
# A full employment region

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ippr north is the Newcastle-based office of ippr, and was formally opened in January 2004.

This paper was first published March 2005

# Contents

## Acknowledgements

ippr north would like to thank its partners and sponsors. Without their willingness to invest and contribute to independent research, ippr north would not have been created. Our thanks go the Millfield House Foundation, the Northern Rock Foundation and Newcastle City Council.

The findings of our research are, however, the responsibility of the author alone and do not necessarily represent the views of our funding partners or any other individual or organisation involved with the project.

Many officials in Whitehall and regional and local institutions provided significant contributions to general discussions. We are grateful they were able to find time within their busy schedules to contribute their knowledge. We respect their wish to remain anonymous.

I would also like to thank the following individuals from within ippr: Howard Reed, Peter Robinson, Katie Schmuecker, Kate Stanley, Sue Stirling and Loraine Sweeney.

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## About the project

This interim report is part of a yearlong project exploring how we can achieve full employment. We aim to identify workable policy solutions that can help achieve this important public policy objective. The author would welcome comments on this interim report.

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# Executive summary

While levels of employment have improved in recent years, the UK is far from being at full employment. The objective of full employment should be at the centre of public policy, and while it is clearly an economic ambition it ought to be regarded as first and foremost a political and social ambition.

There are four elements that comprise a modern definition of full employment:

- **Everyone who wants to work can quickly find a job** – and in the spending review the Government should adopt an explicit target for full employment of an ILO unemployment rate of four per cent and over eighty per cent of the working age population in employment. Both elements of this target are crucial.
- **No groups are excluded or disadvantaged in the labour market** – with a particular focus on people with a health problem or disability, lone parents, ethnic minorities, those aged over fifty, those with the lowest qualifications, and those in areas of geographical disadvantage.
- **Poverty in work is eradicated, and there is fulfilling employment for all** – there is no contradiction in believing that any job is better than no job and simultaneously believing that being in a fulfilling and decently paid job is better than being in an insecure, low paid, dead-end one. Our priority ought to be those most vulnerable to exploitation; for example, tackling gangmasters must mean more to us than the travails of long-distance commuters.
- **There are real prospects for progressions at work** – too many people spend their lives moving between low-paid jobs, often with spells of unemployment and inactivity in-between. Unfortunately, debates on retention and advancement are still in their infancy in the UK.

The UK labour market has made good progress in recent years, but there are still clear regional differences in employment and some parts of the country have levels of employment that are far from ideal. This report uses the North East as a prism through which to explore a more local dimension to labour market issues. The key points of this analysis are:

- **The North East has some of the lowest levels of employment** in the UK. The region faces perhaps the biggest challenge in achieving full employment.
- There are significant **differences in sub-regional levels of employment** in different labour markets within the North East. Some of the rural areas seem to be operating close to full employment. However, this does not mean that there is not a broad 'North-South divide' within the UK.
- **Nearly one in five of the working age population of the North East claims state benefits relating to worklessness.**
- **The largest group of people are those with a health problem or disability**. Some former coal-mining areas have a very high proportion of people claiming benefits relating to sickness and disability (particularly Easington) but even major urban centres in the North East have comparably high levels.
- The second largest group of people not in work are the **low skilled**. In some local authority areas – Hartlepool and Middlesbrough for example – **only one third of those without qualifications are in work**. Employment rates of those with a degree or equivalent are above the national average, although a relatively low proportion of the working age population have a degree or work in the higher occupations: management, professional and technical jobs.
- The third largest group of people not in work in the North East are **older workers – an area where the North East seems to have disproportionately high levels of**

**worklessness** compared to the national average. There will be a considerable degree of overlap between these people and those with a health condition or disability.
- There are not large numbers of people from ethnic minorities out of work in the North East, but because the North East has a smaller ethnic minority population than other parts of the UK, there are real challenges to get these people into work.
- Research conducted by the Social Exclusion Unit indicates that concentrations of worklessness are disproportionately concentrated in the North, and that **more than a quarter of the streets in the North East are concentrations of worklessness**.
- While the North East has seen a rise in the proportion of working households**, the proportion of workless households has remained relatively static** – implying a *polarisation* of labour market outcomes.

One of the national policy debates which has particular importance for the North East are the recent developments in the support on offer to people with a health condition or disability. In particular the Government are clearly optimistic about the impact of the *Pathways to Work* pilot scheme. The early results of the programme have been warmly welcomed by the DWP, as the data indicates an increase of between eight and ten percentage points in off-flows from incapacity benefits after four months of a claim – although the data is early and open to revision.

One point ought to be addressed in passing – the split between men and women with a health condition or disability claiming benefits is roughly equal. The assumption in some quarters that all people with a health condition or a disability claiming benefits are men who used to work down a mine or in a shipyard is clearly incorrect.

For many people living in the North East the proposition that a key problem facing the region is a lack of jobs would seem to be so obvious that they might find it hard to believe that this is a matter of serious contention. However, this is probably the single most important issue in regional economic policy debates – the Government would emphasise supply-side factors, reflecting the inability or unwillingness of those not in employment to access the jobs which are available; many advocates of a stronger regional economic policy would stress the importance of boosting labour demand.

While these are sharply different characterisations of the employment problem, there might be some areas for compromise between these two approaches. In the DWP five year plan, the Government positively responded to the argument that Incapacity Benefit is a barrier to work and is in need of reform; therefore there is the potential for some consensus on the need to address supply-side issues for this group of people. Similarly supply-side initiatives could have a strong impact in improving the lives of numerous individuals in the UK's major cities. However, as a *quid pro quo* the Government should also modify its position to recognise that there are some areas that do suffer from an acute lack of labour demand – for example, Tees Valley, Northern Ireland, West Cumbria and West Wales and the Valleys.

What is now necessary is a renewed commitment on the part of all those who support the concept of full employment to work constructively to bring forward policy instruments – on both the supply and demand side – which can make a real difference to people's lives. The challenge is enormous, but so can be the rewards.

# 1. Introduction

In recent years political pundits, media commentators and influential academics have developed a popular narrative about trends in employment policy. This narrative starts with an emphasis on the impact of 'globalisation' on the UK economy, and a concern that UK jobs are under threat from the developing world – particularly the so-called BRIC economies (Brazil, Russia, India, China).

In this context, the success of the UK economy depends on becoming a dynamic 'knowledge-based economy', producing high-quality 'niche' brands (both products and services). Employment will inevitably become more insecure, and following the decline of traditional industries the 'job for life' would disappear, to be replaced by rapid job change. Furthermore, there will be more temporary work, more part-time working and more self-employment. New information and communication technologies will radically change life in the workplace, with more home working and an atomisation of labour markets.

This narrative has become almost all pervasive. However, not all of these assertions are supported by evidence and some 'facts' are myths. Much of the media hype surrounding the 'out-sourcing' of jobs from the UK to India or China is based on a fundamental misconception that that there is a 'fixed' quantity of employment and prosperity, and if employment is rising in Bangalore it must be falling in Billingham. The impact of job loss on individuals or communities can be severe, and public sector agencies clearly need to take action to alleviate the damage caused. However, this must not distract from the fundamental point that jobs in the UK depend on trade with other nations and protectionist policies are likely to cause harm.

Concepts such as the 'knowledge-based economy' are invariably ill defined, and while a relatively small number of people benefited from a more flexible working environment, for the majority of people the world of work in 2005 is not dramatically different to previous generations. The fastest growing occupation in the UK in the ten years to 2004 was not software engineering or dot-com consultancy, but hairdressing at 302 per cent (Nolan 2004).

It would also be wrong to claim that the British labour market over the last few decades has been generating a disproportionate level of low skilled, low paid work. What seems to have happened is a polarisation of the labour market, with a significant increase in managerial, professional and technical jobs and a rising share of the less well paid personal service and sales jobs. This means there was a declining share of skilled manual jobs in the 1980s and 1990s (Robinson forthcoming). There has also been a shift in the types of jobs at the bottom end of the labour market, from less skilled manual jobs to the personal services sector. This obviously has implications for the skills required, but there is also an issue over the attractiveness of these jobs to those formerly employed in manual jobs.

Contrary to some assertions, research does seem to indicate that the career structure is not necessarily less important than in the previous decades. For example, in an analysis of Labour Force Survey data for 1975–2000, Gregg and Wadsworth found that there had been no significant change in the overall level of job tenure rates (the amount of time we spend working for one employer). There were, however, some interesting variations with particular groups – job tenure for women with dependent children had significantly increased (possibly because of the maternity leave legislation in 1979) but had fallen significantly for men aged over 50 (Gregg and Wadsworth 2002).

The level of temporary work nowadays is also over-emphasised, as full-time and permanent employees dominate UK employment. Temporary employment accounted for approximately seven per cent of all employees in 1999, exhibited little growth in the 1980s, rose in the early 1990s but tailed off in the latter part of that decade (Nolan and Slater 2003). OECD data indicates that temporary working in the UK remained relatively constant between the mid-

1980s and 1998, and that the UK has one of the lowest rates of temporary working in Europe (OECD 1999). One recent study has suggested that the proportion of full-time and permanent jobs actually rose during the 1990s (Taylor 2003).

It is against this background that any discussion of employment policy must take place. If real patterns of employment do not conform to the narrative developed by media commentators and politicians, public policy will be at best ineffective. The context cannot be ignored and is vitally important.

If we are to discuss policies which might help promote full employment, it is important to not only understand where we are and how we got here, but also where we want to be and how we can get there. The second section of this paper will take a step back from current debates in order to briefly address what a vision of full employment ought to look like and where policy in the UK ought to move next.

The third section then uses North East England as a prism through which to explore a more local dimension to labour market issues. It looks at worklessness in the North East in different geographical areas, for individuals with different characteristics. The fourth section briefly discusses some of the current public policy debates and tensions in employment policy.

# 2. A vision of full employment

One of the Government's first acts when it took office in 1997 was to restore high and stable levels of growth and employment as the central goal of economic policy. Social justice and economic success rest on the objective of full employment and if the Government is to achieve its targets of eradicating child poverty by 2020 and reducing regional economic disparities, full employment will be key.

Levels of employment have improved in recent years, and the Government is justified in its boast that most areas of the country have an employment rate higher than the EU and the OECD average. However this does not mean that the UK is 'at full employment' or has 'solved its employment problem' as is claimed by some. When nearly twenty per cent of the working age population of the North East claim benefits relating to worklessness, the North East is clearly far from full employment. Claims related to sickness and disability account for nearly two-thirds of this figure (the highest in Britain).

Full employment is clearly an economic ambition. The cost of involuntary worklessness is considerable, through a loss of national income and production and through adverse consequences on the public finances. However, it ought to be regarded as first and foremost a social and political ambition (Muet 2000). High levels of employment are clearly essential in the fight against poverty and deprivation, and worklessness has an enormous impact on an individual's well-being and 'happiness'. We must continually ensure that full employment is one of the central planks of any strategy to achieve equity and social justice.

If full employment is to take its place at the centre of public policy debates it is important that the left articulates a vision of full employment and continually argues the case for it. These are debates that can often be overlooked in the desire to analyse the latest statistical information or debate the next change to benefit rules. This section uses a four-point typology – amended from Mulgan (2000) – to discuss some of the recent developments in these broader debates.

