

# Towards full employment in Wales?

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## Introduction

Full employment is a term that, until recently, had fallen out of currency. Yet, in Wales, which has exceptionally low levels of participation in work, it should have considerable resonance. Wales has a higher proportion of people of working age who are not in a paid job than any other part of Britain.<sup>1</sup> Some 439,000 people aged between 16 and retirement do not have a job and are not actively seeking one. Of course some of these people will be doing other things, such as caring for family members or following a further or higher education course, or they are too ill or disabled to work. Nevertheless, this number of people being out of the labour market altogether is a significant feature on the contemporary landscape, and public debate about the problem of 'economic inactivity' has at last begun.

The proportion of people who do, or do not, have a job is not an obscure economic statistic – it has a huge impact on the economic and social well-being of people in Wales. Employment levels matter because low levels of economic activity affect overall economic performance. For example, it is estimated that about one third of the gap between Gross Value Added per head (a measure of prosperity) for Wales and the UK as a whole is due to low rates of people in employment.<sup>2</sup> Whether or not people have a job also matters because it affects the well-being of individuals and families, determining whether they have access to an income from employment. Whilst having a job is certainly not a guaranteed way of avoiding poverty, there is a very close relationship between being workless and being poor.<sup>3</sup> In addition, whether or not someone has a job affects their health – being out of work for six months is a health risk equivalent to smoking 60 cigarettes a day. And not having a paid job matters because thousands of people who want to work are not fulfilling their potential to use their skills and abilities in employment.

It is for these reasons that access to a job is a fundamental component of

creating a more just and equal Wales.<sup>4</sup> If government policy is to tackle poverty and disadvantage seriously then ensuring that everyone who wants a job can find one must be top of the agenda.

## The Approach to date

The UK government has explicitly set a target of achieving an employment rate of 80 % of the working age population, albeit by an unspecified date.<sup>5</sup> This target is ambitious indeed. If achieved, it would put UK employment at a level unprecedented in history. It could well take some considerable time to achieve – if historic trends in employment growth are maintained, it is estimated that an 80% employment rate would be reached in the mid 2020s.<sup>6</sup> Nevertheless, it is a target which has underpinned a wide range of Government policies, and about which there seems to be a broad consensus. Those comments that have been made are more about the detail of particular elements within the overall strategy rather than the fundamental principles of full employment or the 80% target.

Unlike England, there has not been an explicit target for full employment in Wales. It has not been clear whether the UK 80% target applied in Wales by

default – the UK-wide remit of the Department for Work and Pensions suggested that it did, but it was not included in any policies of the previous Welsh Assembly Government. Indeed the term 'full employment' did not appear in the Welsh Assembly Government's economic strategy, *Wales: A Vibrant Economy*, or in its predecessor strategy, *A Winning Wales*, or in the *Skills and Employment Action Plans* for 2002 and 2005. Instead, the focus has been on 'tackling economic inactivity' in the aforementioned policies. The then Assembly Economic Development and Transport Committee also undertook a policy review of economic inactivity, culminating in its report *Economic Inactivity in Wales*,<sup>8</sup> which generated several government initiated analyses of inactivity.<sup>9,10</sup>

To be fair, there were targets for reducing economic inactivity in these strategies. However, the targets were vague: one of the 2002 Skills and Employment Action Plan's objectives was to increase the total economic activity rate by 3.0% between 2001 and 2003, but it was not clear if this referred to an increase in three percentage points on the base year – which would have been an extraordinarily ambitious

**Figure 1. What is full employment?<sup>7</sup>**

### **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.

This definition is valuable because it not only includes the question of access to employment, but also covers exclusion of some groups from the labour market and the quality of employment. Moreover, it emphasizes that employment must be *voluntary* – it is not about forcing people into a job.

Note that full employment is not 100% - this rate is neither desirable nor feasible.

target – or to a percentage increase. More recently, *Wales: A Vibrant Economy* expressed an aim to close the gap between the employment rate for Wales and the UK, even as the UK rate changed. While this was perhaps less ambiguous (although it was not clear whether it superseded the Skills and Employment Action Plan target), it was still not what most people would recognize as a meaningful target. Further, such loosely specified targets meant that it was impossible to identify how many people need to find jobs and hence the nature and scale of action needed to help them.

