of which must be a Sunday. This meant that the banks in France were more restricted in extending the opening hours of the branches: a branch open on Saturday had to close on Monday. Historical compromises continue to impinge on contemporary organisation, despite attempts by the employers' association to change this. In Britain the same legal restrictions do not exist. In the banks Saturday opening has for the most part been restored, often on an experimental basis. Full and part-time employees were initially offered separate contracts to work on Saturdays, for a trial period. In food retailing British employers successfully flouted restrictions on Sunday opening, before legislation allowed Sunday trading.

From this case-study comparison of Britain and France we have seen that the use of part-time work is affected not only by the nature of employment regulation, but also by the characteristics of the available labour force, and business concerns which influence the way in which employers in different countries compete. These factors suggest that convergence in Europe is not taking place in the practices being developed by firms in different countries; nevertheless, attempts to forge common European standards have been vigorously pushed by the European Commission.

The impact of Europe

Several attempts at the European level have aimed to integrate and standardise employment regulation in the Community. Harmonisation, however, has met several obstacles. These include the existing differences in the basis of employment law and social security systems, as well as resistance from those national

governments which see such regulation as potentially undermining the basis of their competitive advantage.

With regard to part-time work, initiatives in some European countries to encourage its use at the end of the 1970s were tied to the goal of '*spreading the supply of available work more evenly*' (Maier 1991:81). Recent developments in France and Germany to experiment with a four day working week have had similar goals.¹⁰ Part-time work has been seen as a potential tool to reduce unemployment, and encourage job sharing. A favourable view of part-time work sees it as a means to allow labour market transitions for example for women during the period of family formation, or to allow gradual withdrawal from the labour market. However, it has also been widely criticised for undermining standard employment rights. Büchtemann and Quack (1990), and Quack (1993), argue that the precariousness of part-time work is related not only to the threshold levels of employment protection, but also to the cumulative effect of short-, medium- and long-term hazards and disadvantages which this type of employment can incur. This is due to the nature of missed opportunities in terms of training, promotion and pay. During the 1980s, with attempts to remove discrimination between full- and part-timers, the debates on part-time work largely fell into one of these two positions.

In 1990 the European Commission was concerned that the anarchic growth in part-time work would encourage social dumping and/or a distortion of competition at the Community level (EIRR 1993). As a result they issued a Directive stipulating the need for protection for those working more than 8 hours a week. Such employees should be entitled to comparable treatment with full-timers, including access to promotion, training and social security contributions. The encouragement of part-time work was not meant to disrupt existing protection and the social security system; it should not entail extra costs for industry or the community; it should be voluntary and part-timers should have equal rights comparable with full-timers (Maier 1991). The goals of the Commission were to balance efficient labour market management and the protection of social rights at the European level. However, although for example the French government was prepared to accept these changes, there was much greater resistance from Germany and the UK. This was because such a change would entail greater reforms of their national laws on taxation thresholds and employment protection, than was the case for France.

Recent improvements in the employment status of part-timers has largely resulted from individual legal cases of sexual discrimination. This development has arisen from the fact that the overwhelming majority of part-timers are women. Key cases taken to the European Court of Justice have argued that unequal treatment between part-timers and full-timers amounts to a contravention of article 119 of the Treaty of Rome. For example, the case of *Bilka-Kaufhaus vs. Weber von Hartz* (IRLR [1986] 317) was significant in extending an interpretation of discrimination to include indirect sexual discrimination. This had important consequences for part-timers in Britain. One repercussion of this decision was to make some

firms improve the conditions for part-timers in their organisations. This was in anticipation of potential disputes which might result from this legal decision (O'Reilly 1994: chapter 9). More recently, in Britain a court ruling harmonised the distinction between part-timers working below or above 16 hours a week. Whilst this can be seen as a gradual improvement towards some degree of harmonisation, it is still a long way off from the entitlements of French part-timers.

These cases illustrate how change has come about partly through the ground rules laid down by European directives, but also by local actors in the form of individuals and trade unions appealing to supra-national jurisdiction. In this way we need to recognise that regulation is not just a matter of senior heads of government attempting to find some form of consensus, but it also includes the role for the courts and trade unions to be actively involved. The level at which effective regulation and harmonisation will take place is still to be negotiated. Rubery (1992) suggests that attempts at harmonisation will occur at several levels, subject to various political and economic influences.

... the enthusiasm with which the European idea is embraced will depend on how it complements or contradicts agendas at a local level. The actual implementation of European policies is thus likely still to reflect specific cultures and political agenda, with countries implementing policies selectively to suit their internal requirements. Such a scenario does not suggest, however, stagnation in social and cultural systems, but evolution, through the interplay of transnational, pan-European and domestic influences. (Rubery 1992:254)

Convergence at the economic level requires convergence in the system of social reproduction, at the level of 'family systems', income maintenance as well as education and training (Rubery 1992). The case of part-time work highlights the differences in the forms of social reproduction systems in Europe and the characteristics of the women available to work on a full- or part-time basis in different countries. In some countries part-time work is used by women to manage the period of child rearing, in other countries this is not the case. These differences imply a more differentiated form of integration is likely to take place. This perspective suggests that centralised top-down change on its own will have only limited success. Instead, a conception of change and integration should give greater recognition to the role of business needs and supply side characteristics in shaping the nature of employment relations in Europe. The interaction of these factors, together with national and supra-national forms of regulation will mean that the road to integration may take many twists and turns. It is argued here that a more fruitful way of understanding the nature of regulation within Europe on issues related to employment relations is to think of regulation in terms of co-habiting tensions between different actors at the local, national and supra-national levels. While harmonisation will prove difficult, it should not be assumed that attempting such change is futile, and that existing relations are static. Such a conclusion raises important questions for policy makers within the British context.

Implications for British policy makers

The issue of part-time work clearly highlights the controversy surrounding the debate on the pursuit of social and economic goals within the European Community. The Conservative government in Britain has voiced several reservations regarding the Commission's social goals of improving conditions for part-timers. First, they argue that employers will employ less people if they have to pay higher social costs on top of existing wages. Second, if employees have to make national insurance contributions some of the poorest people will experience a decline in their earnings. This argument is based on the assumption that these employees would have to pay such contributions on the basis of their existing wages. Such an argument reflects a naive 'plus and minus' conception of employment relations. There are several factors which suggest that significant transformations in working practices mean that firms are seeking to change current job designs. These changes and their implications, in relation to the development of low wage short hours part-time work, need to be more fully acknowledged by British policy makers.

Firms are increasingly aware of the need to develop new skills for the future of their organisations. This demand has come about not only through the use of new technology, but also as a result of more sophisticated products and consumer awareness. However, the experience of many women working in part-time jobs is one of downward occupational mobility, as short hours part-time work tends to involve a more limited number of tasks and a lower level of qualifications. Some firms have developed Career Breaks as a means of counteracting this trend and retaining skilled female employees. Although the motivation of these companies is primarily economic in preventing a waste of skills and resources, this can have positive social effect. However, in general, the voluntaristic nature of British employment relations have undermined attempts by firms to improve the skills and conditions of their workforce. Firms have few incentives to collectively improve the quality of available labour, especially if the costs they incur are likely to be lost to companies poaching their staff. Initiatives, like NVQs, aimed at improving qualification standards, reflect that the government is aware of the need to improve qualification and skills levels in the British labour market. However, criticisms of this system indicate that both employers and employees are not fully aware of these qualifications, despite the fact that the National Council for Vocational Qualifications has been in operation since 1986 (Smithers 1994). Further, the nature of competition between British firms has led to some resistance to developing higher level transferable, rather than firm specific, skills. Therefore the government needs to develop more collective incentives to encourage firms to co-operate. In France the use of a training levy forces firms to spend a percentage of their wage bill on training. Another approach to improving skill levels in Britain would be to allow firms tax relief on funds spent on training. Although many criticisms have been made of such an approach it would at least reward firms for investing, rather than leaving training conscious employers vulnerable to competitive poaching.

The acquisition of training and skills is also related to the length of time an employee is employed in the work place. As the case study material, and labour force survey data indicated, British part-timers tend to work much shorter hours than their colleagues in France or Germany. As a result they are less likely to receive the same level of training and development opportunities, compared to part-timers in other countries. By encouraging firms to use longer contracts there would be more incentive to give these part-timers higher levels of training, compared to what they currently receive. There is evidence that employers would employ part-timers for longer hours and that many British part-timers would be willing to work longer (O'Reilly 1994a). However, the present taxation and national insurance system penalises them for doing so. The encouragement of longer part-time contracts in Britain could be facilitated by changes to the tax and national insurance regimes.

According to the neo-liberal ideology of the Conservative government, unfair forms of regulation should be removed from economic relations. The logic of this argument implies removing the National Insurance thresholds which favour the use of short hours part-time work. The arguments to support this focus on the economic implications of low wage part-time work for the economy in general. Coggan (1994) points out that current government policy of encouraging low wage part-time work has long-term implications for the revenue accruing to the Chancellor's budget.

For example, an individual can earn £3,445 a year before paying income tax, and in the 1993–4 tax year pays a rate of only 20 per cent on the next £2,500 of income.

The effect of this can be quite substantial. While an individual earning a salary of £12,000 will pay £2,001.25 in tax, two people earning £6,000 a year will pay a combined total of just £1,002.50.

Similar shortfalls can occur with National Insurance. In the current tax year (1993–4), employees only start paying National Insurance when they earn £56 a week. Once they pass that threshold, they pay 2 per cent on the first £56 and 9 percent thereafter (up to £420 a week). So an individual earning £12,000 a year will pay £876 in National Insurance contributions; two people earning £6,000 each will pay a combined NI bill of just £672. (Coggan 1994)

The long term effect of encouraging the growth of jobs outside tax thresholds will reduce future tax revenues. Additionally, the exclusion of a significant number of people from the national insurance system will also create long-term financing problems for health and social security provisions. Such exclusion raises serious concern for economic and social goals of a developed industrial democracy. As a result, *'Those in full-time employment will need to bear the greater burden of direct taxation, and the government could find that growth does not lead to tax cuts, as in the 1980s.'* (Coggan 1994). In the 1980s economic revival was largely based on a consumer boom. However, by encouraging the growth of low wage

jobs, the capacity for expansion through domestic consumption will be severely reduced. This forces growth to be directed towards exports and international competition. However, much of the criticism of British industry's failure in these markets has focused on their attempts to compete in terms of low wages, rather than quality goods. Competition in terms of quality has been linked to high standards of training, as Japan and Germany indicate. The current use of short hours part-time work does not correspond to an increase in skill levels. Attempting to compete with economies with significantly lower labour costs indicates that this could potentially be a misguided policy.

The third level on which change needs to be introduced is related to access to child care provision. The inadequate provision in Britain, compared to that in some other European countries, has received considerable criticism. The arguments in favour of an extension of child care services are as follows. The availability of pre-school education can have a substantial benefit for the development of young children. In France the *école maternelle* is seen as the jewel in the crown of the French educational system. In the long-term this can make a positive contribution to the attainment of high literacy levels which are seen as essential for advanced industrialised societies. Second, changing patterns of family formation, and a demand for paid employment by women in the post-war period has led to their increased participation in the labour market. However, this participation is severely constrained by their access to suitable forms of child care. Further, research on single parents shows that a significant number of these single mothers would like to work, but cannot because they have no access to child care (Bartholomew 1992). Continued exclusion from the labour market not only perpetuates their reliance on social security benefits, but it also makes it more difficult for them to gain the experience and qualifications for employment in the future.

The Conservative government has given great emphasis in their period in office to improving the individual citizen's access to choice. Yet this has not been extended to families' choices over the type of child care they can access. Arguments to support government funding of the full-time provision of public creches and pre-school nurseries are in line with supporting individual choice. Further, it would be possible to introduce tax deductions for child care costs. This would also allow women to work for longer in part-time jobs, which would complement the need to improve training and qualifications in these jobs. Additionally, it would encourage the growth of jobs in services providing employment for those caring for children. And, it would be beneficial for the children too. Thus an imaginative concern to improve child care would have a number of positive long term effects in shaping the existing and future workforce of the UK.

The implications of the changes involved in the development of part-time work raise several challenges. British policy makers may feel it beyond their capacity to introduce the extensive changes required, in the current climate. However, the implication of the long-term effects of current policy suggest

serious consequences, even if they do nothing. These developments are likely to affect the development of skills and qualification levels, future sources of public funding, as well as the choices for individual families and the potential to positively contribute to the education of future generations through the creative development of pre-school education.

Conclusions

This paper set out to examine the development of part-time work and employment regulation in the context of European developments. From labour force survey data and case study evidence we have seen that patterns in the use of part-time work vary significantly within Europe. The prospects of convergence seem slight under present circumstances. Nevertheless, it was argued that attempts at integrating the varied forms of regulation are occurring at different levels. The relationship between regulation and part-time work is complex. We need to move away from arguments which reduce debates on regulation and competition to a zero-sum game of oversimplified 'pluses and minuses'. It is often implied that high levels of regulation create low levels of competition, or alternatively, that competition flourishes where there is limited regulation. Such an argument assumes that regulation is a quantity, where one either has more or less of 'it'. Instead, it has been argued here, regulation needs to be understood in terms of creating a framework of incentives or disincentives for people to behave in a particular way. Regulation affects the terms on which people participate and compete, rather than prevent them from participating or competing per se.

In relation to the debate on social or economic goals it seems clear that an intermediate position needs to be adopted where social goals can be interlinked with economic ones. For example, by improving child care provision the government would be allowing greater opportunity for women to exercise real choices. Current arrangements artificially restrict the number of hours most women are able to work. By allowing greater choice over child care and removing tax thresholds, which keep women's hours of work low, the government would benefit from future tax revenues and save money, for example, with regard to single parents who would prefer to work rather than remain on income support. Such an imaginative supply-side policy would also be beneficial to firms who would have greater incentive to invest in higher levels of training for these people.

The main argument presented in this paper has been that single issue discrete programmes to alter one aspect of labour market policy will either not work or will have undesirable effects. A broader conception requires that attempts to improve employment protection need to be accompanied by changes in the training system and financial system so that employers and employees are assisted in the transition. If policy makers want to bring about a substantive change in the way British firms compete in terms of quality, a more radical approach will be required. But, this will be dependent on the capability of policy makers being able to develop a consensus about the goals to be achieved and a more integrated development of policy on the economic and social dimensions.

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Notes

1. Unfortunately, as far as we know, there is no comparable and comparative case-study data for the use of part-time work in other sectors and other countries.
2. This, Gregory argues evades the Multiple Food Trade Joint Committee agreement which stipulated that part-timers must receive a paid break of 15 minutes after working 4 hours continuously. In France employees are entitled to breaks on the basis of a set number of minutes for each hour they work. These can be accumulated but they must be given during the working period. Also part-timers in France are not permitted to work for less than three hours on one day.
3. See also the example of the use of part-timers at Régis Renault cited in ILO Report (1989) p.206
4. Dex *et al.* (1993) suggest that some women from high-income households want to work part-time to avoid paying higher tax rates.
5. Germany and the Netherlands also operate comparable thresholds. In the Netherlands part-time domestic workers are excluded from making contributions; in Germany blue-collar workers, working less than 10 hours per week, and other employees working less than 15 hours per week with a monthly income of DM 470 (1990) are not obliged to pay contributions (Maier 1991:35).
6. Beechey and Perkins (1987) have also argued that jobs performed by women are more likely to be designed on a part-time basis.
7. L'Ordonnance on part-time work No. 82-271 26 mars 1982, 'assure aux salariés qui la pratiquent des garanties collectives et individuelles comparables à celles des salariés à temps complet, à fin de mieux les insérer dans la collectivité du travail.' (Journal Officiel No 74 28 March 1982 p.953 Article L.212.4.2 in Legislative Series 1982 Fr 1E, cited in the ILO Report page 79).
8. Act No 86-75 on social security contributions for part-time work, dated 17th January 1986 (Journal Officiel, No 15, 18th January 1986, page 888).
9. Introduced under law number 92-1446, of the 31st December 1992 (reported in Journal Officiel, 11th January 1993). These reductions do not apply to part-timers on fixed term contracts. Decree No. 93.238, of the 22nd February 1993 allows for a 50 per cent reduction in social insurance payments, accidents at work and family support. This is designed 'to compensate employers for the increased costs resulting from the fact that the same volume of work is divided among a number of part-time workers' (MISEP 1993:15).
10. In Germany IG Metall is currently (1994) negotiating with Volkswagen to introduce a 4 day working week to prevent job losses in their German plants. They are requesting that the government step in to compensate workers who will lose 20 per cent of their wages. In France the Senate has agreed to experiment with 4 day week, but it remains to be seen how this will work in practice.

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9 Implications of the Changing Spatial Incidence of the Long-term Unemployed for the Planning of Programme Provision and Training

Chris Hasluck and Anne Green

Introduction

Research on spatial dimensions of long-term unemployment over the period from 1978 to 1986 has traced the rise in long-term unemployment in all types of local labour markets, but has highlighted the greater than average incidence of long-term unemployment in certain areas in the Midlands and northern Britain, and in the inner urban areas in particular (Green and Owen, 1990a). With the subsequent economic recovery there was a fall in levels of unemployment but the numbers of long-term unemployed remained stubbornly high. As unemployment increased again at the start of the early 1990s recession, long-term unemployment increased also.

A number of initiatives including Restart, Jobclubs and Employment Training (now Training for Work) have been targeted at the long-term unemployed over recent years, and in 1991 special help was provided for those unemployed for two or more years. The Employment Service (ES) is the main agency concerned with planning and overseeing the delivery of programmes designed to aid the long-term unemployed back into employment. The research reported here was undertaken in order to provide ES with information on the changing spatial distribution of the long-term unemployed, and to identify the associated implications for the planning of programme provision and training (see Green and Hasluck, 1993 for the full report of this research). In this paper the *spatial dimension* of long-term unemployment provides the main focus – reflecting the increasing potential and need for flexibility in programme implementation in response to local circumstances and requirements.

The study focuses on the period from 1989 to early 1992, and addresses the following issues:

- *How has the spatial distribution of the long-term unemployed changed?*
- *How have the characteristics of the long-term unemployed changed?*

- *How has the labour market behaviour of the long-term unemployed changed?*

In the analysis, distinctions are made between *the longer-term unemployed* (those unemployed for six months or more), *the long-term unemployed* (those unemployed for a year or more) and *the very long-term unemployed* (those unemployed for two years or more). These distinctions correspond to those in operational use within the ES.

Data sources used in the analyses include the Department of Employment unemployed claimant series, the Labour Force Survey, and Employment Department administrative records relating to enrolments on Restart courses and the Employment Training programme. The coverage of the definitions of unemployment used varies between sources, but the main concern is whether data from different sources reveal similar trends.

The Changing Spatial Distribution of Long-term Unemployed Claimants

Annual 'snapshots' of the claimant unemployed and long-term unemployed in January 1989, January 1990, January 1991 and January 1992 were examined in order to provide *static* pictures at the national, regional and local scales. In these analyses reference is made to four levels of spatial disaggregation:

- 11 *standard regions* in Great Britain (London is separated from the Rest of the South East [ROSE]);
- 14-fold *a priori classification of TTWAs* – this classification developed by Green and Owen (1990b) distinguishes along four key dimensions of the British urban and regional system, classifying TTWAs (travel-to-work areas) according to their urban size, hierarchical status (i.e. whether dominant, subdominant or freestanding in terms of commuting flows), regional location and urban-rural settlement character;
- 6-fold *cluster classification of TTWAs* – this classification developed by Green, Owen and Hasluck (1991) identifies groups or clusters of TTWAs which share similar characteristics across a range of structural, market outcomes and experience of change variables;
- 322 *TTWAs* – reference is made to TTWAs displaying extreme values.

The distribution of long-term unemployment

In January 1989 there were nearly 2 million unemployed in *Great Britain*, of whom 40 per cent had been unemployed in excess of 12 months. Unemployment fell during 1989 to approximately 1.6 million in January 1990, with the long-term unemployed accounting for one-third of the total. By January 1992, unemployment had risen to 2.5 million and long-term unemployment to 700 thousand (just over one quarter of the total). At the *regional* scale, Table 9.1 indicates that a

'North-South divide' in the incidence of unemployment, and more particularly, long-term unemployment, is evident throughout the period, with lowest rates in the Rest of the South East (ROSE), East Anglia, the South West and London, and highest rates in the Northern region, Scotland and the North West. This 'North-South divide' was most pronounced in January 1990. Thereafter there was a 'narrowing' of regional differentials: the proportion of national unemployment and long-term unemployment accounted for by the South East rose from 20 per cent in January 1989 to nearly 30 per cent in January 1992.

Table 9.1 Incidence of unemployment and long-term unemployment by standard region

Duration category	Rate (%)											
	ROSE	EA	Lond	SW	WM	EM	YH	NW	N	W	Sc	GB
<i>1989</i>												
all durations	3.6	4.2	5.5	5.4	7.6	7.0	8.6	9.7	11.5	8.9	10.7	7.1
over 6 months	1.7	2.0	3.2	2.6	4.6	4.0	4.7	5.5	6.4	4.6	6.0	3.9
over 12 months	1.1	1.4	2.2	1.7	3.4	2.8	3.4	4.0	4.6	3.2	4.2	2.7
<i>1990</i>												
all durations	3.0	3.5	4.5	4.3	5.9	5.4	6.9	8.0	9.1	6.9	8.8	5.7
over 6 months	1.1	1.3	2.3	1.7	3.1	2.5	3.4	4.3	4.8	3.1	4.8	2.8
over 12 months	0.7	0.8	1.5	1.1	2.2	1.7	2.3	3.0	3.3	2.1	3.3	1.9
<i>1991</i>												
all durations	4.7	4.9	6.1	5.9	6.9	6.3	7.7	8.5	9.7	7.8	8.4	6.8
over 6 months	1.5	1.6	2.6	1.9	3.1	2.7	3.4	4.1	4.6	3.2	4.2	2.9
over 12 months	0.7	0.9	1.5	1.0	1.9	1.6	2.1	2.7	2.9	1.8	2.7	1.7
<i>1992</i>												
all durations	7.8	7.2	9.4	8.8	10.1	8.8	9.7	10.5	11.3	9.9	9.6	9.3
over 6 months	3.4	3.1	4.9	3.9	5.2	4.3	5.0	5.5	5.9	4.9	4.8	4.6
over 12 months	1.6	1.6	2.5	2.0	2.8	2.4	2.8	3.3	3.6	2.8	2.9	2.5

Key to regions:

ROSE = Rest of South East; EA = East Anglia; Lond = London; SW = South West; WM = West Midlands; EM = East Midlands; YH = Yorkshire & Humberside; NW = North West; N = Northern; W = Wales; Sc = Scotland; GB = Great Britain.

Analysis by *TTWA type* shows that throughout the period the incidence of unemployment and long-term unemployment was highest in the major metropolitan areas of northern Britain and lowest in the London metropolitan region (outside London). In January 1989 the long-term unemployment rate in the largest northern cities exceeded the unemployment rate in the subdominant towns and cities of southern England. By January 1992 the 'gap' between 'North' and 'South' had narrowed: London recorded an incidence of unemployment and long-

term unemployment greater than the national average, along with the metropolitan regions of northern Britain. Convergence in experience of unemployment and long-term unemployment is also revealed using a *cluster* classification of TTWAs (in which TTWAs are grouped according to labour market characteristics), by the increase in the incidence of long-term unemployment in 'High Status Prosperous Areas' between 1990 and 1992.

At the scale of individual TTWAs, traditionally depressed parts of Britain suffered from the highest incidence of unemployment and long-term unemployment. There was persistently a high incidence of unemployment and long-term unemployment in TTWAs such as Cumnock & Sanquhar, South Tyneside, Liverpool, Hartlepool, Greenock and Rotherham & Mexborough. Long-term unemployment blackspots are concentrated in west central Scotland, north-east England and Merseyside, while the incidence of unemployment is lowest in southern England (outside London), and the rural areas of mid Wales, rural northern England and north-east Scotland. However, while the lowest unemployment and long-term unemployment rates in January 1989 were recorded by TTWAs in southern England in January 1992 the incidence was lowest in rural TTWAs from northern Britain.

Changes in the distribution of long-term unemployment

There has been considerable debate over what measures are most appropriate when assessing changes in unemployment of the type described above (Gillespie and Owen, 1981; Crouch, 1982a; Gillespie and Owen, 1982a; Crouch, 1982b; Gillespie and Owen, 1982b; Elton, 1992). The simplest measure is *absolute change*, but this poses difficulties for comparisons between areas which differ in size. A *relative change* measure is more appropriate for the purpose at hand. Two measures of change are used here. First, the *percentage change* in the *long-term unemployment rate* – this measure indicates the *relative change* in long-term unemployment over a specified period, but is sensitive to variations in the size of local areas and the base level of long-term unemployment. Second, the *percentage point change* in the *long-term unemployment rate* – this measure relates numerical change over time to the size of the workforce and is independent of the size of the base level of long-term unemployment and takes account of variations between areas in the size of the workforce.

Table 9.2 records the changes in the incidence of unemployment by duration category at the *national* scale. Following a marked decline in unemployment during 1989, long-term unemployment began to rise. Between January 1991 and January 1992, there was a 60 per cent increase in the number of claimants unemployed for over 6 months, and a growth of nearly 50 per cent in those unemployed in excess of 12 months. The respective increases in the percentage point long-term unemployment rates were 1.7 and 0.8 percentage points.

At the *regional* scale, between January 1991 and January 1992, the South East, East Anglia, the South West and the West Midlands recorded increases in the incidence of long-term unemployment in excess of the national average (Table

9.3). In the Rest of the South East and the South West there was a doubling in the incidence of unemployment of at least 6 months duration, but the percentage point change measures show that the overall impact of the increase in long-term unemployment was most severe in London and the West Midlands. The South East recorded the largest relative increase in the incidence of unemployment in excess of 12 months, with the South West, the West Midlands and Wales also being impacted more severely than average.