**A modern definition of full employment**

- Everyone who wants to work can quickly find a job.
- No groups are excluded or disadvantaged in the labour market.
- There are real prospects for progression at work.
- Poverty in work is eradicated, and there is fulfilling employment for all.

## Everyone who wants to work can quickly find a job

An ambition for everyone who wants to work to quickly find a job does not mean that zero unemployment is a realistic, or indeed healthy, goal. In a dynamic labour market there will always be a minimum level of 'frictional' unemployment, reflecting the fact that people change jobs and often spend time searching for their next best employment opportunity.

For some time ippr has argued that the UK government needed a realistic and sensible target for full employment. We have suggested that a reasonable definition would be an ILO unemployment rate of four per cent and over eighty per cent of the working age population in employment (Burkitt and Robinson 2001a). Both aspects of this target are important because unemployment is only a partial measure of worklessness and needs to be considered alongside labour market inactivity (Gregg and Wadsworth 1999). In a welcome development the Government have implicitly adopted this target, and in their Five Year Plan, the DWP outlined

a "new aspiration of moving towards the equivalent of 80 per cent of the working population in work" (DWP 2005). Furthermore, in a speech to ippr in October 2004, the Prime Minister argued that:

*'We already have one of the best employment rates in the industrialised world. But we should aspire to having the best. On current figures this would mean an employment rate increased from the current seventy-five to around eighty per cent, which would mean over 1.5m more people in work – providing for themselves, their families, and of course their pensions and retirement. This would be real full employment – closing the gap between the regions and ensuring that everyone who wants to work has the help, support and encouragement they need to get into work.' (Blair 2004)*

Such a target is particularly useful because it quite clearly demonstrates that the UK is not a nation at full employment. While many labour markets in the South of England, and some in the rural areas of the North, meet this target, other areas quite clearly lag behind. In the 2002/03 local Labour Force Survey the Hartlepool labour market had an employment rate of approximately 63.7 per cent of the working age population, 16 per cent below what the Prime Minister would implicitly regard as 'real' full employment. However, an aspiration is not the same as an explicit government commitment, and in the next spending review the Government should adopt a PSA target for full employment ILO unemployment rate of four per cent and over eighty per cent of the working age population in work.

Unfortunately there is still a dispute about whether differences in employment levels reflect 'demand-side' or 'supply-side' problems. That is, whether there are actually differences in employment opportunities in different regions, or whether unemployed people are unable or unwilling to seek out the jobs which are in existence (see Adams *et al.* 2003). The Government would still emphasise the latter, and would claim that areas with high levels of worklessness lie within easy travelling distance of areas where vacancies are plentiful. This is probably the biggest failing in the Government's employment policy and it might help if the Treasury/DWP modified its position to recognise that not all areas of high worklessness lie within easy travelling distance of areas where vacancies are plentiful – in some areas policies are required to increase the demand for labour. I return to this issue later in the paper.

## No groups are excluded or disadvantaged in the labour market

A healthy overall labour market may still result in worklessness being concentrated on certain groups or in particular geographical areas. Naturally, such concentrations are unacceptable for those who care about inequality, poverty and social justice.

The Government have prioritised six groups which suffer relative disadvantage in the labour market: people with a health problem or disability, lone parents, ethnic minorities, people aged fifty and over, people with the lowest qualifications and people living in deprived areas (currently defined as the thirty local authority wards with the poorest initial labour market position). These groups do, of course, overlap to a significant degree and in Spring 2003 more than a third of those within one of these groups belonged to at least one other. It is also important to note that, by international standards, while the UK has comparatively low levels of worklessness the number of households in which no-one works is comparatively high.

The Government's aim is to narrow the difference between the employment rates of disadvantaged groups and the national employment rate. However, it is important to distinguish between those groups where our ambition ought to be to bring levels up to that of the national average (most ethnic minorities and people living in deprived communities) and those groups where we should accept that work is not suitable for all and there may always be a lower proportion of individuals in employment (lone parents and people with a health problem or disability).

In particular, the current system of Incapacity Benefit has become a barrier to work. Claimants must demonstrate that they are incapable of work and therefore risk losing their benefit if they look for a job – yet at the same time they are required to attend work focussed interviews. The Government have embarked on a radical reform of Incapacity Benefit to try ensure that it promotes employment opportunity but also guarantees security and dignity for those who cannot work (DWP 2005)

## There are real prospects for progression at work

Vulnerable groups and individuals need not only jobs, but also some labour market security – they need to move not only into work, but into working life. If individuals can advance at work in this way, then this will be crucial for their personal quality of life and also for their chances of staying out of poverty. The focus of the Government's welfare to work policies has been to attach people to the labour market, but there has been far less provision for assisting people once in work.

This approach has been consistent with the work-first approach of most OECD countries, but while the New Deals have been moderately successful at moving people from welfare to work, they have been rather less effective at keeping them there. In an analysis of the participants who joined the New Deal 25 Plus between April 2001 and March 2003, a Working Group of the National Employment Panel highlighted the fact that only twenty-five per cent of participants move from benefit into sustained, unsubsidised jobs and almost half (forty-six per cent) of those who leave the programme end up back on welfare (National Employment Panel 2004).

Furthermore, policy makers have been aware for some years that there is a substantial minority of the British workforce (around five to ten per cent) who spend their entire lives in a cycle of disadvantage moving between low-paid jobs, often with spells of unemployment and inactivity in-between (Robinson forthcoming). One of the problems with debates thus far has been the failure to distinguish between retention and progression, not least because one of the best ways in which to progress in the workforce is to secure a better job with a different employer (that is, non-retention).

The effectiveness of active labour markets is reduced – and their cost is certainly increased – if those who move into employment do not stay in the labour market and have to go back through the process again. Debates on retention and advancement are still in their infancy in the UK, indeed internationally, and the evidence on what works in improving retention and/or progression is sparse (Robinson forthcoming).

## Poverty in work is eradicated, and there is fulfilling employment for all

There is no contradiction between believing that any job is better than no job and simultaneously believing that being in a fulfilling and decently paid job is better than an insecure, low paid, dead-end one. Those on the left cannot be content to see large numbers of people permanently trapped in precarious, low paid, low skilled jobs with no opportunity for advancement. As levels of employment have risen in recent years the quality of working life has become a more important political issue.

However, it is crucial to remember that different occupations will have different conceptions of what fulfilling employment actually means. This debate can all too easily become dominated by a 'middle-class agenda'. The first priority ought to be those who are most vulnerable to exploitation, for example those with poor English and/or few skills. The death of Chinese cockle-pickers in Morecambe Bay must mean more to us as a society than the travails of long-distance commuters in southern England. We ought to care more about Britain's home workers being paid less than £1.40 per hour to make Christmas Crackers (Oxfam/TUC 2004) than any general unhappiness amongst the professional classes. We ought to care more about under-

employment among the lower occupational groups than over-employment among the professional classes (Robinson forthcoming).

In the next Parliament, more will need to be done to protect those who are most vulnerable in society. For example the Gangmasters Licensing Act 2004 (originally a private members' bill introduced by Jim Sheridan MP) applies only to the agricultural industry, including the shellfish industry. However, there are increasing suspicions that illegal gangmasters are also operating in other areas, such as the service and construction industries. The National Minimum Wage and tax credits are also disproportionately important for more vulnerable groups. The National Minimum Wage needs to be enforced properly, and the take-up of tax credits needs to be as high as possible. They will both also need to be regularly upgraded.

Maintaining a healthy balance between working and caring is clearly a vital issue for fulfilling employment, for all socio-economic groups. There are attempts to try to offer 'stay at home' parents more choice in recent years, particularly since the Cabinet Minister for Women, Patricia Hewitt, commented that:

*'If I look back over the last six years I do think that we have given the impression that we think that all mothers should be out to work, preferably full-time as soon as their children are a few months old' (Sylvester 2003)*

The Government's overall childcare and work-life balance strategy was set out in the 2004 Pre-Budget Report and in an associated document *Choice for Parents: the best start for children* (HMT/DfES/DWP/DTI 2004). The early indications seem to be that this is a significant development in the Government's approach to childcare issues, with the focus shifting from economic and labour market issues to a more child-centred framework. Examples of the extension of choice for parents include the extension of paid maternity leave, the commitment to increase the number of Children's Centres which aim to offer support and information to parents facing decisions about work and childcare. It is still recognised that growing up in a workless, low-income family can significantly damage children's long-term outcomes.

Finally, it must be recognised that in the context of a broadly affluent population in period of sustained growth in the UK economy, middle-class quality of working life issues will be a highly political issue. At the same time, in the words of the Secretary of State for Trade and Industry, "[h]owever uncomfortable it is for some on the left to admit it, government cannot simply introduce whatever employment regulations it wants, and assume that job creation will be unaffected" (Hewitt 2004). This does not mean accepting every complaint from employers about the 'burden on business' brought about by regulation or 'red tape', but it does mean striking a difficult balance between regulating to ensure minimum standards while retaining an efficiently functioning and 'flexible' labour market.

# 3. The scale of the problem

## The national picture

The UK labour market has made good progress in recent years, and has one of the highest employment rates in its history and, for the first time in nearly half a century, the highest employment rate and lowest unemployment rate of the major industrialised countries. All regions and countries of the UK have an employment rate above the EU and OECD average (HMT/DWP 2003).

**Table 1: Employment rates in UK nations and regions, as percentage of the working age population**

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004* |
|---|---|---|---|---|---|---|
| Northern Ireland | 67.0 | 65.4 | 67.7 | 67.9 | 69.7 | 66.6 |
| North East | 65.5 | 67.9 | 68.9 | 68.7 | 68.2 | 69.3 |
| London | 71.7 | 71.6 | 71.4 | 71.2 | 70.3 | 70.6 |
| Wales | 68.7 | 69.6 | 68.3 | 68.8 | 73.0 | 72.7 |
| North West | 71.0 | 72.6 | 72.7 | 71.8 | 73.3 | 73.4 |
| West Midlands | 73.9 | 73.3 | 74.3 | 74.3 | 74.0 | 74.0 |
| Yorkshire and the Humber | 72.6 | 73.8 | 73.5 | 73.0 | 74.1 | 74.5 |
| Scotland | 71.1 | 72.2 | 73.8 | 73.3 | 74.6 | 74.5 |
| East Midlands | 76.0 | 76.9 | 75.7 | 76.5 | 76.1 | 76.8 |
| South East | 79.7 | 80.5 | 80.2 | 80.0 | 79.3 | 78.4 |
| South West | 78.2 | 78.7 | 79.0 | 79.0 | 78.6 | 78.7 |
| East | 78.0 | 78.3 | 79.6 | 79.2 | 78.5 | 79.0 |
| **United Kingdom** | **73.8** | **74.4** | **74.7** | **74.5** | **74.7** | **74.7** |

Source: Table 5.1 ONS (2004a); *Table 18(1) ONS (2004b)
Note: All figures at spring of each year, seasonally adjusted. These data have been adjusted to reflect the 2001 Census population estimates.

