

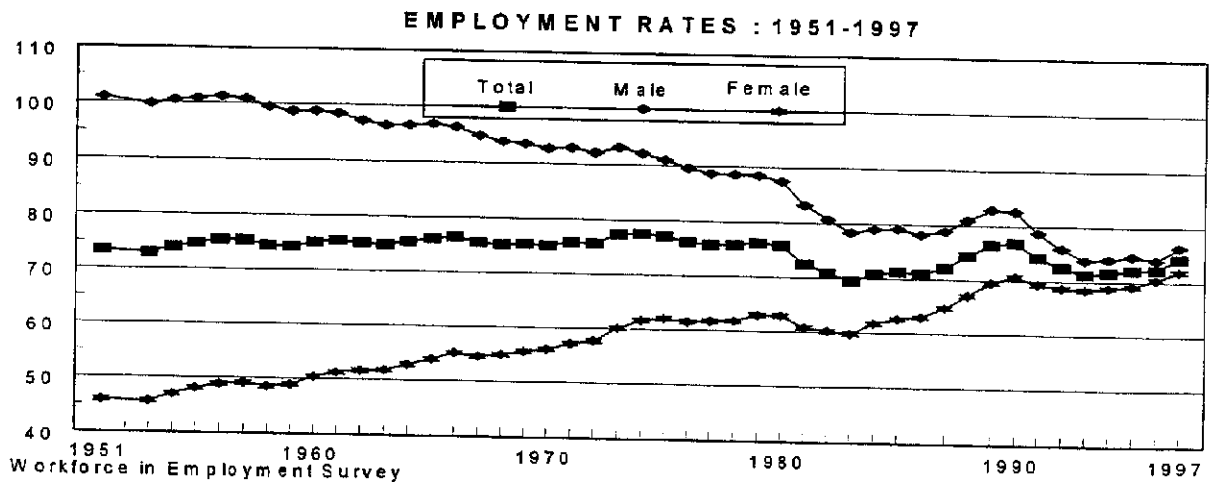
INTRODUCTION

THE EMPLOYMENT AND LABOUR MARKET CONTEXT

The UK is now in its sixth year of economic recovery. The combination of this strong recovery and structural reform has helped employment to rise and unemployment to fall. In the UK 70% of the population of working age is in employment compared with an EU average of 60% and the latest figures (January 1998) show total unemployment of 6.6%.

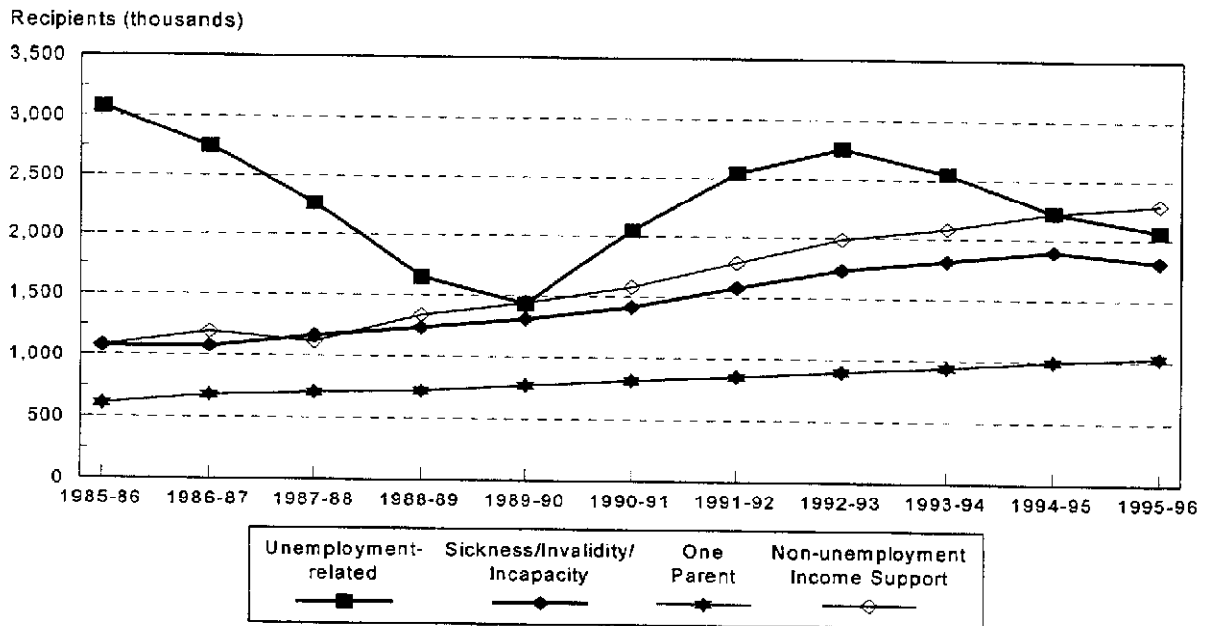
However this positive picture conceals a number of serious problems, some of a deep and long-standing nature:

