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Poverty and Worklessness in Britain

Speech given by

Stephen Nickell, Member of the Monetary Policy Committee, Bank of England and

Professor at the London School of Economics

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1. Introduction

There is a lot of poverty in Britain and a lot gets written about it. So why write some more? Because much of what is written concentrates on the trees. Here, I am going to try and get some sort of picture of the wood. Britain is exceptional in this context because it has much more poverty than most of the other countries of Northern Europe (see OECD, 2001, Ch.2). Furthermore, poverty in Britain has increased dramatically since 1979.

Alongside high levels of poverty, Britain also has a particularly large number of working-age "workless households"; quite surprising in view of the relatively high employment rate[1]. This is reflected in the fact that if you were not employed in 1996, the probability of your living in a household where no-one else worked exceeded 50 per cent, higher than in any other OECD country except Finland (OECD, 1998, Ch.1). The connection between poverty and worklessness is a strong one. Over 53% of poor children live in workless households whereas only around 20% of children overall do so.

It is worth bearing in mind before we proceed, that while poverty is measured in terms of money, it is not just about money. Almost anything bad you can think of, poor people have more of it. More illness, more accidents, more crime, fewer opportunities for their children[2] and the most fantastically expensive credit. So the purpose of this paper is to shed some light on where all this poverty comes from and on what might be done about it. The discussion is wide-ranging and broad-brush, and much of it is based on the work of others. We start by providing a picture of poverty in Britain today (Section 2) and follow this with an analysis of

the dramatic increase in poverty since 1979 (Section 3). Then, in Section 4 of the paper we look at two key features of poverty. First, the very high level of wage dispersion and how this increased in the 1980s and 1990s, and second the parallel rise, to very high levels, of worklessness among men. Finally, in Section 5, we say a little about what might be done.

2. A Picture of Poverty in Britain Today

Here we only consider working age poverty, that is we look at households where the head is of working age. Furthermore, the poverty level typically used is 60% of median earnings. Today in Britain, a little over 20% of people are poor and this generally happens either when no-one in their household works or when one person works and is not paid very much. If two or more people work and at least one works full-time, poverty is unlikely in that household (less than 5%). The proportion of children in poverty (around 30%) is higher than the overall poverty rate because children are more likely than adults to live in poor households. In particular they are more likely to live in single parent households and are less likely to live in households where two adults are working.

In Table 1, we show how poverty is distributed across households of different types. In the second column we see how single parent households are far more likely to be poor than any other household type, but there are few enough of them to contribute only one quarter of total poverty. Poverty is high in single parent households in part because more than half of the single parents don't work and many of these rely on state benefits. By and large, any household which has to rely solely on state benefits will be poor on standard definitions. Otherwise, it is worth noting that couples without children are much less likely to be poor than

singles without children and that households with children make up just over half of all households but nearly two-thirds of overall poverty.

In Table 2, we cut things a different way, focussing on employment status. As we have already noted, worklessness is a key factor. 17% of individuals live in workless households, yet because nearly two-thirds of them are poor, they contribute more than half of all poverty. Otherwise, it is clear that the more market work being done by members of the household, the less likely they are to be poor. It is work noting, even at this early stage, that it would be mistaken to conclude that these facts point to a "simple" solution to poverty, namely get every adult to work. Workless adults tend, on average, to have significantly lower earning power than those in work so that getting them to work would have much less of an impact on poverty than might be imagined, unless they receive other benefits.

In Table 3, we focus on child poverty, and here worklessness is even more important. Over three-quarters of children living in workless households are poor. And comparing with Table 2, we see how children tend to be more concentrated in households where less market work is going on. Of course, in part, this is because the children need looking after.

It is clear from all this that worklessness and low pay generate poverty. In Table 4, we see the distribution of worklessness across household types. Not surprisingly, we see that most individuals in workless households live in single adult households (around 70%). Some of the reasons underlying this worklessness we shall discuss in Section 4. Turning to low pay, we find that 72% of workers in poor households are

low paid. Of course, it is well known that the relationship between low pay and poverty is not strong in the sense that only around 14% of low paid individuals live in poor households. This is because many low paid individuals (e.g. students) live in households where others earn enough to lift the household out of poverty (Stewart, 200)[3]. Nevertheless, there is a strong connection between low pay and worklessness. For example, the probability of working for low pay in one year is nearly 60% if the individual did not work in the previous year, whereas it is only 22% if they did. And looking at things the other way around, if someone is low paid in one year, the probability of not working 12 months later is nearly 3 times greater than if they were not low paid. (Stewart, 200 , Table 2).

So, to summarise, just over 50 per cent of working age poor people live in households where nobody works and 70 per cent of workers in poor households are low paid. How this has come about will become clearer when we look at why poverty has risen dramatically since 1979, which is the topic of the next section.

3. The Increase in Poverty Since 1979

Since 1979, there has been a significant increase in poverty in Britain, much of which was concentrated in the 1980s. Dickens and Ellwood (2001) report that the proportion of people living in working age households who are poor rose from 13% to 24.4% between 1979 and 1999[4]. More or less the whole increase had happened by 1992.

Dickens and Ellwood (2001) present a breakdown of the change in poverty into four important factors. Given that household poverty using a

relative poverty measure is essentially associated with no pay or low (relative) pay, it is no surprise that these four factors are:

i) The rise in worklessness within demographic groups (+5.1 percentage points).

ii) The increase in pay dispersion (+4.6 percentage points).

iii) The compositional shift towards demographic groups with higher worklessness/lower pay and poverty, notably single parents (+5.4 percentage points).

iv) Changes in state benefits (-3.7 percentage points).

Next we look at each of these in turn.

The Rise in Worklessness Within Family Types

As we can see from Table 5, worklessness among working age households has risen within all categories, a fact which was first noted in the seminal work of Gregg and Wadsworth (1996, 2001). Interestingly this happened despite the fact that the UK employment rate was 70.8 in 1979 and 71.7 in 1999 (OECD, 1995, Table A and OECD, 2002, Table B). So average individual worklessness actually fell over the same period. So what explains this apparent contradiction? Some relevant facts are the following.

i) Overall, neither unemployment nor inactivity changed greatly from 1979 to 1999.

ii) Unemployment among low skill men (no qualifications) rose from 7.0% in 1979 to around 12% in 1999. There was no significant change for low skill women.

iii) Inactivity among working age men has risen substantially (4.7% to 15.9%). To compensate, inactivity among working age women has fallen from 34.6% to 26.9%.

What has happened is that the increase in female participation is among married women whose partners are typically working, while the participation of single women with children has fallen. This is, in part, a composition effect arising from the increase in the proportion of single parent households where the head is a never-married woman who is living apart from her own parents, and therefore has less access to childcare. The rise in inactivity among men has been concentrated on married men whose partners are not (or cease) working and among single men. So among couples, we have seen a substantial rise in households where both partners are working (from 55 to 64% of all two adult working age households from 1979 to 1999). And we have also seen a substantial rise in households where neither partner is working (from around 4% in 1979 to around 8% in 1999). Perhaps the most interesting feature of these changes is the significant rise in inactivity among men of working age, which we shall discuss below.