The Bevan Foundation urged whichever parties formed the new Assembly Government after the May 2007 elections to adopt explicitly a target employment rate of 80%.<sup>11</sup> And, after months of uncertainty and discussion, the Labour – Plaid coalition’s programme of government ‘*One Wales*’ set out just this commitment:

*‘We will implement a labour market strategy with a long term goal of full employment at a rate of 80%.’<sup>12</sup>*

**Achieving Full Employment in Wales**

Achieving this target employment rate will mean a seismic shift in the Welsh labour market, and it will also demand a clearly focused and more radical strategy than has been seen hitherto. Across Wales as a whole some 153,000 people who are currently not working will need to get a job. The challenge is greater still in some local labour markets. Some areas, such as Flintshire and Monmouthshire, are already close to the target with employment rates for

their population of working age in 2005 of 77.2% and 78.8% respectively. Others, such as Merthyr Tydfil, Blaenau Gwent and Neath Port Talbot, have some of the lowest rates of employment in Britain. These areas need to see an increase of 15 percentage points to achieve the target – probably unrealistic – so the Bevan Foundation has suggested that the 80% target should be accompanied by a ‘floor’ rate of between 70 and 75% in local labour markets. Even so, the scale of workforce growth will need to be on an almost unprecedented scale.

Achieving the 80% target will also mean drawing a wide range of different social groups into the workforce. In fact, full employment has already been achieved amongst males aged 25–49, whose employment rate stands at 86.4%. However, much lower employment rates occur amongst women, people who are disabled and, to a lesser extent, men from minority ethnic groups and males aged over 50 (see Table 1). Similarly, barely half of unqualified men and women are in employment compared with more than 85% of men and women with qualifications at NVQ level 4 or above. In other words, an employment rate of 80% will not be achieved by drawing more and more prime age, able-bodied white males into work – there are simply not enough of them. The challenge is thus to get people who currently face some form of disadvantage in the labour market into a job. This is not just a question of achieving the 80% target (or even the 70% floor) but is also a matter of social justice for people who do not currently have a job but would like one.

This is a very major task indeed for public policy. Achieving a target employment rate of 80% across Wales as a whole will require people to enter the labour market on a large scale. Moreover, those people will predominantly be ‘non-traditional’ workers and from areas with historically low levels of labour demand. Helping these people into jobs will require a considerable sharpening of policy if the target is to be achieved, around the themes of helping people into jobs, removing barriers to work, and creating more and better jobs.

**Theme 1 - Helping people into jobs**

It is generally recognized that the various welfare to work programmes have helped people into jobs in Wales, as elsewhere. Statistics for the period 1998–2005/06 show that the three main New Deal programmes – 18–24, 25+ and Lone Parents have helped over 66,000 people to get a ‘sustained job’, i.e. one in which they remained for at least 13 weeks after leaving New Deal. In addition to New Deal, there are other initiatives that provide support to people who are out of work, such as Pathways to Work.

Current proposals to reform welfare to work programmes could bring dramatic changes to these arrangements,<sup>13</sup> including a focus on providing support tailored to the specific needs of job-seekers rather than support which is differentiated by client group and requiring some groups of workless people (such as lone parents of children aged over 12 years and new incapacity benefit claimants) to demonstrate that they are actively seeking to return to

**Table 2: Employment Rate of Different Social Groups, Wales, (%)**

	Males	Females
<b>Age:</b>		
16–24	58.1	57.5
25–49	86.4	73.7
50–retirement	64.0	63.8
<b>Ethnicity:</b>		
White	74.4	69.0
Non-white	63.2	41.7
<b>Disability:</b>		
Disabled	43.1	39.9
Not disabled	83.6	76.2
<b>Qualifications:</b>		
No qualifications	55.5	42.3
NVQ level 4 and above	87.2	86.2
<b>All persons of working age</b>	<b>75.0</b>	<b>67.4</b>

Note: All figures except those for qualifications are for Jan – Dec 2005, and are derived from the Annual Population Survey (via Nomis). Figures for qualifications are for 2004 and are from StatsWales.

work as a condition of receiving benefit, although it remains to be seen if they will all be implemented.

Nevertheless, whilst the compulsion element of the proposals is relatively strong, there is scope to strengthen further the support offered to people who are out of work. Most notably, access to help finding a job will probably continue to be restricted to those who have been out of work for a specified period (as long as 12 months in some instances, unless there are special circumstances). There is a case for offering immediate help to anyone who wants it if entry to work is to be maximised, not least to counter the damage to self-esteem and motivation that so often occurs during the first months of joblessness. Consideration also needs to be given to the period of time for which help to return to work can be offered, especially as so many of the people who are expected to enter the labour market face disadvantages that may well not be overcome in a standard length programme.

Moreover, the various employment programmes are developed and controlled by the Department for Work and Pensions in London. It is sometimes said that links between these programmes and the Welsh Assembly Government's policies and strategies are relatively weak. In view of the importance of getting people into jobs, the relationship between the two government bodies on this matter must be strengthened as a matter of urgency. Indeed, this may be an area in which the Assembly Government may wish to seek additional powers through the provisions of the Government of Wales Act. At the very least there needs to be more awareness of, and debate about, the planned changes in welfare to work programmes in Wales.