- Employment levels are still substantially lower than 20 years ago. In particular, while the employment rate for women has risen steadily and now stands at 68%, the employment rate for men of prime working age has been falling and is now at its lowest level (76%) for more than 50 years. A comparison with the employment rate for men in 1951 suggests that there are currently some 1.5 million men aged between 25 and 49 who are not working and who could be in employment. There is also scope for increasing women's participation in the labour market further.



- There remains a hard core of long term unemployment, particularly for young people. Unemployment among young people is 15.9% and among ethnic minorities it is 15.2%. In 20% of households no-one is in work. These are unacceptably high figures.
- Furthermore there is a large and growing number of people who have lost all contact with the labour market and are entirely dependent on state benefits. One million lone parents, mainly women, are not in work and living on state benefits. More than 1.75 million, mainly men, are inactive and dependent on incapacity or long term sickness benefit. Both these figures have doubled over the last decade.
- The participation of women in the labour market follows a different pattern to men and this needs to be taken into account in the development of our overall labour market policy. 11.9 million women are economically active and women account for 45% of all those in employment. 4.6 million women of working age are economically inactive because they are lone parents, carers or not actively looking for work.

RECIPIENTS OF SELECTED BENEFITS



- Urgent action is needed to raise the quality of education and training. At present more than 20% of adults have poor literacy and numeracy skills (putting the UK 9th in a recent international survey of 12 industrial countries) and 7 million adults have no formal qualifications at all. In schools nearly 40% of 11 year olds fail to reach the expected standards in maths and English and almost 30% of young people fail to reach the expected level of National Vocational Qualifications by the age of 19.

Social exclusion in the United Kingdom is therefore not just a problem of persistent long-term unemployment. It is also the result of people losing contact with the labour market altogether and becoming trapped in dependency on state benefits, often for successive generations. This is compounded by the deficiencies in education and training which have created a division in British society between those who benefit from learning and those who do not. As a result, there is a significant group of people who are outside the labour market and who, with the right kind of help, could be in productive employment. There is an even larger group whose talents are not being fully used because they have not had access to training and education.

The main focus of this Employment Action Plan is therefore on policies and programmes to get the longer-term unemployed into jobs, to bring those who have lost contact with the labour market into the world of work and to raise the quality of education and training to the level of the most successful economies. If more people can be brought into the labour market and the level of skills throughout the population can be raised, the productive potential of the UK economy will be enhanced and its capacity to sustain economic growth will be increased.

STRATEGIC POLICY APPROACH

We are developing a range of policy measures designed to achieve our goals for job creation, employability and competitiveness. The essential components are:

- sound macro-economic policies delivering sustainable, non-inflationary growth to provide the stability companies need in order to invest and create jobs;
- competitive product markets with effective remedies for abuse of market power, effective enforcement of the Single Market and a progressive reduction in barriers to free trade;
- a climate which is conducive to the creation and development of small and medium sized enterprises and allows them to realise their full job-creating potential.
- a highly educated, well trained workforce, able to adapt to the new information based technologies of the future;
- the creation of a learning society in which people continue to acquire and update knowledge and skills throughout their working lives;
- active policies to reconnect to the labour market those excluded through discrimination, deprivation or inadequate educational standards, in particular action to help women returning to the labour market;
- targeted help for lone parents, most of whom are women, to gain access to the labour market;
- a regulatory framework which provides decent basic standards for those at work while enabling firms to respond flexibly to changing market needs;
- the modernisation of the tax and benefit system and the introduction of a minimum wage to ensure that work pays.

