

The challenge



Chapter 1

Chapter 1

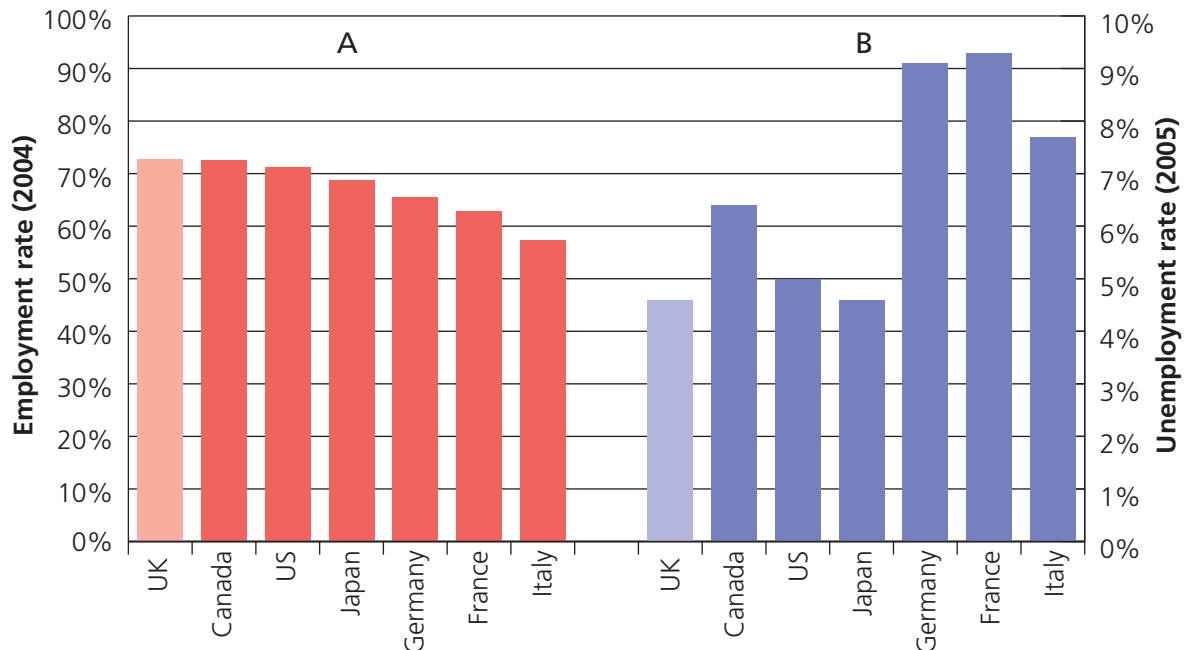
The challenge

- 1 In the 1980s and 1990s the welfare state failed those who most needed its help. Instead of combating mass unemployment, the welfare state alleviated its worst effects and diverted people onto other benefits. Instead of helping people into work, it locked them into long-term dependency. By 1997, there were almost 5.5 million people on benefits, 3 million more than in 1979. The number of people claiming unemployment benefits had risen by 50 per cent, while the number claiming lone parent and incapacity benefits had more than tripled.
- 2 These stark statistics can tell only part of the story. They cannot fully reflect the impact on family and community life. Too many people had been written off and condemned to a life dependent on benefits, extending into poverty in retirement. Too many families had suffered inter-generational poverty, with little expectation of work. Too many communities had become breeding grounds for despair and low aspiration.
- 3 In the 1980s and 1990s the welfare state failed those who most needed its help. Instead of combating mass unemployment, the welfare state alleviated its worst effects and diverted people onto other benefits. Instead of helping people into work, it locked them into long-term dependency. By 1997, there were almost 5.5 million people on benefits, 3 million more than in 1979. The number of people claiming unemployment benefits had risen by 50 per cent, while the number claiming lone parent and incapacity benefits had more than tripled.
- 4 Furthermore, not only has the UK one of the highest employment rates in its history but it also now has the best pattern of employment and unemployment among the major industrialised countries. In particular, for the first time in at least 50 years the UK employment rate is the highest among these countries, and there are very few countries in the world with higher rates.
- 5 The rise in employment, combined with successful labour market policies, has led to an overall fall of around 1 million in the number of jobless people on benefits. The biggest improvement has been among the number of people claiming unemployment benefit, which has fallen by more than 700,000 since 1997 to levels last seen a generation ago. Since the start of 2001 it has remained consistently below 1 million – the first time this has happened since 1975.
- 6 The number of people on lone parent benefits has also fallen substantially, while the sustained growth in the incapacity benefits caseload slowed initially and has now been reversed. The number of people on incapacity benefits has now been falling for more