Lastly on this point, it is widely acknowledged that although employment programmes can help people into jobs, they are far less effective at helping people out of poverty. Evidence suggests that people move off benefits into low-skill, low-paid jobs, with a significant proportion returning to benefits a short time later. More than half of men who moved out of unemployment moved into a job with wages in the bottom quarter of the pay range.<sup>14</sup> Two-fifths of people who find work in the bottom end of the labour market no longer have that job just six months later.<sup>15</sup> Clients need support in order to enable to help them to enter higher-skilled better-paid jobs, and to help them to remain in work once they get there. The present system of providing support for 13 weeks after a job start needs to be extended

considerably. In addition, support needs to be offered to all the non-working members of a client's household, as greater engagement with the labour market is proven to reduce the risk of poverty.

If, then, the welcome target of full employment is to be achieved in Wales, help and support for people to find jobs need to have a far clearer strategy to achieve it than has been the case hitherto. The proposals outlined here could support a considerable increase in the numbers of people in employment in Wales. However, help and support will not be enough alone.

### Theme 2 - Removing barriers to work

A key element in the UK government's strategy for full employment is removing barriers to work, such as the lack of affordable childcare, transport to work, and enhanced skills. All of these policy areas are devolved, and there has been less emphasis in Wales on reducing barriers to work in these policy areas. For example, there is still a woeful shortfall of affordable childcare places,<sup>16</sup> public transport is all but non-existent outside peak times in many parts of Wales,<sup>17</sup> and learning provision for adults is relatively thin.<sup>18</sup> At the same time, there are difficulties in the transition from benefits to paid work and the various in-work benefits, which need to be ironed out. For example, in 2005/06 half of all local authorities in Wales took more than the median period of 36 days to process new claims for housing benefit whilst take-up of in-work benefits such as working tax credit is also relatively low in some parts of Wales.<sup>19</sup>

The Welsh Assembly Government has a pivotal role to play to help to reduce the barriers to work. On childcare, the Bevan Foundation has previously argued for a 'revolution' in the provision of affordable childcare in Wales but, notwithstanding the exciting commitments in the *Flying Start* programme, the reality of childcare places is still a very long way from the free, universal provision that would enable all parents who want to have paid work to do so. Dramatic improvements are also needed to help people to use public transport to travel to work, in particular to address workers with atypical hours. A significant increase in support for adult learning and skills provision, especially basic skills, would also be a significant boost to helping people into jobs. And finally, more needs to be done to encourage take-up of working tax credits and to improve the processing of housing and council tax benefit claims by local authorities in Wales.

### Theme 3 - Creating Jobs

The Welsh Assembly Government has, to date, mirrored the UK Government's approach of seeing economic inactivity as a 'supply side' problem, namely a problem amongst the population of working age:

A major part of the explanation of the inactivity problem is the skill profile of the Welsh population.<sup>20</sup>

And even though the Assembly Government acknowledges that the underlying cause of inactivity is the 'weakening of demand for unskilled labour across the developed world',<sup>21</sup> attempting to strengthen demand is not seen to be the solution to the inactivity problem.

*Wales: A Vibrant Economy* included a number of suggestions for ways in which employment can be created. Many of those proposed build on success to date and are welcomed by a broad range of interests across Wales. However, there are two key approaches that have not been considered hitherto and which are not included in the *One Wales* programme either. The first is a strong UK regional policy, to encourage and support efforts to create jobs in parts of Wales. The current approach to regional policy is very much that of 'bootstrapping' – i.e. 'regions' such as Wales must find their own solutions and somehow out-compete more prosperous areas such as London and the south-east. This overlooks the severe disadvantages that areas such as former coalfields face. Instead, increased spending on regional aid (primarily Regional Selective Assistance), special incentives in hardest hit areas (such as the successors to Enterprise Zones proposed by the Alliance for Regional Aid), and devolution of UK government departments (more radical than that proposed in the Lyons Review<sup>22</sup>) are just three amongst possible measures. The Welsh Assembly Government needs to formulate a view of UK-level action that would support its own job creation efforts and pursue that view with vigour.

Second, public procurement has a great deal of potential to help job creation. Some £4 billion a year is spent by public bodies in Wales on goods and services – equivalent to about 11% of Wales's GDP. Yet it is claimed that a substantial proportion of that expenditure does not buy goods and services from businesses in Wales, which are instead purchased from firms in England and elsewhere. The commitment in the *One Wales* programme to introduce a purchasing 'code of practice' to support an increase in the amount of purchases sourced from businesses in Wales is a useful step forward.