We cannot achieve this on our own. The social partners play a valuable role in taking forward this agenda. Both the CBI and TUC have been consulted about the plan and have contributed to it.

The Macroeconomic Context

A key prerequisite for maintaining job creation is macro-economic stability. High and stable levels of economic growth and employment are necessary to allow everyone to share in higher living standards and greater job opportunities. The key components are low inflation, sound fiscal policy, open markets and the removal of barriers to job creation. Together these will create the environment in which businesses can grow, invest and create employment opportunities.

The economy grew above its sustainable rate in 1997, with GDP growth at 3.25%, and may now be above the level of output consistent with stable inflation. Consumer spending is estimated to have grown by 4.5% in 1997, the highest annual increase since 1988. With

excess demand creating upwards pressure on wages and prices, we expect inflation to remain a little above our target of 2.5% during 1998. As a result of prompt monetary tightening during 1997, some tightening of fiscal policy and the appreciation of sterling, we expect growth to slow to a more sustainable rate from 1998. The subsequent slack in the economy should put downwards pressure on inflation, which we expect to return to target by the end of 1999.

We will continue to focus monetary policy on securing low inflation. This helps to smooth out both sharp slow-downs and runaway booms and should ensure more stable and sustainable employment. The key elements are in place :

- Our new monetary policy framework has given the Bank of England responsibility for setting interest rates. This has increased confidence in long term decision making and has brought about a significant fall in long-term interest rates and inflation expectations.
- We are committed to stable public finances through a 5-year deficit reduction plan, announced in July 1997. Over the economic cycle, we will borrow only to invest and not to fund current expenditure and will keep public debt at a stable and prudent level.
- Legislation for a Code for Fiscal Stability will be in place within 2 years. The Code will require the Government to adhere to a set of principles of fiscal policy management and make available a wide range of information on fiscal policy.

We plan to monitor the inflation target in the light of the practices of the European Central Bank, and will ensure that the effect of the fiscal rules and the deficit reduction plan continue to be consistent with the Stability and Growth Pact.

Competitiveness and Open Markets

The UK supports the efforts of the EU to create the right environment for job creation, sustainable growth and competitiveness. In particular, we are looking for more focus on benchmarking and the need to appraise all EU policy initiatives for their effect on competitiveness.

A more effective Single Market is an important component of the competitiveness agenda. The UK will continue to take forward work on the priority items in the Commission's Single Market Action Plan. These include better enforcement of existing single market legislation, proper transposition of EU legislation into national law, simplification/better regulation, tighter control of state aids, removal of technical barriers to trade and measures to complete the legislative framework.

Competitiveness in the EU must begin with member states. We are reforming our Competition Law to bringing it closer to EU Articles 85 and 86. We are adopting a tough prohibitive approach to deter anti-competitive practices and abuses of market power.

The Role of Education and Training

Over 30% of young people in the UK now receive a university education, one of the highest proportions in Europe. Standards generally are rising. More people are investing in their own future through education or training and firms are increasing expenditure on training. Whereas in 1984, 40% of the working population had no qualification of any kind, that proportion is now down to 18%.

These improvements are real but they are from a very low base. Standards in the education system are still generally lower, at least below graduate level, than in many other nations. Moreover, they are uneven. Whilst many schools provide a first class education, others fail to do so. Standards are particularly uneven in some key areas such as basic numeracy and literacy.

A major effort is required therefore to bring those areas of education which are under-performing up to the standard of the best. Standards of basic education, in particular literacy and numeracy, need to be raised so that no young person leaves school ill-equipped for jobs in a modern economy. Young people should be encouraged to continue their education beyond the compulsory years. We are promoting this through our Investing in Young People Strategy, including legislation to give young employees the right to time off for study or training.