The Increase in Wage Dispersion

In Figures 1 and 2 (taken from Dickens and Ellwood, 2001), we can see the overall picture and the key feature for our purpose is the rise in the median relative to the 10^{th} percentile, where many in poverty are located. Looking at the actual numbers, those reported in Prasad (2002) are presented in Table 6. Here we see that the 1980s was the more important period and that a substantial part of the shift is within occupation/ industry/region groups. These changes mean that the UK has a very much more dispersed pay distribution than nearly all Northern European countries (France is the most notable exception). Indeed, even back in

1979, the UK pay distribution was more dispersed; since then, the gap has widened further (see OECD, 1996, Table 3.1). We look further at these changes in Section 4.

The Compositional Shift Towards Poorer Demographic Groups

The proportion of two adult households has diminished since 1979 and, most importantly, there has been a dramatic rise in single parent households from around 5% in 1979 to about 12% in 1999. This has mainly arisen because of increasing rates of teenage pregnancy and divorce (or separation of cohabiting couples) in families with children. We shall not discuss these interesting trends further.

Benefit Changes

For much of the period, state benefits for workless individuals were indexed to prices, so over a period where median real wages were rising, it should be no surprise that benefit increases were unable greatly to moderate the rise in relative poverty. During the 1990s, however, average real benefits did rise quite significantly because of the operation of the housing benefit system. By and large, housing benefits can be thought of as indexed to rents. In-work benefits have also become more generous in the later 1990s, and they are becoming still more generous, particularly for households with children. We shall have more to say on this when we discuss policy options in Section 5.

To summarise, therefore, the significant rise in poverty since 1979 has been based on the rise in inactivity among men and single parents (mainly women), the increase dispersion of pay and demographic shifts biased

towards poorer households. In the next section we focus on the increases in pay dispersion and the rise in male inactivity.

4. Particular Features of the Rise and High Level of Poverty

In this section we discuss two key features of the high level of poverty in the UK, first the increase and high level of wage dispersion and second, the rise and high level of inactivity among men.

a) The Increase in Wage Dispersion

Back in 1979, wage dispersion in the UK was higher than in much of Northern Europe and, as we have seen, since then it has increased substantially, both absolutely and relative to most OECD countries (the US being a notable exception). This increase has been analysed extensively, the basic idea being that the increase in demand for skilled workers relative to the unskilled has, in the 1980s in particular, outstripped the increase in the supply of skilled relative to unskilled workers.

The Increase in the Relative Demand for Skills

There are two basic stories plus numbers of hybrids. The first is the trade story, analysed extensively in Wood (1994). This starts with a rise in productivity in unskilled (labour) intensive manufacturing in less developed countries (LDCs) combined with a reduction in trade barriers and a continuing increase in the supply of unskilled labour, as workers leave agriculture in LDCs in very large numbers. These changes lead directly to a fall in the world price of traded goods which are intensive in

unskilled labour (unskilled intensive goods) relative to the world price of skilled intensive products.

This leads to a fall in the demand for unskilled labour relative skilled labour in developed countries (DCs), and if relative wages are flexible, to a fall in the relative wage of unskilled labour. Since this is all being driven by output prices in the traded goods sector, in the non-traded goods sector all we should observe is a ceteris paribus rise in the relative employment of unskilled labour as their relative pay falls.

The second basic hypothesis is the technology story. This begins with the notion that OECD technological progress in all sectors is biased against unskilled workers and in favour of skilled workers. This will lead to an increase in the relative demand for skilled workers across the OECD and a decline in their relative pay (given relative wage flexibility). Note this shift in relative demand will occur even in the non-traded sector. This contrasts with the consequences of globalisation, where the decline in the relative wage of the unskilled leads to a rise in their relative employment in the non-traded sector.

A variety of hybrid stories have subsequently emerged, mostly taking the technology story and trying to explain why technological progress is biased against the unskilled. For Wood (1995), the bias is generated by LDC competition in the unskilled sector, leading to innovation in this sector which economises on unskilled labour. For Acemoglu (2003), the bias is produced by the dramatic increases in the supply of skilled labour in the 1970s, so technology is developed to favour this group. Furthermore, he argues that the bias may be modified by labour market institutions such as trade unions.

Overall, the balance of the evidence is in favour of some variant of the technology story (see Machin et al., 1998 and Gregory and Machin, 2000). In particular, there has been a significant rise in the relative employment of skilled workers in more or less all non-traded sectors which is inconsistent with a pure trade story (Machin et al., 1999).

Add in Changes in the Relative Supply of Skills

While the relative demand for skilled workers has been rising in the UK, so has their relative supply. Then the outcome in the labour market in any period will depend on which side is winning the race. In the UK (and the US), the evidence suggests that the demand side was winning during the 1980s and the early 1990s (see Nickell and Layard, 1999, Table 24). In most of Northern Europe, this was not the case. The consequence of the demand side winning is that, relative to supply, the demand for skilled workers was rising and the demand for unskilled workers was falling. The consequence is a weakening labour market for the unskilled with relative wages falling and jobs becoming harder to come by.

This is a very simple story and additional factors may be important, notably the falling minimum wage (relative to the mean) in the United States in the 1980s and the decline in private sector unions in the UK over the same period. And some argue that the contrast between Northern Europe and the UK/US is down to the (in)famous European labour market institutions, which compress wages and raise unemployment among the low skilled (eg. Krugman, 1994). In fact, when unemployment rose in most European countries in the 1980s, it rose proportionately as much or more among the skilled as among the

unskilled (see Nickell and Bell, 1996). Furthermore, European unemployment has now fallen again so that unemployment rates in the majority of European countries are now below the rate in the United States. (Unfortunately, the big four countries of continental Europe, namely, France, Germany, Italy, Spain are standing out against this trend.)

The Long-tail in the UK Skills Distribution

A particular feature of the UK exacerbated the decline in the unskilled labour market, that is the so-called long-tail in the UK skills distribution. Thus, the UK has a particularly large number of very low skill individuals. This was apparent in the early 1960s in the days of the grammar school and remains apparent for the whole adult population in the mid-1990s (see Table 7). Furthermore, there is no sign of any improvement in younger age groups (see Table 8). The comparison with the North European countries is very telling and suggests that, relative to the UK, their education systems have managed to raise a higher proportion of young people above a decent minimum threshold. Indeed, as Professor Sir James Dewar noted in his 1902 Presidential Address to the British Association, *"It is in the abundance of men of ordinary, plodding ability, thoroughly trained and methodically directed, that Germany has so commanding an advantage"* (Quote from Prais, 1995).

The disadvantage of the long-tail in the UK skill distribution is that when labour demand shifts towards those with higher skills, the problems this generates are going to be seriously exacerbated if over 20 per cent of the population of working age has very low skills indeed. The implications for their earning power are going to be profound.