Table 9.2 Unemployment duration change: the national picture

Duration category	1989-90	1990-91	1991-92
<i>all durations</i>			
absolute change (000s)	-376	274	708
% change in rate	-19.2	17.3	38.0
% point change in rate	-1.4	1.1	2.5
<i>over 6 months</i>			
absolute change (000s)	-303	14	474
% change in rate	-27.9	1.7	59.6
% point change in rate	-1.1	0.1	1.7
<i>over 12 months</i>			
absolute change (000s)	-237	-49	220
% change in rate	-31.1	-9.4	46.2
% point change in rate	-0.9	-0.2	0.8

Table 9.3 Change in the incidence of unemployment and long-term unemployment by standard region, 1991-92

Standard region	duration category					
	all		> 6 months		> 12 months	
	%	% point	%	% point	%	% point
Rest of South East	68.3	3.1	135.9	1.9	119.1	0.9
East Anglia	48.8	2.3	90.9	1.5	83.5	0.7
London	54.5	3.3	85.6	2.3	71.0	1.0
South West	51.1	2.9	103.3	2.0	92.4	1.0
West Midlands	46.5	3.2	66.7	2.1	49.4	0.9
East Midlands	38.8	2.5	59.8	1.6	50.2	0.8
Yorkshire & Humberside	26.3	2.0	45.3	1.6	34.2	0.7
North West	23.6	2.0	33.0	1.4	23.8	0.6
North	16.6	1.6	29.2	1.3	24.4	0.7
Wales	26.9	2.2	52.8	1.7	49.5	1.0
Scotland	13.5	1.2	16.6	0.6	8.4	0.2
GREAT BRITAIN	38.0	2.5	59.6	1.7	46.2	0.8

Analysis by *TTWA type* (Table 9.4) shows that relative increases in long-term unemployment in the 'South' outstripped those in similar *TTWA* categories in the 'North'. The 'North-South' differential is less pronounced on the percentage point change measure. The proportionate increases in long-term unemployment were greatest in the largest urban areas of southern England – notably London. Using the *cluster* classification of *TTWAs*, Table 9.5 shows that relative increases in long-term unemployment were most pronounced in the 'High Status Service Areas' – which displayed the lowest incidence of unemployment and long-term unemployment at the beginning of the period.

Table 9.4 Change in the incidence of unemployment and long-term unemployment by *a priori* class, 1991–92

<i>A priori class</i>	duration category					
	all		> 6 months		> 12 months	
	%	% point	%	% point	%	% point
<i>South</i>						
Million Cities	55.0	3.3	85.6	2.3	71.0	1.0
Large Dominants	55.6	2.9	98.5	2.0	85.4	0.9
Subdominant Cities	78.2	3.2	156.9	2.0	134.7	0.8
Medium-sized Centres	48.6	2.7	93.2	1.8	87.4	0.9
Subdominant Towns	62.8	3.0	128.6	1.8	113.9	0.9
Small Towns	44.3	2.8	90.6	1.8	83.9	0.9
Rural Areas	50.4	2.4	105.1	1.5	95.2	0.7
<i>North</i>						
Million Cities	22.9	2.2	29.1	1.5	19.3	0.6
Large Dominants	27.4	2.0	42.4	1.5	33.5	0.7
Subdominant Cities	26.0	2.4	41.2	1.9	30.7	0.9
Medium-sized Centres	25.9	1.8	42.9	1.2	32.3	0.5
Subdominant Towns	25.6	2.1	41.4	1.4	34.1	0.8
Small Towns	27.0	1.8	45.6	1.2	34.9	0.5
Rural Areas	23.1	1.4	38.2	0.9	28.1	0.4
GREAT BRITAIN	38.0	2.5	59.6	1.7	46.2	0.8

At the *individual TTWA* scale, relative increases in unemployment and long-term unemployment between January 1991 and January 1992 were most marked in a broad band of areas to the north, west and south of London. *TTWAs* on the south coast and in Severnside also recorded large percentage point increases in long-term unemployment, along with some traditional unemployment blackspots – such as South Tyneside and the South Wales Valleys. The smallest increases (and decreases) in the incidence of long-term unemployment were evident in rural areas in northern Britain – particularly northern Scotland.

Table 9.5 Change in the incidence of unemployment and long-term unemployment by 6-fold cluster analysis classification of TTWAs, 1991–92

A priori class	duration category					
	all		> 6 months		> 12 months	
	%	% point	%	% point	%	% point
1 Larger Urban Centres	26.5	2.3	39.3	1.6	29.4	0.8
2 Growing Industrial Areas	48.8	2.7	86.6	1.7	71.9	0.8
3 Hi-Status Service Centres	62.0	3.1	101.7	2.0	83.9	0.9
4 Smaller Growth Centres	35.8	2.3	69.1	1.4	58.4	0.7
5 Resorts & Rural Areas	35.8	2.3	70.0	1.6	62.8	0.8
6 Hi-Unemp. Energy Areas	20.9	1.9	34.0	1.4	26.2	0.6
GREAT BRITAIN	38.0	2.5	59.6	1.7	46.2	0.8

These analyses of the changing spatial pattern of long-term unemployment raise a crucial question: to what extent are the patterns emerging merely a function of the timing of the snapshots forming the initial and terminal dates for the measurement of change? Research on the identification of ‘turning points’ in local unemployment series as an aid to studying the timing and geography of the current recession reveals that the ‘South’, notably many of the areas around London and parts of East Anglia has led the ‘North’ (notably Scotland) into the economic downturn (Owen *et al.*, 1992; Green *et al.* 1994).

The key *conclusions* to emerge from the analyses of the spatial incidence of unemployment and long-term unemployment using Department of Employment claimant data for the period from January 1989 to January 1992 include the following:

- Concentrations of long-term unemployment have emerged outside the traditional unemployment blackspots in ‘new’ areas.
- In relative terms, the subdominant towns and cities in the London metropolitan region suffered particularly large increases in the incidence of unemployment and long-term unemployment.
- Taking into account the base level of unemployment and long-term unemployment, London suffered the most pronounced increases in the year from January 1991.
- There has been a clear ‘narrowing’ of the ‘North-South’ gap in unemployment/long-term unemployment differentials during the 1990s.
- The incidence of unemployment and long-term unemployment continues to be highest in west central Scotland, north-east England and Merseyside – although the comparative relative intensity of unemploy-

ment and long-term unemployment problems in these areas is less pronounced than previously.

- While these trends could reflect the beginnings of a relative shift in the spatial incidence of long-term unemployment from 'North' to 'South' over the medium-term, they might also reflect dynamic effects as the British economy moves into recession, which might be reversed at a later stage in the macroeconomic cycle.

The Changing Characteristics of the Longer-term Unemployed

The Labour Force Survey (LFS) contains a wealth of information on the characteristics of the longer-term unemployed at national and regional scales (but not – during the period covered by this analysis – at lower levels of spatial disaggregation). It is possible to define the unemployed in a number of different ways using information contained in the LFS. However, in the following discussion unemployment is defined in accordance with the ILO definition; a person without a paid job who has been actively seeking work in the past four weeks and is available to take up a new job within the following two weeks. The analyses in this section refer to people unemployed for six months or more, this being the duration at which people become eligible for the majority of programmes for the long-term unemployed.

Examination of the LFS data for 1989, 1990 and 1991 (i.e. the period of the recent economic down-turn) at the regional scale tends to confirm the main spatial patterns revealed by analyses of Department of Employment unemployed claimant data. Increases in longer-term unemployment were most pronounced in the South East, the South West, East Anglia and the West Midlands. Increases in longer-term unemployment lag behind increases in unemployment, so that regions leading into recession first experience a *relative* reduction in longer-term unemployment, followed by an *absolute* increase. At the same time, those regions that lagged behind the national trend experienced smaller *absolute* increases (or even decreases) but a larger *relative* share of longer-term unemployed.

Previous industrial and occupational experience

Information from the Labour Force Survey enables the previous industry and previous occupation of the unemployed to be examined. Of the longer-term unemployed with previous work experience, over 20 per cent were previously employed in distribution and not far short of a further 20 per cent previously worked in the construction industry. Relative to the numbers of people employed in each industry, a disproportionately large share of the longer-term unemployed are drawn from production and construction industries (Table 9.6). By contrast, ex-employees of financial and business services are under-represented amongst the longer-term unemployed. The largest relative increase in numbers of longer-term unemployed is amongst people formerly employed in financial and business services, but this increase is from a very low base.

Table 9.6 Unemployment quotients¹ by industry, Great Britain, 1991

1980 SIC Division	(1) share of total employment	(2) share of total unemployment	Unemployment quotient*
Agriculture etc.	1.3	1.2	0.92
Energy & water	2.0	2.2	1.10
Metals, minerals, chemicals	3.0	3.4	1.13
Engineering, vehicles	9.7	10.8	1.11
Other manufacturing	8.9	12.7	1.43
Construction	4.3	17.8	4.14
Distribution, catering	21.2	21.0	0.99
Transport, communication	6.1	5.6	0.92
Financial & business services	12.2	5.9	0.48
Other services	31.3	17.7	0.57
Average, all industries	100.0	100.0	1.0

* (2) divided by (1)

There are regional differences in relative increases in longer-term unemployment by industry of previous employment. For example, the engineering sector was particularly hard hit in Wales and the South East. The construction sector was hard hit in all regions, but particularly in the South East where there was a 20 thousand increase in longer-term unemployment amongst former construction workers between 1990 and 1991. The impact of recession on financial and business services in the South East is also evident, while in the South West the contraction of the distribution sector led to large increases in longer-term unemployment. In the early stages of recession the growth of longer-term unemployment was largely the result of employment contractions in engineering and other manufacturing. Between 1990 and 1991 the knock-on unemployment and longer-term unemployment effects of the economic downturn in formerly buoyant industries in formerly buoyant regions became apparent – exemplified by the fortunes of those previously employed in finance and business services in the South East and South West.

Tables 9.7 and 9.8 report on the previous occupation of longer-term unemployed people. Approximately 1 in 3 of the long-term unemployed were previously employed in skilled manual occupations, and 1 in 4 in semi-skilled jobs. Despite a doubling of longer-term unemployment amongst those from professional occupations between 1990 and 1991, the absolute increase in the number of longer-term unemployed from skilled manual and semi-skilled occupations was twenty times greater. There is a considerable degree of regional concentration in the occupational structure of longer-term unemployment. Table 9.9 presents a form of 'unemployment location quotient'; the ratio of the proportion of the longer-term unemployed in a region who have previously worked in an occupa-

tion to the national proportion for that occupation. Regions with occupational ratios with values above one, have above average concentrations of longer-term unemployed from those occupations. The proportions of former professional, intermediate and skilled non-manual workers are above average in the South East, South West and East Anglia. In Wales a particularly high proportion of the longer-term unemployed formerly worked in unskilled occupations. Former skilled manual workers are over-represented amongst the longer-term unemployed relative to the Great Britain average in Yorkshire & Humberside, the Northern region and Wales.

Table 9.7 Longer-term unemployment (6 months duration or more) by previous occupation, Great Britain, 1989–1991

	Number			Percentage share		
	1989	1990	1991	1989	1990	1991
Professional	9701	6196	12631	1.8	1.3	2.0
Intermediate	66371	63221	73960	12.5	13.3	11.5
Skilled non-manual	90313	83401	103456	17.1	17.6	16.1
Skilled manual	149296	139086	204504	28.2	29.3	31.8
Semi-skilled	141524	113081	169184	26.7	23.8	26.3
Unskilled	72294	69558	80042	13.7	14.7	12.4
All occupations	529499	474543	643777	100.0	100.0	100.0

Table 9.8 Change in longer-term unemployment (6 months duration or more) by previous occupation, Great Britain, 1989–1991

	Absolute change			Percentage change		
	1989–1990	1990–1991	1989–1991	89–90	90–91	89–91
Professional	–3505	6435	2930	–36.1	103.9	30.2
Intermediate	–3150	10739	7589	–4.7	17.0	11.4
Skilled non-manual	–6912	20055	13143	–7.7	24.0	14.6
Skilled manual	–10210	65418	55208	–6.8	47.0	37.0
Semi-skilled	–28443	56103	27660	–20.1	49.6	19.5
Unskilled	–2736	10484	7748	–3.8	15.1	10.7
All occupations	–54956	169234	114278	–10.4	35.7	21.6

Table 9.9 Regional quotients for longer-term unemployment (6 months duration or more) by occupation of previous employment

Region	profession- ional	inter- mediate	skilled non- manual	skilled manual	semi- skilled	unskilled
South East	1.20	1.62	1.36	0.90	0.93	0.72
South West	2.19	2.21	1.36	0.90	1.12	0.64
East Anglia	2.25	1.46	1.21	0.96	0.89	0.79
East Midlands	0.92	0.46	0.95	1.35	0.98	1.30
West Midlands	1.13	0.61	0.85	0.86	0.99	1.12
Yorks & Humberside	0.26	0.71	0.94	1.17	1.06	1.29
North West	0.88	0.88	0.73	0.94	1.03	1.09
Northern	0.43	0.38	0.71	1.25	1.14	1.03
Wales	1.98	0.70	0.80	1.12	0.76	1.72
Scotland	0.17	0.44	0.81	0.93	1.03	1.17

Personal characteristics

The incidence of unemployment differs between individuals according to their personal characteristics. Women have fared better than men in the current recession. Not only do men account for between two thirds and three quarters of all longer-term unemployment in each region but the increases in the numbers of men who are longer-term unemployed greatly exceeded the increases amongst women (on average being twice as great). The South West and East Anglia recorded the largest relative increases in female unemployment and longer-term unemployment.

It is to be expected that longer-term unemployment will have the highest incidence amongst groups in the labour market who are at some disadvantage in the job market. For example, there are concentrations of ethnic minority longer-term unemployed in the South East, the West Midlands, Yorkshire & Humberside and the North West, reflecting the settlement patterns of ethnic minority populations. The differences between regions in the incidence of longer-term unemployed with work-related disability are more difficult to explain. That such unemployment should apparently decline in a period of severe recession suggests that unemployed people with health problems probably retreat into economic inactivity when job opportunities sharply diminish in a recession.

The following key *conclusions* emerge from analyses of the changing characteristics of the longer-term unemployed using Labour Force Survey data for 1989, 1990 and 1991:

- Increases in longer-term unemployment occurred earliest and were most rapid in relative terms amongst those groups in the labour force which in the past have experienced relatively low levels of longer-term unemployment.

- The incidence of longer-term unemployment remained highest in industries such as production and construction, and occupations such as skilled manual and unskilled workers, which have traditionally been associated with high rates of unemployment and longer-term unemployment.

Programmes for the Longer-term Unemployed

The Employment Service (ES), together with Training and Enterprise Councils (TECs) and Local Enterprise Companies (LECs), provide a range of services and programmes designed to assist longer-term unemployed people to find work. In view of the changes in the distribution of long-term unemployment that have taken place in the early 1990s, it is important to assess the extent to which the provision of services and programmes has altered to match the changes in the long-term unemployed client group. This is a difficult task, in part because of the scale of the evaluation required and in part because of the inaccessibility of the necessary data. This section attempts merely to examine a small number of important areas of provision for the longer-term unemployed as indicators of the match between provision and longer-term unemployment.

Perhaps the best known and most important service provided by ES is the network of Job Centres throughout Britain. It is possible to examine the extent to which longer-term unemployed people rely upon Job Centres as their main method of finding employment using data from the Labour Force Survey. In 1991, approximately 30 per cent of the long-term unemployed in Great Britain used a Job Centre as their main method of job search. This proportion varied by region, ranging from 40 per cent in Wales to 20 per cent in the South East (Table 9.10). These regional differences are partly related to regional levels of unemployment. The use of a Job Centre is not the most frequently used method, however, as looking at newspaper and journal advertising is the main method of job search. There is little evidence to suggest that the method of job search used varies with the duration of unemployment.

Administrative records relating to specific programmes for the longer-term unemployed can be analysed to provide assessments of the regional incidence and penetration of programmes. Data from a sample of entrants to *Restart* courses over a four-week period in March 1992 were made available by ES for analysis. The results of this analysis suggest that approximately 85 per cent of Restart course entrants are male. The proportion of female Restart course entrants is slightly higher than the national average in the South East and the South West. People unemployed for more than 2 years take a disproportionately large share of Restart course places. Yorkshire & Humberside, the North West and Scotland have the highest proportions of Restart participants who have been unemployed for at least two years. The ethnic profile of Restart participants broadly reflects the ethnic composition of the longer-term unemployed (as revealed by the Labour Force Survey), but there would appear to be an under-representation of people with work-limiting disability/health problems on Restart courses.

Table 9.10 Main method of job search amongst the longer-term unemployed, by region, 1991

per cent

Region	Job Centre	Job* adverts	Main job search method			All
			Direct	Applica- tion	Informal contacts	
South East	20	46	9	11	14	100
South West	25	53	8	8	6	100
East Anglia	30	53	6	6	5	100
East Midlands	26	55	5	7	7	100
West Midlands	28	47	5	15	5	100
Yorks & Humberside	31	43	8	12	6	100
North West	37	37	9	11	6	100
Northern	41	34	6	13	6	100
Wales	44	25	9	15	7	100
Scotland	34	41	8	9	1	100
Great Britain	30	44	8	11	7	100

* includes looking at classified advertising, placing of adverts in papers/journals and written application in response to adverts.

Because of rounding error, percentages may not sum to 100.

One approach to the evaluation of programmes for the longer-term unemployed is to examine the extent to which the programme has 'penetrated' the client group. The penetration rate can be expressed as the proportion of the longer-term unemployed who at any moment are on a Restart course. The penetration rate of Restart is lowest in the south and east of Britain and highest in the north and west. The penetration rate in the Northern region is virtually twice that in the South West. Regional variations in the gender composition of the unemployed have served to lower the penetration of Restart courses in southern Britain and raise penetration in northern Britain. Restart course penetration in southern Britain is also reduced by the relatively small proportion of the longer-term unemployed who have been unemployed in excess of 2 years, while the concentration of long duration long-term unemployment in northern Britain has served to increase penetration. Nevertheless, even after using a variant of 'shift-share' analysis to account for the effects of differences in the gender and duration composition of the longer-term unemployed on regional Restart course participation, a significant local residual or 'regional' effect remains. Each regional residual reflects the extent to which Restart course participation is higher or lower than would have been expected on the basis of the regional composition of long-term unemployment and the differential propensities of unemployed people to participate in such courses. These regional residuals display a 'North-South' pattern of variation, reflecting

lower than expected Restart participation in the 'South' and higher than expected participation in the 'North'. The analyses of the Restart data suggest there is a need for a continuing relative shift of resources from 'North' to 'South'.

Another major programme for the longer-term unemployed is Employment Training (ET) now known as Training for Work. ET is the responsibility of Training and Enterprise Councils, but referrals to the ET programme during ES Restart Counselling represents an important service to longer-term unemployed clients. ET is concerned with provision of training for unemployed adults. During the period covered by the research priority was given to people aged 18–24 years who had been unemployed for over 6 months and to people aged 18–49 unemployed for over 2 years. Administrative records from the 'ET Starts' database relating to entrants in January of 1989, 1990, 1991 and 1992 were used to analyse participation in ET at the regional scale.

The number of ET participants fell during 1989–1990, increased between 1990–1991 and fell again between 1991–1992. This pattern is mirrored to some extent in most regions although there are exceptions, notably the South East and Scotland, in which the number of ET participants increased across the whole period. However, the most striking feature of the table is the dramatic reduction in ET that had taken place by 1992. Overall, by January 1992, ET starts had declined by 25 per cent compared to the previous January and this decline was experienced by all regions to a greater or lesser extent. The sharpest declines were observed in Scotland, where ET starts fell by half, and in the East and West Midlands.

Table 9.11 Penetration rate of ET amongst longer-term unemployed, January 1989–92, by region

Region	1989	1990	1991	1992
South East	2.2	3.2	3.3	1.1
South West	3.3	4.3	4.1	2.0
East Anglia	3.3	5.5	3.8	1.7
East Midlands	2.6	3.5	4.7	1.4
West Midlands	3.6	3.9	5.2	1.9
Yorkshire & Humberside	4.3	4.3	3.2	2.9
North West	2.9	3.0	4.6	2.4
Northern	3.9	4.2	4.7	3.2
Wales	3.9	4.9	4.7	2.3
Scotland	2.0	2.6	3.5	1.4
Great Britain	3.0	3.6	3.9	1.8

Variations in the number of ET starts may reflect changes in the long-term unemployed client group that ET is intended to assist. Table 9.11 provides estimates of the penetration rate of ET amongst the longer-term unemployed (defined as registered claimants, unemployed for six months or more, and aged 18–59 years). The penetration rate shows the proportion of the longer-term unemployed

who started on the ET programme in January of each year. It is evident from the table that, nationally, ET was assisting an increasing proportion of the longer-term unemployed from 1989 up to 1991 despite rising unemployment. However the penetration rates fell sharply between 1991 and 1992. Nationally, the penetration rate more than halved. This fall in penetration rates reflects the effects of both a dramatic increase in longer-term unemployment and a fall in the number of ET starts. The largest falls in the penetration rate are in the East and West Midlands where the rates fell by 3.3 points in each region (that is 3.3 per cent of the unemployed) or between 70 and 60 per cent respectively.

The variation in ET penetration rates across the regions has increased as the average rate has fallen. Thus by 1992 the longer-term unemployed were approximately three times more likely to enter ET in the Northern region than in the South East. Only one year earlier the difference in this likelihood was less than 50 per cent greater in the North than in the South East.

Those groups of longer-term unemployed people given priority in placements on ET comprised just under half (46 per cent) of ET starts in 1989. By 1992, the proportion in priority groups had fallen to just over a quarter (28 per cent) of all ET starts. This national pattern is also evident at the regional level. The implication of these figures is that ET places were increasingly being taken by people outside of the priority groups.

A shift away from the priority groups may not matter if these client groups are of diminishing relative importance amongst the longer-term unemployed. The crucial question is whether priority group participation in ET matched the changes in the client populations. Comparison suggests little relationship between the changes in the priority unemployed claimant population and changes in the number of such priority groups taking up places on ET. There is no significant correlation between changes in the priority unemployed populations and changes in their numbers on ET. Indeed, the analysis strongly suggests that the role of ET as an instrument to help reduce longer-term unemployment has diminished sharply in recent years especially for the long duration cases.

The following key *conclusions* emerge from analyses of services and programmes designed to assist the long-term unemployed:

- Job Centres continue to serve an important job search function for the longer-term unemployed.
- There are regional variations in the use of Job Centres, with use being highest in regions with a high incidence of unemployment and long-term unemployment.
- Restart course participation is lower in the 'South' than in the 'North', even after regional differences in the gender and duration mix of the longer-term unemployed have been accounted for.
- There appears to be a growing mismatch between the recent growth in unemployment and provision for the unemployed through ET, with ET

participation tending to decline most quickly in regions experiencing the fastest unemployment increases, and a decline in the penetration of ET into priority groups.

Conclusions

A number of research questions were posed at the start of this chapter. These questions concerned the spatial distribution of long-term unemployment, and the characteristics of the longer-term unemployed and, finally, raised issues relating to job search and ES programmes for the longer-term unemployed. These questions were examined in considerable detail in the three sections which followed. This final section reflects upon the results of that analysis and draws some general conclusions. These conclusions can be considered as falling within three broad areas: empirical findings, policy implications and methodological issues.

There is evidence that new patterns of long-term unemployment have emerged during the early 1990s. Areas which have traditionally suffered from high levels of unemployment continued to experience high levels of long-term unemployment, but the most rapid increases in long-term unemployment took place in the South, particularly in London and the South East and those parts of the South West and East Anglia that are most closely related to the Greater London economy. This had the effect of reducing the differential incidence of long-term unemployment between the North and the South.

Longer-term unemployment continued to be concentrated amongst people previously employed in manual work, particularly amongst skilled and semi-skilled occupations. Similarly, high levels of longer-term unemployment are associated with previous employment in industrial sectors which are in long-run decline or have traditionally been associated with unstable employment such as construction, catering and hotels. However, again there are signs that more rapid growth of longer-term unemployment occurred amongst professional and other non-manual occupations in the service sector, primarily in finance and business services. Although these changes took place from a small base level of longer-term unemployment, they would, if continued, have a marked impact upon the overall incidence of long-term unemployment. Already, during this period, they had an impact upon the spatial distribution of the long-term unemployed.

A changing spatial distribution clearly has implications for agencies such as ES who provide employment services to longer-term unemployed clients, not least of which is that resources need to shift from more traditional areas of long-term unemployment towards newly emerging areas of high longer-term unemployment. There is an indication that the level of penetration by ES provision is lowest amongst the longer-term unemployed in the South, lower in some instances (such as Restart courses) than would have been expected even after allowance is made for the generally lower levels of longer-term unemployment in these regions. In the case of ET, provision for the long-term unemployed would appear to have been falling across the board but is most acute in those regions experiencing the fastest increases in the number of longer-term unemployed.

These conclusions have a number of implications for policy. First, it is important not to allow programmes to become entrenched in areas that traditionally have experienced a high level of long-term unemployment. It will be necessary to review the level and type of services provided, with shifts of resources taking place where appropriate. However, it is important to note that the new areas with growing long-term unemployment are not areas in which ES provision of services has been particularly strong for whatever reason. This is the case both regionally and occupationally. This suggests that part of the shift of resources may need to be concerned with 'opening up' provision for the new client population. This may be particularly important in the case of professional occupations located in the South East, East Anglia and the South West.

Finally, the analysis suggests some conclusions relating to methodology. It is clear that the pattern of changes in the spatial incidence of long-term unemployment in the early 1990s were very complex. These patterns represent the outcome of the interaction of long-term structural changes in employment with short-term cyclical changes in economic activity. The consequence of this interaction varies from one group in the labour force to another and from locality to locality depending on the occupational and industrial structure of the area. As has been hinted above, the dynamics of long-term unemployment are quite complex. The incidence of long-term unemployment, both nationally and regionally, can fluctuate across time as these dynamic effects work out. Long-term unemployment change lags behind changes in unemployment as a whole, which in turn lags behind changes in economic activity. A consequence of this is that the pattern of long-term unemployment observed at any moment of time is 'time specific': it depends upon the period of time selected, because it reflects a particular set of economic and labour market events that occurred in the past. Selection of a different, perhaps later period may suggest a different pattern, especially when cyclical factors are important. One policy implication of this is that it is vital to monitor the incidence of long-term unemployment on a regular basis in order that the allocation of resources to employment services for the longer-term unemployed can closely match changes in the client population.

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10 Unemployment in Northern Ireland: Causes, Characteristics and Cures¹

David M Armstrong

Introduction

Unemployment reduces aggregate output and income and it imposes costs upon the Exchequer. In addition, unemployment tends to affect some groups of the population more than others, thereby creating economic inequalities. For these reasons, reducing unemployment has been a major objective of policy makers in industrialised countries. In Northern Ireland unemployment is high. In 1993 the unemployment rate in Northern Ireland was 14 per cent; the rate for males was 18 per cent and the rate for females was 8 per cent. Since the early seventies the unemployment rate in Northern Ireland has been, on average, nearly twice as high as the unemployment rate in the United Kingdom as a whole. Also, throughout this period unemployment in Northern Ireland has been consistently higher than unemployment in all other regions of the United Kingdom, even the other peripheral regions. As well as being high, unemployment in Northern Ireland has some particular characteristics which distinguish it from unemployment elsewhere. For example, unemployment is much higher amongst Catholics than amongst Protestants. Also, the incidence of long-term unemployment is very high in Northern Ireland.