However, some parts of the country have levels of employment that are far from ideal. As Table 1 shows, there are clear regional differences in employment. Two regions have noticeably high levels of worklessness – North East England and Northern Ireland. Levels of employment are also low in London, in large part because of high levels of worklessness amongst the black and minority ethnic communities and among households with children (Gaffney 2004). Levels of employment in Wales seem to have significantly improved between 2002 and 2003, but it is not yet clear what caused this improvement nor if the figures are sufficiently robust. There are three regions with nearly 80 per cent of the working age population in work: the East, the South East and the South West of England (although the South West has lower levels of both prosperity and productivity than these other two southern regions).

As ippr has argued previously, the similar levels of employment in London and some of the lagging regions is deceptive (Adams *et al.* 2003). The problem of low employment in an otherwise prosperous region is different in character to the problem of low employment in a disadvantaged region. The unemployed in Hartlepool face very different hurdles to the unemployed in Hackney. As the UK's richest region London best exemplifies the problem of a healthy overall jobs market co-existing with pockets of high unemployment.

The barriers to employment in Hackney might include a lack of skills, a lack of information, poor transport or discrimination. Many government policy instruments are designed to tackle

such supply-side problems: the New Deals and other active labour market policies; skills, education and training measures; and measures to tackle discrimination and promote equality. On the other hand, in Hartlepool such supply-side policies will not be fully effective in the absence of measures to raise the demand for labour, in the context of the simple observation that there are fewer job opportunities within reasonable travel-to-work distance.

National and regional employment levels are obviously made up from numerous local labour market conditions. The next section of the paper aims to examine the labour markets of North East England, as a region that has had for some years a poor employment record. This will hopefully provide a somewhat more rounded appreciation of the challenges facing decision-makers and front-line staff.

## Disadvantaged workers in North East labour markets

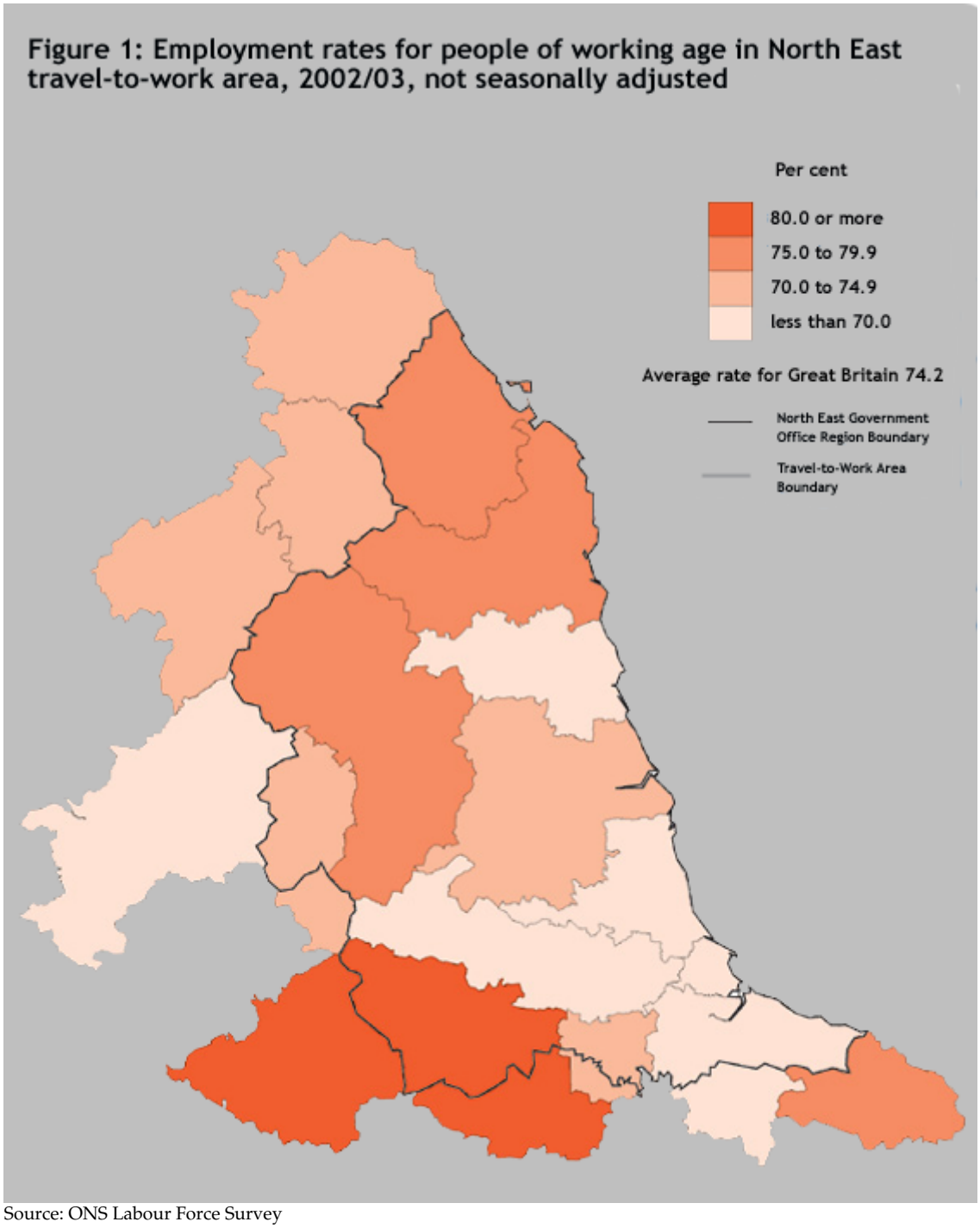
The most useful spatial scale in which to assess labour markets is the Travel-To-Work Area (TTWA). Commuting patterns are complicated, but TTWAs define an area where at least seventy-five per cent of the resident working age population actually work in the area and also at least seventy-five per cent of everyone working in the area actually lives in the area. They therefore approximate relatively self-contained local labour markets where the bulk of the population both live and work.

As table 2 and figure 1 demonstrate, there are substantial sub-regional differences in levels of employment in different labour markets within the North East, with an obvious spilt between rural communities and urban and coalfield communities. In table 2 and figure 1, only rural Barnard Castle in the South West of the region has an employment rate of over eighty per cent in 2002/03 (although we ought to remember that the margin of error, particularly in these smaller labour markets, means that all figures should be treated with some caution). Only the rural labour markets of Alnwick, Hexham and Berwick have employment rates between seventy-five per cent and eighty per cent in 2002/03. Darlington is the only one of the larger urban labour markets that has an employment rate above the UK average. In contrast, most of the larger labour markets in the region had seventy per cent or less of the workforce in employment.

**Table 2: Employment rates in North East travel-to-work areas, as percentage of the working age population, 2002/03, not seasonally adjusted.**

| | |
|---|---|
| Hartlepool | 63.7 |
| Bishop Auckland | 63.7 |
| Sunderland and Durham | 66.1 |
| Middlesbrough and Stockton | 66.7 |
| Morpeth and Ashington | 69.2 |
| Tyneside | 70.0 |
| Haltwhistle | 73.3 |
| Darlington | 74.3 |
| Alnwick and Amble | 77.1 |
| Hexham | 79.1 |
| Berwick-upon-Tweed | 79.6 |
| Barnard Castle | 80.2 |
| **North East** | **68.6** |
| **UK** | **74.0** |

Source: Labour Force Survey and information direct from ONS
Note: TTWA boundaries do not exactly match administrative boundaries.




Source: ONS Labour Force Survey

## People with health conditions or disabilities, and lone parents

There are significant regional differences in the proportion of adults of working age who claim benefits related to sickness and incapacity. As Table 3 shows, nearly one in five of the working age population of the North East claims state benefits related to worklessness; and claims related to sickness and disability account for nearly two-thirds of this figure. These claims dwarf the numbers that claim Jobseeker's Allowance and levels in regions such as the North East and Wales are twice as high as levels in the East and South East of England.

Table 3 also reveals that in August 2004 in Easington, a district council in County Durham, a shocking 22.5 per cent of the working age population claimed benefits relating to sickness and incapacity. This is one of the highest levels in Great Britain, on a par with the Welsh unitary authorities of Blaenau Gwent (22.1 per cent) and Merthyr Tydfil (22.6 per cent). The local authority area in the North East with the second highest level is Sedgefield, home to the constituency of Prime Minister Tony Blair. However, the problem is not confined to coalfield communities. Urban centres such as Hartlepool have about fourteen per cent of the workforce on benefits related to sickness and disability; and even in Tyne and Wear nearly thirteen per cent of the workforce claims these benefits.

**Table 3: Claimants of key benefits in the North East as a percentage of the working age population, August 2004, by statistical group and local authority**

| | All % | Un-employed % | Sick and Disabled % | Lone Parents % | Other % |
|---|---|---|---|---|---|
| **Great Britain Total (including Overseas)** | **13.5** | **2.2** | **8.6** | **2.2** | **0.5** |
| **NORTH EAST** | | | | | |
| **Tees Valley** | | | | | |
| **Darlington** | **15.9** | **2.0** | **10.8** | **2.3** | **0.8** |
| **Hartlepool** | **22.1** | **3.3** | **14.3** | **2.8** | **0.8*** |
| **Middlesbrough** | **22.4** | **4.1** | **13.0** | **4.1** | **1.1** |
| **Redcar and Cleveland** | **19.3** | **3.2** | **12.3** | **3.0** | **0.8** |
| **Stockton-on-Tees** | **16.3** | **3.1** | **9.9** | **2.5** | **0.8** |
| **Durham** | **18.9** | **1.9** | **14.1** | **2.2** | **0.6** |
| Chester-le-Street | 15.8 | 2.1 | 11.5 | 1.7 | 0.5* |
| Derwentside | 17.6 | 1.5 | 13.3 | 1.9 | 0.9 |
| Durham | 12.80 | 2.1 | 8.9 | 1.5 | 0.4* |
| Easington | 27.7 | 2.0 | 22.5 | 2.8 | 0.5* |
| Sedgefield | 20.3 | 2.3 | 14.9 | 2.6 | 0.6* |
| Teesdale | 9.3 | 0.4* | 6.8 | 1.5* | 0.7* |
| Wear Valley | 21.7 | 2.2 | 15.4 | 3.1 | 1.0* |
| **Northumberland** | **14.7** | **2.2** | **10.3** | **1.7** | **0.5** |
| Alnwick | 11.1 | 1.5* | 8.1 | 1.1* | 0.4* |
| Berwick-upon-Tweed | 12.5 | 1.1* | 8.0 | 2.7* | 0.7* |
| Blyth Valley | 18.3 | 2.5 | 13.1 | 2.0 | 0.7* |
| Castle Morpeth | 11.4 | 1.4* | 8.6 | 1.0* | 0.3* |
| Tynedale | 11.3 | 1.8 | 7.8 | 1.2* | 0.5* |
| Wansbeck | 18.2 | 3.5 | 12.2 | 2.0 | 0.5* |
| **Tyne and Wear** | **19.0** | **2.9** | **12.5** | **2.8** | **0.8** |
| Gateshead | 19.4 | 2.6 | 13.5 | 2.4 | 0.8 |
| Newcastle upon Tyne | 18.0 | 2.8 | 11.5 | 2.8 | 0.9 |
| North Tyneside | 17.2 | 2.7 | 11.0 | 2.7 | 0.8 |
| South Tyneside | 20.9 | 4.1 | 12.7 | 3.2 | 0.9 |
| Sunderland | 19.9 | 2.8 | 13.6 | 2.8 | 0.8 |

Source: ONS (2004c); and information direct from DWP

Notes: Figures marked * are subject to a high degree of sampling error and should be used only as a guide to the current situation. Statistical groups are: Unemployed – claimants of Jobseeker's Allowance; Sick and Disabled - claimants of one or more of Incapacity Benefit, Severe Disablement Allowance, Disability Living Allowance or Income Support with a disability premium; Lone Parents – Single people with children on Income Support and not receiving a disability related premium; Other – Income Support claimant not in any other group, for example carers, asylum seekers.