Earnings Dispersion and Skill Dispersion Today

Given that today's dispersed earnings distribution in the UK is responsible for a significant amount of poverty, it is worth investigating the extent to which this is directly related to the distribution of skills. Some relevant cross-country data may be found in Table 9, where we present measures of earnings dispersion and measures of skill dispersion which are comparable across countries in the sense that they refer to scores on identical tests. The correlation between skill dispersion and earnings dispersion exceeds 0.8 in every case indicating that the variation skill dispersion explains around 70 per cent of the variation in pay dispersion across countries. So what about institutional factors which are well known to compress the dispersion of pay, notably unions and minimum wages? Using the measures presented in Table 10, we report a representative regression:

$$(90/10 \text{ earnings ratio})_i = 1.71 + \underset{(4.2)}{0.98}\ (95/5 \text{ prose literacy ratio})_i - \underset{(0.2)}{0.13}\ \text{union density}_i$$
$$\underset{(2.9)}{-1.36}\ \text{union coverage}_i \text{ , N=14, } R^2=0.85$$
t ratios in brackets

Others are similar but if we add minimum wage measures, we find a wrong-signed (positive) and insignificant coefficient. We see that union coverage has some compression effect but nevertheless, the bulk of the variation in earnings dispersion is generated by skill dispersion[5]. This provides some evidence of the crucial importance of the distribution of skills in explaining the distribution of earnings and hence poverty.

To summarise, since 1979, the increase in the relative demand for skills has outpaced the increase in relative supply and this has produced a progressive weakening of the labour market for the unskilled. This has

been exacerbated by the particularly large number of individuals of working age with very low skills (over 20 per cent), a large number which did not decline between the 1960s and the 1990s. Finally, we provide some evidence of the crucial importance of the dispersion of skills in explaining the distribution of earnings and poverty.

b) The Increase in Worklessness Among Men

In Table 11, we provide a picture of labour supply which shows that the rise of worklessness is focussed on male inactivity, unemployment rates today being much the same as in the 1970s[6]. This rise in inactivity is not just concentrated among older men but has occurred among the prime aged as well (see Table 12). The patterns of increase are, however, different. For older men, the rise in inactivity is concentrated in the 1970s and 80s, particularly following the early 1980s recession, but stopped in the 1990s. By contrast, for the prime aged, inactivity has continued to rise up to the present, despite the relatively buoyant labour market in the last eight years.

The weakening of the low skill labour market discussed above suggests that we might expect relatively larger increases in inactivity among unskilled men and as we can see in Table 13, this is indeed the case, particularly for prime age men. Among the older age group, the higher skill groups have access to good early retirement packages. The consequence of these changes is that some 50 to 60 per cent of inactive prime age men are now in the bottom skill quartile. Furthermore, the relative situation of the low skilled has worsened substantially since the 1970s. Indeed, using LFS definitions, since the early 1980s there has been no increase in prime age inactivity among those outside the bottom

skill quartile whereas the inactivity rates of the low skilled have risen over 2 ½ times.

Inactivity and Disability

Inactive men over the age of 25 report themselves as being in one of four major categories, namely, full-time student; looking after family; early retired; sick or disabled. In the prime-age group, around 70 per cent of the inactive report themselves as sick or disabled. In the older age group, the equivalent figure is over 50 per cent with another 35 per cent being early retired. So disability is a key factor in understanding the rise in male inactivity. To pursue this, we must first find out how many people report themselves as chronically ill. In Table 14, we see that just under 20 per cent of men aged 25-64 report themselves as having a limiting long-standing illness (LLSI) with around 17 per cent reporting a limiting health problem or disability (LHPD). This difference appears to be systematic perhaps because in the case of LLSI, the illness limits "things people normally do" whereas in LHPD, the illness limits "the kind of work the person does". The former is apparently a slightly broader category, so the numbers with LLSI are somewhat higher than those with LHPD. The key facts which emerge from Table 14 are first that the proportion reporting LLSI has not risen systematically since the late 1970s. By contrast, the numbers reporting LHPD rose steadily throughout. The different patterns of incidence observed for LLSI and LHPD may perhaps arise because LLSI is less responsive to a decline in labour demand than LHPD, which directly refers to work. Either way, what is absolutely clear is that the rise in self-reported illness or disability in the 1980s and 90s is relatively small compared to the rises in inactivity.

Turning to skill based variations in illness or disability, the basic result is that prime age men in the bottom skill quartile are around twice as likely to suffer from a limiting illness than the remainder. This differential has grown systematically since the 1970s, when it was closer to 35 per cent. For older men, the differential is smaller, at around 50 to 70 per cent, but again it has risen strongly since the 1970s.

As we have already noted, around 70% of inactive prime age men report sickness or disability as the reason for their inactivity. Unsurprisingly, this is consistent with around 71 to 75% of this same group reporting an LLSI or an LHPD. Among older workers the numbers are a little lower at just over 60%, probably because there is a significant group of healthy early retirees among the over 55s. Recall that some 35% of the inactive 55-64 year old men report early retirement as opposed to sickness or disability as the cause of their inactivity (in the LFS).

So, in the light of this, is the typical person with an LLSI or an LHPD inactive? The short answer is no. As we can see from Table 15, among prime-age men, the majority of those with a limiting illness or disability are economically active. However, whereas in the 1970s a mere 10 per cent of this group were inactive, by the late 1990s this number had risen to around 35% (LLSI) or 43% (LHPD). Inactivity among prime age men without an LLSI has also risen but among those without an LHPD, there has been no significant change since the early 1980s. If we use these data plus changes in the incidence of long-standing illness in the working age population (Table 14) we can work out what proportion of the dramatic rise in inactivity among prime age men is "explained" by the rise in inactivity among those with a limiting illness or disability. The answer is that around 70% of the rise in prime-age male inactivity since the 1970s can be accounted for by rising inactivity among those with an LLSI and

that more or less all the rise since the 1980s can be accounted for by rising inactivity among those with an LHPD. Furthermore, while some of this contribution is due to rising rates of reported chronic illness (see Table 14), more arises from rising inactivity within this group.

Among older workers, the situation is different with around half the rise in inactivity since the 1970s "explained" by rising inactivity among those without any reported limiting illness. This expanding group would tend to report themselves in the LFS as inactive because of early retirement rather than because of sickness or disability. They would consist mainly of occupational pensioners taking early retirement (ie prior to age 65), an option widely available, particularly in public sector occupations (eg teachers, doctors, police, civil servants).

Inactivity, Disability and Skill Differentials Among Prime Age Men

As we have already noted, among prime-age men, those in the bottom skill quartile are now around three to four times more likely to be inactive than the remainder of the prime-age male population. In Table 16, we focus on the extent to which this is related to the incidence of chronic illness or disability. What we find is that two-thirds of the rise in inactivity was among the chronically sick or disabled and around 60 per cent of these were in the bottom skill quartile. So in 1979, low skill men who were chronically sick contributed around ¾ percentage point to prime age male inactivity. By 2000, they contributed nearly 3 percentage points despite being less than 6 per cent of the total population of prime-age men. This level of concentration is, in fact, even higher if we use LFS data as opposed to GHS data (see Faggio and Nickell, 2003, for more detail).

To summarise, therefore, we find that the rise in inactivity among men is heavily concentrated among those with chronic illness, particularly if they are low skill. Most of the inactive who are chronically sick or disabled are claiming incapacity benefit (invalidity benefit prior to 1995) and by 2001, over 50 per cent of these claimants were suffering from mental or behavioural disorders (mostly depression) or diseases of the musculoskeletal system (mostly back pain). In 1979 the equivalent proportion was below 25 per cent (Social Security Statistics).