It is not sufficient for people to regard full-time education as a one off investment. In a rapidly changing world, knowledge and skills must be constantly updated and new skills and knowledge acquired. That is one of the keys to developing employability throughout life. Without that ability people will find themselves unemployable in later life as the knowledge they acquired in youth becomes out of date. We are therefore putting in place a strategy to establish a culture of lifelong learning to improve employability and tackle some of the underlying causes of long-term unemployment. A key feature of this strategy is the establishment of the Skills Task Force.

The New Deal

We believe that we need to intervene actively to reverse the spiral of deprivation which has led to unacceptably high levels of long-term unemployment for young people and adults and to 20% of households being workless. We have therefore designed the New Deal programme to provide intensive and substantial support for those at risk, including the young and long term unemployed, lone parents, people with disabilities and ex-offenders. Other initiatives, such as our National Childcare Strategy, will also help.

We are determined to move away from a passive dependency on welfare towards an active system where everyone who is able to work has the opportunity to do so. In particular, we believe that

- unemployed young people must be given the help they need to fit them for work. This will include, depending on individual needs, remedial education, vocational training, further education, work experience or combinations of these activities;
- older people out of work for very long periods also need a similar range of help, again tailored to individual needs.

- lone parents, most of whom are women, should have access to specialist assistance to reconnect them to the labour market.

Labour Market Flexibility

We believe that a flexible labour market which can respond to economic change and which achieves a balance between the needs of businesses and employees is essential for the creation of jobs and the promotion of employability. A flexible labour market is one where

- employees accept change without fear because of a relationship of trust with their employer and confidence in their own employability;
- employees work together as a team and there are no artificial demarcations of status or skill nor outdated feelings of "them and us";
- the number of jobs and the pattern of work accommodate both employee preferences for flexible working time and employer needs to match labour to demand and fully utilise capital equipment;
- wages adjust sensibly to economic realities;
- mobility is made easier between types of jobs and places of work;
- there is equality of opportunity between men and women;
- regulation provides decent minimum standards of fairness at work, complemented by decent basic standards of health and safety at work; and
- social protection provides a vital safety net for the poor and excluded.

Flexibility should not be at the expense of basic standards of decency and fairness at work. The UK already has a sound basic provision of employment protection legislation and tough regulations on equal opportunities and on health and safety. As part of our commitment to fair minimum standards, we are committed to introducing a national minimum wage, together with new rights to secure union representation at work; and to implement the European Works Councils, Parental Leave and Part-time Work Directives under the Social Chapter and the Working Time Directive.

Combating Social Exclusion

In December 1997 we created the **Social Exclusion Unit** to promote effective co-operation across all levels and between all actors and to shift the focus of programmes towards preventing social exclusion. Initial priorities are to tackle truancy and schools exclusion, street living and deprivation in the worst housing estates in the country.

Making Work Pay

Unemployed people may be reluctant to take work if the loss of benefits outweighs the gain in salary. Our March 1998 Budget begins a process of tax and benefit reform to ensure a New Deal for Working Families - the next stage of the modernisation of the UK's welfare state. It includes reforms to the tax system to ensure that work and opportunity are encouraged and rewarded, rather than penalised, for millions of families. This will be achieved through the reform of national insurance, and a new Working Families' Tax Credit. A childcare tax credit within this will improve in-work help with childcare costs to help overcome one of the barriers to work for parents.

THE CONTRIBUTION OF THE STRUCTURAL FUNDS

In the UK, the three Structural Funds (ERDF, ESF and EAGGF) have contributed to regional competitiveness and employability in terms of general economic regeneration, creating jobs, developing industrial sites, technology transfer, innovation and networks to spread the good practice, making training available and providing advice and support for SMEs. The European Social Fund has provided financial assistance for vocational training, retraining and job-creation schemes. The European Regional Development Fund has supported schemes that have created jobs, and many of its innovation, technology transfer and SME projects have resulted in new jobs and improved employability. Structural funds have also provided funds through the Community Initiatives to assist employees from declining traditional industries to acquire new skills that improve their employability.

These funds support and complement our overall strategy for improving employability and competitiveness and tackling some of the underlying causes of long term unemployment.. They make a significant contribution overall to the competitiveness of regions and play a significant role in forging local partnerships and strengthening regional strategies.