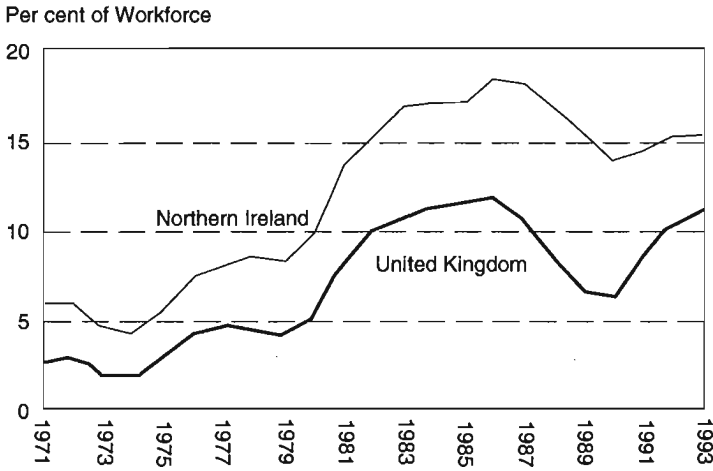
This paper gives an overview of some aspects of unemployment in Northern Ireland. The main purpose of the paper is to outline the main causes of unemployment in Northern Ireland, discuss some of its particular characteristics and evaluate some of the policies which have attempted to reduce it. It is beyond the scope of the paper to investigate any of these things in detail. Rather the paper attempts to provide an overview of unemployment in Northern Ireland and highlight some of the more interesting issues and debates.

The Background to Unemployment in Northern Ireland

Over the last twenty years unemployment in Northern Ireland has been consistently higher than unemployment in the United Kingdom as a whole (Figure 10.1). The unemployment rate in Northern Ireland has tended to be between one and a half and two and a third times higher than the unemployment rate in the United Kingdom (Figure 10.2). The fact that unemployment in Northern Ireland is higher

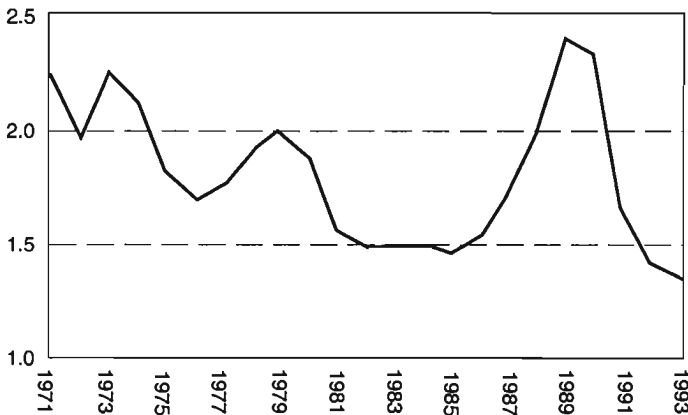
than the national average is not surprising given the traditional regional pattern of unemployment in the United Kingdom, i.e. unemployment has tended to be high in the so-called peripheral regions of Northern Ireland, Scotland, Wales and the North of England, low in the South of England and about average in the Midlands. However, over the last twenty years unemployment in Northern Ireland has been consistently higher than unemployment in any other region of the United Kingdom, even the other peripheral regions (Figure 10.3).

Figure 10.1 Unemployment rates in Northern Ireland and the United Kingdom



Source: Employment Gazette

Figure 10.2 The ratio of Northern Ireland Unemployment rates to United Kingdom unemployment rates

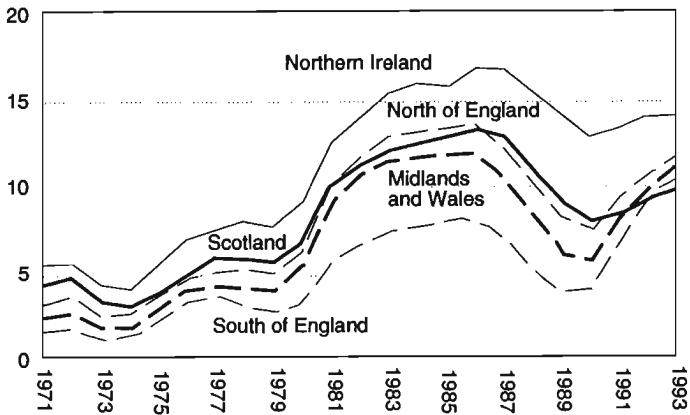


Source: Employment Gazette

Although Northern Ireland has consistently had the highest level of regional unemployment in the United Kingdom, it has fared relatively well compared to other regions over the course of the most recent recession. At the beginning of the recession seasonally adjusted unemployment started rising earlier in the United Kingdom (June 1990) than in Northern Ireland (February, 1991) and it rose at a higher rate. This is illustrated in Figure 10.1 and also in Figure 10.2 which shows that whereas in 1990 the unemployment rate in Northern Ireland was over twice as high as the unemployment rate in the United Kingdom, in 1992 it was less than one and a half times as high.

Figure 10.3 Regional Unemployment rates in the United Kingdom

Per cent of Workforce



Source: Employment Gazette

The experience of Northern Ireland during the recession is one example of a more general feature of the regional impact of the recession. Generally, during the recession unemployment increased by more in the southern regions of the United Kingdom than in the northern regions (Figure 10.3). This is interesting because in the previous recession of 1979–81 there was a tendency for the unemployment differentials between the North and the South to widen. In order to understand the recent experience it is necessary to understand the causes of the expansion which took place in the latter part of the 1980s. The main factor underlying the expansion was the extensive deregulation of financial markets which took place at the beginning of the 1980s. This deregulation led to a significant increase in personal sector debt, around three quarters of which could be accounted for by mortgage debt. The increase in debt comprised two elements, namely an increase in the total volume of debt and an increase in the debt to income ratio. For example, between 1979 and 1989 the total value of personal sector debt in the United Kingdom increased almost six fold and the ratio of debt to personal disposable income

doubled (Gudgin and O'Shea, 1993). This increase in personal sector debt stimulated aggregate demand in two main ways. Firstly, the increased demand for housing significantly boosted the demand for goods and services associated with housing moves (e.g. consumer durables, building and maintenance services and financial services). Secondly, the increased demand for housing pushed up house prices and this in turn led to the phenomenon of 'equity withdrawal'. Generally, equity withdrawal refers to the process whereby housing wealth is used to finance consumption. It has been defined as 'funds acquired from the sale of owner-occupied houses but not then used for house purchase; and funds borrowed on security of owner-occupied house property but used for purposes other than purchase, improvement or repair' (Holmans, 1991). There are a number of ways in which equity withdrawal can take place. For example, 'trading down' occurs when an individual sells a house and buys a cheaper house with some of the proceeds. The individual is then left with the difference in the value of the two houses which can be used to finance consumption. Other ways in which equity withdrawal can take place are outlined in Holmans (1991). It was this net injection of domestic demand, brought about by an increase in personal sector debt, which fuelled the expansion of the late 1980s.

The expansion had a very definite regional pattern because levels of personal sector debt increased by more in southern regions of the United Kingdom than in northern regions. This was the case with respect to both the volume of debt and the debt to income ratio. Thus the southern regions fared better during the expansion than the northern regions. However, towards the end of the 1980s the government became increasingly concerned that the economy was overheating and as a result interest rates began to rise. Eventually, interest rates were pushed to unprecedentedly high levels; between October 1989 and August 1990 nominal interest rates exceeded 15 per cent. This had two main effects. Firstly the cost of servicing debt increased dramatically. For example, in 1990 mortgage interest costs accounted for nearly 8 per cent of aggregate personal disposable income compared to around 4 per cent in 1980. Secondly, house prices fell sharply and so expenditure financed by some form of equity withdrawal collapsed. These two effects were the main causes of the recent recession. Because the increase in debt and the increase in house prices had both been much greater in the southern regions than in the northern regions, the effects of the recession were felt most severely in the southern regions.

According to this explanation, therefore, the regional impact of the recent recession can be explained largely with reference to factors relating to the housing market. This explanation has been widely used to explain the impact of the recession on the Great Britain regions (Muellbauer and Murphy, 1991, NIERC/OEF, 1993 and Dignan, 1993) and on Northern Ireland (Gudgin and O'Shea, 1993 and NIEC, 1993).²

Explaining Unemployment in Northern Ireland

In order to understand the main reasons why unemployment in Northern Ireland has been consistently higher than unemployment in the rest of the United Kingdom it is helpful to use a simple labour market accounts model. This model was developed by the Cambridge Economic Policy Group (see CEPR, 1980) and it has been used extensively as a framework within which to analyze various aspects of the Northern Ireland labour market (e.g. Murshed et al., 1993, Borooah, 1993 and Jefferson, 1991). According to the labour market accounts model the natural increase in the labour force over a certain period can be broken down into changes in employment, changes in unemployment and level of net migration. To be more precise:

$$\Delta L_t = \Delta E_t + \Delta U_t + M_t \quad (1)$$

where ΔL_t is the natural increase in the labour force during period t. This is defined as the increase in the labour force which would have occurred if there had been zero migration over the period and the end-of-period participation rates applied to the entire end-of-period working age population.

ΔE_t is the change in employment during period t

ΔU_t is the change in unemployment during period t

M_t is the net number of migrants during period t. This is defined as the number of people who left the region during period t minus the number of people who entered the region during period t. Net out-migration, therefore, is positive.

Equation (1) can be rearranged to give:

$$\Delta U_t = \Delta L_t - \Delta E_t - M_t \quad (2)$$

According to equation (2), changes in unemployment can be attributed to changes in the labour force, changes in employment and the level of net migration. According to this framework, therefore, both demand factors (employment growth) and supply factors (natural increase in the labour force and migration) must be referred to when explaining the existence of high unemployment in Northern Ireland. It is worth making a number of points briefly about the individual demand and supply factors.

In terms of the demand for labour, employment growth in Northern Ireland has generally not lagged behind employment growth in the United Kingdom, particularly throughout the 1980s. Indeed, Northern Ireland has performed better recently in terms of job creation than the United Kingdom. For example, between the Census

of Employment years of 1989 and 1991 total employment fell by 2 per cent in the United Kingdom and increased by 5 per cent in Northern Ireland. This corresponded to the creation of 18,000 new jobs in Northern Ireland between 1989 and 1991. However, around four fifths of these new jobs were for females. For this reason the employment growth only had a limited impact on claimant unemployment because most of the jobs went to women who were not previously registered as unemployed. In terms of the labour market accounts model this corresponds to the effects of employment growth on unemployment being offset by an increase in the labour force which in turn is brought about by an increase in participation rates.

In terms of the supply of labour it is worth noting, firstly, that the main reason Northern Ireland has a very high rate of natural increase in the labour force is that the crude birth rate (i.e. the number of live births per 1000 of the population) is high. For example, in 1990 the crude birth rate in Northern Ireland was 17 per cent and this was higher than the United Kingdom average of 14 per cent and the EC12 average of 12 per cent (Murshed et al., 1993). Secondly, throughout nearly all of the post-war period net out-migration from Northern Ireland has been positive. During the 1950s and 1960s net out-migration was around 8,000 per annum (0.5 per cent of the population). In the early 1970s, when the Troubles were at their most extreme, net out-migration increased dramatically and it stood at over 20,000 people per annum in 1972 and 1973. Interestingly, in 1991 and 1992 there was a net inflow of around 2,400 people per annum. This change from net outflows to net inflows can largely be attributed to the differential impact of the recession in Northern Ireland and Great Britain, discussed above.³ Some economists have suggested that out-migration from Northern Ireland should be facilitated because it is one way in which the unemployment problem can be alleviated (e.g. Jefferson, 1991 and Gudgin and Roper, 1990). The rationale for this can be seen clearly in the labour market accounts model. From equation (2) above, for example, if there is net out-migration ($M_t > 0$) over a certain period, then if there is no change in the labour force or employment over the same period ($\Delta L_t = 0$ and $\Delta E_t = 0$), unemployment will fall ($\Delta U_t < 0$). Such recommendations, however, are politically sensitive and they have provoked a number of responses which have argued that in the medium term consistent net out-migration is likely to have a detrimental effect on local economic performance. For example, it has been argued that out-migration tends to weaken the human capital base of the economy because emigrants are biased towards the younger and more highly skilled members of the workforce (e.g. Dignan, Haase and Healy, 1991).

The model presented above is a simple arithmetic description of the labour market. It is an identity and as such it should not be taken as an expression of underlying structural relationships. It is limited, therefore, in the extent to which it can 'explain' unemployment. In particular it does not take account of factors such as the quality of the labour force, unemployment-related benefits, wage rates and the prices of goods and services in the regional economy. For example, an alternative explanation of the existence of high unemployment in Northern Ireland is that wages do not adjust downwards to reflect local demand conditions and this

happens because the salaries of the majority of employees are determined by bargaining at a national level. The labour market accounts model does not take account of such factors. However, it is a useful model because it provides a simple picture of the basic demand and supply factors which operate in the labour market. For a regional economy like Northern Ireland it is important to consider each of these factors when trying to understand why unemployment has typically been higher than the national average. Also, it is argued below that it is important to consider each of these factors when evaluating the impact of policies which are aimed at reducing unemployment.

Features of Unemployment in Northern Ireland

Unemployment and Religion

Unemployment amongst Catholics in Northern Ireland is much higher than unemployment amongst Protestants. The ILO unemployment rate⁴ is 24 per cent for Catholic men and 10 per cent for Protestant men (PPRU, 1993). This means that Catholic men are nearly two and a half times as likely to be unemployed as Protestant men. The unemployment rate differential is much lower for women. The ILO unemployment rates for Catholic and Protestant women are 10 per cent and 7 per cent respectively and so Catholic women are nearly one and a half times as likely to be unemployed as Protestant women. This unemployment differential between Catholics and Protestants persisted throughout the 1970s and 1980s and it has provoked a lively debate amongst academics and policy makers. The issues have been reviewed in Gallagher (1991) and Whyte (1991). The academic debate concentrated on explaining why the differential exists. Perhaps the most obvious explanation is that Catholics have been discriminated against in the labour market, either directly or indirectly. However, a number of alternative explanations are possible. Most of the alternative explanations are based around the premise that Catholics and Protestants differ in terms of certain individual, household and socio-economic characteristics and these characteristics have an important influence on unemployment. The main explanations of this nature which have been put forward are as follows:

Industry: Catholics are more likely to be employed in certain industries such as construction and those who work in these industries are more subject to unemployment.

Socio-Economic Group: Catholics are more likely to be in lower socio-economic groups such as the various unskilled manual categories, and those who are in these groups are more likely to be unemployed.

Age: The Catholic population is younger than the Protestant population and younger people are more likely to be unemployed.

Qualifications: Catholics are not as well qualified as Protestants and those who are not well qualified are more likely to be unemployed.

Geography: Catholics are more likely to live in areas where unemployment is high, for example in the West of the Province.

Family Size: Catholic families tend to be larger than Protestant families and so Catholics are more likely to 'choose' not to work because they will have a higher income if they are unemployed than if they are employed. This highlights a standard deficiency of the benefit system referred to as the 'poverty trap'.

According to these explanations, religion is correlated with the various factors such as industry and socio-economic group and each of these factors affects unemployment. It is argued, therefore, that some of the unemployment differential between Catholics and Protestants can be attributed to the effects of the other factors on unemployment and not to the effect of religion. These arguments pose the empirical problem of estimating how strong the relationship between religion and unemployment is after the effects of the other factors have been taken into account.

The results of an earlier study of Catholic and Protestant unemployment which estimated econometric models of unemployment are given in Smith and Chambers (1991). This study focused on male unemployment and it used micro data from the Continuous Household Survey (CHS). The CHS is the Northern Ireland equivalent of the General Household Survey (GHS) which is conducted annually in Great Britain. In the sample used by Smith and Chambers the raw unemployment rates for Catholic and Protestant men are 35 per cent and 15 per cent respectively. By means of econometric techniques Smith and Chambers calculated a set of unemployment rates for Catholics and Protestants with different combinations of characteristics. For example, they estimated the unemployment rate for Catholic and Protestant men in different age groups who were in skilled manual occupations, had no qualifications, two children, and lived in Belfast District Council. For 16–24 year olds with these characteristics the Catholic and Protestant unemployment rates were 59.3 per cent and 41.3 per cent respectively; for 25–44 year olds the rates were 39.4 per cent and 23.9 per cent and for those aged over 40 the rates were 32.0 per cent and 18.5 per cent. According to these results, therefore, even when the other characteristics are controlled for, Catholic unemployment is still significantly higher than Protestant unemployment.

An alternative way of presenting the results of Smith and Chambers is to calculate 'ceteris paribus' (CP) unemployment rates. In particular, using their results it is possible to calculate a CP unemployment rate for Protestants. The CP unemployment rate for Protestants gives the unemployment rate of a Protestant whose other characteristics, e.g. age, socio-economic group etc., are the same as the average characteristics of Catholics. As indicated above, in the sample used by Smith and Chambers (1991) the raw unemployment rates for Catholic and Protestant men are 35 per cent and 15 per cent respectively. This means that when we do *not* adjust for the other factors, Catholics are about two and a third times as likely to be unemployed as Protestants. However, the CP unemployment rate for

Protestants is calculated to be 21 per cent. This means that, when we *do* adjust for the other factors, Catholics are about one and two thirds times as likely to be unemployed as Protestants. Therefore, controlling for the other factors reduces the unemployment differential between Catholics and Protestants but not by very much. The difference between the raw unemployment rates is 20 percentage points and the difference between the adjusted unemployment rates is 14 percentage points. Controlling for the other factors reduces the difference by slightly less than one third.

The conclusion which Smith and Chambers drew from these results was that there was substantial inequality of opportunity between Catholics and Protestants in Northern Ireland in terms of access to employment. However, it is important to note that this is not the same as saying that the difference in the adjusted unemployment rates can be explained solely in terms of Northern Ireland employers directly discriminating against Catholics. There are a variety of means by which inequality of opportunity in access to employment can be generated. For example, indirect discrimination (e.g. advertising vacancies in newspapers which are more likely to be read by those from one community) and the 'chill factor' (e.g. the reluctance of those from one community to work in areas which are dominated by those from the other community) are both likely to be important determinants of inequality of opportunity. In addition, it is possible that differential migration propensities and differences in birth rates between Catholics and Protestants might also contribute to the problem. All of these factors must be taken into account when interpreting the adjusted unemployment rate differential between Catholics and Protestants. Unfortunately, using micro data like the Continuous Household Survey, it is not possible to evaluate which of these explanations is quantitatively more important.

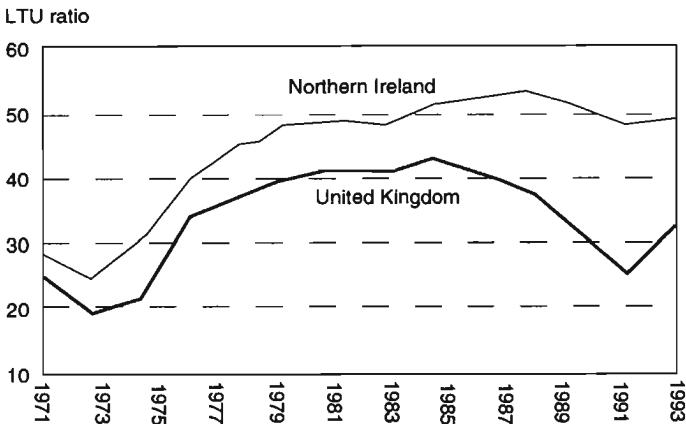
The unemployment rate differential between Catholics and Protestants has been an important factor underlying the introduction of two major pieces of legislation on fair employment in Northern Ireland. Since the Troubles began there have been two Fair Employment Acts in Northern Ireland, one in 1976 and the other in 1989. The nature and scope of the two Acts are described in Rea and Eastwood (1992). The scope of the 1989 Act was greater than that of the 1976 Act and it was introduced as a result of widespread concern that the 1976 Act was not having the desired effect. Indeed, the fact that the unemployment differential did not change much throughout the 1970s and 1980s was often cited as one example of the failure of the 1976 Act (Gallagher, 1992). Because of this there has been widespread interest in the ability of fair employment legislation to reduce the unemployment rate differential. In order to provide some estimates of this a simulation model has been constructed at NIERC. The model is based on estimates of labour turnover and employment growth as well as assumptions about how many jobs must be created in order to take one person off the unemployment register. The model investigates how the unemployment differential would change if the fair employment legislation were implemented effectively, i.e. if the share of Catholics in recruits was the same as their share in the labour force, and the share

of Catholics in quits were the same as their share in employment. The structure of the model is described in detail in Murphy (1991) and some results are presented in Gudgin and Murphy (1992). Generally, the results suggest that even if the legislation is implemented effectively, Catholic and Protestant unemployment rates will converge rather slowly. The effects of the legislation are simulated over a five year period. In the initial year the unemployment differential is assumed to be 2.5 percentage points for men and 1.7 for women. The results of the model suggest that over a five year period the unemployment rate differential would decrease by 0.4 for men (to 2.1) and by 0.2 for women (to 1.5).⁵ One of the main reasons why the decline is so small is that a high proportion of recruits come from outside the labour force and so they do not have a direct influence on the unemployment total.

Long-term unemployment and job search intensity

Long-term unemployment is a problem in Northern Ireland. In October 1993 the long-term unemployment ratio, i.e. the proportion of the unemployed who had been unemployed for more than 12 months, was 55 per cent. In the United Kingdom as a whole the long-term unemployment ratio was 38 per cent. Therefore in October 1993 more than one half of the unemployed in Northern Ireland were long-term unemployed, whereas in the United Kingdom more than one third of the unemployed were long-term unemployed. Long-term unemployment increased throughout the eighties in both Northern Ireland and the United Kingdom but it increased by more in Northern Ireland (Figure 10.4).

Figure 10.4 Long-term Unemployment (LTU) ratios in Northern Ireland and the United Kingdom



Source: Department of Economic Development (NI),
Department of Employment (GB)

Note: The LTU ratio is the proportion of unemployed who have been unemployed for more than a year.

Job search intensity is important because it has been found to increase the probability of leaving unemployment (e.g. Gorter, Nijkamp and Rietveld, 1991 and Barron and Mellow, 1981). The effect which unemployment duration has on job search intensity has been analyzed in a number of empirical studies using data from Great Britain and Northern Ireland (e.g. Hughes and McCormick, 1990, Schmitt and Wadsworth, 1993, Murphy and Armstrong, 1992). In these studies job search intensity is measured in terms of the number or the type of job search methods used. For example, the total number of search methods and the number of 'employer contact' search methods are both used to proxy job search intensity. All of these studies have found that there is a strong negative relationship between job search intensity and the length of time for which an individual has been unemployed, i.e. the longer an individual has been unemployed, the lower is his/her job search intensity. One way in which this can be explained is that the length of the unemployment spell has a causal influence over job search intensity. This is known as the 'state dependency' thesis. According to this, as duration increases the individual's attachment to the formal labour market will weaken and his/her skills atrophy as does his/her general familiarity with working practices. Linked to this is the fact that some employers use unemployment duration as a screening device and automatically reject applications from the long-term unemployed (Meager and Metcalf, 1987). Layard, Nickell and Jackman (1991) find strong evidence in support of this explanation in their review of the relationship between job search and unemployment duration.⁶

Given that long-term unemployment is so high in Northern Ireland, the relationship between job search and unemployment duration has some direct implications for policy. In particular, increases in the demand for labour are unlikely to take many of the long-term unemployed off the unemployment register. This is because, firstly, given the relationship between unemployment duration and job search intensity, the long-term unemployed might not apply for the jobs because they have become demotivated or deskilled. Secondly, even if the long-term unemployed do apply for the jobs, it is likely that many of their applications will be automatically rejected by employers who use duration as a screening device in the recruitment process. The implication of this is that it is important for policy makers to address directly the particular problems faced by the long-term unemployed such as the atrophy of skills, lack of motivation, low job search intensity and automatic rejection by employers. A range of policies which attempt to address such problems are currently in operation in Northern Ireland and some aspects of these policies are discussed below.

Measures to Combat Unemployment in Northern Ireland

Industrial Policy

Industrial policy provides various forms of financial and technical assistance to Northern Ireland companies. Such assistance has been available in Northern Ireland for more than fifty years. Throughout the post-war period there have been

various changes in the emphasis of industrial policy, the most recent of which was set out in a strategy document entitled 'Competing in the 1990s: the Key to Growth' (DED, 1990). This document described the main objective of industrial policy in the 1990s as improving the competitiveness of Northern Ireland companies. Underlying this objective, the aim of creating sustainable employment and reducing unemployment remained.⁷ The objectives of the new policy reflected a more general tendency for regional policy in the United Kingdom to concentrate on supply side reforms which promote self sustaining growth. The change in policy objectives led to a change in the type of financial assistance which was made available to companies. In particular, there was a movement away from the provision of grants for capital expenditure and a movement towards grants for marketing, R&D and training.

These changes were the result of widespread concern that previous policies were not working. In particular a number of studies have shown that the old policy did not perform well in terms of job creation. Throughout the 1980s, industrial policy in Northern Ireland was implemented by two agencies namely the Industrial Development Board (IDB), which dealt with large companies, and the Local Enterprise Development Unit (LEDU) which dealt with small companies. It has been estimated that over the period 1982–88 around 9,200 new jobs were created in IDB client companies (NIEC, 1990). This corresponds to approximately 1,500 new jobs each year. However, when allowance is made for deadweight and displacement,⁸ the number of net additional jobs created each year in IDB companies is around 1,200. NIERC have estimated that over the period 1984–89, LEDU created around 1,000 additional jobs per year (Hart et al., 1993). With unemployment in Northern Ireland averaging at around 104,000 throughout the 1980s, it is clear that job creation on this scale could not have a significant impact on unemployment.

The changes in policy have generally been welcomed by economists although doubts remain about how effectively the policy has been and can be implemented (e.g. NIEC, 1994, McEldowney and Sheehan, 1993, Hitchens et al., 1992 and Gudgin and Roper, 1991). However, even if the policy can be implemented effectively there are at least two reasons to be cautious about its ability to make a significant impact on unemployment. Firstly, implicit in the objective of improving competitiveness is a longer term view of the role of industrial policy in the job creation process. The effects of the previous policies on job creation were direct because the provision of financial assistance was conditional on the creation of additional employment in the client companies. Under the new policies, however, the provision of assistance is conditional on evidence that it will improve competitiveness in client companies. In order to improve competitiveness it is likely that most companies will need to make various changes to, for example, the structure of their workforces, their production techniques etc.. During this time of restructuring new jobs might not be created in assisted companies and it is quite possible that there will be job losses as companies attempt to improve their productive capacity. In the short-term, therefore, the new industrial

policy may not address the unemployment problem and indeed in some cases it may exacerbate the problem.