Some Explanations

The fundamental economic change underlying this has been the significant weakening of the low skill labour market, the symptoms being a falling wage relative to the skilled and a shortage of unskilled jobs. One consequence of this would be a rise in the non-employment rate of low skill workers. This has indeed happened, but the question arises as to why this rise in non-employment has been so heavily focussed on inactivity as opposed to unemployment? For example, the unemployment rate among those without qualifications fell from 19% in the early 1980s to around 12% in the late 1990s whereas the inactivity rate among the same group rose by a multiple of around three.

To answer this question, first consider another. Given the weakening labour market for the low skilled, which group would one expect to be particularly badly hit? A plausible answer is that it would be the group who have an additional disadvantage, namely those who suffer, or potentially suffer, from a long-term illness or disability which limits the sort of work they can do.

The story would then proceed as follows. Back in the early 1970s, even the men in this group with low skills did not tend to withdraw from the labour force. Around 87% of men in this category were economically active at that time. However, they did find it harder to get work. Back in the 1970s, those with a long-term illness or disability were three times as likely to be unemployed as the remainder of the work force. So once the low-skill labour market started to weaken, those unskilled men with an actual or potential chronic illness or disability were particularly badly hit. Because the low skill group found it much harder to get work, those operating the social security system found it much easier to shift them onto incapacity or invalidity benefit. Thus, for example, some individuals who were hard to place in work were advised by the Employment Service to claim invalidity benefit (National Audit Office, 1989). Furthermore, doctors, whose certification was required for benefit entitlement, were influenced by their assessment of the probability of patients finding a job (Ritchie et al., 1993).

These last might be termed "push" factors, that is forces pushing men into inactivity. "Pull" factors include the fact that invalidity benefits were considerably higher than those available to the unemployed. Furthermore, this gap increased from the mid-1980s to the mid-1990s before falling back in the later 1990s. This occurred because of the operation of the Additional Pension system, an earnings related supplement to invalidity benefit. Another factor on the "pull" side is the fact that once in the invalidity or incapacity benefit system, the pressure to take up work is minimal. For example, Beatty and Fothergill (1999) report that in their survey of working-age men who had not worked for six months, only 5 per cent of those reporting themselves as long-term sick were looking for a job. The upshot of all this was that the number of

male invalidity benefit claimants doubled from the early 1980s to the mid-1990s. This story seems to be a plausible explanation of the facts discussed previously[7].

In summary, therefore, we have seen in this section how the weakening of the low skill labour market has increased both pay dispersion and worklessness, key factors underlying poverty. In the final section we now turn to matters of policy.

5. Poverty and Public Policy

It is clear from our discussion that public policy can be used to reduce significantly and, indeed, eliminate poverty. In order to reduce poverty, people in poverty must earn more, work more or receive higher transfers. The simple correlations in Table 17 bear this out. Most of the numbers are entirely self-explanatory but it is worth noting that unemployment, per se, is irrelevant, worklessness being the key. Furthermore, despite unemployment being irrelevant, unemployment benefits are highly significant presumably because they are a strong indicator of the generosity of the overall benefit system.

Before plunging on, it is worth noting that I do not intend to provide a detailed recipe for eliminating poverty because I have neither the space nor the expertise. In much of this field, the devil is in the detail, so all I shall do is highlight a few significant points including some of the difficulties. The discussion is organised under three heads, namely earning more, working more (including in-work transfers) and transfers for workless households.

a) Earning More

Under this heading, we focus on the longer-term issue of education and the shorter-term question of low pay.

Education. The key problem here is how to eliminate the long tail in the skill distribution. First, it is worth noting that the results of the recent Programme for International Student Assessment (PISA), reported in Table 18, seem to indicate that we are already well on the way. Notice that contrary to the results from previous international skills tests between the early 1960s to the mid-1990s (some of which are reported here in Tables 7, 8, 9), the results in Table 18 indicate that the dispersion of literacy scores across children in the UK are on the low side, well below the OECD average. There is some scepticism about this among experts I have consulted, not least because the results are at variance with most of the many previous investigations and it is very hard to pinpoint any significant reasons for such a dramatic change[8].

Leaving this aside, some facts about UK education provide a useful background. In Table 19, we see that public expenditure on education in the UK has fallen substantially since the mid-1970s, reaching a minimum in the late 1990s. Then, in Nickell and Quintini (2002), we find that the relative pay of school teachers fell significantly over the same period along with some evidence of a decline in quality among new entrants to the profession.

Against this rather gloomy background, increased expenditure on schools is necessary and this is happening, but the research discussed in Krueger (2003) and Hanushek (2003) indicates that it is far from sufficient. First, in order to attack the long tail problem, employing the best teachers and

heads in the poorest schools[9] would seem sensible. This would, of course, require significant financial incentives. Second, make a serious attempt to ensure that curriculum and teaching policy follows the evidence. For example, literacy and numeracy hours appear to have had some success in reducing dispersion in skill levels at the primary school stage (see Table 20). However, the project, Improving Primary Mathematics, initiated in Barking and Dagenham by researchers at the National Institute for Economic and Social Research, indicates that things could easily be a lot better. The methods used, based on those current in Switzerland, generate substantial improvements in primary school mathematics attainment even in the poorest schools (see Whitburn 2002). Third, a lot of evidence suggests that heads are crucial to success and failure in schools. The conclusions to be drawn from this are obvious.

Of course, education policy is a massive and controversial subject and my low level of knowledge and expertise in this area forbids me from digging a deeper hole for myself. But it is worth noting the list of the best ways of investing in children set out in Danziger and Waldfogel (2000) based on an extensive study of the evidence. Briefly these are:

i) Support programmes to improve the health of women of childbearing age.

ii) Support early childhood interventions, targeted to the most disadvantaged children who are at highest risk of school failure.

iii) Support measures to raise the quality of child care and early childhood education for pre-school age children.

iv) Support after-school programmes and mentoring programmes for school-age children and adolescents.

v) Support programmes to raise levels of college attendance by high ability youth from low-income families.

Low Pay. While education is the key policy area for attacking poverty in the long run, what are we to do in the mean time? The obvious short-run method of raising pre-tax earnings is to pass laws to prevent low pay. These may be in the form of minimum wage laws or fair wage legislation. And the obvious potential problem here is the danger that this will cut the employment of the low-skilled, thereby raising worklessness and poverty from another direction. While simple economics suggests that raising wages above the equilibrium level will reduce employment, this is not necessarily the case. For example, low pay establishments, such as fast food outlets, often operate with very high turnover and a permanent level of vacancies. Under these circumstances, a forced increase in pay can even raise employment. The following simple example explains the mechanism. Consider an establishment with 50 job slots where pay and turnover are such that an average of only 45 are filled at any one time. If pay is forced up, workers are less likely to leave and we could easily have a situation where the pay rise cuts the number of job slots to 48 but simultaneously reduces the number of "permanent" vacancies from 5 to 2, generating average employment of 46, an overall rise of 1. So what is the UK evidence?

