

## 2 Towards 80% in work

*“There is a strong evidence base showing that work is generally good for physical and mental well-being. Worklessness is associated with poorer physical and mental health and well-being. Work can be therapeutic and can reverse the adverse health effects of unemployment. That is true for healthy people of working age, for many disabled people, for most people with common health problems and for social security beneficiaries. The provisos are that account must be taken of the nature and quality of work and its social context; jobs should be safe and accommodating. Overall, the beneficial effects of work outweigh the risks of work, and are greater than the harmful effects of long-term unemployment or prolonged sickness absence. Work is generally good for health and well-being.”*

*“Is Work Good for your Health and Well-Being”, Gordon Waddell and A Kim Burton; September 2006.<sup>32</sup>*

### The benefits of employment

Governments have in the past shown a reluctance to engage with those furthest from the labour market. But the evidence is now overwhelming that employment is generally beneficial for individuals and their families. This corpus of evidence stands traditional Government policy on its head. Far from being reluctant to engage, the Government could on this evidence be accused of dereliction if it were to fail to do so.

Work is advantageous for individuals for a number of reasons. Burton and Waddell find that employment is the most reliable means of ensuring that an individual has enough money. This then leads to other advantages in terms of participation in society. But work fulfils psychological needs too: it is central to identity and social roles and status, which in turn drives better physical and mental health. The converse is also true: worklessness is strongly associated with poor health, including higher

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<sup>32</sup> *“Is Work Good for your Health and Well-Being”, Gordon Waddell and A Kim Burton, September 2006*

mortality, poorer mental health and higher usage of medical services. Claimants moving off benefits into work experience improvements in their income, socio-economic status, mental and general health, and well-being.

This is also important for tackling generational disadvantage. Poor children are more likely to be poor adults, and to suffer social exclusion, worse access to services and fewer opportunities to participate throughout their lives<sup>33</sup>. Having a job makes families materially better off and research suggests that children tend to benefit the most (because the “additional” income is often spent on child-related items)<sup>34 35</sup>. But work also improves the quality of life and well-being of parents and their children. Lone parents themselves say that work has given them a sense of identity and achievement.<sup>36</sup> For children the benefits can include “fitting in” with peers and losing stigma, and spending quality time together as a family<sup>37</sup>.

Achieving the changes on the scale recommended in this report implies much more than purely tinkering with benefit rates, conditionality and the provision of support. The whole system is predicated on a cultural context which changes in line with people’s perceptions and expectations. A system based on a presumption of robust self-reliance will require an entirely different set of rules than one in which significant parts of society are not given the opportunity of, or expected to, work. The difficult heritage of the passive labour market policies of the 1970s is one of welfare dependence rather than self-reliance. One of the objectives of this reform must therefore be to generate clear signals around independence, respect and mutual obligations.

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<sup>33</sup> Ridge, T. (2002) *Childhood Poverty and Social Exclusion: From a Child’s Perspective*, Bristol: Policy Press.

<sup>34</sup> Farrell, C. & O’Connor, W. (2003) *Low-Income Families and Household Spending*, DWP Research Report 192.

<sup>35</sup> Gregg P, Waldfogel J and Washbrook E (2005) ‘That’s the way the Money Goes: Expenditure Patterns as Real Income Rise for the Poorest Families with Children’ in Hills J and Stewart K (eds) *A More Equal Society? New Labour, Poverty, Inequality and Exclusion*, Policy Press.

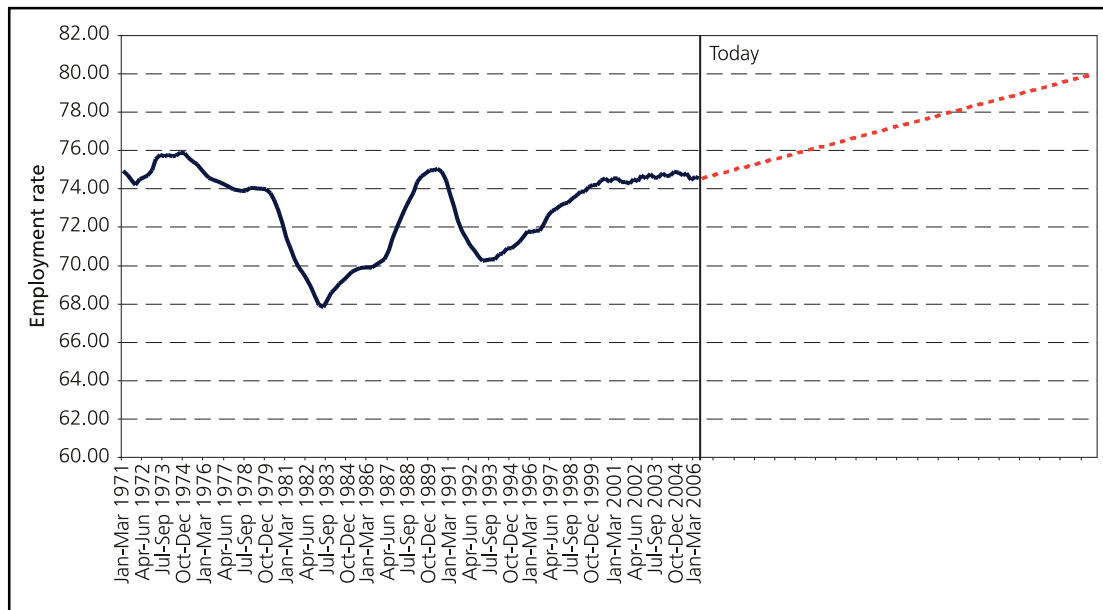
<sup>36</sup> “Lone Parents, Work and Care – One Parent Families’ survey”, February 2007.