The second reason for being cautious about the ability of the new policies to make a significant impact on unemployment relates to the loose relationship between employment and unemployment. It was shown above that increases in employment tend not to feed through into commensurate reductions in unemployment because many of the new jobs are filled by those who were previously residing outside the region, those who would otherwise have migrated from the region, or those who were previously not in the labour force. This means that even if Northern Ireland companies do begin to compete more effectively in national and international markets, and even if this increased competitiveness results in job creation on a larger scale than before, it is unlikely that this job creation will bring unemployment in Northern Ireland down to acceptable levels. The validity of these concerns has recently been supported by some econometric evidence (Gudgin and O'Shea, 1993). A number of 'rapid growth scenarios' have been conducted using a macroeconomic model of the Northern Ireland economy. The main purpose of these simulations is to evaluate the effects which certain GDP growth rates are likely to have on employment and unemployment. The simulations focus on the effects of a GDP growth rate of 5 per cent per annum over the period 1992–2000. A rate of 5 per cent was chosen because it was judged to be close to the maximum which a small European state might expect to achieve. The results of the simulations suggest that if the Northern Ireland economy were to grow at a rate of 5 per cent per annum between 1992 and 2000, then over this eight year period an additional 112,000 jobs would be created and unemployment would fall by a total of 20,000. According to these simulations, therefore, in general about five jobs must be created in order to take one person off the unemployment register. Arguments such as these are not intended to decry the longer term approach implicit in the recent changes to industrial policy. Rather they are intended to emphasize that on their own they can only have a limited impact on the unemployment problem.

Labour Market Policy

Labour market policy provides various forms of assistance directly to the unemployed. The type of assistance varies from, for example, the provision of training, counselling and assistance in job search to the direct provision of employment opportunities. In the discussion above, it was argued that such measures are likely to be very important for Northern Ireland, in particular because long-term unemployment in Northern Ireland is so high. There have been a large number of academic studies of the effectiveness of such measures in Great Britain (e.g. Dolton, 1993, Disney et al., 1992, Layard and Philpott, 1991). In Northern Ireland however, there has only been a limited debate. One recent study has discussed the range of active labour market measures which are operating in Northern Ireland and which are aimed specifically at the long-term unemployed (Scott, 1993). Generally the labour market measures which are operating in Northern Ireland are

very similar to those which are operating in Great Britain. The main difference is that in Northern Ireland there is a concentration on direct employment schemes, especially the Action for Community Employment (ACE) scheme. For this reason, this section will briefly describe the ACE scheme and outline some of the drawbacks which are associated with it as it currently operates.

The ACE scheme is similar to the Community Programme which operated in Great Britain until 1988 when it was replaced by the more employer-based and training-orientated Employment Training programme. ACE accounts for the majority of places on training and employment schemes in Northern Ireland and also the majority of resources. The aim of ACE is to provide employment for long-term unemployed adults in a range of projects of community benefit. Participants on the scheme are paid the rate for the job and the duration of employment is up to one year. Structured training, nominally accounting for 20 per cent of participants' time, has recently been introduced to the scheme with the objective of improving the performance of individuals while on the scheme and preparing them for effective job search when they finish. Those who have been unemployed for twelve out of the previous fifteen months, and continuously unemployed for at least the previous three months, are eligible for ACE. In addition young people aged between eighteen and twenty-four who have been unemployed for six months or more are eligible to join the scheme. The rationale for this is to prevent young people from drifting into long-term unemployment and to allow them to establish a foothold in the labour market at an important stage in their life. During 1992/93 the average number of people on ACE was 9,650.

ACE is a reasonably effective direct employment scheme for the temporary relief of unemployment. The scheme has also resulted in significant community benefits to Northern Ireland through the direct output from activities carried out on the scheme and as a motivator of community action in deprived areas. However, there are a number of drawbacks with the scheme as it currently operates. Firstly, the financing arrangements of the scheme and the type of activities undertaken by many sponsors encourage a large number of part-time jobs (around 36 per cent of the total). These part-time jobs tend to attract women who were not previously registered as unemployed. Approximately one fifth of the places on ACE go to women who were previously outside the labour market. This significantly reduces the impact of ACE on claimant unemployment and also increases its net exchequer cost. Secondly, it has been estimated that 35 per cent of ACE workers had found employment while on ACE or within six months of leaving ACE and a further 5 per cent had progressed to other training or full-time education. These placement rates are not much better than the normal outflow rate in Northern Ireland for those with similar durations of unemployment. This would suggest, therefore, that the quality of the training and employment experience people receive on ACE is insufficient to significantly improve their subsequent labour market prospects.

Conclusions

Unemployment in Northern Ireland remains higher than in any other region in the United Kingdom. It has been argued that the main reason for this is that employment growth in Northern Ireland has been consistently insufficient to absorb a high rate of natural increase in the labour force, and that this has not been sufficiently offset by outward migration. Understanding these basic demand and supply factors which influence the level of unemployment is important when trying to evaluate the impact of policies which are aimed at reducing unemployment. For example, it has been shown that increases in output and employment in Northern Ireland companies might not reduce unemployment by very much because they are likely to encourage more labour market participation and reduce net out-migration. Such arguments are reinforced by the analysis of some compositional aspects of unemployment. In particular it has been argued that because long-term unemployment in Northern Ireland is so high, the average search intensity of the unemployed is likely to be low. This means that job creation is likely to be unsuccessful in reducing long-term unemployment because the long-term unemployed are demotivated and deskilled and so they do not search effectively for the jobs which are available. Even if the long-term unemployed do apply for the available jobs there is evidence to suggest that their applications might be automatically rejected by employers who use unemployment duration as a screening device in the recruitment process. This means that a range of active labour market measures are required to get the long-term unemployed back into the labour market. A number of such measures are currently in operation in Northern Ireland. The programme which accounts for most resources is the ACE scheme which provides employment for the long-term unemployed. It has been shown that for various reasons ACE has only had a limited impact on unemployment in Northern Ireland. Alternative approaches to reducing unemployment in Northern Ireland have recently been suggested. In particular, it has been argued that the government should act as an 'employer of last resort' by providing, or funding, employment for the long-term unemployed (Gudgin and O'Shea, 1993). Details of the proposed scheme, such as eligibility criteria, wage rates and the type and duration of employment, have not yet been presented. However, the proposal is similar to proposals which have been made recently for the Republic of Ireland (Kennedy, 1993) and Great Britain (Layard and Philpott, 1991).

Notes

1. This paper is based on a recent report published by the NIERC entitled *Unemployment Forever? The Northern Ireland Economy in Recession and Beyond*. Gudgin G and O'Shea G (eds). The author would like to acknowledge the editors of this report and the other contributors, namely Tony Dignan, Anthony Murphy and Ronnie Scott. The author would also like to thank Stephen Roper of NIERC and Douglas Hamilton of the Northern Ireland Economic Council for helpful comments and Michael Quinn of NIERC for research assistance.
2. Of course, alternative explanations are possible. For example, approximately 30 per cent of employees in Northern Ireland are employed in the public sector compared to around 20 per cent in the United Kingdom. It is likely that this relatively large proportion of public sector employment has helped to protect Northern-Ireland during the recession.

Unemployment, public policy and the changing labour market

3. A time series analysis of the effects of economic and non-economic factors on net migration flows from Northern Ireland is given in Armstrong, O'Shea and Roper (1994).
4. According to the International Labour Organization (ILO) definition of unemployment, an individual is unemployed if he/she (a) is not in paid employment or on a government scheme, (b) has looked for paid employment or a place on a government scheme in the previous four weeks or is waiting to start a new job which he/she has obtained, and (c) is available to start a job within the next two weeks.
5. It should be stressed that these results were not forecasts but rather estimates of what would happen if the fair employment legislation were implemented effectively and the various other assumptions of the model applied.
6. It should be noted, however, that an alternative explanation is that the length of time for which an individual has been unemployed is correlated with individual-specific variables such as, for example, 'motivation' which are unobserved in the data and which causally influence search intensity. This is known as the 'unobserved heterogeneity' thesis. According to this, the observed relationship between unemployment duration and search intensity can be explained in terms of the unobservable factors which are correlated with duration, and not in terms of duration itself.
7. For example, the first of three broad aims of the new policy is 'to promote economic growth which will lead to increased employment and the reduction of unemployment in Northern Ireland' (DED, 1990, p35).
8. Deadweight refers to jobs which would have been created in the absence of financial assistance. Displacement refers to jobs displaced from other Northern Ireland companies as a result of assistance. It is assumed above that deadweight and displacement account for around 20 per cent of the new jobs.

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11 Employment in the UK Defence Industry: Structural Change or Market Adjustment?

Derek Braddon, Paul Dowdall and Adrian Kendry

'The extinction of any desire on the part of mankind, however vicious and destructive, the abolition of any established practice, however vile, will throw out a certain number of men 'out of work' ... If universal peace were secured, and armaments reduced to the vanishing point, there would be many an Othello to mourn that his occupation was gone' [Philip Wicksteed, 'The Common Sense of Political Economy', 1910]

The Defence Sector and the Labour Market in the UK

The optimism engendered by the decline in unemployment in early 1994 is tinged with growing concern that the analysis of the disaggregated data offers a rather different and confusing picture. Whereas the Department of Employment statistics indicate a fall in part-time employment and a rise in full-time employment, the Labour Force Survey suggests the opposite. In the Department of Employment data, manufacturing employment has continued to decline, with self-employment being substantially responsible for the growth in employment at this time.

These trends provide some support for the proposition that labour market reforms have increased the velocity of the transmission mechanism between falling output and rising unemployment and, during recovery, increasing output and falling unemployment. In addition, demographic factors restricting the number of post-school entrants into the labour market in the 1990s, together with the over-vigorous shake-out of labour by firms during the recession, support the proposition that a much smaller increase in employment is required to reduce unemployment. It is also the case that the regional distribution of unemployment exhibits considerably less variability than a decade ago.

However, there is a bleaker dimension to these positive signals. Firms may increasingly wish to hire more flexible, contract workers but the growth of part-time, primarily, female employment will alter the structural shape and balance of the economy and the labour market. To illustrate, male unemployment continues to rise in many sectors, with the defence and aerospace sectors witnessing some of the most dramatic labour shedding.

The decline in defence industrial employment began in the early 1980s and has accelerated in the 1990s. The decline in such employment has, hitherto, proceeded more rapidly than the decline in the procurement component of the defence budget. This can be attributed to firms with substantial defence dependency *anticipating* faster and deeper budget reductions and shedding labour to lower costs and remain competitive in a shrinking global defence market, where it is estimated that world military expenditure fell by 15 per cent in 1992.

The Budget of November 1993, and continuing concerns about the rate at which the Treasury will attempt to extract savings in the defence support services budget¹, have rapidly narrowed the gap between expectations and reality. In the Autumn Statement of 1992², UK defence spending was projected to decline by 10.5 per cent in real terms during the years 1993–1994 and 1994–1995. In the November 1993 Budget, the 1994–1995 defence budget is projected at £23.49bn, £0.26bn less than planned in the 1992 Autumn Statement. With further intended reductions in 1995–1996 and 1996–1997, the defence budget will have declined in real terms by nearly 20 per cent compared with the position at the time of the Statement on Defence Estimates in July 1992. The prospect of further budgetary reductions in association with defence support services reinforces the sense of uncertainty and unease pervading the defence industrial base and the military services.

The prognosis for defence industrial employment remains bleak by virtue of the fact that many of the contributory factors bringing about declining employment remain in place:

- The size of the Public Sector Borrowing Requirement and Treasury pressure to extract an *illusory 'Peace Dividend'*
- The fragmentation of threat with the disintegration of the Soviet Union and the lack of clarity in the shaping of Britain's security needs, commitments and resources.
- The fragility of economic recovery and, until recently, the sustained contraction in manufacturing employment, particularly aerospace and electronics
- The recession in the civil aerospace industry, inhibiting the flow of *disguised unemployment* from the military aerospace sector

The squeeze on UK defence employment is embracing hitherto less vulnerable components of defence employment in the shape of armed forces and MoD civilian personnel. The contraction in defence industrial employment has reflected the shrinkage in national and international defence budgets, with growing concentration in all industrial sectors of the UK defence industry stemming from such forces as strategic consolidation in core business and increasing numbers of strategic alliances, both nationally and internationally. Estimates from the Defence Manufacturers Association [DMA] and the Manufacturing, Scientific and Finance [MSF] trade union suggest a loss of 130,000 defence manufacturing

jobs [*defence-related and defence-dependent*] between 1990 and 1992. Our own estimates suggest that this figure will exceed 200,000 by the end of 1994.

On the other hand, current and future increases in unemployment in the armed forces and civilian personnel can be attributed to not only *passive* factors such as the government's borrowing crisis but also *active* considerations such as the desire to reduce the degree of bureaucratisation and inject greater efficiency into the operational and supporting administration of defence programmes.

It is clear that the defence support services cost study initiated by Malcolm Rifkind in November 1993 has the potential for more wide-ranging reductions in armed services and civilian manpower than the measures announced in the 'Options for Change' statement in July 1990. Previously, the Ministry of Defence has been adept in preventing a significant decline in civilian manpower, particularly among middle and senior management. The reported requirement for the Ministry of Defence to meet targeted reductions of £750 million per annum in the years 1996 and 1997 will accelerate redundancies in this branch of defence-related employment.

At the time of writing, considerable speculation surrounded the impact of the *Front Line First* review on the privatisation of some defence support services, the merging of bases, military colleges and Procurement Executive headquarters and the probability of 20 – 25,000 redundancies in military and civilian support services. These developments would inevitably provoke further job losses within the defence industrial base, both direct and indirect, and cause additional losses arising from induced effects.

The number of junior rank servicemen fell by more than 25 per cent during the period 1980–1992, compared to officers whose numbers fell by only 1.6 per cent. The strength of the armed services fell by 36,891 between 1980 and 1992 but 90 per cent of the decline comprised privates and other junior ranks. White-collar MoD civilian staff have declined by 25 per cent since 1980 but there has been no significant reduction in middle and senior managers. Widening pay differentials and the slow rate of attrition of middle/senior staff have combined to increase the percentage of the defence budget spent on pay from 36 per cent in 1985 to nearly 42 per cent in 1993.

Defence Employment and Economic Importance

The arguments surrounding government intervention to halt or manage this decline have focused upon several critical issues:

- Many of the displaced defence workers are PESTs [Professionals, Engineers, Scientists and Technicians] and their skills may not readily transfer away from the defence business environment to that of a civil culture
- The weakness of the economy has inhibited firms from transferring skilled labour to potential areas of diversification into new processes, products and markets with the prospect of 'dual technological innovation' emanating from civil R&D into military applications. Such transfers could assist in revitalising the economy through the behaviour of large corpora-

tions. Equally, the managed transfer of skilled workers into existing and new small-medium enterprises (SMEs) could energise the activities of firms of varying size in this classification as well as facilitating a transfer of technology in the form of intellectual property.

- The debate surrounding *strategic or managed trade* addresses the issue of whether it is both wise and efficacious for government to subsidise domestic firms in penetrating existing and new international markets in order to protect and stimulate high value-added and high-technology industries³. Considerable controversy has been engendered by this debate and, as the recent report of the House of Commons Select Committee on Aerospace made clear⁴, the articulation of this theme grows from the lowest common denominator of requesting government to ensure a 'level playing field'.
- The labour force is anticipated to grow slowly from 1993 onwards to 2006. Numbers in the over 35 age group are forecast to rise by 19 per cent (3 million) during this period. By comparison, numbers within the 20–34 age bracket are projected to fall by 14 per cent (1.5 million) during this period. Many displaced defence workers will appear in the former age category during this period and, without appropriate training or re-training, may be unable to compete effectively for skilled and semi-skilled positions. Unemployment from the defence and aerospace industries may be both permanent and structural.
- The inability of the government to deliver a *peace dividend*. Recent and past econometric estimates from the International Monetary Fund and the University of Warwick have projected a *medium term* net increase in jobs following a 20 per cent decline in defence spending. However, modelling of this kind has tended to overestimate the ability and inclination of many western industrialised nations to provide a compensating fiscal stimulus to the economy, given the scale and structure of fiscal deficits. There is little prospect that the Treasury will channel any savings from these cuts into compensating public expenditure directed toward industrial restructuring. The size of the fiscal deficit, and the Government's lack of vision, preclude any such action and the possible indirect benefit of lower interest rates, through less pressure on the Government's finances, hardly qualifies as a peace dividend.

Defence Employment and the spatial and structural relationships between Prime Contractors and SMEs

The Structural Issue

There is a growing awareness that the emerging debate over defence diversification, economic conversion and employment should focus more sharply on the importance of Small-Medium Sized Enterprises (SMEs) and the changing nature of relationships with prime contractors.

Within the European Union, it is estimated that 40 per cent of corporate turnover is produced by firms with less than 500 employees. Therefore, focusing *alone* upon the strategies of large corporations in responding to declining defence budgets, and the employment implications of corporate restructuring, will not address a crucial sector of defence industrial employment.

At lower levels of the defence production hierarchy, there is a conventional wisdom that subcontractors producing generic technologies with dual-use applications, are more dependent upon the state of demand in the economy than supply-side measures to convert production processes or products.

However, research undertaken by the Research Unit in Defence Economics at UWE Bristol⁵ has demonstrated that such conclusions are simplistic at best. In analysing the industrial supply chain of a major military equipment producer, it is clear that the tension between a prime contractor and its supply chain, exemplifies the importance of flexible manufacturing in the new post-Fordist industrial environment for defence firms.

In searching for a balance between the demands of hierarchy and market, the development of *partnership sourcing* implies a move to quasi-vertical integration in production, enabling the prime contractor to offload some of the costs of the new production environment to second- and lower-tier firms. As later sections of this article make clear, the vulnerabilities of SMEs within this new environment raise important questions about the ability of the defence industrial base to deliver employment generation within a framework of increasingly diversified enterprises. One finding from the aforementioned study is that the potential benefits of closer co-operation between primes and sub-contractors (abstracting from the question as to whether such benefits would arise if collaboration disrupted *informal information networks* among firms⁶) could undermine other existing or potential partnership relationships if the appropriation of intellectual property rights proved to be a contentious issue.

The Spatial Issue

The importance of defence-related employment on a regional basis and the impact of *clustering* upon local and regional economies is increasingly well attested to^{7,8}. Within the United Kingdom, the South West, the South East and the North West have been particularly adversely affected by declining defence industrial employment. In some sub-regions the combined effect of vulnerability to *both* military industrial employment and military base/establishment employment, can generate a *critical mass* in employment and industrial decline (Table 11.1).

The spatial distribution of primes and subcontractors is of great importance in understanding regional consequences of national budgetary decline. Furthermore, employment is a more reliable measure of defence economic activity than output because of the complexities of sub-contracting and double-counting (Table 11.2).

Table 11.1 Employment consequences of defence cuts in highly vulnerable regions [nuts II regions]⁹

<i>Regions exposed to defence industries</i>						
<i>Region</i>	<i>Working Population</i>	<i>Regional Defence Jobs</i>	<i>Multiplier [x 2.0]</i>	<i>% of Working Population</i>		
Cumbria	204,100	13,071	26,142	12.81		
Essex	515,300	14,307	28,614	5.55		
Lancs	519,700	12,235	24,470	4.71		
<i>Regions exposed to military bases</i>						
<i>Region</i>	<i>Working Population</i>	<i>Regional Military Jobs</i>	<i>Multiplier [x 1.5]</i>	<i>% of Working Population</i>		
Hants	664,100	54,674	82,011	12.3		
Berks, Bucks., Ox.	855,600	34,932	52,398	6.1		
<i>Regions exposed to BOTH defence industries & military employment</i>						
<i>Region</i>	<i>Working Pop</i>	<i>Regional Defence Jobs</i>	<i>Multiplier [x 2.0]</i>	<i>Regional Military Jobs</i>	<i>Multiplier [x 1.5]</i>	<i>% of W.P</i>
Avon Glos, Wilts	860,100	10,797	21,594	37,293	55,940	9.0

More research is urgently required in understanding the scale and scope of SME involvement with defence prime contractors, a point reinforced by the absurdity within the Statement on Defence Estimates 1993 suggesting that *direct* defence employment in the South West region had increased during 1991–1992 giving rise to a supposition that *direct and indirect* employment had increased. Research undertaken during the past three years¹⁰ has demonstrated that the decline in defence and aerospace-related jobs in the South West is in the region of 30,000.

Where contraction in the defence and aerospace sectors is accompanied by decline in other critical sectors of the regional or sub-regional economy, then the scale of the overall impact could be rapid and disproportionate in the manner of a mathematical catastrophe.¹¹

Analysis within the Cambridge Economic Review¹², based on constructing financial service and defence location quotients (LQ), reveals the unique vulnerability of Avon among UK counties. With a financial service LQ of 1.5–1.87 and a defence LQ of between 2.1 – 4.1, Avon is highly sensitive to further job shedding in these industries. The Local Economy Research Unit at UWE Bristol is currently engaged¹³ in constructing an input output model for the country to estimate the relevant sectoral output, income and employment multipliers.

Evidence from the Society of British Aerospace Companies [SBAC] has indicated that sub-contractors connected with the UK component of the European Fighter Aircraft project are predominantly located in the South. Such evidence is consistent with the view that defence contracts in electronics are associated with sizeable numbers of SMEs in the South East and the South West.

Table 11.2 Regional MoD defence equipment expenditure and associated direct manufacturing employment: 1990–1991¹⁴

	Expenditure			Employment (‘000)	Jobs per £1m of spending
	Total (£m)	Share (per cent)	Per Capita (£)		
North	850	11.5	276.38	20	23.5
Yorks&H	150	2.0	30.29	2	13.3
E.Midlands	300	4.0	74.65	5	16.7
East Anglia	200	3.0	97.13	3	15
South E.	2900	38.5	166.11	49	16.9
South West	950	12.5	203.58	17	17.9
W.Midlands	450	6.0	86.22	7	15.6
North West	900	12.0	140.88	15	16.7
England	6700	89.5	140.06	118	17.61
Scotland	600	8.0	117.60	13	21.7
Wales	50	0.5	17.35	1	20
N.Ireland	150	2.0	94.38	3	20
U.K.	7500	100.0	130.64	135	18

The Post-Fordist Production Paradigm

Coincident with the significant structural changes taking place in defence expenditure worldwide¹⁵ -and the direct and indirect implications for the defence industrial base- is the rapid transition of that industrial base to a post-Fordist production paradigm. In common with many other industrial sectors¹⁶, the defence industry is confronting the dramatic changes associated with the application of flexible technologies and non-asset specific manufacturing systems¹⁷. The process of moving towards the post-Fordist paradigm for defence companies has required the adoption of several significant components of change, outlined in a ‘checklist of change’ in Table 11.3 below.

As these managerial, organisational and production-related changes have been introduced in the turbulent market conditions that have followed the end of the Cold War for defence contractors, these companies have had to accelerate their evolution into M-form, multi-divisional organisations¹⁸. Sharper market focus and enhanced production flexibility have enabled such companies, especially the large prime contractors in the defence sector, to implement wide-ranging and accelerating corporate rationalisation decisions.

Table 11.3 Checklist of change

Flexible Manufacturing Systems
Computer Aided Design / Manufacture
Computer Integrated Manufacture
Cross-Functional Project Teams
Just-In-Time Inventory Management
Inter and Intra-firm Organisational Structures:
Solar Complex
Strategic Alliances
The 'Virtual Firm'
Reverse Marketing and Procurement Strategies:
Partnership Sourcing
Fewer but 'Preferred' Suppliers
Vendor Certification
Non-Core Sub-contracting
Total Quality Management
Customer Focus
Continual Learning Organisation

Under the twin pressures of sharp and sustained defence expenditure contraction and the necessary transition to a post-Fordist production paradigm, the defence industrial base and its associated labour market have undergone rapid and uncoordinated change during the early 1990s.

For the past three years, the Research Unit in Defence Economics at the University of the West of England, Bristol has been engaged in a series of research projects, focusing upon the industrial implications of declining defence expenditure.^{19,20} The strategic responses of over 200 defence supply companies, both prime contractors and first, second and lower tier supply chain participants have been monitored and evaluated. The following analysis of labour market implications associated with defence expenditure contraction is based upon this extensive original research.

The research findings have indicated that the major defence contractors, confronting a scenario in which defence expenditure has not only fallen sharply but is likely to continue to do so in the immediate future, will adopt corporate strategies which contain some or all of the following components. They will:

- a) rationalise operations and focus on core business;
- b) pursue collaborative policies, both vertically and horizontally, to spread cost and risk;
- c) attempt to increase their share of the declining defence market, especially in the export sector.
- d) establish and/or expand civil business, transferring defence-related technology as appropriate.

The process of rationalisation will necessitate substantial cost-savings and, inevitably, lead to labour-shedding, often with a high skill profile. The other corporate responses noted above bring with them a range of problems which may limit their appropriateness and efficacy.

Collaboration strategies, for example, raise issues associated with contract sharing; production location decisions; the potential appropriation of intellectual property rights and so on. On the export front, although British defence companies appear to have been relatively successful over the last two years in developing additional business in export markets, this strategic option has to contend with severe market congestion due to the emergence of new competitors and the effects of the post- Cold War international 'arms bazaar'; exchange rate volatility and the growing possibility of renewed protectionism in some countries.

Finally, evidence suggests that diversification from defence to civilian production remains a difficult and expensive strategic option to pursue. Resources, both human and non-human, are notoriously difficult to transfer to alternative areas of business and many of the more obvious 'escape routes'²¹ into non-military markets are already congested and suffering from the adverse effects of the recent deep recession. In general, then, and despite the clear obstacles to the successful implementation of such strategies, these companies will tend to pursue long-range market positioning strategies while targeting attainable short-term opportunities.

Each of these corporate responses will affect the labour market in a significant way, although the precise scale and incidence of the effect will depend critically upon the transmission process down and across the industry supply chain from expenditure reduction to employment impact.

The Transmission Process

In order to minimise the damaging effects of defence expenditure contraction in a turbulent market, it is essential that the transmission process by which defence cuts are translated into effective corporate response with, ultimately, minimal labour market disruption, operates smoothly and efficiently. To operate efficiently, and thereby limit the degree of disequilibrium in the labour market, this process incorporates a number of critical requirements:

- a) the ability of major defence contractors, experiencing declining demand for their defence output, to signal effectively to their suppliers and sub-contractors in other tiers of the supply chain what will now be required of them.
- b) the capacity of the lower tier supply chain companies to both identify and implement rapidly the changes required of them when, in their own interests, they urgently need to pursue diversification opportunities.
- c) the capacity for any individual participant in the supply chain of a major defence contractor (particularly in the lower tiers of the chain) to recognise the implicit linkages and inter-dependencies of the defence industry supply chain and, therefore, to appreciate the degree to which, ultimately, they will be affected.

If participants in the defence industry supply chain are able to meet the requirements above, labour market adjustment should be reasonably swift, coordinated and ensuing unemployment, while inevitable in the short-term, should at least be minimised. Unfortunately, our research suggests that the transmission process is unable to function in the required manner and is beset with obstacles and complexities which hinder its efficient operation.