The introduction of the National Minimum Wage in 1999 appears to have generated little overall job loss according to Stewart (2001). Looking more closely at a particular sector, Machin et al. (2002), in a "before" and "after" analysis of UK care homes, discover some evidence of employment and hours reductions in homes after the introduction of the minimum wage. In this sector, minimum wages had a substantial impact on the wage structure because around a third of workers were paid below

the minimum level prior to its introduction. Relative to this, the employment effects were small. Overall, the impact on employment seems to be minimal, not least because the spillover effects further up the pay distribution seem to have been negligible (see Dickens and Manning, 2002).

This evidence suggests that the best policy should be of the "suck it and see" type. This is to raise the legislative wage floor slowly relative to the general level of wages until employment effects become noticeable. To some extent, this is indeed the existing policy where from 1999 to 2004, the rise in the National Minimum Wage from £3.60 to £4.80 per hour represents a rise of around 5.7% per annum, slightly higher than the rate of increase of average earnings. However, a somewhat faster rate of relative increase would probably be quite safe on the employment front and have more of an impact on low pay.

b) Working More, Including In-Work Benefits

Dickens and Ellwood (2001) calculate that if work patterns returned to the 1979 level and if work were made to pay enough so that no child living in a household with at least one full-time worker was poor, then child poverty would fall by 60 per cent. So the combination of increased work and take-home pay is potentially very effective in reducing poverty.

Aside from policies discussed in the previous section there are two types of policy which are relevant, push policies, which provide support, encouragement and pressure for the workless to obtain a job, and pull policies which provide benefits to top-up regular pay.

Push Policies

The standard push policy used in the UK is the New Deal alongside Job Centre Plus. The idea here is to provide a strategy for each individual in the target group which leads on to some form of training, job search assistance, subsidised employment and so on. This job-finding process is integrated with the benefit system so that each individual has a single personal adviser who will deal with all work, benefit and related issues. The process also includes the possibility of benefit sanctions for individuals who fail to participate in the programme or turn down suitable employment[10].

The workless groups in the UK for which New Deals are available include young people (18-24) who have been out of work for 6 months, adults (25-59) who have been out of work for 18 months, over 50s who have been on any benefit for 6 months, the disabled and single parents. The first two are compulsory and members of these groups must enter the relevant programme. The New Deal for young people started in January 1998 and evaluations published so far indicate that it has generated 20,000 extra jobs each year and has significantly reduced unemployment rates among young persons (see Van Reenen, 2000, for example). Furthermore, there is no evidence as yet of a significant adverse impact on the labour market prospects of groups outside the programme. Finally, Van Reenen calculates the social benefits to be in excess of the social costs. Overall, the New Deal for young people bodes well for other New Deal programmes. However, the difficulties involved in getting young people with weak skills into employment are relatively minor relative to the problems facing, for example, those with disabilities and their caseworkers and advisers.

<u>Pull Policies</u>

The standard policy of the pull type is the tax credit. This is essentially an in-work benefit or pay top-up which depends on family circumstances. Such a policy will have a two-fold impact. It will raise both employment and take-home pay for the target group. For any given policy, the bigger the employment effect, the smaller the take-home pay effect and the size of the former will depend on the extent to which pre-tax pay falls in response to the increase in labour supply. By and large, if tax credits are focussed on individuals whose pay is at or near the wage floor (minimum wage or minimum union rate), the employment effect will be small and the take-home pay effect correspondingly large.

In the UK, the Working Families Tax Credit (WFTC) was fully phased in from April 2000, replacing Family Credit (FC), a benefit paid to low earners with dependent children. The WFTC was substantially more generous than FC, increasing both credits for younger children and the threshold as well as reducing the withdrawal rate. Furthermore, it included a new childcare credit. While the overall employment effects appear to have been small, when combined with the tight labour market, it has helped raise the employment rate among lone parents which is now over 50 per cent, up from 38 per cent in 1993. However, the major gain from WFTC and its successor tax credits has been their contribution to reducing child poverty without negative labour supply effects. From 1996/7 to 2000/1, child poverty fell by around 3.5 percentage points and the WFTC has made a significant contribution to this reduction (see Brewer et al., 2003, for details).

Fundamental Problems with Push and Pull Policies

The basic issue with policies to push workless individuals into employment is the extent of compulsion. Currently, entry into a New

Deal programme is not mandatory in return for receipt of benefits for older workers, the disabled and lone parents. This is related to the fundamental question of who in society is expected to work and who is allowed to receive benefits without looking for a job. Not surprisingly, this topic arouses great passions. My instinct is more towards the work side of things and a great deal more could be done to smooth the path of older, lone parent and disabled benefit recipients into satisfactory employment.

The basic issue with in-work benefits is the expense of a fully comprehensive system which will lift all workers out of poverty in a society with a very long tail to the skill distribution. My guess is that cutting the long tail significantly is a necessary condition for the introduction of such a generous system in the UK.

c) Benefits for No-Work Families

To eliminate poverty among those without alternative sources of non-labour income, benefits have to be raised to the poverty line and then indexed to median wages. Even then, those who, for one reason or another, are not getting the benefits will typically remain in poverty, at least temporarily. Some elements of this policy are being introduced, for example, part of the new Child Tax Credit is set to be indexed to earnings, as is the Minimum Income Guarantee for pensioners. Also, there have been substantial increases in the child elements of the benefit system. Overall, however, to have benefits at the level to eliminate poverty would be enormously expensive. Those countries in Northern Europe with very low levels of poverty (eg. Denmark, Sweden) collect at least 10 percentage points of GDP more in taxes than we do in the UK and they have the advantages of much shorter tails to their skill

distribution and higher overall employment rates. While it is feasible to move further in that direction, it seems unlikely that we will get very far without a significant improvement in skills at the bottom end.

Summary and Conclusions

Relative poverty in the UK has risen massively since 1979 mainly because of increasing worklessness, rising earnings dispersion and benefits indexed to prices, not wages. So poverty is now at a very high level. The economic forces underlying this are the significant shift in demand against the unskilled which has outpaced the shift in relative supply in the same direction. This has substantially weakened the low-skill labour market which has increased both pay dispersion and worklessness, particularly among low-skilled men. The whole situation has been exacerbated by the very long tail in the skill distribution, so that over 20 per cent of the working age population have very low skills indeed (close to illiterate).

Practical policies discussed include improving education and overall well-being for children in the lower part of the ability range, raising wage floors, New Deal policies, tax credits and benefits for the workless. Overall, I would argue that without reducing the long tail in the skill distribution, there is no practical possibility of policy reducing relative poverty to 1979 levels.

Footnotes

1. When talking of poverty, I mean some relative measure – eg. below 60% of median earnings adjusted for household composition in the usual way. The relative definition of poverty does, of course, have certain drawbacks but not as many as the absolute definition which has to be updated from time to time (ie become relative) otherwise it leads to absurdity.

2. Not only do poor children have much lower earnings in later life, they have much lower earnings given qualifications. And this is more true for children born in 1970 than for children born in 1958 (thanks to Jo Blandon for this).

3. See Stewart (200), Table 4, using Poverty Threshold (2), Low Pay Threshold at £4.50 per hour.

4. Much of the analysis in Dickens and Ellwood (2001) uses gross income before housing costs. As it happens, the results generated if net income after housing costs is used are very much the same (see Dickens and Ellwood, Figure 1, for example).