In the more rural areas – such as Alnwick, Berwick and Teesdale – benefit claims related to sickness and disability are well below the British average. While still much higher than the 2.6 per cent of the workforce who claim these benefits in Wokingham, benefit claims related to sickness and disability in these districts are still relatively modest. These districts, however, account for a small proportion of the North East population.

There are lower regional differences for lone parent benefit. London has an above average proportion of lone parents claiming benefit, but the differences are nowhere near as stark as the regional differences in claims related to disability and sickness, and amount to approximately one percentage point above the UK average. Within the North East, Middlesbrough has a disproportionate number of people claiming lone parent benefit, but areas such as South Tyneside and Wear Valley are also above the British average.

## Older workers

Levels of employment among older workers are important not only to achieve full employment, but also in order to allow people to provide for their retirement needs. A number of people over the age of fifty but under state pension age are genuinely retired and these individuals tend to have substantial savings, housing wealth and occupational pensions. However, there are also a large number of people in this age group who are involuntarily out of work. Individuals who have lost their job through redundancy would not generally describe themselves as retired, and often drift on to Incapacity Benefit. There is, therefore, a considerable overlap between a strategy designed to help those claming sickness or disability benefits back into work and any objective to increase the employment rate of the over-fifties.

Table 4 clearly demonstrates that the over-fifties have much lower employment rates than those aged 25–49. Those aged less than twenty-five have a relatively low employment rate, but this will mostly be due to the high proportion of this age group in full-time study. Indeed, many of the individuals in employment will actually be students in part-time jobs. There is no local authority in the North East where the over-fifties have an employment rate above the British average, and in Hartlepool almost half the over-fifties are not in employment.

**Table 4: Employment rates in North East local authorities, by age, March 2003 to February 2004**

| | working age | 16-19 | 20-24 | 25-34 | 35-49 | 50-r'ment |
|---|---|---|---|---|---|---|
| Middlesbrough | 63.5 | 46.7 | 52.8 | 66.9 | 75.3 | 55.6 |
| Hartlepool | 65.0 | 45.0 | 65.4 | 71.5 | 74.4 | 53.9 |
| South Tyneside | 65.5 | 46.9 | 60.6 | 69.7 | 77.9 | 54.3 |
| Newcastle-upon-Tyne | 65.6 | 44.1 | 53.7 | 75.1 | 77.0 | 55.6 |
| Durham | 65.4 | 35.7 | 60.3 | 71.9 | 76.4 | 57.3 |
| Sunderland | 66.0 | 42.8 | 69.0 | 70.5 | 76.4 | 56.0 |
| Redcar and Cleveland | 66.1 | 45.2 | 65.9 | 72.6 | 76.9 | 55.0 |
| Stockton on Tees | 70.7 | 43.6 | 66.3 | 74.9 | 82.1 | 62.3 |
| Gateshead | 72.8 | 58.2 | 77.0 | 78.7 | 80.9 | 58.7 |
| Northumberland | 75.1 | 44.3 | 81.6 | 78.5 | 85.4 | 67.7 |
| Darlington | 75.2 | 63.0 | 68.0 | 83.9 | 84.7 | 61.1 |
| North Tyneside | 73.4 | 53.9 | 67.6 | 82.6 | 80.5 | 64.0 |
| **North East** | **68.5** | **45.2** | **64.8** | **74.5** | **79** | **59.0** |
| **Great Britain** | **74.3** | **50.2** | **69.1** | **79.2** | **81.9** | **69.2** |

Source: local area labour force survey, accessed from Nomis on 4 January 2005, www.nomisweb.co.uk

## The low skilled

It is no surprise that in disadvantaged regions employment rates are low for the least well qualified (Erdem and Glyn 2001). Indeed, this is precisely what one would expect to see in conditions of overall low demand for labour, where the effects of demand deficiency will be concentrated on the lower tiers of the labour market.

As Table 5 shows, individuals without qualifications have much lower employment prospects than their more qualified counterparts. In no local authority area in the North East are more than half the unqualified population in employment, and in Middlesbrough and Hartlepool only a third were in employment. In contrast, in many parts of the North East employment rates for graduates are well above the British average. In 2002/03 in North Tyneside over 90 per cent of those with level 4 qualifications were in work, an area with a large commuter population working in Newcastle city centre. However, even some areas in depressed labour markets had high levels of employment amongst graduates, for example Stockton or Hartlepool.

**Table 5: Working age employment rates by qualification level by LEA, 2002/03**

| | Overall levels | Employment rate of those with highest qualification at: | | | | |
|---|---|---|---|---|---|---|
| | | *Level 4 and above* | *Level 3* | *Level 2* | *Below Level 2* | *No quals* |
| North Tyneside | 75.1 | 92.1 | 78.4 | 75.3 | 74.6 | 41.7 |
| Northumberland | 74.1 | 87.5 | 79.8 | 76.8 | 74.4 | 48.3 |
| Darlington | 73.9 | 88.7 | 79.8 | 77.8 | 70.8 | 48.4 |
| Gateshead | 73.3 | 89.4 | 81.7 | 76.5 | 74.5 | 42.9 |
| Stockton on Tees | 70.5 | 88.0 | 73.9 | 76.3 | 61.5 | 46.4 |
| Sunderland | 67.0 | 83.0 | 72.1 | 70.4 | 70.9 | 38.9 |
| Durham | 66.4 | 84.8 | 71.3 | 75.0 | 64.3 | 38.7 |
| Redcar and Cleveland | 65.9 | 84.7 | 74.7 | 71.1 | 64.2 | 40.8 |
| South Tyneside | 65.4 | 87.0 | 73.1 | 69.9 | 59.7 | 35.3 |
| Newcastle upon Tyne | 65.1 | 87.1 | 63.8 | 66.8 | 59.9 | 36.6 |
| Hartlepool | 63.9 | 87.7 | 76.9 | 68.9 | 62.3 | 32.4 |
| Middlesborough | 61.3 | 81.7 | 68.3 | 63.8 | 63.8 | 33.5 |
| **England** | **74.5** | **86.3** | **78.4** | **76.3** | **73.4** | **50.6** |

Source: ONS (2004d)
Note: Level 4 and above = higher education; Level 3 = 2 or more A levels or an advanced vocational qualification; Level 2 = 5 or more higher grade GCSEs or an intermediate vocational qualification; Level 1 and other = lower grade GCSEs or lower level vocational qualifications or foreign qualifications.

However, Table 6 indicates that the North East has a low proportion of its workforce in the higher management, professional and technical jobs. In North East terms Newcastle has a relatively high proportion of residents in these 'higher' occupations because it acts as a regional capital, but even this is lower than the British average. Other authorities that have a relatively high proportion of the working population in 'higher' occupations in North East terms are North Tyneside and Northumberland (many of whose residents will commute to Newcastle) and Stockton (which is in the depressed labour market of Stockton and Middlesbrough, but which has some very attractive commuter villages, such as Yarm). It is noticeable that Sunderland has a particularly low proportion of its employment in higher occupations.

## Table 6: Employment in North East local authority areas by Standard Occupational Classification (SOC) categories, March 2003 – February 2004

| | North Tyne-side | North-umber-land | New-castle | Stockton on Tees | Darling-ton | Gates-head | Durham | Middles-brough | Hart-lepool | Redcar and Cleveland | South Tyne-side | Sunder-land | North East | Great Britain |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1: managers and senior officials | 13 | 15 | 10 | 14 | 14 | 13 | 9 | 8 | 11 | 8 | 11 | 9 | 11 | 15 |
| 2:professional occupations | 13 | 93 | 18 | 10 | 10 | 10 | 10 | 9 | 9 | 10 | 9 | 6 | 10 | 12 |
| 3: associate professional & technical | 14 | 15 | 11 | 13 | 11 | 12 | 15 | 14 | 13 | 10 | 10 | 10 | 13 | 14 |
| 4:administrative and secretarial occupations | 16 | 12 | 14 | 15 | 14 | 14 | 11 | 11 | 10 | 12 | 14 | 15 | 13 | 13 |
| 5: skilled trades occupations | 10 | 11 | 9 | 11 | 12 | 11 | 14 | 12 | 12 | 11 | 13 | 15 | 12 | 11 |
| 6: personal service occupations | 7 | 8 | 7 | 7 | 7 | 7 | 8 | 10 | 10 | 10 | 9 | 6 | 8 | 8 |
| 7: sales and customer services occupations | 10 | 8 | 9 | 10 | 12 | 11 | 7 | 11 | 8 | 8 | 8 | 13 | 9 | 8 |
| 8: process plant and machine operatives | 6 | 9 | 6 | 8 | 8 | 9 | 12 | 8 | 12 | 13 | 11 | 10 | 9 | 8 |
| 9: elementary occupations | 11 | 13 | 16 | 12 | 11 | 14 | 14 | 16 | 15 | 17 | 15 | 16 | 14 | 12 |
| **Higher (1-3)** | **40** | **39** | **38** | **38** | **35** | **35** | **34** | **32** | **32** | **28** | **30** | **25** | **34** | **41** |
| **Middle (4-5)** | **26** | **23** | **22** | **26** | **27** | **24** | **25** | **23** | **22** | **23** | **27** | **31** | **25** | **24** |
| **Lower (6-9)** | **34** | **38** | **39** | **37** | **38** | **40** | **41** | **45** | **45** | **49** | **43** | **44** | **40** | **35** |

Source: local area labour force survey, accessed from Nomis on 23 May 2004, www.nomisweb.co.uk

## Ethnic minority communities

At the UK level, people from ethnic minorities are substantially over represented both among the economically inactive and the unemployed, although there are large disparities between different ethnic groups. Unfortunately there are difficulties in accessing data to assess labour market outcomes for ethnic minorities at the sub-national level. The Strategy Unit in their report *Ethnic Minorities and the Labour Market* were only able to discuss the labour market performance of ethnic minorities in London, the West Midlands metropolitan county, Greater Manchester and West Yorkshire (Strategy Unit 2003).

## Table 7: Economic activity rates for ethnic minorities, by nation and region, September – November 2003

| | All in ethnic minorities as % of all 16+ | Economic Activity rate: all in ethnic minorities |
|---|---|---|
| North West | 4.5 | 58.9 |
| East Midlands | 5.0 | 59.4 |
| Yorkshire and The Humber | 5.8 | 59.5 |
| West Midlands | 10.0 | 60.4 |
| London | 27.7 | 61.9 |
| Scotland | 1.7 | 62.0 |
| North East | 2.4 | 63.4 |
| Wales | 2.0 | 64.4 |
| South East | 4.8 | 68.1 |
| South West | 2.2 | 68.1 |
| Eastern | 3.8 | 73.8 |
| **Great Britain** | **7.5** | **62.6** |

Source: Labour Force Survey, accessed from Nomis on 23 May 2004 www.nomisweb.co.uk

Some information on economic activity rates is available in the Labour Force Survey. This information is contained in Table 7 and would suggest that economic activity rates of ethnic minority people in the North East are at roughly the same level to the British average, but significantly below levels for the rest of the population.