Table 11.4²³

Tier 0	Tier 1	Tier 2
Hydraulics	Pumps	Plastics
Public Utilities	Fluid Connectors	Metals
Telecommunications	Gas Turbines	Rubber
Nuclear Power	Financial Services	Components
Medical/Bio-medical	Coolers	Steel
Food Processing	Valves	Forging
Power Generation	Catering	Foundry
Automobiles	Castings	Wax
Printing	Coatings	Raw Materials
Construction	Filtration Equipment	Consumables
Oil	Mech/Elec Engineering	Energy
Polymers	Test Equipment	Tools
Doors	Computer Software	Aluminium
Office Equipment	Precision Engineering	Titanium
Textiles	Sub-contract Aerospace	Petrochemicals
Steel	Bearings	Engineering
Aerospace	Components	Finished Products
	Laser Cutting	Alloys
	Alloys	Compressors
	Human Resources	Condensers
	Health & Safety	Elec/Mech Eng
	Service Engineering	Health & Safety
	HVAC/Refrigeration	Controls
	Motors	Nuts & Bolts
	Fabrication	Filtration
		Paint
		Plating
		Carbon Composites
		Goods & Services
		Naval Products
		Aerospace/Defence
		Chemicals
		Coated Materials
		Publishing

Evidence²² suggests that the defence industry supply chain is both extremely wide in terms of industrial 'activity areas' which would be affected adversely by

reductions in defence expenditure and highly complex in terms of its linkages and inter-dependencies.

To illustrate the ‘activity areas’ most likely to be affected by reduced defence expenditure, Table 11.4 highlights those industrial sectors most at risk in the supply chain of a major defence aerospace contractor operating within Tier 0. Tier 0 represents the range of customers of firms in Tier 1 (ie the suppliers to the anchor aerospace/defence contractor in Tier 0). Tier 2 are companies supplying Tier 1.

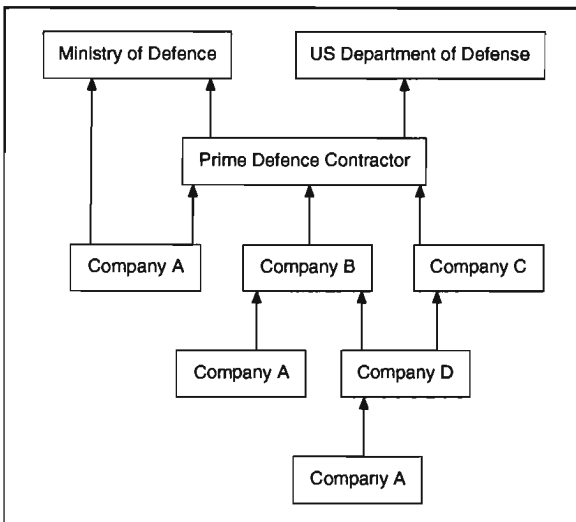
Clearly, then, there will be extremely extensive economic effects resulting from defence cuts throughout many industrial activities, some of which do not consider themselves to be even remotely ‘defence-dependent’, being highly diversified in nature and located principally in commercial, non-military business sectors.

More important, however, is the degree to which smooth and rapid adjustment in the labour market will be hampered by the particular linkages and inter-dependencies within the defence industry network itself.

Figure 11.1 illustrates how these crucial inter-relationships within the industry supply chain may exacerbate the adverse economic effects of declining defence expenditure by exposing constituent companies to falling demand from several directions, simultaneously, and in an unexpected manner.

In the diagram, a situation is illustrated in which Company A’s exposure to defence cuts may, in reality, be far greater than it perceives. Company A may deal directly with the Ministry of Defence in which case it will experience *direct* impact from reduced orders from the government. At the same time, it may also be a first tier supplier in the supply chain of another major defence contractor where, again, the direct effects of reduced orders will be obvious.

Figure 11.1 Defence Industry Supply Network²⁴



However, Company A may also appear lower down in the supply chain of another defence sub-contractor, Company B, which is itself experiencing the impact of reduced defence expenditure and, therefore, will be probably reducing its orders from its own suppliers. The defence expenditure contraction process will, then, set in motion a chain reaction of reduced demand. This process is complicated further by the fact that Company A may also supply Company D which appears in the supply chain of another defence sub-contractor/supplier, Company C. At this level of its operations, it is quite unlikely that Company A would envisage any connection with defence expenditure in its dealings with Company D and may be totally unaware of the defence-dependent nature of the relationship between Company D and the two first-tier suppliers, Company B and Company C.

The Complexity of the Supply Chain

This somewhat complex matrix, which is based upon 'real world' evidence derived from our research, considerably understates the true complexity of the inter-locking supply chain relationships to be found within the defence supply industry, once we expand the customer base of first tier suppliers to include all the major defence contractors they supply.

The complex inter-weaving of the supply 'matrix' has implications for the labour market impact of defence cuts in general and, specifically, for labour markets in regions which are particularly defence-dependent.

Companies which supply defence contractors as part of their business are likely to be more exposed to the adverse effects of defence cuts than they realise and will be likely to pick up and respond to 'false signals' in the marketplace. Talk of a 10 per cent or even 25 per cent cut in defence expenditure over a period of time may appear to offer suppliers time and scope for adjusting their businesses gradually to the changing market situation.

However, the complex inter-dependency of the supply chain may, in many instances, lead to a much sharper and more immediate decline in business than was anticipated, appearing from several different directions simultaneously and, in some cases, from totally unexpected sources.

Research with companies in the supply chain of major defence contractors suggested that while companies at different tiers of the supply chain could identify with some precision the activity areas of their main customer and supplier, the awareness of 'end product' destination became much less apparent as the chain moved further away from its 'anchor point'. Few companies in the second tier and beyond recognised that they were supplying a production process that would lead ultimately to the defence market.

The potential impact of this was clearly demonstrated in so far as first tier company directors interviewed in the research programme were, in general, pessimistic about their future defence business. On the other hand, those in the tiers below often took a much more optimistic view on the potential for their company to enjoy enhanced sales in the future.

Supply Chain perceptions of reductions in defence expenditure

Confronted with a scenario in which defence cuts reduced their orders by 10 per cent, first tier companies interviewed in the research programme suggested that they would have no option but to introduce a similar 10 per cent reduction in staff levels and would reduce in turn their requirements from suppliers. Faced with the same scenario of a 10 per cent cut in orders from the customer in the next highest tier, lower tier suppliers suggested that there would be virtually no impact on their employment or business activity level.

Adjusting the scenario to encompass a 50 per cent reduction in orders, first tier companies in the defence supply chain suggested that this would necessitate a major corporate restructuring exercise with very substantial reductions in both manpower and purchases from suppliers. Further down the supply chain, however, the concern at a reduction in orders of this magnitude from a customer in the next highest tier was muted, with minimal adjustment felt to be necessary.

More important still, many companies participating in the defence industry supply chain were apparently unable to recognise the degree to which they were exposed to defence cuts through the complex inter-dependencies of the chain itself. This suggests that defence cuts may, indeed, trigger off a genuine chain reaction, creating much more extensive economic damage than may be initially anticipated.

Labour Market Impact

From the above analysis, it is possible to identify a number of ways in which the structure, operation and inter-dependency of the defence industry and its supply chain may impact upon the labour market. These include:

- a) job-shedding as part of the planned rationalisation of prime contractors. Critically, there is evidence from our research that many prime contractors have initiated such rationalisation strategies *in advance* of the anticipated reduction in defence expenditure.
- b) job-shedding as part of the planned rationalisation of small and medium-sized enterprises which recognise their exposure to defence cuts.
- c) unplanned and sudden job-shedding by lower tier supply chain participants who are initially unaware of the degree to which their business is exposed to defence cuts.
- d) additional and uncoordinated job-shedding as the defence industry supply chain network sets off a rapid and frequently unanticipated chain reaction of reduced demand throughout its component parts.
- e) additional job-shedding in non-defence sectors of the economy as the multiplier consequences of declining demand impact upon the level of business activity. To the extent that reductions in defence expenditure affecting equipment (and therefore the defence industrial base) will be paralleled by reduced expenditure on military bases, armed forces personnel and associated Ministry of Defence civilian personnel, those

regions of the UK which have both concentrations of defence suppliers and military manpower are likely to experience regional 'clustering' effects with considerable potential local labour market impact. Indeed, in certain locations, these combined effects may be sufficiently adverse to raise the prospect of a 'critical mass' collapse in the local economy.

Conclusions and Policy Aspects

The research underpinning the analysis outlined above suggests that the labour market impact of reductions in defence expenditure is both extremely adverse and difficult to resolve. That labour market impact is likely to be swift, uncoordinated and immensely damaging in terms of local economic impact and skill wastage. Furthermore, the transmission process whereby defence cuts translate into unemployment contains within it serious obstacles to a smooth transition.

In order to minimise the unemployment associated with declining defence expenditure, we conclude, therefore, that Government should:

- a) initiate policy intended to identify and assist firms at the SME level who are affected directly or indirectly by declining defence expenditure;
- b) be pro-active in eliminating the uncoordinated and haphazard market adjustments that are inevitable without intervention ;
- c) recognise that Small and Medium-Sized Enterprises possess considerable future growth employment potential but appear to be in the greatest ignorance of the adverse consequences of the implications of defence cuts for industrial supply chains ;
- d) enhance information exchange between government and industry with improved communication of information to heighten 'awareness' of impending decisions;
- e) instigate a systematic process of tracking displaced defence personnel in the labour market, evaluating the obstacles to their re-employment and ascertaining how best to facilitate this process;
- f) commission a comprehensive and definitive skills audit of displaced defence employees with the information being utilised as part of a coordinated attempt to attract new inward investment into regions most affected by the defence cuts;
- g) incorporate within the National Strategic Technology Acquisition Plan, a policy *specifically designed* to ensure that the vital skills and expertise of displaced defence employees are not permanently lost during this period of intense structural change within the labour market.

Notes

1 Ministry of Defence, 1993.

2 Ministry of Defence *ibid*.

- 3 See Tyson D'Andrea, 1992.
- 4 House of Commons, 1993.
- 5 Braddon *et al.*, 1992.
- 6 Macdonald, 1992.
- 7 Braddon *et al.*, 1991.
- 8 Braddon, Kendry and Cullen, 1993.
- 9 Adapted from DG XVI, 1992.
- 10 Research Unit in Defence Economics, 1993.
- 11 Woodcock and Davis, 1980.
- 12 Mansley, Elliott and Woolhouse, 1992.
- 13 Flegg, Webber and Elliott, 1994.
- 14 Ministry of Defence 1993: Research Unit in Defence Economics 1993.
- 15 Deger and Sen, 1992.
- 16 Scott, 1992.
- 17 Dowdall and Braddon, 1994.
- 18 Williamson, 1975.
- 19 Braddon *et al.*, 1991.
- 20 Braddon *et al.*, 1992.
- 21 *ibid.*
- 22 *ibid.*
- 23 *ibid.*
- 24 *ibid.*

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12 Job Search Effort and Motivation in Unemployment

Michael White, Duncan Gallie, Yuan Cheng and Mark Tomlinson

Introduction

The leading economic argument about the individual side of unemployment is in terms of incentives or disincentives. Since the 1970s, the theory of job search (developed particularly in the USA, but also with important contributions from British and Dutch economists¹) has shown how rational choices made by individuals in the job market can increase the duration of unemployment, and so contribute to aggregate unemployment. These theorists have not wished to deny that the conditions of demand for labour are also important for unemployment. Nevertheless, the demand side of the analysis has been little developed, and the supply side analysis has promoted the idea that even mass unemployment can be prolonged by individual behaviour. The theory has sometimes been used to promote a simplified picture of people remaining unemployed because unemployment benefits offer an acceptable alternative to wages. Such a picture underlies the popular and political notion that benefits, or the welfare state more generally, promote disincentives to work.

The aim of the present paper is to analyse the job search activity of unemployed people within a motivational framework which is wider than that used by economists. In this framework, state benefits and other aspects of the financial situation of unemployed people are not ignored, but their importance is assessed on equal terms with other potential influences. These other influences include the values of the individual, and a companion paper (Gallie et al., Chapter 13 in this volume) explores one key value, 'employment commitment', in greater depth.

The Data

The data on which our analysis is based come from the 1992 'Employment in Britain' survey. This was a national sample survey of employed, unemployed and women returner samples. The unemployed sample consisted of 1000 people, aged 20–60, and registered as unemployed for at least three months in early February 1992 when the sample was drawn. The information was collected by personal interview in the home, supplemented by a self-completion questionnaire. The

average interview length, including the self-completion questionnaire, was one and a half hours.

The central aim of the 'Employment in Britain' survey was to investigate various aspects of work attitudes and work commitment, and to place these in the context of the current experience of working life. Although many topics were common to the unemployed and employed surveys, a large section of the interview for unemployed people was devoted to questions concerning the recent search for a job, and this was not applicable to the employed sample. The first part of our results focuses upon the job search material, and so is confined to the unemployed sample.

It is important to note that, between construction of the sample of unemployed people and the survey interview (a period of about three months), some people had got jobs and others had withdrawn from the labour market. In this paper, we report results only for current job seekers, since our information concerning job search is most complete for that group. At the time of sampling, the sample was representative of claimant unemployed people aged 20–60 with at least three months of unemployment in their current claim. Job seekers at the time of interview were therefore approximately representative of unemployed people aged 20–60 with six months or more of unemployment in their current claim. Accordingly, this can be regarded as an analysis of job search among long term unemployed claimants.

Disincentives in Job search Processes

It will be helpful to begin by pointing out how our approach differs from most work in this area which has been carried out by economists. First, economists have chiefly focused upon the job seeker's decision whether or not to accept a job offer, whereas we focus upon the search effort put in by the individual, which may lead up to receiving a job offer. Second, economists have generally been concerned with the financial influences upon job offer acceptance decisions, whereas we are interested in a wide range of potential influences, of which personal finances constitute only one dimension.

Most empirical research in economic job search theory treats the behavioural processes of job search as a 'black box'. The key relationships investigated are usually those between some measure of benefits or of income in unemployment (the chief causal or input variable), and some measure of benefit duration or probability as the output variable. The main *theoretically assumed* effect of receiving benefits is to shift the cut-off level at which job offers are accepted (the reservation wage) in an upward direction.

The effects of benefits on job search effort or intensity are not so clearly predicted. Because benefits reduce the *relative* rewards of being employed, it might be expected that effort would decrease (if effort is proportional to relative reward). On the other hand, higher reservation wages imply higher *absolute* rewards on entering a job, and this might increase effort; indeed, job search theory predicts longer periods of job search with higher reservation wages, and that already seems to imply greater (cumulative) effort.

In what might be called the standard or core job search model, the problem of job search effort is avoided by assuming that job offers arrive at a rate which is unaffected by the individual. At the same time, it is recognised that this is a severe simplification of reality, and search effort has now become an area of increasing research interest² among some economists.

Search effort,³ the focus of this paper, can be measured in a variety of ways. We focus on two indicators which intuitively seem most important for outcomes: time spent looking for a job, and the number of job applications made.

The financial background to job search has been measured in four ways:

- (i) Respondents were asked to state the lowest wage at which they were prepared to accept a job. We refer to this as the 'wage expectation': it cannot be regarded as identical with the implicit reservation wage, as it might be imputed within the econometric theory of job search, but it is perhaps as close as one can get to that with a behavioural measure.
- (ii) Respondents were asked to rate their degree of satisfaction or dissatisfaction with a series of aspects of material living standards. Five items from this set were then made into a summative scale of 'material dissatisfaction'.
- (iii) Those who were still unemployed were asked to state the amount of unemployment or income support benefits they were receiving.
- (iv) We also have information about marital status, and number and age of children. Further, five questions were asked about receipt (but not amount) of various forms of non-benefit income (pension, spouse's earnings, income from savings or investments, rents, and casual earnings). These questions, especially those relating to family composition, are of course highly predictive of benefit amounts.

The non-financial variables were very extensive and there is not space to explain them in detail here. Some further description will be provided as we encounter key findings.

Search effort: hours

We will begin by considering the relationships of the various financial and other factors to the hours spent looking for jobs. The question asked job seekers to consider the last four weeks in which they had been looking for work, and to estimate the average time per week they devoted to this – including reading situations vacant in the newspapers, writing to or otherwise contacting employers, and travelling to the Jobcentre or to job interviews. The median weekly hours spent in job search was reported as six hours.

As noted earlier, the analysis⁴ excluded the respondents who were back in work, and was therefore confined to current unemployed job-seekers. Accordingly, we were able to make use of all the financial measures available in

the survey, although variant analyses were also run excluding some of them to clarify the inter-relationships.

As well as including these financial variables, the analysis controlled for a wide range of individual and situational factors which might influence job search. These included: gender, age, educational qualifications, social class of pre-unemployment job, proportion of time in employment during the 10 years prior to unemployment, the duration of the current incomplete spell of unemployment, membership of a Job Club, support received from the Job Centre, importance attached to formal and informal channels of job search, general attitudes towards unemployment, confidence in making job applications, a measure of employment commitment, a 'work ethic' scale, a 'work locus of control' scale, and a number of interactions between gender and the financial items.

Table 12.1 Influences on the Hours per Week of Job Search (for Current Job Seekers in Long-term Unemployment)

Variables with significant coefficients are reported from a censored regression model (for other variables included in model, see text)

Variable	Description of effect
Gender	Women less time on job search
Age	55-plus less time on job search
Education	Graduates more time in job search
Job record	More time on job search with higher percentage of time in a job (last 10 years of work history)
Children under-12	Less time on job search, with more children under 12
Confidence in job applications	Less time on job search, if unsure of how to make applications
Jobclub	Less time on job search, if not now or previously in a Jobclub
Wage expectation	The higher the (log of the) lowest wage sought, the more time on job search
Living standards	The greater the dissatisfaction with material life, the more time on job search

The factors which were found to have a statistically significant relationship to the time spent seeking a job are listed in Table 12.1.⁵ We are first of all interested in the results which concern the financial measures, and here there were four main findings.

- a. The level of benefits had no effect on the hours spent searching for work when all other variables were included in the analysis. However, when marital status and number of children were removed from the analysis, higher benefits led to a lower level of job search hours. The reason for this was that the number of children under 12 also reduced job search hours and, of course, number of children and amount of benefit are correlated.

It is possible either than children proxy the effects of benefits on job search effort, or that benefits proxy the effects of children.

- b. None of the non-benefit income indicators (whether the spouse was employed, whether the person had a pension or savings, etc.) was a significant influence on hours spent seeking work. This tends to suggest that financial circumstances were not important for this aspect of search effort.
- c. Higher dissatisfaction with living standards led to increased time spent on job search. Separate analyses, however, showed that dissatisfaction with living standards was *positively* (though weakly) related to benefits.
- d. The wage expectation was a highly significant positive influence on job search hours, even when benefit amount and/or material dissatisfaction were taken into account. In other words, the higher the minimum wage which was being sought, the greater the effort (in terms of hours) which was being expended. It was established by separate analysis that higher amounts of benefits were linked to higher wage expectations (both, of course, are linked to family size and structure).

It is also worth briefly mentioning the other factors which proved to influence job search hours to a significant degree. The important personal characteristics were age, with over-55s devoting less time; education, with graduates devoting more time; and previous experience of employment, which exerted an upward influence on search when it was favourable. More interesting, perhaps, was the *absence* of any influence from the level of the prior job, which has often been used by economists as a predictor of the implicit reservation wage. The only non-financial attitude which influenced time spent seeking a job was confidence in making job applications. Participation in a Job Club increased the amount of time spent seeking work quite substantially.

We will defer the interpretation of these findings until we have considered the second batch of analyses, which relate to job applications.

Search effort: job applications

People still seeking a job were asked to state the number of job applications they had made in the last four weeks 'by filling in application forms, telephoning, writing or visiting a potential employer'. About one third of current job seekers had made no job application during this period. The majority of job seekers had made less than 10 job applications, while a very small number had made 50 or more.

The analysis of influences upon the frequency of job applications proceeded in the same way as already described for hours of job search. The significant findings are summarised in Table 12.2.

Considering first the financial factors, there were four main findings. Findings (a) and (b) below were different from the findings concerning time spent seeking work, but findings (c) and (d) below were similar to the previous findings.

- a. Higher benefits were found to reduce number of job applications, even with marital status, number of children, and non-benefit income indicators included in the analysis.
- b. The number of children aged 12–16 was found to *increase* the number of job applications; this must be separate from any benefit effect, because it works in the opposite direction.
- c. Higher dissatisfaction with material living standards was linked to a larger number of job applications.
- d. A higher wage expectation tended to *increase* the number of job applications, although this effect was of only borderline significance.

Table 12.2 Influences on the Number of Job Applications in a Four Week Period (for Current Job Seekers in Long-term Unemployment)

Variables with significant coefficients are reported from a censored regression model (for other variables included in model, see text)

Variable	Description of effect
Age	Those aged 45–54 made fewer applications
Job record	More job applications made with higher percentage of time in a job (last 10 years of work history)
Children	More job applications with more children aged 12–16
Confidence in job applications	Fewer job applications, if unsure of how to make applications
Jobclub	Fewer job applications, if not now or previously in a Jobclub
Benefits	Fewer job applications, with higher benefits
Wage expectation	The higher the (log of the) lowest wage sought, the more job applications
Living standards	The greater the dissatisfaction with material life, the more job applications
Jobcentre support	More job applications, if Jobcentre staff have suggested vacancies
Employment commitment	More job applications, if express desire to work without financial need
Work locus of control	More job applications with increasing score on this scale (self-reliance)
Attitudes to unemployment	The more negative the feelings about unemployment, the lower the number of job applications

It was notable how strongly the rate of job applications was influenced by attitudinal, personality, or support factors of a non-financial type. Individuals with a high ‘work locus of control’ (which might be interpreted as a form of self-reliance) were particularly likely to make many job applications. Those expressing a positive commitment to continuing in employment, even if they were

financially well off, were also likely to make more job applications than others. Depressed attitudes towards unemployment, and lack of confidence in making applications, were associated with fewer applications. Support from the Jobcentre in the form of being given vacancy information, and membership of a Job Club, increased the rate of applications.

Search Effort in Combination

In the preceding analyses, we looked separately at search time, and at job applications. Implicitly, the method of analysis assumed that each of these aspects was independent of the other. This is, of course, incorrect. There is a substantial correlation between search time and job applications.

As a step towards a more unified approach, it is possible to focus on groups of people who can be defined in terms of a *combination* of the two search effort variables. Since our main interest here is the notion of financial disincentives, we have focused upon two groups who might be guessed to be suffering from some degree of demotivation.

The first group consists of people who report that they spend above-average amounts of time on job search, but appear to make infrequent job applications. One possible interpretation of this 'profile' is that the people concerned are merely 'going through the motions', in that they spend time in search activities, but these activities tend to fall short of producing job applications. Psychological reasons for such behaviour might be either lack of desire to work, or loss of confidence in obtaining work, combined with feelings of stigma about giving up job search. An alternative, economic interpretation is that the people concerned have unrealistically high wage expectations: thus they look hard for jobs, but rarely find one which meets their criterion.

The second group we have focused upon consists of those who report spending little time on search, and also appear to make infrequent applications. Although they claim to be active job-seekers, they seem to come close to what has often been called 'discouraged workers': people who would like to have a job, but do not really look for one. From the viewpoint of economic job search theory, one might predict that people in this group may have higher than average benefits or non-benefit income, making it relatively easy for them to reduce job search to a minimum.

Going through the motions?

The first group was defined as those who had made no job application during the preceding four weeks and who also spent at least six hours a week in job-search, which was the upper half of the search-time distribution. Some 15 per cent of current job seekers fell into this group.

We carried out an analysis, using the same range of explanatory variables as for the preceding analyses, but with the outcome being whether or not the person was in this group⁶. Considering the financial indicators first, we found strong evidence *against* an economic interpretation of this pattern of search behaviour. Benefits had no effect on this pattern, either directly, or indirectly through the wage expectation or dissatisfaction with the material standard of living. The lack

of influence from the wage expectation rules out the possibility that the lack of job applications resulted from the group pricing themselves out of the job market through a lack of realism.

In case family composition effects (see below) were clouding the influence of benefits, we re-ran the analysis without any family variables. However, benefits still showed no influence on this search pattern.

Of the non-benefit financial indicators, only one was significant, and that was 'other' income (rents and casual earnings), which was reported by less than 10 per cent of the sample. Those who reported such income were more likely to be in this group. However, as so few people had these sources of income, they cannot constitute a main part of the explanation.

For that explanation, we have to turn to the other significant influences identified by the analysis. One of the most important among these was the duration of the current unemployment spell. As duration increased, so did the proportion adopting the pattern of long search time but no applications. This suggests that a kind of discouragement might be involved. Consistent with this, another salient influence was the individual's non-financial employment commitment: those who adopted the search pattern were much less likely to be positively committed to remaining in employment.

On this basis, one might have expected that the search pattern would also be adopted by those with a poor employment record over the years. Interestingly, however, the *higher* the proportion of time that people had been employed in the previous 10 years, the *higher* their chances of falling into this search pattern (although this influence was just at the borderline of statistical significance). It seems that people who come from a relatively stable job, and then find that they cannot get work, may be particularly likely to lapse into 'going through the motions'⁷.

Another set of factors related to the search pattern was the extent of contact with, or reliance upon, the official placement services. Higher proportions adopted the search pattern if they relied upon family and friends for their job information, if they had not belonged to a Job Club, or if they had not received job information from their Jobcentre. Of course, it has to be stressed that these are not necessarily causal relations. It may be, rather, that avoidance of Job Clubs and Jobcentres is itself part of the overall search pattern adopted by the individual.

The final set of significant influences lay in the individual's personal and family attributes. The search pattern was more likely to be adopted by men, especially if they were married. On the other hand, if they had children aged 12–16, they were less likely to adopt the pattern. The influence of gender and marital status is in line with the notion that such people have become discouraged yet cannot withdraw from job search, because of normative pressures from the family. There is no obvious explanation as to why the presence of secondary school children should inhibit the search pattern in question.

Discouraged workers?

The second group to be considered was defined as those who reported spending not more than two hours per week in job search, and made no job application

during the preceding period of four weeks. This group was slightly smaller than the previous one, amounting to some 12 per cent of current job seekers. The analysis was carried out in the same way as for the previous group.

The benefit amount received had no direct effect on this 'low effort' pattern of search, and this was the case whether or not the family composition variables were included. (In this analysis, no family composition variable was ever, itself, a significant influence.) Accordingly, it cannot be that a low effort level results from above average benefits. Similarly, none of the non-benefit income indicators was significantly related to 'low effort'. Satisfaction or dissatisfaction with material life was also unrelated to having a low-effort search pattern.

There was, however, one economic variable which was influential, and this was the wage expectation. The lower the wage expectation, the greater the probability of having a low-effort search pattern. This is in accordance with the more general results obtained for search hours and for job applications, which were presented earlier. A person who expects little financial return from a future job is unlikely to expend much effort to get one.