5. Despite this evidence, Devroye and Freeman (2002) argue that "the explanation of cross-country differences in inequality lies not in the distribution of skills, but in the mechanism by which different pay systems produce dispersion among otherwise similar people in similar situations" (p.16). Their discussion hangs crucially on the fact that test scores are not good at explaining individual earnings within countries, particularly relative to schooling/qualification levels. The problem here is that test scores as a measure of income generating skills at the individual level are subject to substantial measurement error. By contrast, while schooling/qualifications may also be weak measures of "true" ability, since they are used extensively by the gate-keepers of the higher occupations, they will automatically have a strong relationship to earnings within countries. For cross-country comparisons, however, they tend to be hopeless because of lack of comparability. Test Score measurement error, however, will simply add a constant to the true dispersion of skills and so long as the measurement error variance is roughly the same in each country, any relationship between skill dispersion and earnings dispersion is preserved.

6. Of course the higher levels of unemployment in the 1980s and early 1990s will have significantly raised poverty levels during this period.

7. There is, of course, a regional element to this story which we do not discuss here. It is clear, however, that the harder it is to find work, the more likely are those with an actual or potential chronic illness to end up in the invalidity benefit system. This fact illustrates how the discrepancy in inactivity rates between high and low employment regions is sustained and worsened.

8. Not surprisingly, looking at the numbers, these results also caused some consternation in Germany.

9. That is, schools with children from the poorest households.

10. Evidence from Denmark and the Netherlands, which have used policies of this type, suggest that they can be highly effective. See Nickell (2002) and the references therein for details.

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Table 1

Individual Poverty in Different Family Types, 2000/1 (1997 in brackets)

	% of individuals in each type	% of each type in poverty	% contribution to overall poverty
Couple with children	42.4 (44.0)	20.9 (23.0)	40.0 (41.3)
Couple without children	25.5 (26.2)	12.2 (11.3)	14.1 (12.2)
Single with children	10.1 (9.9)	53.8 (62.0)	24.5 (26.0)
Single without children	22.0 (19.9)	21.7 (24.3)	21.4 (20.5)
Total	100	22.2 (23.6)	100

Source: Piachaud and Sutherland (2002), Tables 1, 3.

Table 2

Individual Poverty in Households with Different Employment Circumstances 2000/1 (1997 in brackets)

	% individuals in each type	% of each type in poverty	% contribution to overall poverty
Workless	17.0 (19.5)	64.4 (68.4)	51.4 (56.7)
One or more PT	10.0 (9.0)	29.4 (31.9)	13.8 (12.2)
Head self-employed	10.9 (12.2)	24.6 (21.9)	11.6 (11.4)
Couple, one FT	14.5 (14.8)	19.7 (20.5)	13.4 (12.9)
Couple one FT, one PT	17.5 (17.1)	5.1 (4.4)	4.2 (3.2)
Single/Couple, all in FT work	30.1 (27.4)	4.0 (3.1)	5.6 (3.6)
Total	100	21.3 (23.5)	100

Source: Piachaud and Sutherland (2002), Table 4

Table 3

Child Poverty in Households with Different Employment Circumstances, 2000/1 (1997 in brackets)

	% children in each type	% children in poverty	% contribution to overall child poverty
Workless	20.7 (24.6)	77.4 (80.1)	52.8 (58.3)
One or more PT	9.7 (7.8)	42.2 (48.7)	13.5 (11.2
Head self-employed	11.6 (13.0)	30.8 (28.1)	11.8 (10.8)
Couple, one FT	17.6 (18.3)	25.2 (27.1)	14.6 (14.7)
Couple one FT, one PT	23.5 (22.0)	6.2 (5.5)	4.8 (3.6)
Single/couple, all in FT work	16.8 (14.3)	4.5 (3.3)	2.5 (1.4)
Total	100	30.3	100

Source: Piachaud and Sutherland (2002), Table 5.

Table 4

Workless Households in 1999

	Per cent workless	Per cent of individuals in workless households
Couple with children	7.3	18.1
Couple without children	8.5	12.7
Single with children	56	32.9
Single without children	29	36.3

Source: Dickens and Ellwood (2001)

Table 5

Per cent Workless

	1979	1999
Couple with children	4.5	7.3
Couple without children	3.4	8.5
Single with children	35	56
Single without children	18	29

Source: Dickens and Ellwood (2001)

Table 6

50-10 Percentile Differentials

	All		Men		Women	
	Actual	Residual	Actual	Residual	Actual	Residual
1980	0.48	0.38	0.43	0.40	0.33	0.33
1990	0.54	0.42	0.52	0.45	0.44	0.39
1998	0.57	0.46	0.58	0.49	0.50	0.42

See Prasad (2002), Tables 2, 3. These are based on log hourly (real) wages from the UK New Earnings Survey and are centred 3-year moving averages. Residual inequality is based on the residuals from regressions controlling for industry, occupation, region and FT work (and gender in the "All" category).

Table 7

International Test Scores

a) Distribution of Scores in International Maths Test of 13 year-old Pupils 1963-64 (%)

Score (out of 70)	US	Germany	England
<5	22	8	24
6-30	62	59	49
31-51	14	30	22
>51	1	3	5
Mean	16	25	19
cv (sd/mean)	82	53	88

b) Adult Population at the Lowest Levels of Literacy in the mid-1990s (%)

	US	Germany	UK	Netherlands	Sweden
Prose literacy					
Level 1	20.7	14.4	21.8	10.5	7.5
Level 1+2	46.6	48.6	52.1	40.6	27.8
Quantitative literacy					
Level 1	21.0	6.7	23.2	10.3	6.6
Level 1+2	46.3	33.3	51.0	35.8	25.2

Sources: a) Prais (1995), Table 4.1, b) OECD (1997).

Note: Level 1 is the lowest level (out of 5). It is very close to functional illiteracy. These are based on tests administered as part of the International Adult Literacy Survey (IALS) in many OECD countries in the mid-1990s. The tests were the same in every country.

Table 8

Is Literacy Getting Better in the Adult Population?

	Prose Literacy			Quantitative Literacy		
	% in Level 1			% in Level 1		
Age	16-25	26-35	36-45	16-25	26-35	36-45
US	23	20	19	26	20	18
Germany	9	12	14	4	5	6
UK	17	18	17	22	20	19
Netherlands	8	6	9	8	7	10
Sweden	4	5	7	5	4	7

Source: OECD (1997). See also note to Table 7.