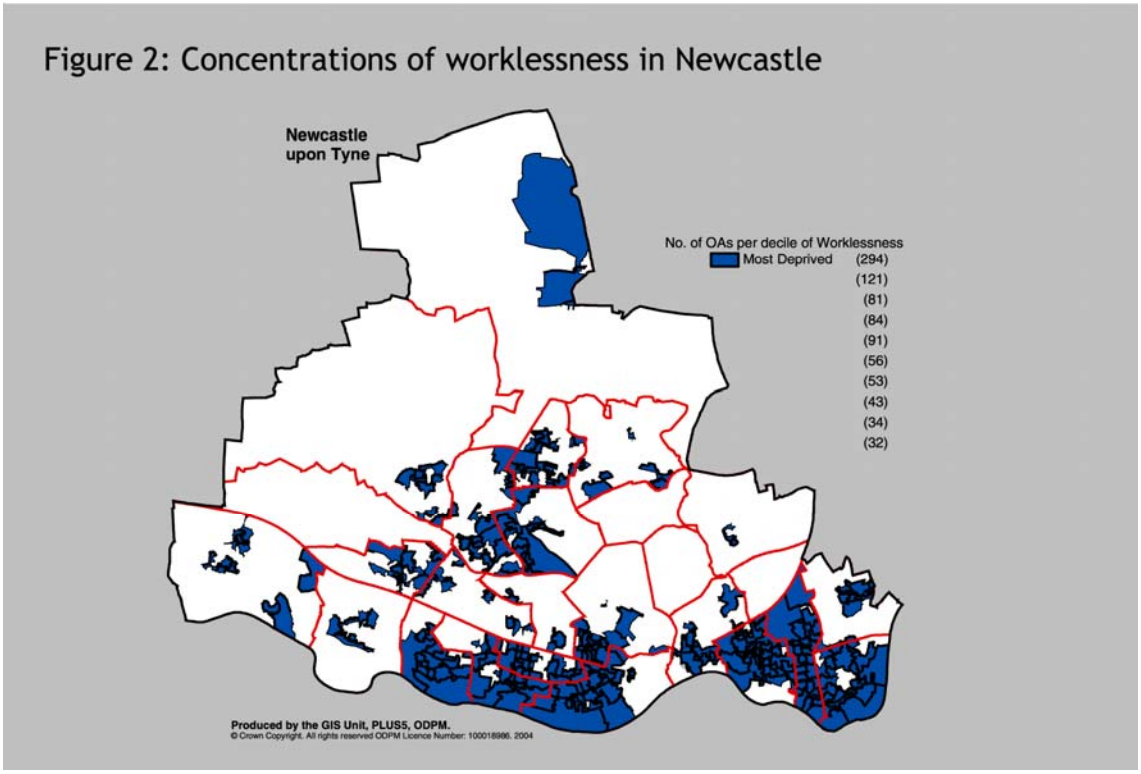
## Worklessness in deprived areas

Concentrations of worklessness occur in all parts of the country, but a report from the Social Exclusion Unit in the autumn of 2004 indicated that they were not evenly spread throughout the country – *Jobs and Enterprise in Deprived Areas* (SEU 2004). These are defined as Census Output Areas – equivalent to a street or a block of flats – where thirty per cent of the working age population are out of work and on benefits.

Almost thirty per cent of these occur in the North West alone, and six out of ten are found in the North West, North East and Yorkshire and the Humber. Only ten per cent are in London, despite its high levels of worklessness. Adjusting these figures to take account of population size, gives a more accurate picture. This reveals that more than a quarter of the streets in the North East are concentrations of worklessness (SEU 2004).

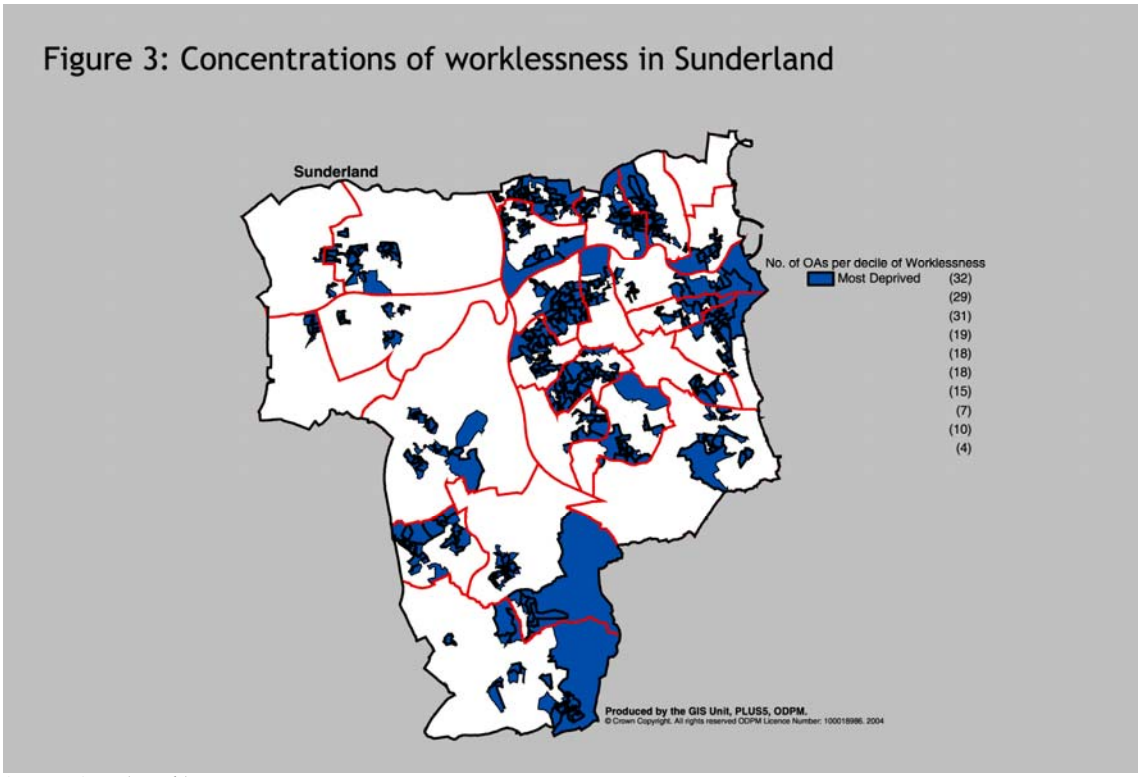
Figure 2 shows a map of concentrations of worklessness in Newcastle City Council, and concentrations are shown in blue. Worklessness is clearly not evenly spread throughout the city, and tends to be grouped in certain wards. One concentration is in the west end of the city, covering what were at the time of the Census the wards of West City, Benwell, Elswick and Scotswood. The other major concentration is in the east of the city, covering the then wards of Walker, Monkchester and Byker. There are also concentrations in the Blakelaw, Kenton and Fawdon in the outer west part of the city. In each of these areas individuals are within relatively easy travelling distance of job opportunities. On the other hand, there are no concentrations at all in any of the Output Areas in the more middle-class wards of Heaton or Jesmond.

Figure 2: Concentrations of worklessness in Newcastle




Source: SEU (2004b)

Figure 3 shows the concentrations of worklessness in the Sunderland City Council area, where concentrations are more evenly spread. While some areas do have a large number of concentrations (for example in the East End and Hendon), on the whole the concentrations are scattered throughout the city. Only Fulwell ward, in the north east of the city, has no concentrations of worklessness. The difference between concentrations in Newcastle and Sunderland highlights the critical importance of local factors.




Source: SEU (2004b)

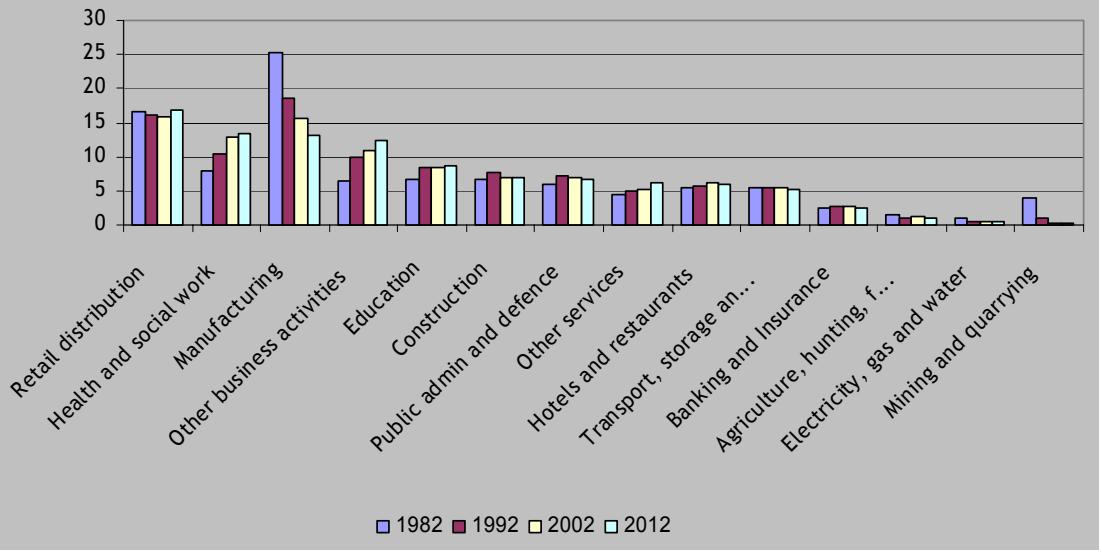
The geographical distribution of employment at the micro neighbourhood level is increasingly coming under scrutiny. However, it is crucial to ensure that the emphasis is placed on getting residents in deprived areas into available employment over the wider geographical area, over the travel to work area, rather than simply aim to create jobs in deprived areas (Adams *et al.* 2003). These concentrations are in areas where housing is cheaper or socially provided, and it might be the housing market (rather than the labour market) that acts to concentrate these individuals. There is clearly an agenda here for the housing and planning authorities, at both the local and the regional level. In particular, they have to take seriously the objective of trying as far as is possible to create mixed communities, mixed by tenure, ethnicity, class and educational background. There is also an agenda here for public sector agencies to counter the adverse effects of deprivation through increased and better services. Such improved services, for example better schools or more policing, might also reduce bias against an area, so the approaches may be complementary (Gregg 2002).

## Other North East labour market issues

Figure 4 contains information from the *Working Futures* report, which details the overall trends in the structure of employment by industry in the North East from 1982 to 2002, and (for what they are worth) projections to 2012 (Green *et al.* 2004). In absolute terms the dominant feature, as across all other regions, is the loss manufacturing jobs. Between 1982 and 2002 the North East lost 100,000 jobs in manufacturing, nearly forty per cent of the sector. The projections are for a

further 25,000 jobs to be lost by 2012. 39,000 mining jobs, or ninety per cent of the sector, were also lost between 1982 and 2002.