Progress to date

- 3 Since 1997, however, the UK has seen rising employment. What is more, the UK has broken with its past record of boom and bust. It has coped better with the global economic slowdown than its competitors. During this period employment fell in the US, Germany and Japan. In the UK it continued
- 6 The number of people on lone parent benefits has also fallen substantially, while the sustained growth in the incapacity benefits caseload slowed initially and has now been reversed. The number of people on incapacity benefits has now been falling for more

Figure 1.1: A comparison of employment (A) and unemployment (B) rates among the G7 countries



Notes: **Employment figures** refer to 2004 and are for those aged 16–64 in the UK and US and those aged 15–64 in the other countries. Source: OECD data, 2005. The latest national UK employment rate is 74.5% (September–November 2005).

Unemployment figures show OECD standardised unemployment rates for November 2005, except for the UK (August 2005), Italy (June 2005) and Germany (October 2005). Source: OECD data, January 2006.

than a year, after decades of continuous increase.

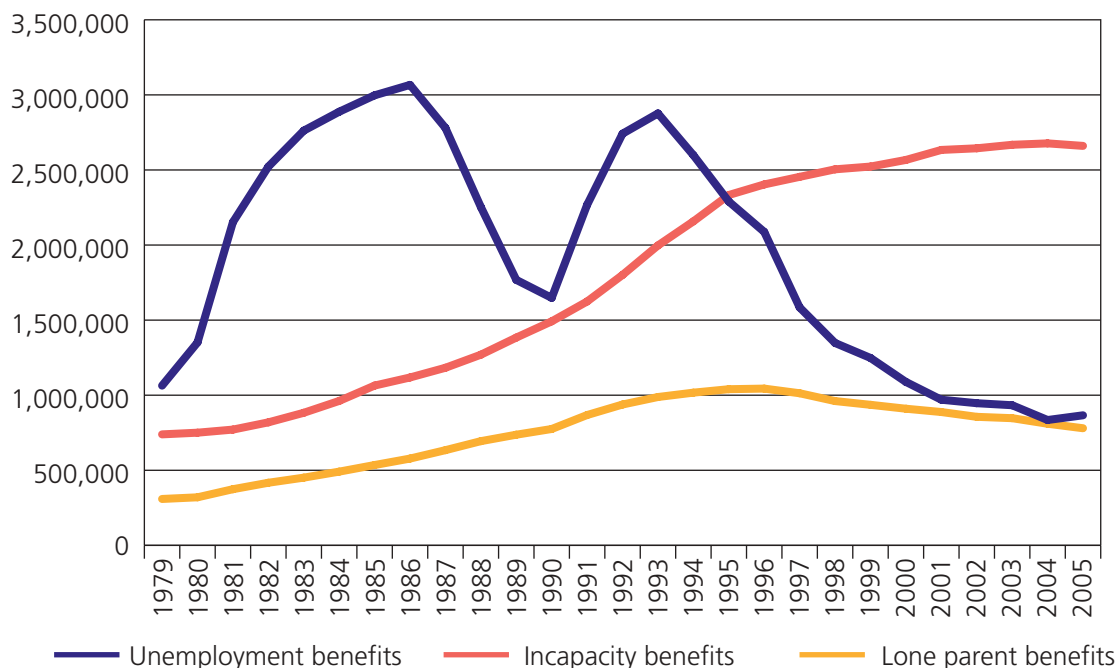
- 7 The strong labour market performance of recent years reflects a conscious effort to build macroeconomic stability, combined with a new approach to welfare.¹ The Government's labour market policies are founded on five pillars:

- macroeconomic stability, to allow individuals and businesses to plan ahead with confidence. **We gave independence to the Bank of England and set a clear fiscal framework for growth and stability;**
- a regulatory framework for the labour market which sets clear minimum standards of employment

but allows flexibility for employers and employees alike. **We introduced the National Minimum Wage and family-friendly employment legislation, and have strengthened protection against all forms of discrimination;**

- tax and benefit policies that ensure that work pays. **As a result of personal tax and benefits changes since 1997, 4.8 million working households with children are better off;**
- education, skills and training policies aimed at creating an adaptable, flexible and productive workforce. **We have introduced provision for all adults with a skills deficit, the Train to Gain programme,**

Figure 1.2: Numbers of people on benefits, 1979–2005



Source: Office for National Statistics, Department for Work and Pensions Information Directorate, *Work and Pensions Longitudinal Study*

enabling employers to upskill their workforce, and the New Deal for Skills; and

- an active labour market policy – the focus of this Green Paper – particularly aimed at preventing people from drifting into long-term unemployment or inactivity and becoming detached from the labour market. **We have introduced the most comprehensive menu of help ever available, tailored to the needs of the individual and focused on work as the best route out of poverty.**

The New Deals

- 8 Our new approach to active labour market policy has meant a radical transformation of the welfare state, built around a framework where rights are balanced with responsibilities.

At the heart of this approach are the New Deals:

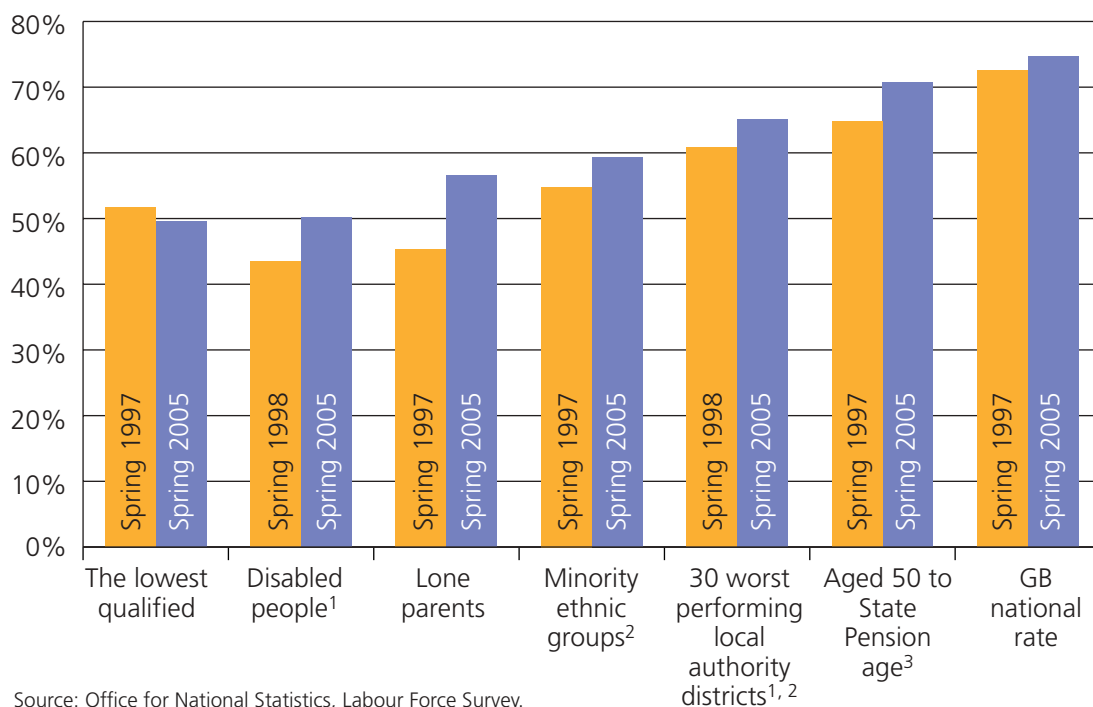
- the New Deal for Young People was introduced in April 1998 to end the prospect of a lifetime on benefits. It provides support for all people aged 18–24 who have been unemployed and on benefits for six months or more;
- the New Deal 25 plus and the New Deal 50 plus offer similar help to older age groups. Together with the New Deal for Young People and other policies described above, they have helped us reduce the number of people on unemployment benefits for a year or more by over three-quarters to less than 130,000. The number on unemployment benefits for a year or more is now less than a tenth of the peak of 1.3 million in 1986;