Table 9

Skills and Earnings Distributions

	Earnings		Skills (Literacy Test Score Ratios)[c]		
	90/10[a] ratio	Gini[b] coefficient	90/10 Prose	95/5 Prose	95/5 Quantitative
UK	3.35	32.4	1.75	2.34	2.56
Australia	2.90	30.5	1.69	2.47	2.41
Belgium	2.25	27.2	1.68	2.20	2.33
Canada	4.19	28.5	1.78	2.51	2.42
Denmark	2.17	21.7	1.39	1.57	1.67
Finland	2.38	22.8	1.54	1.82	1.81
Germany	2.32	28.2	1.51	1.75	1.68
Ireland	(3.35)	32.4	1.71	2.21	2.47
Netherlands	2.59	25.5	1.48	1.72	1.79
Norway	1.98	25.6	1.44	1.68	1.76
NZ	3.04	-	-	2.20	2.34
Portugal	4.05	-	-	3.48	3.17
Sweden	2.13	23.0	1.51	1.78	1.81
Switzerland	2.69	26.9	1.72	2.25	2.45
US	4.37	34.4	1.90	2.69	2.72
Correlation with 1st, 2nd column respectively			0.85 0.82	0.83 0.81	0.81 0.83

Sources: a) OECD (1996), Table 3.1, 1994 or 1995 except Denmark, 1990; Norway, 1991.

b), c) OECD (2000), Tables 2.1, 4.13. Refers to 1994-8

Table 10

Some Institution Variables

	Union Density	Union Coverage	Minimum/Ave. Wage
UK	35	40	(0.40)
Australia	35	80	-
Belgium	52	90	0.60
Canada	36	36	0.35
Denmark	76	69	0.54
Finland	80	95	0.52
Germany	27	92	0.55
Ireland	43	(48)	(0.55)
Netherlands	24	85	0.55
Norway	55	70	0.64
NZ	21	31	0.46
Portugal	25	71	0.45
Sweden	87	89	0.52
Switzerland	23	53	0
US	14	17	0.39

Sources: Union Density (1996-8), Union Coverage (1994), Nickell (2002), Tables 12, 13.
Minimum/Ave. wage (1991-94), Nickell and Layard (1999), Table 9.

Note: Bracketed numbers are less reliable. In the minimum wage case, the numbers corresponding to the UK and Ireland refer only to certain select industries covering a small minority of workers.

Table 11

Inactivity and Unemployment Rates (%), 1972-2002

	Inactivity Rate (%)						Unemployment Rate (%)		
	Men (25-64)			Women (25-59)			Men (25-64)		
	GHS	LFS	LFS (ILO)	GHS	LFS	LFS (ILO)	GHS	LFS	LFS (ILO)
1972-76	3.9	2.8		40.2	39.4		3.6	4.7	
1977-78	4.8	4.7		36.7	37.4		3.9	4.4	
1979-81	6.2	5.8		35.6	37.7		6.1	5.9	
1982-86	8.9	10.5		35.5	35.2		9.7	9.1	
1987-91	9.9	11.3		29.6	30.2		7.5	7.5	
1992-96	12.2	11.4	12.5	28.0	26.5	28.1	10.1	9.7	9.0
1997-99	14.3	12.8	13.8	25.9	25.2	26.8	5.3	6.0	5.4
2000-01	14.8	13.2	14.1	24.7	24.2	25.1	3.8	4.8	4.2
2002		13.3	14.3		23.8	24.7		4.9	4.3

Notes

(i) GHS is the General Household Survey, LFS is the Labour Force Survey.

(ii) Data are available as follows: GHS, 72-96, 98, 2000. LHS, 75, 77, 79, 81, 83-2002. LFS (ILO), 92-2002.

(iii) The inactive are those who are not working and not unemployed. LF unemployed are those without a job who are (a) looking for work in the reference week or (b) prevented from seeking work by temporary sickness or holiday or (c) waiting to start a job or (d) waiting for the results of a job application. ILO unemployed are those without a job who are available to start work in two weeks and (a) have looked for work in the previous four weeks or (b) are waiting to start a job.

(iv) The GHS uses the LF definition up to 1996, the ILO definition in 98, 2000. The LFS series uses the LF definition. The LFS (ILO) series used the ILO definition.

Table 12

Inactivity Rates of Men (%), 1972-2002

Ages		25-54			55-64	
	GHS	LFS	LFS (ILO)	GHS	LFS	LFS (ILO)
1972-76	1.6	1.1		11.9	9.1	
1977-78	2.1	2.0		14.2	14.2	
1979-81	2.6	2.5		18.7	18.2	
1982-86	3.4	4.7		28.3	31.1	
1987-91	4.0	5.7		32.4	33.1	
1992-96	5.9	5.7	6.9	37.7	35.3	36.0
1997-99	7.9	7.2	8.3	39.9	36.0	36.6
2000-01	8.1	7.4	8.5	38.9	35.2	35.7
2002		7.5	8.6		34.5	35.0

Notes: As in Table 11.

Table 13

Inactivity Rates for Men in and Outside the Bottom Skill Quartile (%), 1972-2002

Ages	25-54				55-64			
	GHS		LFS		GHS		LFS	
	BSQ	NBSQ	BSQ	NBSQ	BSQ	NBSQ	BSQ	NBSQ
1972-76	2.2	1.4			12.7	11.6		
1977-78	2.9	1.8			14.9	14.0		
1979-81	3.5	2.3	4.3	1.9	20.7	18.0		
1982-86	5.8	2.6	7.4	3.8	30.9	27.4	33.0	30.5
1987-91	8.1	2.6	9.6	4.4	36.6	31.0	37.8	31.5
1992-96	11.7	4.0	13.4	3.1	42.4	36.1	43.4	32.6
1997-99	15.4	5.4	17.7	3.7	50.6	36.3	47.4	32.1
2000-01	15.8	5.5	18.1	3.8	45.4	36.7	48.0	30.9
2002			18.8	3.7			47.6	30.1

Notes

(i) As in Table 11.

(ii) BSQ (the bottom skill quartile) is based on educational qualifications. Until the early 1990s, those in the bottom skill quartile are a subset of those without qualifications. Later, those without qualifications are less than 25 per cent of prime age men. So the bottom quartile also includes some proportion of the next education group, ie. those with some GCSEs. NBSQ represents those outside the bottom skill quartile.

Table 14

Percentage of Men Affected by Chronic Illness

Ages	25-64		25-54		55-64	
	LLSI	LHPD	LLSI	LHPD	LLSI	LHPD
1972-76	15.0		11.2		28.1	
1979-81	18.7		14.7		32.8	
1982-86	18.2	12.7	14.0	8.7	33.2	27.1
1987-91	19.0	14.8	14.8	10.4	35.0	31.8
1992-96	20.0	16.5	16.2	12.2	35.5	34.3
1997-99	20.0	17.0	16.6	13.3	33.6	36.6
2000-01	18.9	18.5	15.0	14.6	32.9	37.3
2002		18.1		14.1		36.3

Notes

(i) As in Table 11.

(ii) LLSI refers to a limiting long-standing illness. This is reported in the GHS, where people are asked if they suffer from a long-standing illness which limits things which they would normally do. LHPD refers to a limiting health problem or disability. This is reported in the LFS and refers to a health problem or disability which affects the kind of work the person does.

(iii) The GHS failed to ask a consistent question of this type in 1977-78. The LFS question was changed in 1997 and we have made some slight adjustment to the data post-1997 to correct for this.