**Figure 4: Historic and forecast changes in employment in sectors in the North East, 1982-2012 (% of total employment**




Source: Green *et al.* (2004)

This contrasts with a growth of 59,000 jobs in 'business and other services' (although the number of jobs in banking and insurance has remained stable) and a growth of 78,000 jobs in 'non-marketed services' (health, education and public administration). There are some industries which many would have expected to form a growing share of employment, but where the share has remained relatively stable. There does not seem to be a higher proportion of jobs in retailing in the North East since the opening of the Metro Centre and Dalton Park, implying that much of this economic activity was displaced from elsewhere within the region. Only a slightly higher proportion of jobs were generated in the hotels and restaurant sector from 1982 to 2002, despite the rise of Newcastle/Gateshead as a high profile tourist destination.

One point should be noted in passing. It is sometimes said that the North East has an 'unhealthily' high proportion of its workforce in the public sector, 'crowding out' the private sector. While total employment in the North and the South rose by almost the same amount in the period 1997 to 2003, the composition of growth was very different and it has been estimated that in the South government employment accounted for only one-third of all new job creation over this period, as compared to two-thirds in the North (Rowthorn 2004). However, given the relatively tight constraints on public expenditure, government employment is unlikely to dramatically increase further in the foreseeable future in either North or South. According to the *Working Futures* report, 28.5 per cent of the North East workforce in 2002 was employed in 'non marketed services', as opposed to 20.9 per cent in the South East and 19.1 per cent in London. However, because the North East has lower levels of employment the comparison is somewhat misleading. If we look at population, rather than workforce, levels of employment in 'non-marketed services' are broadly comparable: 11.8 per cent of the population of the North East in 2002, 11.6 per cent in London and 10.8 per cent in the South East (Green *et al.* 2004, ONS 2004a). On the basis of these figures it is rather hard to justify claims that the number of people working in the public sector in the North East has any detrimental effect on the economy, certainly when compared to two of the most prosperous regions in Europe: London and the South East.

Another important labour market issue for the North East is the issue of pay. Workers in the North East are amongst the lowest paid workers in the United Kingdom, and women are paid significantly less than men. As Table 8 shows, only average wages in Northern Ireland are lower and North East women are the lowest paid in the UK. Regional differentials are greater among men than women, and the average wage in London in 2002 was nearly £225 greater than in the North East.

**Table 8: Average weekly earnings, by gender, April 2002**

| | Males | | Females | | All people | |
|---|---|---|---|---|---|---|
| | £ | Index | £ | Index | £ | Index |
| Northern Ireland | 422.5 | 82.6 | 340.9 | 89.2 | 390.1 | 84.3 |
| North East | 439.1 | 85.9 | 332.1 | 86.9 | 399.3 | 86.3 |
| Wales | 432.9 | 84.7 | 345.1 | 90.3 | 399.7 | 86.4 |
| Yorkshire and the Humber | 447.1 | 87.4 | 345.0 | 90.3 | 409.9 | 88.6 |
| East Midlands | 454.2 | 88.9 | 334.8 | 87.6 | 413.0 | 89.2 |
| South West | 463.3 | 90.6 | 350.0 | 91.6 | 421.7 | 91.2 |
| North West | 471.1 | 92.1 | 354.3 | 92.7 | 426.8 | 92.3 |
| Scotland | 473.7 | 92.6 | 360.1 | 94.2 | 427.0 | 92.3 |
| West Midlands | 469.6 | 91.8 | 353.0 | 92.4 | 427.3 | 92.4 |
| East | 506.3 | 99.0 | 375.1 | 98.2 | 459.6 | 99.4 |
| South East | 555.3 | 108.6 | 398.6 | 104.3 | 496.7 | 107.4 |
| London | 704.8 | 137.8 | 503.6 | 131.8 | 624.1 | 134.9 |
| **United Kingdom** | **511.3** | | **382.1** | | **462.6** | |

Source: ONS (2004a) Table 5.16 and author's calculations

However, this data does not take into account differences in the cost of living between the regions. One of the key deficiencies in the availability of regional data in recent years has been the absence of any regional deflators that could be used to adjust the data to reflect differences in price levels. In his Budget Statement of 2003 the Chancellor stated that:

*'In future we plan regional price indexes showing differences in regional inflation rates . . . [and] remits for pay review bodies and for public sector workers, including the civil service, will include a stronger local and regional dimension' (Brown 2003).*

As a result, the Office for National Statistics have conducted an exercise to try to estimate the level of prices in different regions of the country, and the results from their survey are set out in Table 9. London has, on average, the highest prices closely followed by the South East, and the North East has the cheapest prices. These figures identify the highest regional price variation to be in housing costs, with prices in London and the South East almost double those in Northern Ireland and the North East. Conversely the smallest variation is in food, possibly due to the dominance of national supermarket chains with their national pricing policies. London is not always more expensive than the national average, and in particular 'fares and other travel costs'

and 'fuel and light' were below the national average. Although the North East has the lowest overall prices, fares are slightly above the national average (Ball and Fenwick 2004).

**Table 9: Average price in each region, relative to national average price (UK=100)**

| Region | National Weights | Regional Weights | Geometric mean of national and regional indices |
|---|---|---|---|
| North East | 91.5 | 87.7 | 89.6 |
| Northern Ireland | 95.7 | 90.2 | 92.9 |
| Wales | 93.7 | 92.2 | 92.9 |
| Scotland | 95.7 | 92.3 | 94.0 |
| Yorkshire and the Humber | 94.6 | 93.7 | 94.2 |
| North West | 97.9 | 96.3 | 97.0 |
| West Midlands | 98.6 | 96.1 | 97.3 |
| East Midlands | 98.0 | 97.0 | 97.5 |
| South West | 100.4 | 99.3 | 99.8 |
| East | 100.9 | 99.7 | 100.3 |
| South East | 106.3 | 104.1 | 105.2 |
| London | 107.6 | 105.6 | 106.6 |

Source: Ball and Fenwick (2004)
Notes: Differences of less than one per cent should not be given any weight. 'National weights' prices the regional cost of the national RPI index, whereas 'regional weights' prices the regional cost of a regional price basket (and therefore takes into account differences in expenditure patterns between regions). The 'geometric mean' is a hybrid calculation that allows for both some degree of comparability and inter-regional difference in the baskets of goods being purchased.

While regional price indexes are in their infancy and should be treated with some scepticism, a comparison between Tables 8 and 9 implies that price differences do bring down some of the advantage in wages enjoyed by people in the Greater South East. However, this does not compensate for lower wages in the North East and, in particular, wages in London are significantly above average even when this price index is taken into account.

One problem with data at the individual level is that it does not measure how evenly work is distributed across households, and in the last few years there has been a growing appreciation that it is changes in employment at the household level which have the real impact on incomes and living standards. While employment rates at the UK level have recovered to levels last seen in the 1970s, the number of working-age households with no one in work is almost twice as high as in 1979 (Dickens *et al.* 2001).

Table 10 details regional differences in levels of worklessness at the household level and indicates that over one in five working age households in the North East, Northern Ireland and London had no adult in work in Autumn 2004. In the South East and East regions, the equivalent figure was nearly one in ten.

At the national level the number of workless households has consistently fallen since 1996, with a significant but not sharp fall of 2.4 percentage points in the period Autumn 1996 to Autumn 2004. Figure 5 seems to indicate that the proportion of households in the North East where no adult is in work seems to have remained more static over the same period, and has remained within a relatively tight band of one percentage point above or below a rate of twenty-three per cent for workless households. However, the proportion of working households has grown significantly in this period both in the North East and at the UK level.

**Table 10: Working age households by region and economic activity, Autumn 2004**

| | Working households | Households containing both working and workless members | Workless households |
|---|---|---|---|
| North East | 52.7 | 25.1 | 22.2 |
| Northern Ireland | 47.3 | 32.0 | 20.7 |
| London | 51.9 | 28.1 | 20.0 |
| Scotland | 59.0 | 22.7 | 18.3 |
| North West | 56.4 | 25.4 | 18.2 |
| Wales | 54.5 | 27.6 | 17.9 |
| Yorkshire and the Humber | 58.3 | 25.1 | 16.5 |
| West Midlands | 58.1 | 27.0 | 14.9 |
| East Midlands | 58.1 | 27.2 | 14.7 |
| South West | 62.4 | 24.7 | 12.9 |
| East | 62.6 | 25.6 | 11.8 |
| South East | 63.1 | 25.9 | 11.1 |
| **United Kingdom** | **57.9** | **26.0** | **16.0** |

Source: ONS (2005)

Figure 5: Working age households, Autumn 1996 – Autumn 2004, at UK and North East level


Source: ONS (2005); ONS (2001)

It is clearly unhealthy that in a period of growing employment in the North East the proportion of workless households has barely improved. One cause will be the rise in single person households, as they always are either in work or not and this trend makes the distribution of work across households more uneven. Another factor will be the growth in two earner households and the trend for married women with children to work in increasing numbers, which will increase the number of households where all adults work. However, these trends

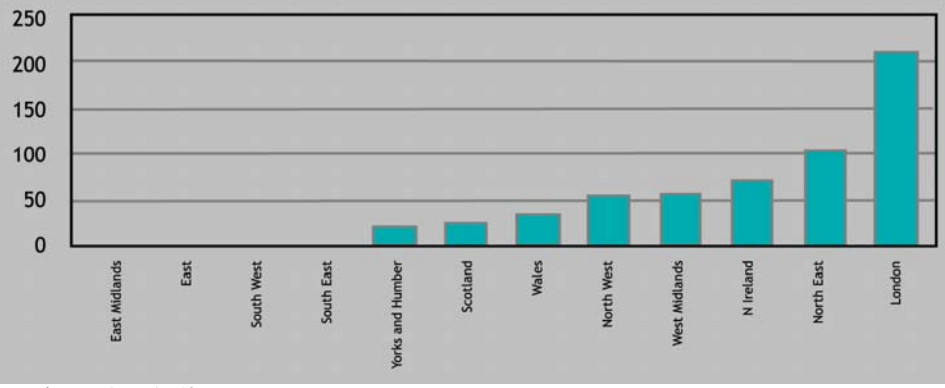
only account for about half of the rise in workless households from the mid-1970s to the mid-1990s (Gregg *et al.* 1999). The growth in employment in the North East in recent years would seem to be concentrated on those households that already have one person in employment. This polarisation of labour market outcomes is an issue that will be of particular concern to those worried about equity and social justice (Robinson forthcoming).

It should be noted that the reduction of the numbers of children in workless households is a priority for the UK Government, in view of their commitment to eradicate child poverty. Unfortunately, regional figures for children living in workless households are not yet readily available. It is also worth noting that the introduction of the Working Families Tax Credit (WTFC) in 1999 did not seem to have had a major impact on the number of workless households in the North East, although it must be recognised that this policy tool is specifically targeted at those with dependent children.

# 4. The challenge for public policy

In *Full Employment in Every Region*, the Treasury and the DWP estimated that employment would have to rise by over 100,000 to bring the North East up to the then overall UK employment rate (around seventy-five per cent) (HMT/DWP 2003). As Figure 6 demonstrates, only London would need to see a larger increase in employment.