- the New Deal for Lone Parents has helped more than 410,000 lone parents into work. Independent evaluation shows that this New Deal doubles the chances of a lone parent getting a job, and more than pays for itself; and
 - the New Deal for Disabled People has now helped almost 75,000 people into jobs, significantly improving their chances and, again, more than paying for itself.
- 9 Our approach has been driven by evidence, not ideology. Our New Deal programmes are independently evaluated by recognised experts, and there is strong evidence that the programmes significantly improve the chances of a participant getting a job.

Much done but much still to do

- 10 Compared with both recent history and other countries, the UK labour market is performing very well. However, in spite of our overall success, some groups continue to face barriers to entering and progressing in the labour market. What is more, these groups are disproportionately likely to be further from the labour market, because they are inactive rather than unemployed. Our success in tackling unemployment means we are now well placed to extend support to harder-to-help groups.
- 11 Recognising that some groups of people are more likely to suffer relative disadvantage in the labour market, the Government has set Public Service Agreement targets to monitor progress

Figure 1.3: Employment rates among the Public Service Agreement target groups



Source: Office for National Statistics, Labour Force Survey.

Notes: 1 Data available from spring 1998 only.

2 Data are for a four-quarter average to spring of the year shown.

3 State Pension age is currently 60 for women, 65 for men.

- in raising employment among these groups and reducing the gap between their employment rate and the national employment rate. These groups are:
- disabled people;
 - lone parents;
 - minority ethnic groups;
 - people aged 50 or over;
 - people with low or no qualifications; and
 - those living in the 30 most deprived local authority districts.
- 12 Since 1997, not only has the overall employment rate increased but disadvantaged groups have benefited the most.
- 13 In particular, lone parents and people aged between 50 and State Pension age have seen substantial rises in their employment rates – up by 11 and 6 percentage points respectively between spring 1997 and spring 2005. So, despite strong growth in overall employment, the gap has narrowed.
- 14 The problem is not a lack of jobs; indeed, employment rates are lowest in the major cities, where there is at least one job per person. However, many residents of cities do not take up these jobs even though they live within easy travelling distance of thousands of vacancies. The problem is connecting people with the work that they want and need and also with the jobs that employers need done.
- 15 In order to address these economic and social problems we have set ourselves the aim of an employment rate equivalent to 80 per cent of the working age population. There are groups of people locked into long-term dependency on benefits who have been denied the opportunity that work can bring. In a modern, dynamic economy no one who can work should be denied that opportunity.
- 16 To achieve our aim, we will need to tackle inactivity among three key groups:
- people on incapacity benefits – the number on incapacity benefits rose by almost 2 million between 1979 and 1997. Around three-quarters of claimants have been on incapacity benefits for more than two years. The number on incapacity benefits fell by over 40,000 over the year to May 2005, but we need to do much more. **We aim to reduce the number by 1 million;**
 - lone parents – in 1997, fewer than half of lone parents had a job, compared with more than two-thirds of partnered mothers. Since then we have seen the first sustained rise in lone parent employment rates in recorded history and now more than half are in work. But we need to do much more. **We aim to help 300,000 more lone parents into work;** and
 - older workers – the employment rate among older people is now one of the highest in Europe, but we need to do more to address the

demographic challenge. **We aim to increase the number of older workers by 1 million.**