Table 15

Inactivity Rates Among Men (%)

Ages	25-54				55-64			
	With		Without		With		Without	
	LLSI	LHPD	LLSI	LHPD	LLSI	LHPD	LLSI	LHPD
1972-76	10.0		0.4		32.0		4.0	
1979-81	11.9		0.7		39.7		8.4	
1982-86	15.9	28.8	1.2	1.9	53.4	66.6	16.4	18.4
1987-91	19.2	28.5	1.3	1.5	59.1	65.0	18.6	16.6
1992-96	26.3	36.3	1.8	1.5	66.0	68.6	23.2	17.7
1997-99	33.8	43.1	2.8	1.9	64.6	72.8	29.6	18.5
2000-01	34.5	41.8	3.2	2.0	70.9	70.2	25.1	18.7
2002		43.6		2.1		70.2		18.3

Notes

See the notes to Tables 11 and 14. LLSI is a limiting long-standing illness. LHPD is a limiting health problem or disability.

Table 16

The Concentration of Inactivity Among the Low Skilled And Chronically sick: Age 25-54

Percentage of Male Population who are Inactive

Year	All	Bottom Skill Quartile		Top Three Skill Quartiles	
		Chronically Sick/Disabled	Well	Chronically Sick/Disabled	Well
79-81	2.4	0.73	0.16	1.07	0.45
82-86	3.3	1.04	0.41	1.29	0.59
87-91	4.1	1.53	0.50	1.50	0.59
92-96	6.1	2.29	0.59	2.27	0.91
98	8.2	2.77	1.02	3.14	1.29
00	8.3	2.92	1.04	2.69	1.64
Change	5.9	2.2	0.9	1.6	1.2
		Opposite Change			
79-81 to 00 Share (%)	100	37	15	27	20
		Percentage of Male Population in Each Group			
79-81	100	4.5	20.5	10.2	64.8
00	100	5.8	19.2	9.2	65.8

Note: These data are based on the GHS and so use the LLSI definition of chronic illness (see Table 14).

Table 17

Some Correlations Between Poverty Rates and Other Factors

Based on Poverty Rates in 1993-5 in 14 Countries

	Poverty Rate	Permanent Income Poverty (3 year average)
Education		
Share of population (25-64) not completed upper secondary education	0.26	0.38
Work		
Unemployment rate	0.02	0.01
Share of workless households	0.42	0.56
Benefits		
Public social expenditure (% GDP)	-0.64	-0.69
Share of gov. transfers received by bottom three deciles	-0.45	-0.56
Gross replacement rates for unemployment benefits	-0.82	-0.74

Source: OECD (2001), Table 2.7.

Table 18

Results from the Programme for International Student Assessment, 2000

15-year old school children

	Reading Literacy				Mathematics Literacy			
	Mean	Percentiles		95/5	Mean	Percentiles		95/5
	(SD)	**5**	**95**			**5**	**95**	
UK	523 (100)	352	682	1.94	529 (92)	374	676	1.81
Australia	528 (102)	354	684	1.94	533 (90)	380	679	1.79
Belgium	507 (107)	308	659	2.14	520 (106)	322	672	2.09
Canada	534 (95)	371	681	1.84	533 (85)	390	668	1.71
Denmark	497 (98)	326	645	1.98	514 (87)	366	649	1.77
Finland	546 (89)	390	681	1.75	536 (80)	400	664	1.66
Germany	484 (111)	284	650	2.29	490 (103)	311	649	2.09
Ireland	527 (94)	360	669	1.86	503 (84)	357	630	1.76
Norway	505 (104)	320	660	2.06	499 (92)	340	643	1.89
NZ	529 (108)	337	693	2.06	537 (99)	364	689	1.89
Portugal	470 (97)	300	620	2.07	454 (91)	297	596	2.01
Sweden	516 (92)	354	658	1.86	510 (93)	347	656	1.89
Switzerland	494 (102)	316	651	2.06	529 (100)	353	682	1.93
US	504 (105)	320	669	2.09	493 (98)	327	652	1.99
France	505 (92)	344	645	1.88	517 (89)	364	656	1.80
Italy	487 (91)	331	627	1.89	457 (90)	301	600	1.99
Spain	493 (85)	344	620	1.80	476 (91)	323	621	1.92
OECD	500 (100)	324	652	2.01	500 (100)	326	655	2.01

Source: OECD (2001a), Tables, 2, 3a, 3.1.

Table 19

Public Expenditure on Education in the UK (% of GDP)

	Public	Total
1975-9	6.02	6.42
1980-4	5.40	5.90
1985-9	4.88	5.36
1990-4	5.02	5.72
1995-9	4.90	5.94
2000-3	5.03	

Source: Glennerster (2002), Table 1. 1998-2000 were the years with the lowest public expenditure in the last quarter of the 20th Century (4.5% of GDP).

Table 20

Scores of Schools 1995-2000, Maintained Schools

Key Stage 2: 11 years, Level 4+

		Per cent Reaching Expected Levels			
		1995	1997	1999	2000
Maths					
	75th percentile	63	78	83	85
	median	47	65	72	74
	25th percentile	31	50	59	60
English					
	75th percentile	65	78	84	88
	median	50	67	73	78
	25th percentile	35	52	61	64

Source: Glennerster (2002), Table 5.

Figure 1
Real Wages in Britain for Males Working at Least Half Time

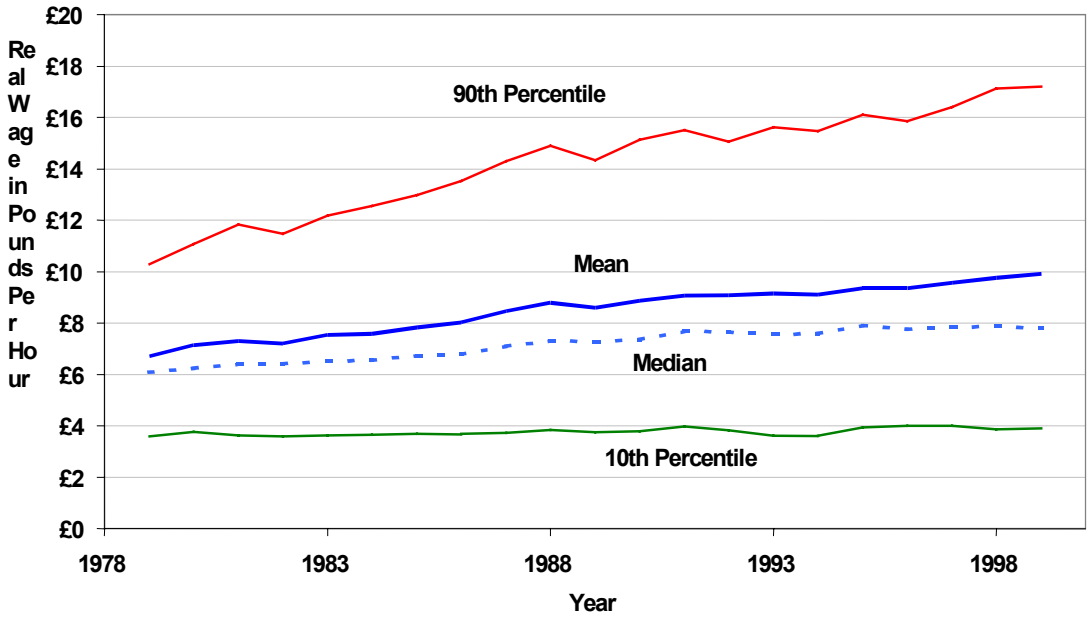

Figure 2
Real Wages in Britain for Females Working at Least Half Time (Smaller)