<sup>37</sup> Farrell, C. & O’Connor, W. (2003) *Low-Income Families and Household Spending*, DWP Research Report 192, Graham, J. et al (2005) *The Role of Work in Low Income Families with Children – a longitudinal qualitative study*, DWP Research Report 245.

## 80% employment

Against this background the government has set itself a long term aim of 80% employment. By historical and international standards this is clearly an ambitious aspiration – probably the most ambitious made in the area of employment policy. Only one country in the world, Iceland, has employment substantially above 80%.

**Figure 22 Trajectory to achieve 80% employment in the long term**



The Department has said in its Green Paper<sup>38</sup> that, in order to achieve 80% employment:

- the lone parent employment rate would need to increase to 70%;
- the incapacity benefits caseload would need to reduce by one million;
- the number of older workers in employment would need to increase by one million<sup>39</sup>.

Assuming that the increase in lone parent employment is matched by a fall in the number on lone parent benefits, then based on these assumptions reaching 80% would mean reducing the number of people on benefits by up to 1.3 million. This would generate significant fiscal and economic benefits. The boost to public finances could also be substantial.

<sup>38</sup> *A new deal for welfare: Empowering people to work*, January 2006.

<sup>39</sup> In oral evidence to the Work and Pensions Select Committee, Jim Murphy set out that the older worker aim is for one million more workers over and above demographic change.

### Defining 80% employment

In September 2006, the Government set out further details of its 80% aim in evidence to the Work and Pensions Select Committee:

*"The Government will also need to consider how progress towards 80% is measured. On the current definition (16 to State Pension age) the employment rate is 74.6%. This does not include women aged between 60 and 64 but, by 2020, women in this age group will be included as the State Pension age is equalised. The current employment rate for all people aged 16 to 64 is 72.4%. Neither of these two measures includes those people who are aged over State Pension age and are in employment. This is a significant omission – there are already over one million people aged over State Pension age and in work, and the Government has an ambition to extend opportunities and choice to enable older people to stay in, and enter, the labour market. The headline measure of employment therefore currently excludes a significant proportion of one of the hardest to help groups.*

*"As one of its headline employment rate measures, the Organisation for Economic Co-operation and Development uses what it calls the "employment / population ratio", which is achieved by dividing the total number of people in work by the 16-64 population. Technically this is a ratio and not a rate, but using this measure (total in work over 16, divided by the 16-64 population) UK employment is currently equivalent to 74.0%. The Government is minded to use this as its principal measure for monitoring progress towards 80%.*

*"The current employment rate measure (16-59/64, moving to 16-64 by 2020) will continue to be the government's headline measure of employment. The employment/ population ratio would be additional. Under this measure, the aim would therefore be to increase employment by the equivalent of 6.0 percentage points of the 16-64 population, rather than 5.4 percentage points of the current working age population..."*

The Select Committee's report on the Government's employment strategy was published on 21 February.<sup>40</sup> The Committee has welcomed the Government's aim, but disagreed with it on its proposed use of an employment/ population ratio, arguing that "for the sake of clarity, we recommend that the DWP retain the link between the employment rate and the SPA" and that "the measure used by the DWP to track progress towards the employment rate aspiration should be a rate and not a ratio."

*Continued*

<sup>40</sup> "The Government's Employment Strategy: Third Report of Session 2006–07", Work and Pensions Select Committee; HC63-I.

The Committee sets out an alternative approach to setting a long-term aim, which is based on segmenting the “working age” population into groups that are expected to work and groups that are not, and aiming for 100% employment for groups expected to work. This would be supplemented with a separate target for people aged over State Pension Age.

*“We recommend that the DWP produce a clear list of the groups which it thinks should not be expected to work, together with estimates for the percentage of the UK’s working age population which fall into each of the groups it has identified. We recommend that it should then take the percentage of the population which remains as its long-term employment rate aspiration.”*

By definition, the long-term aim proposed by the Committee would not be 80% (unless by coincidence). Therefore for the purposes of this review, I have assumed the long-term aim remains 80% - at least until the Government responds to the Committee in the coming months.

## Conclusion

With unemployment at 5.5% and inactivity at 21.0%, it is clear that, more than ever, the Government will need to target its welfare strategy at tackling inactivity in order to reach 80% employment. Economic inactivity would likely need to reduce by one fifth. On the Government’s assessment, the number of people on lone parent and incapacity benefits would need to fall by 1.3 million, or around two fifths.

As Part 1 showed, current policies have underpinned substantial progress to date. But in order for the Government to achieve its ambitions of 80% employment, much more still needs to be done.