

## **Non-technical summary**

Work is the principle means of generating and distributing wealth in an industrial society. Unemployment is one of the three key variables, alongside growth and inflation, continuously addressed of macro-economic policy. Often the unemployment rate serves as a short hand measure of two, rather different, issues. First, it is thought to capture the extent of labour market slack and hence is used as a gauge of potential inflationary pressure in the economy. Second, it is also used as a measure of social distress and exclusion stemming from joblessness. On the first basis, the state of the labour market looks healthy. Britain now has (the lowest unemployment rate for twenty years) and an employment-to-population rate that is one of the highest among developed nations. However, this good news masks mounting evidence that worklessness is increasingly concentrated on selected individuals, households, socio-economic groups and geographical areas. Simply focussing on the aggregate unemployment rate bypasses many of these issues. Likewise, concentration on average wages and wage growth obscures the highest level of wage inequality ever statistically observed. In other words, whilst the macro-economic signals coming from the labour market look good, the evidence on the distribution side is far less rosy. These micro aspects have been overlooked, or ignored, over the last 20 years, but, we believe, now form the most pressing labour market and social problems facing this administration. It is this legacy and the current governments' response that this paper is concerned with.

For brevity, in this paper, we focus on what we view as the governments' selected priorities. They are the following areas of concern:

- the concentration of unemployment on certain individuals and areas.
- increasing inactivity, especially marked among less educated, older men.
- low pay and especially the persistence of low wages and its relationship with job loss.
- the distribution of work across households and child poverty.

This paper looks in turn at the evidence for Britain on what lies behind each of these issues and at the current state of policy to reduce their scale or intensity. The paper documents the mounting evidence that many of these problems leave lasting scars on peoples' lives. The paper suggests that there is reasonably strong evidence for scarring effects from unemployment and child poverty and high wage persistence. The evidence for area effects is very sparse in the UK and the US evidence suggests that such effects are broadly limited to teenagers. Successful intervention could thus change the peoples' future life-course trajectories. Here then the inter-connections among these issues could create virtuous circles. However, if policy is under powered at one or more stage in any cycle, then such interventions are prove at best partially successful.