The principles for reform

- 17 We have come a long way from the days when mass unemployment was regarded as a fact of life. But we cannot reach our aim of an employment rate equivalent to 80 per cent of the working-age population without fundamental change to the welfare state to help the most disadvantaged groups. We have undertaken a detailed analysis of the barriers to work faced by each of our key client groups. What is clear is that the current system fails too many people too often.
- The current benefits system is designed for the conventional nuclear family with a male breadwinner. It is too complex and inflexible for modern society, where more women work than ever before.
 - We must challenge assumptions that people with health conditions and disabilities, women with dependent children, and older people cannot work or do not want to work.
 - Currently there is a one-size-fits-all approach to our services. They cannot deliver the innovation and choice our customers rightly desire.
 - The current system fails to engage with employers or to use them to channel more and better jobs towards disadvantaged people.
- 18 At the same time, the UK's economy and labour market have also changed hugely over the past twenty years. Globalisation and increased competition mean that the skills of workers, and the flexibility of companies and institutions, have never been more important. The decline of manufacturing industry and the rise of the knowledge economy pose huge challenges – but also offer great opportunities – to both communities and individuals. Britain's strength as a global economic player, given the changing patterns of international trade and the emerging economic superpowers of China and India, means that we will need to provide opportunities for all of our people to work.
- 19 The Government has a critical role to play in supporting people to meet those challenges and take those opportunities. Far from being old-fashioned, the welfare state has never been more important for economic success and social justice. But a new type of welfare state is needed to fit the 21st century.
- 20 To achieve this we intend to embark upon a further programme of radical reform.
- A **reformed benefits system** will remove perverse incentives, balance rights and responsibilities and combine back-to-work help for those who can work with support for those who cannot, while respecting the rights of disabled people.

- **A modernised delivery system – with the public, private and voluntary sectors working together – actively engages with employers.** This will strengthen our relationships with other delivery organisations and employers so that we can offer an effective, efficient and comprehensive service to those in work but who are at risk of losing their job, to those who find themselves without work and to those who are moving back into work.
- **We will provide a new unified menu of support,** accessible to all people who find themselves out of work. It will provide a personalised menu of services tailored to the needs of the local economy.
- **A new initiative for cities** will make better use of existing resources by developing high-performance solutions to help people prepare for and find work.
- **A radical reform of the Housing Benefit system** will make it simpler and more flexible, and will address some of the perverse incentives of the current system.
- Over the longer term there will be a **much simpler benefits system.** The next stage of benefits reform will further incentivise work and ease transitions in and out of work, while ensuring effective support for those who cannot work.

Why does this matter?

- 21 It is an achievement that people today are living longer and healthier lives, but two years from now the number of people over State Pension age will overtake the number of children for the first time. If we are to support such a future, ensure continuing growth and prosperity for all, reduce pensioner poverty and meet our goal of eradicating child poverty we must increase the number of people who are in work, able to support their children and able to save for their retirement. We compete in an increasingly global economy, and therefore we must make the best use of our most valuable asset – the talents of individuals. We cannot afford to lose the contribution of those who in the past were dependent on long-term benefits.
- 22 Ensuring that all our citizens have both the right and the opportunity to join the world of work is a fundamental responsibility of any modern government. Entering the world of work confers multiple advantages that go beyond the very real increases in income that employment brings. Our ambition is to lift people out of dependency and liberate the talent and capability of everyone. The Government will help people achieve success for themselves and their families. We will balance rights with responsibilities and will assist individuals, and therefore our broader society, to respond to the challenges of demographic change and globalisation.

- 23 Increasing the number of people in work is good for the individual, good for families, good for communities and good for Britain.
- It is good for individuals and their families and communities because it increases income and independence and increases choice. There is also evidence that it improves their health.
 - It is good for Britain because people are independent of benefits and the economy can grow more quickly.
- 24 Making a reality of employment opportunity for all supports the national economy, builds local communities and improves prospects for families and individuals over their whole lives. That reality is at the heart of modern, dynamic economies and is vital to increasing prosperity and security for individuals and families. Employment opportunity is the means to tackle poverty, enabling people to provide for themselves, for their children and for their future retirement.
- 25 The next three chapters focus on our specific proposals for ill or disabled people (Chapter 2), lone parents (Chapter 3) and older workers (Chapter 4). Chapter 5 describes how Jobcentre Plus, in partnership with the private and voluntary sectors, will deliver these ambitious plans. Chapter 6 describes our reforms for Housing Benefit, while Chapter 7 sets out our longer-term ambition for a simpler benefits system.