Figure 6: Increase in employment necessary to reach overall UK employment rate




Source: HMT/DWP (2003), Chart 4.1

However, these figures are in absolute terms only, and London has nearly three times the population of the North East and its GDP is approximately five times greater than the North East (ONS 2004a). Table 11 shows the required increase in employment not as absolute numbers, but as a percentage of the total working age population. While London dominates the absolute picture because of its size, the severity of the challenge would appear to be much larger in the northern regions, and particularly in the North East.

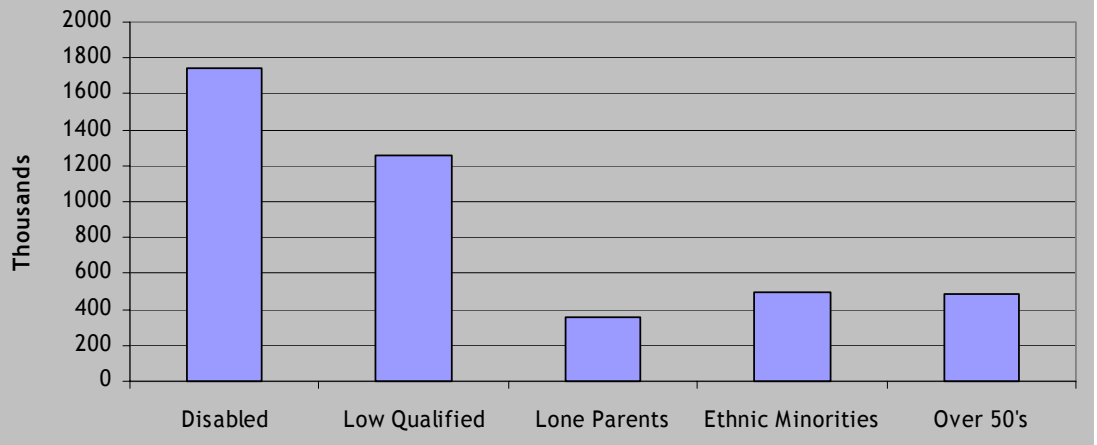
**Table 11: Required increase in employment as a percentage of a nation or regions total working age population, Spring 2003**

| | People with Disabilities | Low Qualified | Lone Parents | Ethnic Minorities | Over 50's |
|---|---|---|---|---|---|
| North East | 8.7% | 6.2% | 1.4% | 0.6% | 4.2% |
| Wales | 7.6% | 5.2% | 0.9% | 0.4% | 3.3% |
| Scotland | 6.6% | 3.6% | 0.9% | 0.4% | 2.1% |
| North West | 6.4% | 4.8% | 1.2% | 1.1% | 2.2% |
| Yorkshire & Humberside | 5.4% | 4.1% | 0.9% | 1.5% | 1.9% |
| London | 5.3% | 4.5% | 1.8% | 5.2% | 1.5% |
| West Midlands | 5.1% | 4.4% | 1.0% | 2.3% | 1.4% |
| East Midlands | 4.4% | 3.5% | 0.8% | 1.0% | 0.7% |
| South West | 3.3% | 1.9% | 0.4% | 0.2% | 0.6% |
| Eastern | 3.1% | 2.0% | 0.6% | 0.4% | 0.0% |
| South East | 2.4% | 1.6% | 0.5% | 0.3% | 0.0% |
| **Great Britain** | **5.0%** | **3.6%** | **1.0%** | **1.4%** | **1.4%** |

Source: Labour Force Survey and information obtained direct from DWP

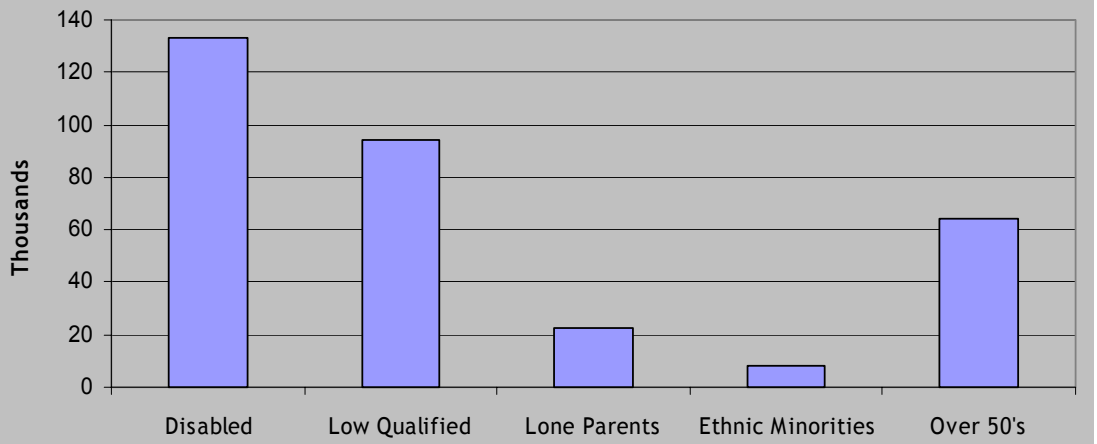
In *Full Employment in Every Region* the DWP calculated the numerical increase in employment needed for each of the disadvantaged groups to match the current UK employment rate. Figure 7 contains slightly different data, because population projections have been revised, but the broad picture stands unchanged. It should be noted that there are substantial overlaps between these different groups, and in Spring 2003 more than one third of those within one of these groups belonged to at least one other.

**Figure 7: Employment growth needed across Britain in disadvantaged groups to reach current overall employment rate, Spring 2003**




Source: Labour Force Survey and information obtained direct from DWP

**Figure 8: Employment growth needed across the North East in disadvantaged groups to reach current overall employment rate, Spring 2003**




Source: Labour Force Survey and information obtained direct from DWP

As Section 3 demonstrated, employment growth is required for each of these groups in the North East. However, the relative importance of these groups differs in some important

respects to the national picture. If we compare Figures 7 and 8, the importance of increasing levels of employment among older workers seems to be more important in the North East than in Great Britain as a whole. It is noticeable that it is the northern local authorities that tend to have the lowest levels of employment among older workers. Furthermore, the North East has the highest levels of benefit claims related to sickness and incapacity, and although some rural areas in the North East have lower than average levels, but these are not large in population terms.

The highest levels of employment for those without qualifications in England are to be found in the South West and the South East. The North East has some of the lowest levels of employment for those without qualifications, and there are number of local authorities in London that have even lower levels. However, London also has a number of local authority areas with relatively high levels of employment for the lowest qualified but in no local authority area in the North East were levels above the English average. The North East does have slightly above average levels of lone parent benefits, and Middlesbrough has one of the highest levels in Great Britain. Again, London has the highest levels of lone parent benefits, but the total number of lone parents claimants is dwarfed by sickness and incapacity benefits.

There are fewer ethnic minorities in the North East than in other regions of the UK, and it does not appear that levels of employment among ethnic minorities is significantly different to the national average for ethnic minorities. There needs to be a growth in employment for people in ethnic minorities of approximately 9,000 to bring employment levels to the national average. This is not in absolute terms a large figure for the North East, but because there is a lower proportion of ethnic minorities in the North East this will be a challenge for the region.

## Challenges for the next Parliament

While the New Deals made their first target the young and long term unemployed, the Government has gradually moved towards targeting key groups suffering not just from unemployment but also from high levels of economic inactivity. As time has progressed, it does seem that the Government has quietly made 'the hidden unemployed' its priority. However, this does mean that there is a perceived lack of attention to issues surrounding job retention and job progression and this has been a persistent criticism of current policy (for example, Branosky 2004).

In theory, the growing importance of the personalisation of public services means that these policy objectives need not be mutually exclusive. If the Jobcentre Plus network could offer a person-centred service, individual personal advisers could use their judgement and experience to help people in the most appropriate way. This could include a more intensive intervention regime for recipients of benefits related to sickness and disability or it may mean deciding to provide ongoing support to a client who may need this for a period after starting work to encourage job retention. The concerns of those who are currently economically inactive may well be about job retention, and the interpersonal skills which personal advisers need to support clients will be the same for either issue.

A preliminary paper published by the DWP in June 2004 would seem to represent a move in this direction (DWP 2004a). It argues for a move towards a national framework of rights and responsibilities, coupled with more flexibility, devolution and discretion at the local level so that the specific needs of employers and individuals can be addressed.

However, the DWP has adopted a more cautious approach. While it is confident that lessons can be learnt from evidence on how to support the mainstream unemployed and lone parents, it is significantly less confident about the knowledge base on how to help people on disability-related benefits or on issues of job retention and/or advancement. While this might mean that, as a former Secretary of State for Work and Pensions said, 'given the lack of international

experience, the UK is once again at the cutting edge of policy development' (Smith 2004), it does also mean that there are no easy answers for policy development. It seems as if the DWP does not feel it can advance on both these areas, and has decided to prioritise one over the other. Therefore, the conscious strategy of the DWP has been to kick retention and progression into the 'long grass' and to prioritise inactivity for the more immediate future.

The Government has developed a long term and ambitious Employment and Retention and Advancement (ERA) demonstration project, which will be evaluated using the rigorous random assignment methods characteristic of the best US evaluations. It is designed to assist those eligible for New Deal 25+, those volunteering for New Deal for Lone Parents, and lone parents receiving Working Tax Credits (WTC) working part-time in low wage jobs. The pilot offers both pre- and post-employment assistance. For the two New Deal groups, the programme starts before they enter employment, for the WTC group it starts after they have started work. Once in the ERA programme, participants have access to support for a substantial period after employment commences, up to thirty-three months. This support can take the form of both financial incentives and work-related services, in particular guidance support from an Advancement Support Adviser (ASA). The Adviser can provide guidance on finding a job, gaining promotion, finding education or training, and helping arrange support services, such as childcare.

Importantly, expansion of the ERA demonstration project will only take place if it provides convincing evidence of its impact on a range of important outcome indicators. There are no plans at the outset to roll out the demonstration project on a national scale before the results of the evaluation are known, which are expected in 2007. Such an approach has been welcomed for being grounded evidence-based policy making (Robinson forthcoming). However, it does mean that if the demonstration project really does differ to most pilot projects seen recently in the UK and the Government does wait for the results of the evaluation, it will be some years before policy on retention and/or advancement progresses.

Whatever the rights and wrongs of the argument for simultaneous movement on both inactivity issues and retention and recruitment (Simmonds 2004), it seems as if the DWP has deliberately and consciously decided to prioritise inactivity. In view of the very high numbers of individuals claiming benefits related to sickness and disability in the North East, this is to be welcomed by decision-makers in the region (and in other northern nations and regions).

## Recent developments for people with a health condition or disability

At the moment Jobseeker's Allowance claimants receive the lion's share of resources, and nearly ten times as much is spent on support for JSA claimants as other claimants (Simmonds 2004). However, the focus of the Jobcentre Plus network is developing, and in particular there have been major developments for individuals with a health condition or disability.