Other findings from the analysis supported the notion that low-effort job seekers tend to be people who have become discouraged or demotivated. A relatively low proportion of this group expressed positive non-financial commitment to employment, and a relatively low proportion felt that making job applications helped to boost self-confidence. Moreover, on average the people with this search pattern had a poor employment record over the past 10 years, in terms of the proportion of time spent in jobs.

Unlike the previous group, the low-effort job seekers appeared to be chiefly dependent on the Jobcentre. They attached more importance to the Jobcentre as a means of getting a job (although they did not use it to a specially high degree), and fewer of them used either private job agencies or job information from friends and family.

The simplest, and perhaps most important, respect in which the low-effort search pattern differed from the high-hours, low-applications pattern was in its gender composition. Whereas the previous pattern was predominantly a male one, in the low-effort group it was women who predominated. (Despite this, an extensive testing of the other factors for interactions with gender found nothing of significance.)

To summarise, then, the low-effort search pattern was characteristic of certain women, with low wage expectations, relatively little recent job experience, and low employment commitment. It also applied to a smaller proportion of men, who shared these characteristics. To some extent, this might be interpreted as a type of discouragement or demotivation. What seems clear, however, is that the discouragement or demotivation (if such it be) was not related to benefits or to living standards in unemployment.

Discussion and Conclusions

The overriding impression from the findings of this analysis is the complexity of job search behaviour. It would probably be imprudent to attempt a point-by-point

interpretation, since particular points will need to be replicated in other research. Rather, we will try to summarise the broad implications of the findings, especially for the notion of disincentives, without becoming too embroiled in the details.

First, financial factors appear to have quite important influences upon search effort, in many circumstances if not all. The desire of some social policy researchers to deny any role to benefits and to other financial influences in job search, seems on the basis of these analyses to be ill-advised.

On the other hand, financial factors are not as simple as may be implied by the standard economic job search theory or its popular expression in the notion of financial disincentives. In the first place, the influence of the factors varied from one aspect of job search effort to another. The clearest influences upon search time came from wage expectations, and dissatisfaction with material living standards, but the clearest influences upon job application frequency came from material living standards and benefit levels. When we focused upon the 'discouraged' groups, only wage expectations were important.

While higher benefit amounts and higher satisfaction with material life had disincentive (that is, negative) effects on job search, wage expectations had *positive incentive* effects. But benefits were themselves positively related to wage expectations (and also to dissatisfaction with material life). Thus, the overall effect of benefit amounts on search effort was ambiguous: direct disincentive effects could be offset by positive indirect effects, especially through higher wage expectations.

These findings therefore show that financial effects in the processes of job search in unemployment cannot be reduced to a simple and universal pattern of 'disincentives'. Furthermore, the analyses show that search effort itself is not one-dimensional, for the influences upon search time are in many respects different from the influences upon frequency of job applications.

A feature of our analyses is that we have placed financial influences upon search effort alongside other kinds of attitudinal or motivational variables. The attitudinal or personality variables have proved to be at least as important as the financial variables. They were clearly more important as influences on job applications. Furthermore, across the two aspects of search effort which were analysed, the 'subjective' variable of satisfaction or dissatisfaction with material living standards was a more powerful influence than the 'objective' measure of benefit payments.

Still more striking were the results of the analyses in which we focused upon partially discouraged or demotivated groups of job seekers. With such groups, one would have expected to obtain a particularly clear view of the impact of financial disincentives. Of all the financial variables, however, only wage expectations was significant here (with lower expectations linked to demotivated job search). Discouragement or demotivation in job search was strongly linked to gender, to family circumstances, and to long periods of unemployment. It was also clearly linked to a lack of non-financial employment commitment.

We conclude that it is inadequate to regard individual behaviour in unemployment as a simple function of financial incentives and disincentives. The role of financial incentives or disincentives should not be denied or neglected, but needs to be better understood in relation to job search strategies in different circumstances, before much can be inferred about benefit or income support policies. In addition, a wider understanding of attitudinal and motivational aspects of unemployment is needed. The paper by Gallie and colleagues (Chapter 13 in this volume) addresses the latter requirement.

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Notes

- 1 For a wide ranging review, see Devine and Kiefer, 1990.
- 2 The seminal paper on this theme is that of Barron and Mellow, 1979.
- 3 We have also assessed the returns to search effort, by analysing movements into employment. It is not possible to include the results in the present paper, but they will be reported elsewhere.
- 4 The analysis was carried out by means of the censored regression, or Tobit, method.
- 5 A copy of the full statistical results is available on request from the authors.
- 6 Since the dependent variable was binary, an appropriate form of analysis was logistic (non-linear) regression. A copy of the full statistical results is available on request from the authors.
- 7 This suggestion has also been made in previous research: see White, 1983.

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13 The Employment Commitment of Unemployed People

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Introduction

This paper seeks to provide a clearer understanding of non-financial employment commitment, an inherently important aspect of work motivation, which is also closely related to notions of incentives or disincentives in unemployment.

The paper addresses three questions. First, is there any evidence that the unemployed are less committed to employment than the employed? Second, is there any sign that the prolonged period of mass unemployment is leading to the erosion of employment commitment? And, third, to the extent that unemployed people differ in their level of commitment, what are the key factors that help to account for these differences?

The Data

The information used here comes from the 'Employment in Britain' survey of 1992. The unemployed part of the sample has already been described in Chapter 12 of this volume. The employed sample, which will be used for comparisons with the unemployed sample, consisted of 3800 people, in the same age range as the unemployed sample, and employed when interviewed.¹ The questionnaires for the employed and unemployed samples contained a large proportion of identical questions exploring central themes relating to work attitudes and commitment.

The Concept of Employment Commitment

To what extent are people really interested in work for work's sake, or are they concerned to work because the costs of not working, for the non-work activities they value, is too great? The most obvious of such pressures is the need for income. A person might attach great importance to getting a job, but this might be for purely instrumental reasons. Arguably a person primarily motivated by instrumental incentives could be a less satisfactory employee for employers, less willing to put in work effort beyond what is formally required, less careful in the attention they pay to the quality of work, more willing to cut corners to maximise

income. Employment commitment, then, is likely to be one of the major factors that determines long-term 'employability'.

In choosing a measure of employment commitment, we were concerned then to select a measure that quite explicitly sought to tap people's attachment to employment irrespective of the financial incentives to work. Our measure of employment commitment was the question: 'If you were to get enough money to live as comfortably as you would like for the rest of your life, would you continue to want to work or not?'. This has been used in a number of surveys both in Britain and in the USA.

The Level of Employment Commitment

We are able to compare the data from the unemployed sample with that from the sample of people in employment (employed and self-employed). The striking feature of the data is that, far from being less committed, a higher proportion of the unemployed would wish to continue work even if there were no financial necessity than is the case for people currently at work. Whereas the proportion of committed was 76 per cent among the unemployed, it was only 68 per cent among those in employment.

Whereas women make up nearly half of all employees, they were only 20 per cent of the registered unemployed. Could it be that the level of employment commitment among women is rather lower than among men, thereby bringing down sharply the average levels for the employed? An examination of the data by sex shows immediately that this is not the explanation. The level of employment commitment among men and women in employment was the same in 1992 (68 per cent), while, among the unemployed a slightly higher proportion of women were committed (78 per cent compared with 75 per cent).

Could it be that employment commitment is related to age and that the higher levels of commitment among the unemployed reflect the fact that more of the unemployed are at the age where commitment tends to be highest? There is indeed an important age effect on employment commitment (which we will be considering in more detail later). But, for the present, the significant point is that a higher proportion of the unemployed are committed in all age groups other than the youngest (those aged between 20 and 25). Further, the difference between the unemployed and employed gets steadily greater with each age cohort.

These results were sufficiently surprising to lead us to go back to an earlier data set collected in 1986 to examine whether the same basic pattern could be found or whether our results reflected some relatively recent development. The data we used was the Work Attitudes/Histories survey of the Social Change and Economic Life Initiative. This involved a sample of approximately 3,800 employees and 577 registered unemployed, drawn from six local labour markets – Aberdeen, Coventry, Kirkcaldy, Northampton, Rochdale and Swindon. While care must obviously be taken in comparing a local labour market study with a national survey, comparison of the structure of the combined sample with national data for that period shows it is very similar to a national sample in terms of occupational class.

The striking feature when the results for the unemployed are compared for 1986 and 1992, is that the two surveys show an identical level of employment commitment among the unemployed (76 per cent). However, this partly conceals contrasting shifts for male and female unemployed. There was a slight decline over the years in the proportion of unemployed men who were committed to employment (from 79 per cent to 75 per cent), while there was a rise in the proportion among the female unemployed (from 72 per cent to 78 per cent). This growth of commitment to employment among women is also evident in the data for people in employment.

The central point, however, is that for 1986 we find precisely the same pattern as in 1992, namely that the unemployed of both sexes were more likely to feel that they would want work irrespective of financial need than their counterparts who had jobs. The difference between employed and unemployed was a little less marked in 1992 than in 1986, falling from 11 to 8 percentage points. But this reflected contrasting patterns for men and women. The difference declined among men (12 to 7 percentage points), whereas there was little change among women (9 and 10 percentage points).

It is also notable that we find again in 1986 that the pattern holds across different age cohorts; indeed, the unemployed have higher commitment in all age cohorts. The difference in the pattern for the 20 to 25 year olds reflects not a change in the commitment to employment of young unemployed people, but a change in the commitment of young people in work, which has risen very sharply (72 per cent to 83 per cent).

Overall, the data point consistently to the fact that unemployment is related to higher levels of employment commitment. It was true for both sexes and across age cohorts. The pattern for 1986 is essentially the same as that for 1992. It seems unlikely that the results reflect the quirks of a particular data set.

Sources of Variation in Employment Commitment among the Unemployed

What are the main factors that help account for differences between unemployed people in their commitment to a job? Very broadly, we can distinguish between five sets of factors that might plausibly affect commitment.

The first (and logically prior) set of potential influences on commitment relates to the individual characteristics of people. It may be that employment commitment varies in a systematic way with age or with sex. Or it may be that an important factor was the nature of the family circumstances that people were brought up in or the influence of their parents.

Second, employment commitment may be affected by current household circumstances, for instance, by whether or not a person is married or has children. Some arguments point to the significance of the employment status of spouses, suggesting that where both partners are without work it becomes easier for an alternative culture to develop where employment is little valued.

Third, people may be influenced by their wider social contacts, the people they interact with in their leisure and social lives. Since unemployment may affect

the nature of a person's social networks it is important to try to separate the effects of the types of networks that people were in before they became unemployed from the effects of changes that may have occurred in their patterns of sociability subsequent to unemployment.

Fourth, employment commitment may be affected by people's prior experience of the labour market. Those who have experienced rejection in the job market may begin to adapt their values so as to have a more positive sense of self-identity. But determinants may also lie further back in the types of jobs that people have had experience of. It may be that more positive experiences of work build up stronger long-term commitment, whereas the experience of poor working conditions leads people to a negative view of employment per se.

A final influence to consider is the nature of people's financial circumstances. While this might seem strange given a concern with non-financial employment commitment, it could still be argued that there may be a causal link between financial pressures (or the lack of them) and people's wider attitude to their employment. Indeed, some such assumption underlies the position of those that argue that high unemployment benefits are corrosive of work incentives.

The approach we shall adopt is to analyse first the effect of individual characteristics, on the grounds that these are likely to be causally the earliest influences, and then consider in turn the other groups of factors. In the sections which follow, the results are often reported in terms of simple percentage comparisons. However, all the reported results have been tested through multivariate modelling studies, both for the various aspects considered separately and for the full range of aspects in a single overall analysis. Those statistical results will be reported in more detail elsewhere. The results reported here give a reliable view of the relationships, in the light of the modelling studies.

Individual Characteristics

One factor that is very plausibly likely to influence employment commitment is a person's age.² This may be partly a question of the toll of work in terms of energy and health. But it may also be affected by broader cultural factors, such as societal rules about the retirement age which lead people to begin to modify their priorities in anticipation of a constrained change in life pattern.

Our data do indeed show a very clear relationship between age and commitment, with commitment declining with each older age cohort. Thus among those aged 20 to 24, 79 per cent thought that they would wish to continue working even if there were no financial need to do so, while among those aged 55 or more the proportion has fallen to 68 per cent. Such age associations may indicate either the impact of the life cycle factor of growing older per se or it may reflect changes in cultural values over time. It is notable, however, that we find a very similar age pattern in 1986, with the proportion of committed falling from 78 per cent among the 20 to 24 year olds to 63 per cent among those 55 or older. We also find a very similar pattern among those currently in work, with a 30 percentage point difference in employment commitment between the youngest and oldest cohorts in

1986 and a 32 percentage point difference in 1992. These differences appear then to reflect the effects of age itself, rather than of cultural change.

In contrast to age, sex differences in employment commitment were very small among the unemployed and such differences as existed were not statistically significant. However, there may have been some change in pattern over the last decade. In 1986 unemployed men were markedly more committed than unemployed women (79 per cent compared with 72 per cent), whereas in 1992 this difference has disappeared (indeed, 78 per cent of women compared with 75 per cent of men said that they would want to go on working irrespective of financial need). It seems likely that this reflects the much broader changes in women's labour market participation in the 1980s. As employment became increasingly the norm even for married women with children, the significance of employment for identity also increased. Certainly, there is no support in our data for the view that unemployment has a different significance for women than for men.

Finally, in considering individual characteristics, it is important to consider the relatively unexplored area of early personal and family influences. There are a number of possible determinants here. It may be that people are affected when young by what they see and hear of their parents' own experience of employment or by the direct influence of their parents on their views about work.

Information was collected about the type of occupation that the person's father had been involved in when he or she was around 14 years old. In practice, however, we found no significant link between the occupational level of the father's job when the respondent was young and their own current employment commitment.

In examining the influence of the mother's employment experience, it seems plausible that it was less the level of the job that was important than whether or not the mother worked at all and how much of the time she spent in employment when the individual was young. Families in which the mother worked were likely to be those where, explicitly or implicitly, employment was regarded as a particularly important value. We asked people then: 'While you were at school, to what extent was your mother in a paid job?'. The proportion of people who are themselves committed rises the more of the time that the person's mother was in paid work. Among those whose mothers worked most of the time 85 per cent were themselves committed to employment, whereas, among those with non-working mothers, the figure declines to 74 per cent.

When, however, the measure of mother's employment experience is introduced into a fuller model in which other individual characteristics are controlled for, it is no longer statistically significant for the sample as a whole, although the direction of the coefficient is consistent with the view that the mother's participation in employment in the early years reinforces employment norms. However, it did have a significant effect for people that had been brought up in households where financial circumstances had been difficult.

The role model of the mother may well be more crucial for women than for men. This is certainly brought out by separate analyses by sex. Among women,

the mother's employment activity is not only statistically significant (despite a relatively small sample) but it is the only individual characteristic that reaches significance. Similarly, if an interaction between mother's employment experience, sex and marital status is entered into the overall analysis, the coefficient for married women with mothers that were employed much or most of the time when they were young is significant, suggesting that the mother's role influence may be greatest at the time when women have to make difficult decisions about the relative importance of domestic and career roles. A final point to note about the employment of the mother was that it was particularly significant for people who were brought up in households where financial circumstances were difficult.

It may be less the nature of the parents' own employment experience than their educative influence that is significant in effecting work values. To try to capture this, people were asked: 'Thinking of you own opinions about work and success in life, how much influence would you say your father (mother) had on them?'. The greater the reported influence of the father on the respondent's work values, the greater the probability that they themselves would be committed. The proportion of committed ranges from 86 per cent among those who felt that their fathers had exercised a lot of influence to 71 per cent among those where the father exercised a little or no influence. It is notable that the influence still emerges very clearly when other individual characteristics are controlled for. Finally, it is of interest that the father's influence does not appear to differ between men and women, when tested by an interaction term with sex.

There is clearly the possibility that these associations are affected by some type of recall bias, with those with stronger commitment more likely to perceive a parental environment in which work values were strongly emphasised. But it is interesting that for both sexes it is the father's influence that has a strong association with current commitment, while the mother's is very weak. If recall is biased, it is biased in a way that distinguishes quite sharply gender roles in the parental family!

The types of question that we have asked are of course only very crude instruments for trying to capture the complex and diffuse effects that the early environment may have on people's attitudes to work. An alternative strategy would be to try to take a measure which could be seen as to some degree reflecting the cumulative impact of very diverse early experiences. One such measure, the extent of qualifications obtained, appeared to have no bearing at all on the intensity of people's current commitment to unemployment. On the other hand, their current employment commitment was powerfully related to their score on a well-tested work ethic personality measure, consisting of a battery of items that tapped people's views about the desirability and effectiveness of hard work. The relatively weak association of qualifications with employment commitment, compared with that of more generalised norms about work, must be seen in the context of a class culture where 'real work' was often seen as the antithesis of school work, and where parental influence might be in the direction of early employment rather than staying on at school.

Household Characteristics

Are people's household circumstances associated with their level of employment commitment? According to some, family roles detract from a central interest in work, while others argue that family responsibilities intensify the importance of work because it is a means of fulfilling those responsibilities.³

First, did it make a difference whether people were married? It is notable that (as with other household factors) marital status only had significant effects on employment commitment once individual characteristics had been controlled for. Further, even when individual characteristics were taken into account, there was no general relationship between whether or not people were married and their level of employment commitment. Instead there was a strong interaction between marital status and sex. Women that were married were significantly less committed to employment than other women, while married men were significantly more committed than single men.

Another factor that might affect employment commitment is the number of children in the household. Having children may influence adults' own identities, altering their understanding of their responsibilities or their sense of the desirable distinction between gender roles. Certainly, the number of children in the household was strongly and positively associated with employment commitment. There is some sign, at least for men, that it is a factor that helps to account for the relationship between marriage and commitment. If one takes account of the number of children, the relationship between marriage and commitment is no longer significant for men, suggesting that it may be a reflection of changes in identity associated with the role of the father. Married women, however, continue to remain less committed.

A second issue that we were concerned to examine was whether there was any evidence that having a partner without work was associated with lower levels of employment commitment. The general hypothesis was that households develop distinctive employment cultures. Where individuals live alone or are in households where others are unemployed, it may be easier for linkages to the world of employment and its normative expectations to break down and for a process of value adaptation to occur in which people place less emphasis on employment as a source of meaning to their lives.

In practice, the data provide no evidence of such a cumulative effect. Taking account of the employment status of the spouse did not contribute to the explanation of employment commitment, either independently or when considered in interaction with sex. This finding is reinforced by the results when account is taken of the overall number of employed or unemployed people in the household. Neither factor was significant, suggesting the argument that a distinctive household employment culture develops where there is multiple unemployment or non-employment is incorrect.

In short, we find no evidence that multiple unemployment in the household leads to a culture of unemployment in the sense of lower employment commitment. There is, however, a clear impact of other household factors. Having

children is generally associated with higher employment commitment and appears to account for much of the tendency of married men to have higher commitment. Further, married women have distinctly lower levels of employment commitment.

Social Networks

Rather similar arguments to those that applied to the nature of the household can be developed with respect to people's wider social networks. Those that are extensively involved in contacts that link them with the wider community could be expected to retain stronger commitment to a work ethic, while those that have become more isolated may be likely to adapt their values. This issue was examined first for frequency of contact with relatives and then for people's friendship networks.

Our data showed that the majority of unemployed people met socially with kin on at least a weekly basis. Among men, this was the case for 61 per cent, and among women for 58 per cent. However, while the general direction of the association between contact with kin and commitment to employment was consistent with the idea that higher levels of contact strengthened employment commitment, the relationship was not statistically significant. Arguably it is not so much the frequency of contact but whether or not the frequency of contact changed with unemployment that affects commitment. Increased frequency of seeing relatives may reflect a generally more supportive environment or greater dependency, possibly involving increased pressure to find work.

To examine this people were asked whether, compared with two years earlier, they saw their relatives more often, less often or about the same amount. It was only among women that the change in frequency in seeing relatives was significantly associated with commitment. Women that saw their relatives only as frequently as before or less frequently were markedly less likely to be committed to employment than those who had increased their contacts with relatives.

Turning to friendship networks, a somewhat different picture emerges. Here there is a direct relationship between the frequency with which people see friends socially and their commitment to employment. Those that met up with friends more often were significantly more likely to place a high value on employment. On the other hand, change in frequency of contact with friends over the last two years was not a significant influence for either men or women. This suggests that differences in employment commitment were not the result of relatively recent changes in friendship patterns resulting from unemployment, but rather reflected the longer-term nature of people's networks.

Finally, another factor that was related to commitment was the extent to which people's friendship networks consisted of people who were themselves in employment. Where few of people's friends were in employment there was a tendency for people to be less committed. While this was below the threshold of statistical significance when controlling just for individual characteristics, it became highly significant once household characteristics were controlled for and remained so in all subsequent analyses. It seems, then, that friendship networks

affect commitment partly through the general sense of social integration they provide and partly through a more direct diffusion of norms of employment (a role that will vary depending on the structure of the network).

Previous Labour Market and Employment Experience

Until this point, the factors that have been examined as possible influences on people's commitment have concerned the non-work characteristics of their circumstances: the conditions of their early upbringing, the type of household in which they live and the social networks in which they are involved. But it is also possible that their attitudes to employment have been affected by their direct experience in the past of the rewards (or lack of them) that come from having a job or of the difficulties of finding work again once a job has been lost.

Our point of departure in this part of the analysis was the hypothesis that commitment would be higher for people whose work in their previous jobs had been more rewarding.⁴ There were a number of measures in the survey that could proxy as indicators of good and bad jobs. However, the analysis of these factors provided very little support for the general hypothesis that the quality of the previous job affected commitment. To begin with, occupational class had no relationship with commitment among unemployed people. It also appeared to make little difference whether or not people had been doing work that allowed for a greater degree of control over the work task or whether they worked with technically more advanced equipment. Further the scale measures that directly tapped satisfaction with the intrinsic qualities of the work task had no bearing on employment commitment. Indeed, one of the measures appeared to relate to commitment in a quite different way from that predicted. Those that came from organisations where they had been afraid of arbitrary dismissal were actually more committed to employment.

Only three items provided some support for the positive influence of better employment conditions in the previous job. First, there was some link between the autonomy that people had been granted in their last job and their commitment. This relationship, however, was a curvilinear one in which those with intermediate levels of autonomy were the least committed. Second, people that were more satisfied with the amount of work and with the hours of work were also more committed, but this also was not straightforward since it only appeared when satisfaction with material employment conditions had been controlled for. Finally, there was a strong association between type of job contract and commitment, with those in permanent jobs showing higher commitment than those with temporary contracts. Overall, the pattern of the data suggests that the argument for any general link between past job quality and employment commitment would be difficult to sustain, although particular job characteristics may have some influence.

Another aspect of the past job that might be important was its duration. We noted at the beginning of the paper that people in employment typically had lower levels of employment commitment than the unemployed. One explanation of this might be that those in work come over time to take the benefits of employment for

granted. If this argument about habituation over time is correct, then it could be hypothesized that unemployed people that had been in their last job for longer periods of time would be less committed than those that had been in it for shorter periods. Those with longer employment experiences would be effectively closer in their attitudes to people currently in employment. When the data are examined this is precisely the pattern that emerges; those with longer job durations were indeed significantly less committed.

But when the length of time they had been in their previous job was taken into account interactively with the duration of a person's current spell of unemployment, a very interesting pattern emerged. The interaction term was highly significant, indicating that where people had both spent a particularly long period in their previous job and had been unemployed for a long period of time, they were more likely to be committed to employment. On the other hand, where they had been in a job for a long time, but had become unemployed only relatively recently, they were less likely to be committed.

Given the cross-sectional nature of our data, interpretation of this must remain tentative. However, the pattern would be consistent with an argument along the following lines. It may be that, as was suggested earlier, there is a process of habituation that occurs with longer spells in a job, such that its advantages tend to become 'taken-for-granted'. This means that, in the initial period of unemployment, such people may experience some degree of relief at a break in the routine of work and are more aware of the advantages of increased leisure. However, this effect may well wear off as the length of time spent unemployed grows longer, and, indeed, those that have been previously in a relatively stable employment situation may come to experience the absence of employment particularly severely.

Unemployment Benefit and Financial Incentives

The final issue to be considered concerns the impact of unemployment benefit and its potential disincentives for commitment to employment. As discussed in our companion paper in this volume, this is the issue that has been most central to the concerns of economists and of policy makers. Its centrality reflects the assumption in economic theory that people work primarily for the money; hence, the less the financial incentive, the less that people are thought to want to work. It should be noted straight away, however, that the evidence from the measure of non-financial employment commitment raises serious questions about the view that work is for most people a disutility.⁵ It has been seen earlier that a large majority of both the employed and the unemployed would wish to continue to work even if there were no financial necessity. Given this more complex nature of the motivation to work, the significance of financial incentives becomes distinctly more problematic.

To begin with, is there any association between the level of unemployment-related benefits that a person receives and their commitment to employment? Taking the direct association between the level of benefit and employment commitment (and not taking into account any other factors) there is a clear rela-

tionship between benefits and commitment. But the direction of the relationship is the opposite of that expected. The higher the benefits that a person receives the more likely, rather than the less likely, they are to be committed to employment in the longer-term.

It seems probable, however, that the relationship is an artefactual one. The payments under income support increase if people are married and if they have children. It was seen earlier that the number of children in the household was also strongly associated with higher employment commitment. Our statistical analysis confirms that these relationships were leading to a spurious positive correlation between benefits and employment commitment. Once one controls for the number of children (or, indeed, for marriage) the relationship between higher benefits and employment commitment disappears.

A more complex variable was also constructed, representing the ratio of the individual's target wage when seeking work to benefits, and this was entered into the analyses in the place of the original level of benefits measure. But its association with employment commitment failed to reach significance, either when considered on its own or when controls were introduced for individual characteristics.

Finally, it might be that it is not so much the level of benefit, but rather the degree of financial anxiety experienced by the unemployed person that affects commitment, since financial anxiety is likely to capture better the real level of hardship. The measure of financial anxiety was the question; 'How often do you find yourself worrying about money?'. It was clearly a very widespread problem for the unemployed. Among men 41 per cent reported that they worried all the time and a further 40 per cent that were often worried. The financial difficulties faced by unemployed women appeared to be at least as great, with 46 per cent saying they worried all the time and 34 per cent often. When financial anxiety is examined on its own in relationship to employment commitment, there is a clearly significant association. The greater the financial anxiety, the higher the level of commitment. However, other analyses have shown that financial anxiety is also related to other variables that are closely associated with commitment – in particular, age. The older unemployed people are, the less their financial anxiety. Once age is controlled for, the relationship between financial anxiety and employment commitment disappears.

Overall, then, the analysis provides little support for the view that the level of benefits or the nature of financial incentives are important factors affecting employment commitment. The level of benefits was related to commitment, if at all, in a way contrary to that predicted by the conventional notion of disincentives. At most, there may be some link between financial anxiety and employment commitment, although this disappears once account is taken of age.

Conclusions

Our evidence provides little support for the argument that the unemployed are less likely to be committed to employment than the employed. Rather, they are more likely to be committed. This is the case for both unemployed men and unemployed

women. Further, when the data for 1992 is compared with that for the mid 1980s, the striking feature is the stability of the pattern. Despite the persistence of a high level of unemployment over this period, there is no indication of a decline over time in the centrality of employment to the values of the unemployed. Nor is there evidence of a decline in employment commitment among younger people. The youngest age cohort is the most highly committed and the proportion of those committed is unchanged from 1986.

Our analysis of the factors associated with variations in employment commitment among the unemployed revealed a number of interesting relationships. Clearly, since this analysis was cross-sectional, interpretations must be regarded as provisional. But our evidence was consistent with the view that employment commitment is affected both by factors that are quite deep in people's past and by more recent experiences. The influence of the father, the employment experience of the mother when the person was at school, and the financial situation in the parental home when the person was a child were all associated with current differences in people's employment commitment. There were also significant relationships between employment commitment and both the nature of people's household circumstances and of their social networks.

Finally, certain aspects of people's past labour market and employment experience seemed related to the current value they placed on work. In particular, the general pattern of our data pointed towards the possibility that it is the experience of extended periods of employment that tends to lead to lower employment commitment, as a result of some process of habituation, in which the benefits of employment come to be taken-for-granted. The experience of unemployment itself perhaps makes people aware of the less visible benefits that come with employment.

This view provides a link between our findings about the differences between the unemployed and the currently employed and our findings about differences among the unemployed themselves. The employed were less likely to be committed than the unemployed, while unemployed people that had spent a particularly long time in the job they had previously held were less committed in the early phases of unemployment than those who had spent less time.

Finally, our evidence did not provide support for the argument that the benefits system undercuts commitment to employment. Higher benefits were associated with a greater, rather than a lower, probability of being committed to employment, while the ratio between the benefits people were receiving and the pay they were seeking from a job was not significantly related to commitment. Financial anxiety was associated in the initial analyses with greater commitment, but it proved to be largely an age effect. In our final model, in which the full range of factors are considered, it is notable that none of the measures of people's financial situation were significantly related to employment commitment.

Notes

- 1 Both samples have been re-weighted to make them more fully representative, and all reported results incorporate this weighting.

Unemployment, public policy and the changing labour market

- 2 A considerable amount of previous research has found age to be important for employment commitment. See, for example, Warr, 1982. For discussion and evidence concerning cohort and life cycle effects, see Lorence, 1987.
- 3 Agassi, 1982; Schein, 1978.
- 4 This proposition is derived from a variety of studies of employed groups. Autonomy at work has been found to be particularly related to commitment or involvement (Lorence, 1987; Loscocco, 1989). Financial rewards have also been found to be important: see Kanungo, 1982.
- 5 This assumption has been the object of an extensive critique by Lane, 1991.

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14 Countering the Labour Market Disadvantage of Disability

Mary Dalgleish

Introduction

This paper is concerned with how unemployed people with disabilities gain jobs. The first part explores the nature of the labour market disadvantage faced by people with disabilities¹. The second part examines Employment Service interventions designed to help people with disabilities find employment, focusing on recent changes in specialist services. Preliminary findings on the effects of these changes are presented.

Part 1: The labour market disadvantage of people with disabilities

The link between disability and unemployment has been documented in a number of sources (Bosworth, 1988; Prescott-Clarke, 1990). As illustrated in Figure 14.1, analysis of the Labour Force Survey (LFS) illustrates that the unemployment rate for people with disabilities fluctuates over time in a similar way to the overall unemployment rate. However, the percentage of the population of economically active people with disabilities who are unemployed, is around twice that of the population as a whole.

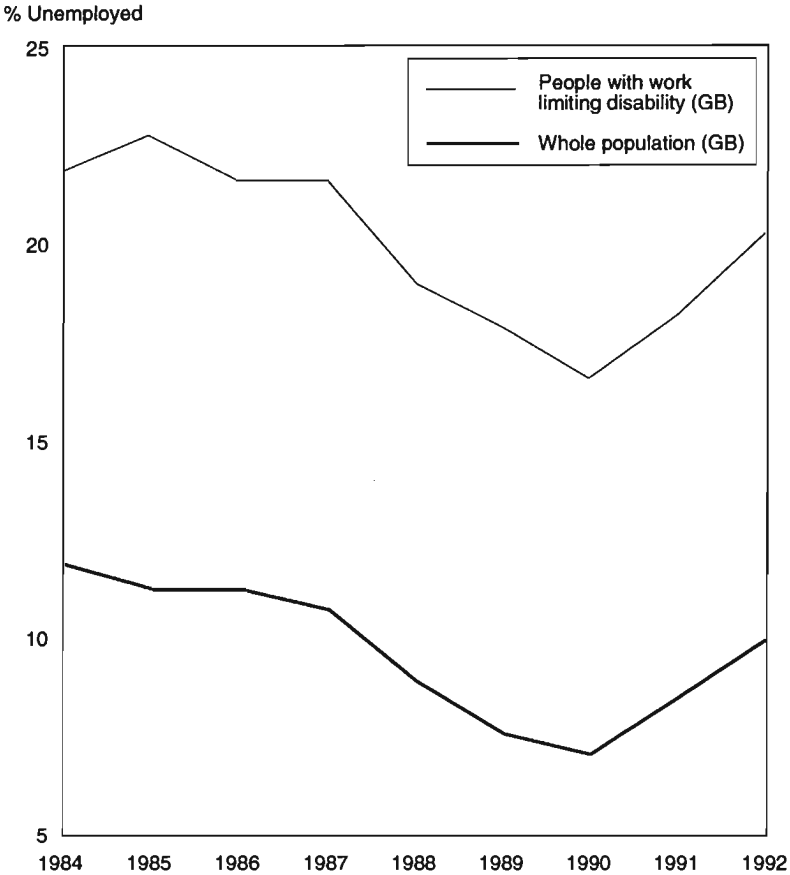
People with disabilities are also likely to have less skilled jobs. They are more likely to be in semi-skilled jobs and less likely to be in professional and managerial jobs (Prescott-Clarke, 1990).

Two ways in which we can learn more about these disadvantages are: first, to look at what we know of employers' attitudes to the employment of people with disabilities; and second, to examine the characteristics of disabled job-seekers.

Employer's attitudes

A large-scale survey of employers (Morrell, 1990) suggested there was substantial good will on the part of employers towards employing people with disabilities. In practice, however, this was tempered by the perception that employing people with disabilities may present problems.

Figure 14.1 ILO unemployment rates



Source: Labour Force Survey

Two-thirds of employers with no disabled employees anticipated problems, related mainly to the types of work or jobs the organisation could offer to people with disabilities, and to the unsuitability of the organisation's premises (Honey, Meager and Williams, 1993). The concerns suggested stereotypical views of people with disabilities: as likely to be in wheelchairs, for example. In fact, only 1 per cent of economically active people with disabilities are unable to walk (Prescott-Clarke, 1990).

The evidence suggests, however, that these employers were unduly pessimistic about the likelihood of experiencing problems (Honey, Meager and Williams, 1993). Three-quarters of those actually employing disabled individuals reported no particular problems.

Some employers impose physical requirements on jobs which can disadvantage certain individuals (Morrell, 1990). For example, the ability to walk over half a mile was said to be 'vital' to 41 per cent of management jobs.

Employers are less likely to invite a disabled applicant to an interview, even when the effects of the disability were not specified (Fry, 1986). Further, disabled people themselves report that their employers had a poor understanding of the consequences of disability, low awareness of potential solutions, minimal contact with the specialist advice services and lack of interest in disability issues (Thomas, 1992).

The evidence suggests, then, that the concerns some employers may have about people with disabilities are based on assumptions about the effects of the disability and can be unfounded. Physical requirements may be attached to some of their jobs that may not be necessary. Both of these reduce the likelihood of people with disabilities gaining work.

Characteristics of disabled jobseekers

This section reviews briefly what is known about the characteristics of disabled jobseekers. First, the type of disability is considered. Second, other characteristics are examined, including age, qualifications and occupational area, and length of unemployment.

Type of disability

Table 14.1 shows the prevalence of types of disability among the economically active population of people with disabilities.² Problems with locomotion are the most common, affecting around 40 per cent of the population, followed by problems with hearing, intellectual functioning and behaviour, each of which affect around a fifth of disabled individuals. Higher proportions of those in each disability group are likely to be wanting work than be in work, but particularly for locomotion problems, problems with behaviour and intellectual functioning.

Differences in the likelihood of unemployment for those in different disability groups emerges from the LFS (Table 14.2). Those with hearing difficulties had the least labour market disadvantage of the disability groups identified, while those with mental health problems suffered the greatest.

Further, the more severe the disability, the greater the likelihood of being unemployed (Martin, Meltzer and Elliot, 1988).

Other characteristics

Consistent patterns emerge from analyses of the characteristics of the claimant unemployed population using data from the ES National Customer Satisfaction Surveys (NCSS) and the Restart Cohort Study. There were two areas in which no differences between disabled and non-disabled job-seekers were found. First, men and women were represented in the unemployed disabled population in similar proportions to the overall population of unemployed people. Second, there was no consistent pattern of regional differences in the percentage of disabled jobseekers.

However, differences were found in the following: age, length of unemployment, and qualifications and occupational area.

Table 14.1 Percentage of people in work and wanting work reporting particular disabilities (from Prescott-Clarke, 1990)

Disability	%of total in work and wanting work	% of total in work	% of total wanting work
Locomotion: difficulty standing, walking, climbing, maintaining balance	40	37	51
Hearing: problems following a conversation	20	20	21
Intellectual functioning: remembering, concentrating, clear mind, reading, numeracy	19	17	27
Behaviour: level of aggression when upset problems in relationships	18	14	30
Dexterity: picking up and holding; manipulating	16	15	18
Seeing: recognise friend across street; read newsprint	14	14	22
Communication: difficulty understanding others or making self understood	9	8	12
Digestion:	9	8	11
Continance: loss at least once a month	8	7	12
Disfigurement:	7	7	9
Reaching and stretching:	6	6	7
Consciousness: fits or convulsions in last 2 years	4	3	7

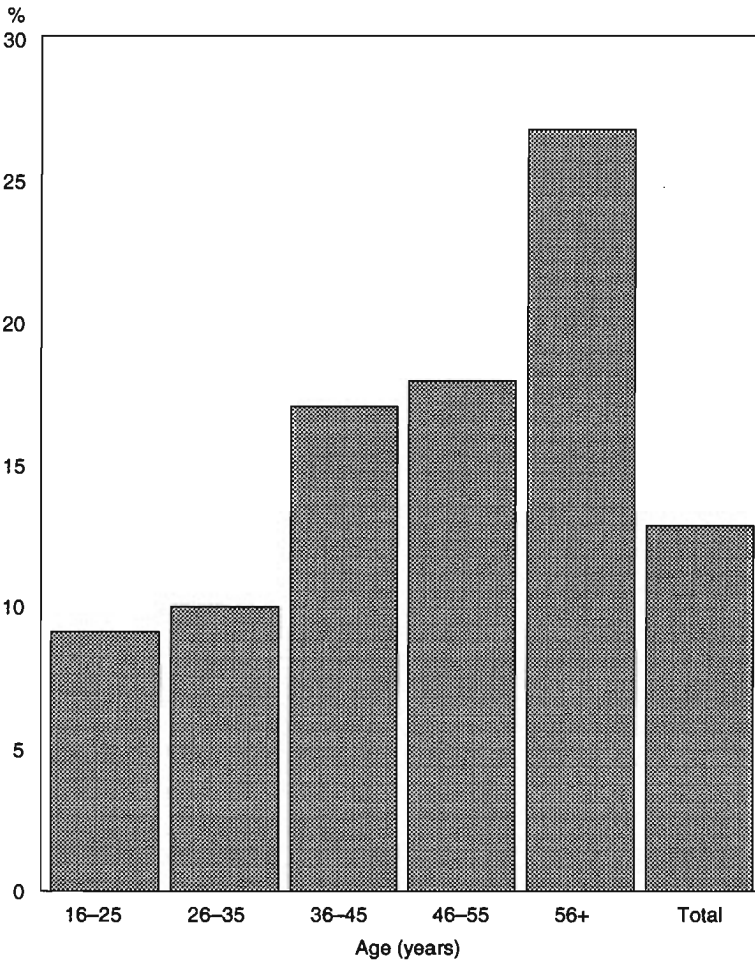
Table 14.2 Numbers of individuals identifying themselves as being within particular disability groups, the percentage economically active and unemployed (LFS Spring 1992)

Type of disability	Number (thous) in pop. of working age	% econ- omically active of working age pop.	% unem- ployed of econom- ically active
Depression, bad nerves	60	24	37
Heart, blood pressure or circulation problems	207	39	19
Problems connected with arms, legs, back or neck	1000	48	20
stomach, liver, kidney or digestive problems	90	45	21
epilepsy	65	53	24
chest or breathing problems	376	57	26
difficulty in seeing	99	59	22
skin conditions,allergies	84	69	26
diabetes	108	64	16
hearing difficulties	95	70	16

a) Age

In all the surveys, unemployed jobseekers with disabilities were over-represented in the older age groups, and under-represented in the younger age groups, compared to the whole population. This links with findings of a steep increase in the incidence of health problems and occupational handicap with increasing age (Bosworth, 1988; Prescott-Clarke, 1990). The 1992 NCSS found, for example, that although around 1 in 8 of unemployed claimants had a health problem or disability, 1 in 4 of those aged 56 or over did so (Figure 14.2).

Figure 14.2 Per cent of ES Claimants having a health problem or disability limiting the type of paid work they could do (1992 National Customer Satisfaction Survey)



LFS analyses illustrate that this pattern is similar to that found among those who are *employed*: people with disabilities, as a group, are older. Although the unemployment rate for people over 50 is consistently lower than that for the population as a whole, this reflects the fact that those aged over 50 are more likely than other age groups to leave the workforce if they become unemployed, rather than indicating greater success in gaining employment. Indeed, while older workers are less likely to be made redundant, and turnover is lower than for younger workers, older workers do face discrimination in recruitment (Dibden and Hibbett, 1993; Taylor and Walker, 1993).

b) Qualifications and occupational area

As mentioned above, disabled employees are likely to have less skilled jobs than the population in general. Unemployed jobseekers show the same pattern: the 1992 NCSS data showed that people with disabilities were more likely to be seeking unskilled manual work and less likely to be seeking professional or managerial jobs than non-disabled people. This may link to the possession of qualifications: people with disabilities, both employed and unemployed, are less likely to have qualifications than the non-disabled.

Analyses of the LFS show that those with no qualifications have a consistently higher unemployment rate than the population as a whole. This factor is likely to be an increasing labour market disadvantage, given the general trend towards an increasing proportion of jobs being in white collar occupations, and highly skilled occupations. Certainly it will reduce the range of jobs that can be applied for.

However, a large proportion of employers with routine and unskilled jobs are not looking for qualifications (Dench, personal communication). Characteristics of applicants most often mentioned by employers as relevant to selection were those concerned with personality, attitude and motivation, together with health and fitness. Next came factors associated with previous job history, and only then came skills, training and educational background (Meager and Metcalf, 1986).

c) Length of Unemployment

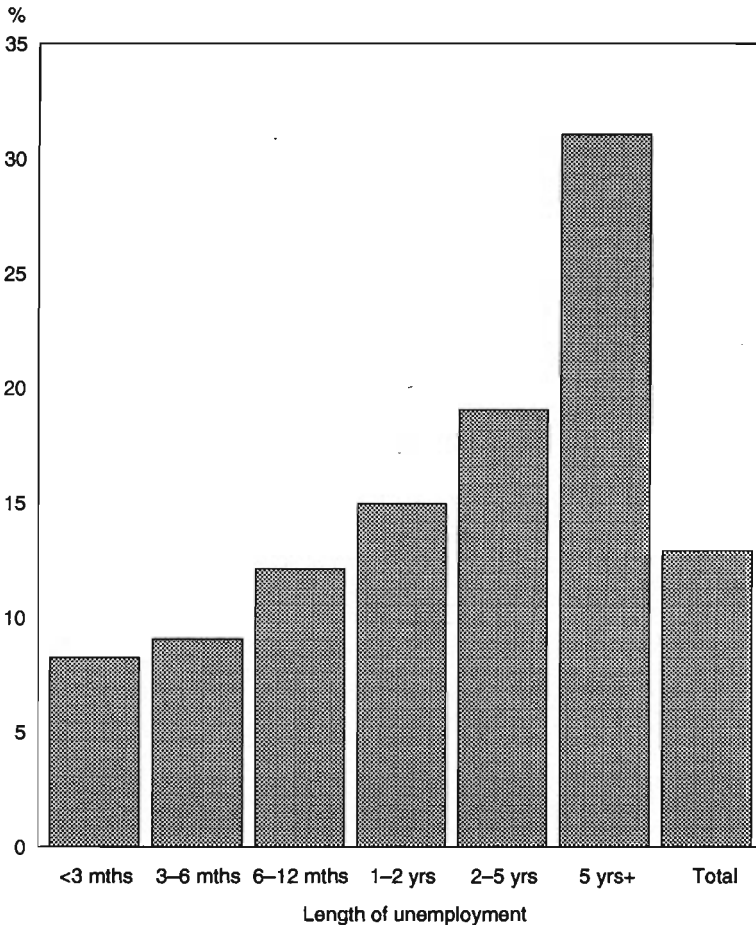
Figure 14.3 shows that the percentage of people with disabilities was greater among those unemployed for longer durations. These data are taken from the most recent NCSS, and are consistent with other surveys of ES clients.

This finding implies that those with a disability have less success in moving off the register. However, not all those at longer unemployment durations may have had a health problem or disability when they first became unemployed. There is an annual inflow into the handicapped sector of the workforce (estimated at about 100,000 (Prescott-Clarke, 1990)). In addition, unemployment can itself affect an individual's mental health (Warr, 1987). Without longitudinal data it is not possible to determine how much of this effect is due to the disadvantage faced by people with disabilities in the labour market, and how much due to individuals developing disabling conditions. In any case, long-term unemployment does in itself reduce an individual's attractiveness to potential employers (Meager and Metcalf, 1986; Dawes, 1993). If taken in conjunction with employers' attitudes to

older workers and people with disabilities, this potentially compounds the labour market disadvantage. It seems particularly important, therefore, to gear services such that the move to long-term unemployment is made less likely.

To summarise the position so far. Research has shown that the labour market disadvantage of people with disabilities may be increased by unfounded concerns about employing people with disabilities, and unnecessary job requirements, expressed by some employers. Their labour market disadvantage is increased by the fact that those who are unemployed are more likely to have no qualifications, to be older, and to be long-term unemployed, than those without a disability. Those with particular disabilities (notably, mental illness) are less likely to be economically active, and more likely to be unemployed, than other disabled groups.

Figure 14.3 Per cent of ES Claimants having a health problem or disability which would limit the amount of paid work they could do (1992 National Customer Satisfaction Survey)



Part 2: Employment Service Help

For many unemployed people with disabilities, then, their labour market disadvantage is not simply a question of disability, but of a complex interaction of other factors which affect their employment chances. This second part of the paper considers how the Employment Service attempts to improve these chances, by providing help to increase the likelihood that people with disabilities will get jobs. It concentrates on the assessment and rehabilitation provision offered by the specialist disability service.

On their first visit to the Jobcentre, an unemployed jobseeker will be interviewed by a client adviser to assess eligibility for benefit and draw up a back-to-work plan. As part of this initial interview, the individual is asked whether they have a long-term health problem or disability which affects the type of work they can do. If they wish to disclose that they do², the adviser decides whether the clients' needs can be met by mainstream services, that is, services that are available to everyone, or whether they need to be referred to the specialist disability services. If the client has been working for some time and has adjusted to any special requirements imposed by their problem within a work context, a specialist referral is unlikely to be required. On the other hand, someone who has recently acquired a long-term health problem or disability may need information on the aids and adaptations available, how their job may be changed to enable them to continue with it, or, if it is no longer possible to continue in their previous line of work, advice on what might be suitable, and assistance in considering a new career. They may be unsure of the extent of their skills and abilities, and need to have these assessed. In these cases, a referral to the specialist services is likely.

The services offered to people with disabilities can be divided into mainstream services (available to everyone, and used by the majority of people with disabilities), and specialist services for those needing particular help because of their health problem or disability. These will be considered in turn.

Mainstream Services

Mainstream services aim to help people back to work as quickly as possible by providing a range of information and advisory help as well as specific interventions such as Restart. To counter the particular labour market disadvantage of people with disabilities, eligibility criteria are often waived: for example people with disabilities can attend a Jobclub, or TEC training programme, immediately they become unemployed while others have to be unemployed for six months.

Studies suggest that people with disabilities make less use of Jobcentre services than non-disabled people (ES, 1989, 1990) although the effects of age and length of unemployment have not been disentangled. Although in absolute terms they are less likely to achieve positive outcomes from Jobclubs, Restart (White and Lakey, 1992) or Employment Training, the *relative* impact of Jobclub attendance was significantly greater among people with disabilities (Longstone, 1989).

Specialist Disability Services

Following the publication of the Consultative Document 'Employment and Training for People with Disabilities' in June 1990 (Employment Department, 1990), specialist services for people with disabilities have been reformed in order to make them more responsive to the needs of people with disabilities and improve their effectiveness. The changes involved enhancing the training of main-stream staff in dealing with people with disabilities. The principle, that most unemployed people with disabilities could get the help they need through non-specialist services (Manpower Services Commission, 1982), was reaffirmed. Of those who sought advice in 1989, non-specialist job-centre staff helped about twice as many as did specialist staff (Prescott-Clarke, 1990).

Before the changes, those requiring specialist help were referred to Disablement Resettlement Officers (DROs) who could refer them on, if necessary, to fuller assessments by the Department's Employment Rehabilitation Service (ERS). The ERS provided both assessment and employment rehabilitation mainly through 26 Employment Rehabilitation Centres and 5 Asset Centres, each of which employed a specialist staff of psychologists, instructional officers and social workers, with access to medical services. In addition, the Disablement Advisory Service (DAS) encouraged employers to provide better opportunities for disabled employees.

The effectiveness of specialist services was to be improved by providing: easier access to the existing specialist assessment services; closer integration of the counselling and assessment functions; increasing the involvement of external organisations in the provision of rehabilitation, and improved management of the integrated service.

The changes involved the setting up of Placing, Assessment and Counselling Teams, known as PACTs, to carry out the functions previously carried out by DROs, DAS and the ERS. PACTs were also to be responsible for developing the network of local agency rehabilitation. PACTs were to provide the functions through Disability Employment Advisers (DEAs) out-stationed in each Local Office, PACT Occupational Psychologists and contracts with external organisations. In each region, an Ability Development Centre (ADC) was to be set up to provide a centre of expertise on which PACTs could draw for advice and support on aspects such as training, special aids and equipment, rehabilitation and research.

The objectives of PACTs are to:

- help into open, sheltered or self-employment those people with disabilities who face particular difficulties in the labour market;
- promote the value of people with disabilities and the range of ES services for them to employers; and
- provide advice and assistance to enable disabled people to be retained in employment.

The early work to be discussed here concentrates on the first PACT objective, but it is important to be aware that there has been considerable activity on the other two objectives. Past research has shown for example, that the specialist employment services have had a positive effect in overcoming employer reservations (Morrell, 1990). Nearly 50 per cent of organisations employing people with disabilities have sought external advice or support, the majority of these from specialist ES services (Honey, Meager and Williams, 1993). In addition, this paper does not address PACT services other than assessment and rehabilitation, such as sheltered employment, aids, adaptations and special equipment, nor the role of the Ability Development Centres.

The research was commissioned in Spring 1993 when PACTs were still very new organisations. Some of the teams had been running for only a few months. It was too early at that stage to attempt to evaluate the effectiveness of the arrangements which were still being set up. Rather, the studies were seen as early, exploratory work, to examine how PACTs were developing (Morrell *et al.*; Lakey, Simpkins and Shaw; Johnson *et al.*). This was seen as formative evaluation, in that it was intended that the findings should feed back and allow changes to be made to the services.

The findings from four main areas addressed by these studies are presented briefly, as follows:

- PACTs as developing organisations
- Links with mainstream services
- Assessment
- Agency rehabilitation

Pacts as Developing Organisations

Many of the issues about the effectiveness of the services delivered relate to the fact that PACTs are new and developing organisations. This section considers some of these organisational issues, specifically (a) roles and team-work, and (b) links with other organisations.

a) Roles and team work

PACTs are unusual organisations in that the majority of their staff, the Disability Employment Advisers (DEAs), are out-stationed in Employment Service local offices. The manager and the occupational psychologist, as well as administrative support, are generally sited at the PACT base, where more detailed assessments may be carried out. Particular efforts are required to generate a real sense of team work under such an arrangement. Apart from monthly meetings, interaction between out-stationed PACT members was limited to telephone contact. Managers saw their relationship with staff as being supportive and motivational.

It was anticipated that DEAs would have a multi-functioning role, carrying out a wide range of tasks such as initial assessments, further assessments, liaison

with and monitoring of rehabilitation agents, and marketing to employers. In practice, it appeared that certain roles, notably the more detailed assessments, marketing to employers and monitoring of agencies, tended to be assigned to particular individuals. Outstationed DEAs tended to give these duties lower priority than their caseload clients.

Some DEAs had progressed further towards the multi-functioning ideal, but the researchers suggested that, in a small number of cases, this had led to problems with effectiveness and personal stress. It is not clear whether this is due to DEAs current high workloads or to problems with the multi-functioning concept. Certainly, a longer term need expressed by PACT managers was to have more DEAs and related support.

b) Links with other organisations

PACTs exist within a complex network of other organisations, both other parts of the Employment Service, and external organisations. A picture of the diversity of the relationships and extent of demands on PACTs can be gained by looking at the wide range of organisations dealt with during the course of their work (Table 14.3).

Table 14.3 Organisations and individuals in contact with PACTs

Equipment suppliers	Jobcentre frontline staff
Benefits Agency	Rehabilitation Contractors
Media	Head office
Regional Office	Area Office
Field Office Manager	Local Office Manager
CEPD members	Doctors (Medical Practitioners)
District Nursing Services	Voluntary Organisations
Specialist Organisations	Training Organisations
Solicitors	County Council
Social Workers	Training and Enterprise Council
Ability Development Centres	Employees (in clients potential workplace)
Psychiatric Hospitals	Sheltered Workshops
Trade Unions	Probation Services
Occupational Therapists	Hospitals
Residential Training Colleges	Employment Medical Advisory Service (EMAS)
Contractors	MPs and Ministers
Neurologists & Psychiatrists	Psychology Branch of ES
PACT managers	Marketing organisations
Regional Medical Officers	

Relations with mainstream staff over client referrals are covered in the next section. However, in addition, there was some concern about PACTs being marginalised by mainstream services. Many DEAs reported that some offices did not fully understand the role of the PACT or their relationship to it, and that this needed constant re-enforcing, which added to their workload. Perhaps as a result of this lack of understanding, it was sometimes difficult for DEAs to find adequate facilities in Jobcentres.