Central to the DWP's Five Year Strategy was a radical reform of Incapacity Benefit, which aims to focus more on what people *can* do than what they *can't* (DWP 2005). The majority of claimants, with potentially more manageable conditions, will receive a payment currently called 'Rehabilitation Support Allowance', which will have a much stronger focus on supporting people back to work. Claimants would be required to engage both in Work Focussed Interviews and in activity that helps them prepare for a return to work. They would receive more than the current long-term rate, but those who refuse to engage would return to a 'holding rate' payable at the same rate as Jobseeker's Allowance. Those with more serious health conditions would receive a payment currently called 'Disability and Sickness Allowance'. The aim seems to be for this group of people to get more money than now, as the group will face significant obstacles to getting work. Claimants will, as now, be required to engage in some Work Focussed Interviews, and while they will be encouraged to engage in return-to-work activity there will be no requirement to do so.

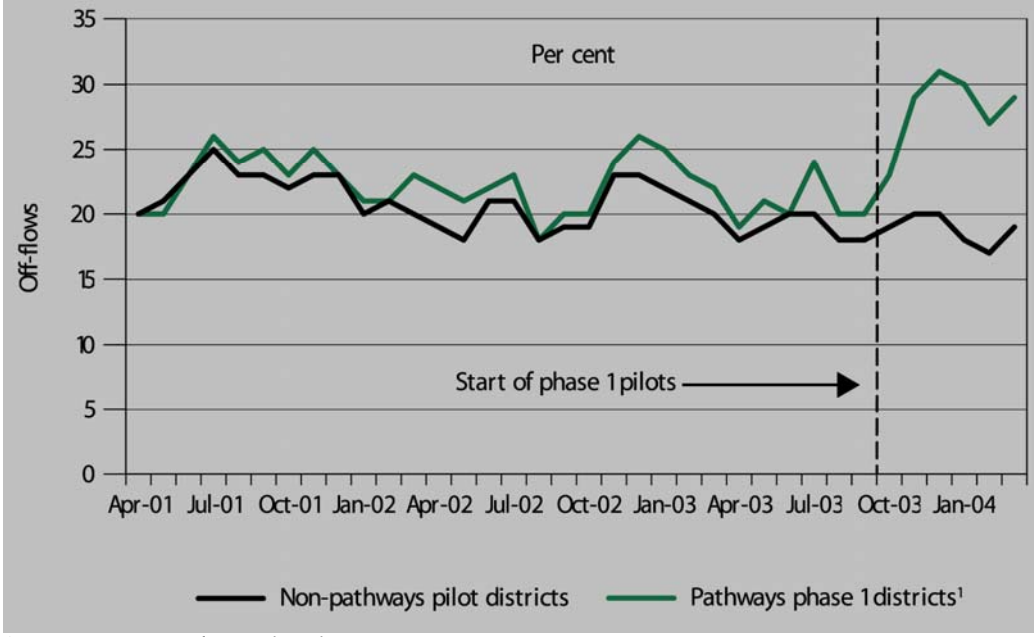
These reforms build upon the approach of the Pathways to Work pilots, focussing on early intervention and offering much greater support in overcoming barriers to return to work. The Pathways to Work pilots began in October 2003 in three Jobcentre Plus districts, and were extended to four other districts from April 2004 (including Gateshead and South Tyneside). The Government now intends extending the pilots to a further 14 Jobcentre Plus districts from October 2005, covering around one-third of the country. The Pathways to Work pilot scheme builds upon New Deal for Disabled People (NDDP), which in turn was one of the first steps taken to develop active labour market programmes for people with a health problem or disability.

The key features of the Pathways to Work pilot are:

- New claimants have to attend a compulsory Work Focused Interview (WFI) with Personal Advisers, with contact every month in the first eight months of the claim. There is a sanction for non-attendance: twenty per cent of the benefit for each missed interview (currently equivalent to £11 a week).
- Access to NHS rehabilitation support to help claimants manage their condition, and work with local GPs and employers to ensure people on Incapacity Benefit are not discouraged from working again.
- Claimants are eligible for a £40 a week return to work credit for twelve months if they move into a job paying less than £15,000 a year. In 2005, the Pathways approach will be extended to those who have been claiming Incapacity Benefit for more than a year.

The Government are clearly optimistic about the impact of the pilots (DWP 2004b). It would point to the early evidence, which suggests that in the first three Pathways to Work pilot districts, there has been an increase of between eight and ten percentage points in off-flows from incapacity benefits after four months of a claim. This is illustrated in Figure 9, which is taken from the Government's Pre-Budget Report (HMT 2004). The data does need to be treated with some caution, however, as it is early data and is subject to revision.

Figure 9: Four-month off-flows from incapacity benefits




Source: Department for Work and Pensions.
[1]The three phase 1 districts are: Bridgend, Rhondda, Cynon and Taff; Renfrewshire, Inverclyde, Argyll and Bute; Derbyshire.

The Pathways pilots currently cover about nine per cent of the annual in-flow onto Incapacity Benefit (IB) across the country. Based on current costings, it would cost £60 million a year to pilot the programme in ten per cent of the country and extend it to those who have been on IB for more than a year. It would cost £500 million a year to roll it out nationally. As current spending on welfare to work for IB claimants is only about £200 million in total, these are not insignificant sums but when we consider that IB expenditure alone cost £6.8 billion in 2002/03 (and over £13 billion if we include Income Support claimants on the grounds of 'incapacity') it puts these figures into context (Stanley 2004).

One point ought to be addressed in passing – the split between men and women with a health condition or disability claiming benefits is roughly equal. While fifty-eight per cent of people in the North East claiming benefits relating to sickness and incapacity are men, it needs to be remembered that women reach state retirement age at age sixty. Table 12 details the number of claimants in February 2004 by age and gender. Men account for roughly fifty-two per cent of people aged under sixty claiming benefits relating to sickness and incapacity – the assumption in some quarters that all people with a health condition or a disability claiming benefits are men who used to work down a mine or in a shipyard is clearly incorrect.

**Table 12: Number of claimants receiving benefits relating to the sick and disabled statistical group in North East England in February 2004, by gender and by claimant age, thousands**

| | Under 20 | 20 to 24 | 25 to 29 | 30 to 34 | 35 to 39 | 40 to 44 | 45 to 49 | 50 to 54 | 55 to 59 | 60 to 64 | All working age |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Male | 2.8 | 5.3 | 5.8 | 7.9 | 9.7 | 11.1 | 12.5 | 14.8 | 20.8 | 22.6 | 113.2 |
| Female | 2.1 | 4.5 | 4.4 | 5.7 | 7.5 | 10.8 | 12.5 | 15.4 | 20.3 | - | 83.1 |
| All | 4.9 | 9.7 | 10.1 | 13.5 | 17.2 | 21.9 | 25.0 | 30.2 | 41.1 | 22.6 | 196.4 |

Source: DWP IAD Information Centre

# 5. Conclusion – a return to the demand-side?

For many people living in the poorer nations and regions of the UK the proposition that a key problem facing them is a lack of jobs would seem to be so obvious that they might find it hard to believe that this is in fact a matter of serious contention. Indeed this might help to explain the lack of attention given by policy makers in lagging regions to understanding the characteristics of individuals not in employment, as the wider regional economic situation has dominated debates. However, this is probably the single most important issue in regional economic policy debates.

The Government believe that supply-side factors alone explain regional and local variations in employment, reflecting the inability or unwillingness of those not in employment to access the jobs which are available:

*'Differences in employment rates do not appear to be due to a lack of jobs. Most non-working adults live in cities, but every city in the UK has more jobs than it has residents in work. There are also vacancies in all regions of the country and the number of people chasing each vacancy declined sharply over the past decade. Far from there being no jobs available, there are in fact jobs available in all regions.' (HMT/ODPM/DTI 2004).*

On the other hand, many advocates of a stronger regional economic policy would strongly disagree with this analysis, and in particular would stress the importance of boosting labour demand in poorer nations and regions of the UK. Critics of the Government's approach believe that there are lower levels of employment in these northern regions because there are fewer employment opportunities:

*'It is a very big leap to assume that investment in skills and training will necessarily bring forth a higher demand for labour in these places. Yet this is the implicit assumption behind the Labour Government's emphasis on employability in particular, and the supply-side in general… This is why incentives for firms to locate and expand in the weaker regions remain so important. They represent an effort to boost labour demand to take up the excess supply.' (RSA 2001)*

Of course, these are sharply different – potentially irreconcilable – characterisations of the employment problem. However, it might still be fruitful to consider some areas for compromise between these two approaches.

Interestingly, decision makers within the DWP are currently giving particular attention to the employment problem in most of the UK's larger cities, and it is in these larger urban centres areas where the Treasury/DWP analysis does carry some force. As the most prosperous region in the UK, London certainly does not seem to be suffering from a shortage of labour demand. Furthermore, Northern cities also operate in reasonably large labour markets and therefore, with a 'churn' of employees and a regular turnover of staff, there is some opportunity for disadvantaged individuals to access employment if supply-side factors can be dealt with. This is not to say that Northern cities do not suffer from a lack of overall labour demand by virtue of being sited in a relatively weak regional economy, but it does recognise that supply-side initiatives in major cities can significantly improve the lives of numerous individuals.

Furthermore, the rising levels of employment and the relatively low levels of claimant count unemployment seen in northern labour markets over a period of some years has led some advocates of a stronger regional economic policy to reassess the importance of supply-side constraints in the North. Much has been done by advocates of a stronger regional economic policy to highlight the high level of people claiming benefits relating to sickness and incapacity in northern regions. Many are rightly worried that current policies are inadequate to meet the scale and importance of the challenge of supporting many more disabled people into work – for

example, Stanley with Maxwell (2004) conclude that Incapacity Benefit has become a barrier to work. Therefore, there does seem to be potential for some consensus on the need to address supply-side issues for this group of people.

However, as a *quid pro quo*, the Government should also modify its position to recognise that there are some areas that do suffer from an acute lack of labour demand. A quick look back to Figure 1 bears this out. The 2002/03 local labour force survey indicates that the Hartlepool TTWA had an employment rate of 63.7 per cent and bordering labour markets were similarly depressed: Sunderland and Durham (66.1 per cent), Bishop Auckland (63.7 per cent) and Middlesbrough and Stockton (66.7 per cent). Hartlepool is palpably not within easy travelling distance of anywhere with a tight labour market and plentiful vacancies. The Tees Valley is not the only part of the UK where there is a set of neighbouring local labour markets with relatively low employment rates. Other examples include West Wales and the Valleys, industrial West Cumbria and Northern Ireland.

For these areas where there is a concentration of TTWAs with low employment rates a set of policy instruments is required to help stimulate the demand for labour across the board. These job creation measures will depend primarily on what happens in the private sector in the North, above all in the traded sector, those activities which bring income into the area by providing a good or service to the outside world (including the rest of the United Kingdom). The share of the North in employment and production in traded sectors has been falling for some decades, and many believe the trend is set to continue (Rowthorn 2004).

The UK is clearly far from achieving full employment across all nations and regions, and as this paper has discussed there are numerous groups of people with lower than average employment. However, levels of employment are higher than they have been for many years, and the goal of full employment might actually be within sight. This is a remarkable turnaround from the 1980s when the term disappeared from the political lexicon, and is a useful reminder that nothing is inevitable in public policy – not even regional economic disparities. What is now necessary is a renewed commitment on the part of all those who support the concept of full employment to work constructively to bring forward policy instruments – on both the supply and demand side – which can make a real difference to people's lives. The challenge is enormous, but so can be the rewards.

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