PACT staff felt that mainstream ES would gain from the new structure in two ways: from having an expert resource available, and in developing their own capacity to help people with disabilities. Overall, the research indicated that PACT staff believed the quality of PACT service delivery was high. The researchers provided the following quote as a 'good covering summary' of managers' views:

'There is now cohesion in the provision. The three services have come together under a single management and have been integrated. The services for the client can be co-ordinated... There is also better organisational and geographical coverage. DEAs have better back up than DROs/DAS had before.' (Johnson *et al.*, 1993)

Links With Mainstream Services

The subject of referrals between mainstream and PACT was the main area of discussion between PACTs and mainstream staff. This was because, for PACTs to operate successfully, DEA caseloads needed to be restricted to those who really need, and can benefit from, their services. The studies found that local Employment Service offices varied considerably in their ability to refer clients appropriately to PACTs. From 20 per cent to 80 per cent unnecessary referrals were cited.

Appropriate referrals seemed to be enhanced where DEAs were readily available to deal with queries from front-line staff. Changes in the mainstream services themselves have affected this process, as there has been a move to have initial claims taken by staff of lower grades who may be less confident about asking clients about any health problem or disability (Morrell *et al.*, forthcoming).

There are also wider issues to consider. A recurring concern about referrals was the effects of the Care in the Community programme. It was expected that there would be an increase in the number of clients with mental health problems. As shown in Table 14.2, these individuals have the highest unemployment rate of all the disability groups. Nearly all DEAs interviewed said that clients with mental health problems are among the most difficult to help and, often, those they cannot help (Lakey, Simpkins and Shaw, forthcoming).

Assessment

Both PACT managers and DEAs said assessment was improved. Better co-ordination and continuity resulted from having the more detailed assessments carried out locally within the PACT (Johnson *et al.*, 1993).

The major problem noted in Spring 1993 was that of lengthy waiting times for assessments. PACT managers felt this was due to DEAs' very high workloads. Minimising waiting times is crucial in avoiding individuals becoming long-term unemployed.

Once a client's needs had been established, contact was maintained by DEAs either by telephone, letter or meetings, as part of the process of checking progress, as outlined in the client's action plan. There was consensus that the client must be the pro-active partner in this relationship. Such post-assessment support for clients relied on efficient monitoring and feedback systems which were not yet fully developed.

Agency Rehabilitation

In early 1993, networks of Agency Rehabilitation were developing in many localities. Relationships between rehabilitation providers and PACTs were still being formed. As a consequence, fewer clients than expected were being referred to rehabilitation (Lahey, Simpkins and Shaw, forthcoming; Johnson *et al.*, 1993).

Agency rehabilitation is being studied by following a number of clients through the process from referral from their PACT, through their experiences at the agency, and beyond.

Again, delays in the assessment and referral process were a concern. While some delays were due to the client (illness, or indecision), and others by the agency (waiting for the availability of a place), some arose from the PACT. These included delays in finding times for assessments and interviews, and delays in the production of reports and Action Plans. These lengthened clients' spells of unemployment or inactivity and disrupted job search. The research found this to be a major concern of PACT staff, who were working to improve the situation.

Following a client's assessment, an Action Plan is agreed which provides a written record of the requirements of the rehabilitation programme. The Action Plan is intended to provide the basis against which the performance of the agency can be monitored. However, the research found that most of these action plans were not adequate for this purpose: some lacked important details about the clients' needs; some consisted of little more than a referral to a particular agency. (Since the fieldwork for this study, guidance on specifying the requirements for rehabilitation has been issued.)

Improvement in the *specificity of rehabilitation requirements* was seen as central to monitoring the quality of provision. Linked to this was the need for better feedback on clients' progress in rehabilitation, particularly through the production of detailed reports when the client completed rehabilitation.

Difficulties in the *funding* of provision were identified. Many agencies took on very small numbers of rehabilitation clients, and there was no certainty about those numbers within a contract period. Further, contracts were for one year only. This made it difficult for providers to fund any adaptations, or specialist equipment or staff, that might be required to enhance the rehabilitation process. Where agents also ran other activities, such as training, the income from rehabilitation

could be a minor part of their budget. PACTs felt that this arrangement limited the amount of input PACTs could demand from agents. For smaller agents, whose income depended on their rehabilitation clients, there were also difficulties. Although PACTs may be more able to influence them, the unreliability and uncertainty of the contracts threatened the agencies' viability.

There were also concerns about provision for clients with mental illness. Agencies were sometimes reluctant to take such clients, or unable to provide programmes suitable or long enough for their needs.

Despite such difficulties, both PACTs and agencies were optimistic about the potential of the new arrangements. They believed that the processes of rehabilitation could prevent the waste of resources and demoralisation which resulted from failure to succeed in a training programme or job. It could also enhance the effectiveness of other measures, by increasing client confidence and assertiveness. Cost effectiveness would be enhanced by ensuring referrals were appropriate, programmes were of sufficient length, and that opportunities to consolidate progress by moving on to employment, training or other provision were available.

Conclusions

The varied responses of the Employment Service through mainstream and specialist services attempt to address the additional labour market disadvantages of people with disabilities:

- *Employers' attitudes:* Employers' concerns are addressed by marketing people with disabilities to employers, and through providing advice and practical help to employers who employ, or are considering employing, a person with disabilities;
- *Qualifications:* People with disabilities can join TEC-delivered training programmes as soon as they become unemployed, rather than having to be unemployed for six months before becoming eligible;
- *Long-term unemployment:* Both mainstream and specialist services are geared to helping people back to work as quickly as possible, to reduce the likelihood that individuals will become long-term unemployed. Relaxed eligibility for TEC and ES programmes offers early help for people with disabilities.

To assess the effectiveness of these measures, however, there is a need for studies or analyses to disentangle the effects of age, lack of qualifications and length of unemployment, from disability.

The particular difficulties faced by those with *mental health problems* remain to be satisfactorily addressed. This was seen as an increasing problem due to the 'care in the community' initiative. This is an area where urgent work is needed to clarify appropriate referrals and develop rehabilitation provision which meets the special needs of this group.

The research shows that there are many competing demands on the new PACTs and that, at least in the early stage tapped by this research, there was diffi-

culty in meeting them all. The demands inter-relate, such that if it were possible to deal with one adequately, it could reduce others. For example, spending time training mainstream staff to identify appropriate referrals will reduce the inappropriate demands for specialist assessment; work with employers will improve the likelihood of placement and reduce caseloads; developing contacts with a wider range of rehabilitation agents will make it more likely that clients' specific needs can be met.

Attention seemed to focus mainly on casework with clients, a recognition of the importance of quick action to prevent the additional stigma of long-term unemployment, but even so waiting times for assessment and rehabilitation were a major concern.

While some of these difficulties can be attributed to the newness of the PACT organisations and the development of new, multi-functioning roles for DEAs, some may be attributable to the increased numbers of unemployed individuals seeking help through the Employment Service, which includes a significant increase in the numbers of disabled jobseekers. Further work is required to clarify whether current demands can be met within current resources, and whether multi-functioning assists or reduces effectiveness.

The formative research reported here provides early information on the new services, to which improvements have already been made. This indicates the value of identifying early problems, and provides a baseline of issues for examination in ongoing monitoring and future evaluation of the service.

Notes

- 1 The definition of a person with a disability, used by the ES, derives from The Disabled Persons (Employment) Act 1944. A person with a disability is defined as someone: 'who, because of a physical, sensory, mental or psychiatric impairment, is substantially handicapped in realising his or her potential in the labour market'.
Definitions of both disability and unemployment vary between studies. The LFS uses the ILO definition of unemployment, which refers to people without a job who were available to start work within two weeks and had either looked for work in the previous four weeks or were waiting to start a job they had already obtained. People with health problems or disabilities are those whose health problem or disability *limits* the work they can do; it does not have to be long-term.
The ES National Customer Satisfaction Surveys use the same definition of disability, but for this, and the other ES surveys cited, individuals who are included are *claimant unemployed*, ie they are signing on at an unemployment benefit office or Jobcentre. The Restart Cohort Study asks about *long term* disabilities which *affect* work. This is more in line with the definition used by ES specialist disability services, where appropriate referrals are those with a health problem or disability that is likely to last for more than a year. New claimants to the Employment Service and applicants for programmes such as ET (now Training for Work) are asked the question 'do you have a long-term health problem or disability which affects the work you can do'.
- 2 The estimates of people with health problems or disabilities rely on self-reporting. This applies to LFS data and ES surveys as well as individuals using jobcentres. There may be a number of factors (including the level of unemployment) that affect the likelihood of disclosing or failing to disclose this information. Self-identification does not link with occupational psychologists' assessments (Rowley, 1983). Fewer than half the disabled jobseekers interviewed in one study had discussed their disability with a member of the jobcentre staff. No significant differences were found in the characteristics of disclosers and non-disclosers (Goddard, 1986).

Unemployment, public policy and the changing labour market

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15 Just a Load of Dossers? Homeless People and Employment

Hilary Metcalf

'They could always get a job, if they don't like living like that'

In Brighton, with the country's highest rate of homelessness, the above, and similar, remarks were overheard in an area where homeless people congregated. The statement is particularly ironic as some people become homeless through 'getting on their bike' (Anderson, Kemp and Quilgar, 1993). This paper examines whether homeless people do have as much choice as those with secure accommodation in getting and keeping a job, that is, whether homelessness *per se* creates additional employment problems.

The paper presents evidence from a qualitative study of barriers to employment caused by homelessness and is based on interviews with homeless people (both employed and unemployed), employers and organisations involved with homeless people.¹ Some of the employers and homeless people were involved in schemes to assist homeless people into employment.² In addition, staff in the Employment Service were interviewed, including the Job Centre which ran the Lakes Project.³ Fieldwork was conducted in 1992.

The following sections first describe the characteristics of homeless people, then describe how homelessness was found to affect employment, and finally draw out some policy implications.

Who are 'the Homeless'?

Homelessness covers many conditions: people sleeping rough, staying with friends, squatting, staying in hostels and living in bed and breakfasts. Although the term sometimes includes people living in overcrowded and poor standard accommodation, these groups were excluded from the current study.

It is not known *how many people are homeless* in Britain. One indicator is the 170,000 families (about half a million people) which were accepted as homeless by Local Authorities in 1990 (Greve 1991). This figure excludes many homeless people, either because they do not fall into the Local Authorities' definition of homeless or because they have not registered with their Local Authority because their chances of being housed are low. (Legally, Councils only have to

house certain priority groups, mainly families with children and older people.) In particular, Local Authority figures exclude most single people and childless couples, of whom 180,000 were estimated to have been homeless in 1986, with the number thought to have steadily increased (Greve 1991).

Not only is the number of homeless people unknown, but also little is known about the *characteristics of homeless people*. Although there may be wide differences amongst individual homeless people, all the evidence suggests that, as a group, homeless people are disproportionately personally disadvantaged. Studies suggest that a high proportion of homeless families are on low incomes and are single parent families (Greve and Currie 1990). Amongst single homeless people common characteristics include a deprived family background, educational failure, poor health, low income and periods in institutional care (Greve and Currie 1990; Anderson et al. 1993). Other studies have found a disproportionate number of homeless people have low qualifications, a criminal record or mental health problems (Walton 1991; Greve 1991). Whilst some of these characteristics may result from homelessness, they are often a precursor and a cause of homelessness. Most homeless adults, whether in families or single, are young. They come disproportionately from ethnic minorities (Greve 1991).

The characteristics of homeless people vary from area to area. In particular, major population centres are more likely to have a concentration of people who left home to seek work (rather than those homeless because they were driven out by problems at home). This group is less likely to be personally disadvantaged: those leaving for positive reasons (to seek a job) tend to have better characteristics than those leaving home for negative reasons (being pushed out).⁴ However the numbers leaving to seek work in the big cities appears to have declined with higher unemployment.

Studies suggest that homeless people's *housing situation* is often in a state of flux, with homeless people moving between different homeless states, alternating, for example, between sleeping on friends' floors, sleeping rough and staying in hostels (Walton 1991, Randall 1988, Anderson et al. 1993). Therefore it is inappropriate to regard a person as a 'roofless person' or a 'hostel person', rather than a person who is temporarily living in particular circumstances.

Homelessness as a Barrier to Employment

With the characteristics described above, it is not surprising that few homeless people are employed. The employment rate for those accepted as homeless by Local Authorities was estimated at about 20 per cent and for single homeless people at about 10 per cent (Greve and Currie, 1990; Anderson et al. 1993). However, it is not clear that such low rates of employment are fully explained by the personal characteristics of homeless people. Homelessness *per se* may influence recruitment and employment: homeless people might have to cope not only with the problems encountered by any unemployed person but with additional barriers erected by homelessness itself. With evidence from a qualitative study of employment and homelessness, the existence and nature of these barriers are discussed below.

From discussions with homeless people and with homelessness organisations it was apparent that sleeping rough virtually precluded employment. Basic survival demands were too great to combine with employment. Lack of sleep and difficulty keeping clean whilst working meant that holding down a job was virtually impossible. Some form of accommodation was a prerequisite to employment. Thus the following discussion is confined to homeless people who can rely, even for a short period, on accommodation.

For these people the study examined how a number of elements of recruitment and employment interacted with homelessness:

- the recruitment process;
- unemployment benefits and hostel culture;
- deterioration in characteristics; and
- employers' attitudes and discrimination.

The Recruitment Process

The study examined the various stages of the recruitment process (advertising, applying, shortlisting, selection and awarding) for additional difficulties for homeless people. A number of practices were found to cause problems.

Firstly, it is estimated that over 40 per cent of all vacancies are not formally advertised but made known by word of mouth: employers rely on employees' networks for applicants (IFF 1988). Homeless people, particularly those who have moved areas, are less often part of these networks: they do not know many employed people and so do not hear about these vacancies.

Secondly, many employers identify potential recruits through speculative applications and through lists of past applicants. With these methods the period between initial application and interview or job offer can be long. This can result in interviews and job offers being made long after a homeless applicant has moved on. More formal methods, using advertising, were found to be conducted quickly and so rarely disadvantaged homeless people.

A further problem was that interviews and jobs were often offered by telephone, rather than by post. Hostels present problems for receiving telephone calls, whereas interviewees reported that problems with receiving letters were rare. All the homeless people interviewed could give employers a contact address (usually a hostel, although some homeless people preferred to give friends' addresses; this was sometimes in the belief that employers would recognise the address and sometimes because letters got lost at the hostel). However, most mail reached its target and, for advertised jobs, the speed of the process meant that it was rare to move and miss a job offer.

Thus certain standard recruitment practices were found to be problematic for homeless people. These methods, due to their widespread use, are likely significantly to decrease the chances of employment amongst homeless people and increase unemployment amongst homeless people.

Unemployment Benefits and Hostel Culture

Although accommodation was found to be essential for holding down a job, hostel accommodation brought its own problems. Hostels usually contain a range of people, from those with few problems other than homelessness to those with psychiatric, drug and alcohol problems. Because of problems with the disruptive behaviour of other residents, some of the homeless people interviewed preferred to sleep rough.

The hostel culture, often described as one of unemployment, presented difficulties to employment. Most hostel residents were unemployed and socialising continued late into the night. This meant that residents had to choose between their social life and employment. At the same time, some interviewees reported being thought of as 'mugs' for working due to the very small increase in income after benefits and rent: a valid, if short-term, view. For those who were employed, noise could result in lack of sleep. This was more often a problem where rooms were shared.

This 'culture of unemployment' extended into hostel provision. For example, several homeless people commented on how, when they had a job, if they had to get up early (7a.m., for example) they could not get a proper breakfast: meals were geared to those who could sleep late.

A further problem was finance. Hostel rents are often comparatively high, due to the quality of accommodation and level of support provided. Accommodation varies, but many hostels provide support for their residents, often using resident workers. At the same time most homeless people can only command a low wage. In combination with the benefits system, this meant that there was often little immediate incentive to take paid employment. In some cases hostels helped by charging employed residents lower rents, but, due to the financing structure for hostels, hostels often had to limit this to a few residents.

Thus whilst the current hostel system resulted in many homeless people having a base from which employment was possible, aspects of hostels could result in homeless people being unwilling or unable to be employed.

Deterioration in Characteristics

Whilst long-term unemployment for housed and homeless alike reduces employability, evidence from the study suggested that homelessness might exacerbate this deterioration. In particular homelessness was found to:

- reduce confidence and interpersonal skills;
- lead to the acquisition of a criminal record;
- prevent the continuation of education; and
- prevent socialisation into employment.

Homeless people and homeless organisations described the effects of sleeping rough, resulting in feelings of isolation and withdrawal from other

people. Communication skills deteriorated. In addition, homelessness in general was demoralising and led to loss of confidence.

Whilst not all homeless people have a criminal record, homelessness contributes to its acquisition. Homelessness encourages the growth of criminal records in many ways: through drink and drug problems in trying to cope with homelessness, especially leading to fights, through greater contact with those involved in crime, and trying to make ends meet: stealing, begging and prostitution. (Many homeless people are too young to receive income support at the full rate).

Many of the homeless people interviewed were young and their education ceased with leaving home. Some had left before completing their education, neither finishing compulsory education nor continuing into further or higher education. Although some had re-entered education on entering long-stay hostels, others found re-entry difficult, due to fears over income support. This resulted in lack of qualifications and under-education.

The study found a particular problem for young people was isolation from employed people, particularly older employed people. Such isolation impeded learning about the world of work and socialisation into its norms. Amongst interviewees there was a significant lack of understanding and acceptance of the recruitment process, leading to poor presentation and discouragement from job search. For example, anger followed by demoralisation was a particularly common response when employers failed to inform them about the outcome of job applications. Similarly there was lack of understanding of job requirements, particularly the employee/management relationship.

Nearly all the homeless people interviewed had been employed at some time. A number of them described minor incidents at work which had led to them walking out of the job. Others described arguments leading to them being sacked. In every case the loss of employment seemed to be due to lack of judgement and understanding by the homeless person and an over-reaction to the situation. Although in some cases difficulties with authority will have been a contributor to homelessness, the lack of contact with employed adults with a greater understanding of employment appeared to contribute to the loss of employment.

Thus homelessness itself appeared to lead to a deterioration in employment related knowledge and characteristics.

Employers' Attitudes and Discrimination

The final type of barrier examined in the study was employer discrimination. The employers interviewed were of three types: those with little known contact with homeless people, those involved in special initiatives aimed at homeless people and those who had happened to recruit a fair number of homeless people. The latter were in industries which had always tended to recruit migrants and many provided accommodation.

Those who had little contact with homeless people held stereotypical views of homeless people: drunks and dossers; dirty, unreliable, dishonest. Such

employers equated homelessness with rooflessness and their views suggested they were unlikely to employ homeless people. However, *in practice* such views were fairly irrelevant. Recruiters could not identify that an applicant was homeless, unless they were told by the applicant: homeless job applicants were equally presentable as others, they nearly always gave an address and if this were a hostel address employers tended not to recognise this. Therefore, despite their prejudices, employers were rarely able to discriminate directly. Occasionally, however, when the applicants themselves said they were homeless, discrimination did occur. Some homeless interviewees described the reaction at interviews when they had said they were homeless: the employer no longer wanted to know.

Those who were involved in homelessness and employment schemes or who had frequent contact with homeless people did not hold stereotypical views. Homeless people were seen as no different from other people and homelessness was not seen as a personal characteristic. This suggested that, as with many sorts of discrimination, practical knowledge of the group discriminated against broke down discrimination.

Despite the evidence pointing to a lack of discrimination, many of the homeless people interviewed believed employers discriminated. This was one of the reasons some did not give hostel addresses to employers. More importantly, the expectation of discrimination led to many feeling less confident at interview.

Summary

Thus the study found that homelessness itself disadvantaged people in getting a job and in keeping a job.

For people sleeping rough basic survival needs precluded employment. For other homeless people, the main difficulties caused by homelessness were:

- word of mouth recruitment, speculative applications, and holding applications on file
- the benefits system combined with low wages and high rents
- the hostel culture of unemployment
- deterioration in characteristics:
 - reduced confidence and interpersonal skills
 - the acquisition of a criminal record
 - withdrawal from education
 - lack of socialisation into work

Despite homeless people's expectation of discrimination and employers' stereotyped views of homeless people, in practice, discrimination against homeless people in recruitment was rare.

Policy Implications

The finding that homeless people suffer additional difficulties gaining and keeping a job, suggests that additional measures might be appropriate to help homeless people in the labour market. The types of policies needed are discussed below.

Training and Education

Homeless people's isolation from the world of work, education and training meant that they had particular education and training needs. Many in the study had no or low qualifications. Some moved in and out of employment because they were employed at far below their capabilities, others were capable of greater achievements. Despite their disadvantages many were keen to receive more education, seeing this as the only way to get out of a cycle of low skill jobs and unemployment. Thus there was a need both for assistance for homeless people to get into further and higher education, as well as for short-term training for jobs.

For younger homeless people seeking jobs, general employment training was often needed together with assistance to overcome the lack of confidence and reduction in interpersonal skills due to homelessness. Thus the following would be useful:

- personal skills training, for example, confidence building, ability to relate to authority;
- recruitment training, for example, presentation, interview skills, how to deal with a criminal record, understanding that homelessness is unknown to the employer; and
- understanding of employment, for example, acceptance of the managerial role, the demands of employment.

Most of the above are available through the Employment Service, Employment Department and educational institutions. However, many of those participating in the study had not received such assistance and there appeared to be a problem of access for many of the homeless people. Access could be improved by:

- targeting publicity to homeless people on the availability of training and how to access it, for example, through the style of publicity and through placing publicity where homeless people congregate, in particular in hostels and day centres;
- changing the qualifying criteria for Employment Service schemes, either through shortening the period of continuous unemployment required for access to certain schemes or, and possibly more effectively, ignoring short periods of employment within a longer period of unemployment;⁵ and
- co-ordinating assistance to homeless people, and changes in access to courses and financial support may be needed.

Those interviewed tended to lack knowledge about how to re-enter education and needed guidance on course choice. Thus a programme of assessment, careers advice and *continuing* help to follow through a *programme* of training or education was necessary. As well as employment training, advice should be given on further and higher education and on financial aspects, including rights to attend courses whilst on income support. Fear of withdrawal of benefit had resulted in some interviewees not pursuing further education even where their study ought not to have affected their benefit entitlement. This could be overcome through the provision of financial support for studying.

Other initiatives which might be encouraged include the provision of employment, training and education advice within homelessness schemes, for example, within hostels and day centres. A French approach to this, called 'Foyers' has recently been piloted in Britain. Foyers are hostels which provide accommodation for young people who are active in the labour market (i.e. either in employment or training or seeking employment or training). They provide employment and training services on site, as well as a hostel culture based around employment rather than unemployment.

Encouraging Changes in Employers' Practices

Turning away from Employment Department/Employment Service specific assistance, it would be helpful if employers were encouraged to make changes in recruitment practice and to use more formal methods of advertisement and notification of reasons for rejection.

Hostels, Benefits and Wages

The disincentives to employment stemming from living in a culture of unemployment, together with the combined effect of the benefits system, high hostel charges and low expected wages need to be tackled. Government Departments, such as the Department of the Environment, the Department of Social Security and the Department of Education might help overcome these barriers by:

- assisting the development of living arrangements with a culture of employment, which may be within the hostel setting or outside;
- assisting hostel or other housing provision for people without special needs and with consequently lower rents;
- making changes in hostel funding to enable rents for employed residents to be reduced and reflect the lower level of support required by this group;
- making changes in the benefit structure to reduce disincentives;
- taking measures to tackle low pay; and
- encouraging homeless people to take up further and higher education, including through the provision of more financial support.

The establishment of Foyers in this country is a step along the way to provide accommodation which overcomes some of these barriers.

Housing

Last but not least, the most obvious way to tackle the barriers caused by homelessness is to increase the provision of low cost, stable housing. Failing this the provision of more hostels with a culture of employment would be helpful. This may occur through the establishment of Foyers in Britain, although, unlike their French counterparts, the British Foyers appear to be less focused on job-ready homeless people.

Packaging

The above assistance could be provided in a number of different ways, either as a package or separately by a number of organisations. It could be provided specifically for homeless people or for all people encountering similar difficulties. However, whether a package or not, it would be crucial that homeless people were made aware of the assistance available and, preferably, were given *continuing assistance* to guide them through the individual package of training and education they required.

Conclusions

This small-scale study of homelessness and employment identified a number of ways in which homelessness impeded employment. Whilst stable accommodation was a prerequisite for being employed, people living in hostels still encountered additional barriers to employment.

One of the most important barriers concerned the separation from employed people caused by homelessness, resulting in lack of understanding of and socialisation into employment and discouragement from employment. This was exacerbated by the interplay between high hostel rents, the low wages most homeless people can command and the benefits system. Homelessness itself resulted in low wages through interrupting the education and training of young homeless people.

The provision of housing, whether supported or independent, for job-ready homeless people, at a rent which encourages employment would help overcome many of these problems. Hopefully, the establishment of six Foyers in Britain is the beginning of such provision. At the same time, the loss of education and skills, caused by interrupted education and training should be addressed, enabling homeless people to move into better paid and more productive employment.

Acknowledgement

We gratefully acknowledge the financial support of the Employment Department for this study.

Notes

- 1 Thirty-one employers, staff in five homelessness organisations, staff in three initiatives to help homeless people into employment and 27 homeless people were interviewed.
- 2 LEAP and GATE, both organised in the voluntary sector, provided pre-recruitment training to unemployed, homeless people. Courses were tailored to specific employers who were closely

Unemployment, public policy and the changing labour market

involved in the design and delivery. LEAP employers guaranteed all trainees an interview; GATE guaranteed trainees a job, if they met certain targets on the course. Follow up assistance was given by the schemes to both the employer and the homeless recruit.

- 3 The Lakes Project was an Employment Department scheme to assist unemployed homeless people in London to take up job vacancies in hotel and catering in the Lake District. Information was provided on vacancies, assistance given in applying, clothing provided if necessary and interview expenses paid. In addition, the Employment Service staff encouraged the employer to recruit the applicant.
- 4 An example of the differences between two areas in close proximity is given by Walton (1991), who compares homeless people in South London with those in central London.
- 5 Many interviewees reported taking casual, very short-term jobs and therefore never qualifying for employment and training programmes.

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