

Think Piece: Inactivity in the South East

The challenge of economic inactivity

In tight labour markets with high employment rates and low unemployment rates, as found in most parts of the SE region, the rationale for increasing the available labour supply through reducing the rate of economic inactivity¹ is clear. Even with growing labour productivity, continued economic growth partly depends on the regional economy's ability to continue to expand its labour supply. The 'virtuous circle' in a dynamic economy, whereby growing labour supply supports economic growth and prosperity which in turn generates further labour demand, is well-documented². Given the long time-cycles required for major demographic change, there are only two routes to expanding a region's labour supply in the short-run: by reducing economic inactivity; or by increasing levels of net inward migration. While both options should play a part in any labour supply strategy for the SE, there are obvious constraints to over-reliance on inward migration in this region (particularly housing, congestion and environmental constraints) and we focus, therefore, in this brief paper on the challenge of reducing economic inactivity.

Figure 1 presents comparative data for the SE, the other 'southern' regions³ and Great Britain as a whole, showing that the SE, the UK region with the lowest unemployment rate, shared in the dramatic decline in unemployment during the late 1990s. Between 1994/5 and 2000/1 unemployment rates halved; since then, the performance in the South East has been fairly static, with the unemployment rate fluctuating between 3.5 and 4 per cent, while the national rate continued to fall (albeit at a lower speed) as the other regions caught up. The SW region is now the region with the lowest unemployment rate, but with unemployment at under 4%, the SE retains an extremely tight labour market, close to 'full employment' by comparison with historical and international experience.

Turning to trends in inactivity over time, however (Figure 2), the picture is rather different. At national level, there has been little or no change in the overall rate of economic inactivity in the last ten years, which remains stuck at around 21%. Regionally, the pattern is more variable, and inactivity in the SE, although still the lowest rate in the country, has risen slightly from a low point of under 17% in 1999 to its current rate of 18%. Within the SE region itself (Table 1), there is an even greater variation at a local authority level, from an inactivity rate of only 14% in Wokingham and 15% in adjacent Bracknell Forest, to a high of 23% in nearby Slough; this indicates the extent to which inactivity rates vary over quite small geographical areas, suggesting that factors in addition to the state of the labour market (eg the characteristics of the local working age population) may be an influence on those rates.

It should, of course, be noted that some increases in economic inactivity can even be beneficial for economic growth in the longer-run (eg if growing inactivity reflects larger numbers of young people staying on into post-compulsory education, this represents an investment in the region's future human capital, which may more than offset the economic impact of these young people no longer being available for work in the short-term). To understand the economic implications of trends in economic activity, we need to know more about who the economically inactive are, and we turn now to this question.

Who are the economically inactive?

In order to assess the extent to which the SE can tap into the unutilised potential of the 18% of its working age population which is economically inactive, it is necessary to understand characteristics of the economically inactive (what kind of people they are), and the reasons they are inactive.

¹ The proportion of the working age population which is not in the labour force (*ie* in work, or out of work and actively seeking work). Note that economic activity among those older than working age (women 60-plus and men 65-plus) is discussed in our companion think-piece on older workers.

² See, for example, OECD 2003, where broader factors underpinning a policy rationale for tackling economic inactivity are also discussed, *eg* reducing benefit burdens and 'fiscal stress', and the social and economic benefits of bringing under-represented and disadvantaged groups into the labour market.

³ London, and the South West

Gender

Looking first at the gender breakdown (Figure 3 and Table 2), both male and female inactivity rates in the SE are lower than their counterparts at national level. In both cases the male rate is around half the female rate; and as Table 1 shows, this is also the case in most local authority areas within the SE; the main exception being Brighton and Hove, where there is relatively little difference by gender (and where the male inactivity rate is relatively high and the female rate relatively low) — it is likely that the higher than average male inactivity rate partly reflects the large student population in the area.

The male inactivity rate has continued to grow (mainly due to older men leaving the labour market), but among women, the trend has been generally downward (due to the continuing growth in economic participation of working mothers, including single mothers). One possibly worrying development, however, is that while the national female inactivity rate continues to fall slowly, in the SE the downward trend has stopped and may even have gone into reverse: there has been a slight increase in the female inactivity rate in the SE since 2002/03. The reasons for this are unclear, but it suggests that there **needs to be greater policy effort in the SE to continue to encourage and support working age women (eg lone parents) who wish to work, to enter and remain in the labour market.**

Age

Patterns of inactivity and recent trends by age group are rather similar in the SE and Great Britain/UK as a whole (Figure 4, Figure 5 and Table 2), although in all age groups inactivity rates are lower in the SE than nationally. Particularly notable is the strong increase in inactivity among 16-19 year olds in the SE from 1999/99 (and there was also a less marked upturn among 20-24 year olds); in both cases these trends are largely influenced by increased participation rates in education and are broadly to be welcomed from an economic growth perspective. In other age groups, there has been less change, although the continuing fall of inactivity rates among 50+ year olds is to be welcomed (although it should be noted that it is less fast than is the case for this group nationally).

Skills and qualifications

One of the most stark features of economic activity is the extent to which it varies according to educational level (Table 2); in the SE as well as at national level, inactivity rates among those with no qualifications are five times higher than among those with the highest qualifications level (degree level and above). In part this is an age effect (older cohorts are more likely to be inactive, and less likely to have higher level qualifications), but age cannot explain the full variation; it is clear that the least well-qualified are the most likely to be economically inactive in all age groups. Table 2 shows that in the SE and nationally, the last ten years have seen a widening of the disparity in inactivity rates between the highest and the least well-qualified, and the inactivity rate of the those with no qualifications in the SE has risen from 32% to 40%. Any sustainable strategy to reduce inactivity levels must, therefore, incorporate **measures to raise the skill levels of those with low or no qualifications.**

Ethnic origin

Members of black and minority ethnic (BME) groups typically display higher rates of economic inactivity than their white counterparts, reflecting the effects of discrimination, wider labour market and social disadvantage, as well as cultural factors among some communities (this is particularly the case for women from some Asian communities). These variations are evident in the SE as well as nationally (Table 2). BME groups account for a smaller proportion of the working age population in the SE than in some other regions, and the case for tackling economic inactivity among these groups at a regional level is driven by considerations of equity and social justice rather than increasing labour supply. Nevertheless, there are high concentrations in some LA areas within the region, and in these areas in particular, it is clear that high BME inactivity rates may be an important constraint on labour market supply growth and thereby on economic growth, and there is a case for **policies to reduce economic inactivity in areas with significant BME populations.**

Disability

The exceptionally high rate of inactivity among disabled people is well-documented (Table 2), as is the strong growth since the 1980s in the numbers of claimants of incapacity benefits; reduction in these numbers, and increasing the labour market participation of people with disabilities and long-term illnesses is a key target of a range of national

government policies, including the New Deal for Disabled People, and the Pathways to Work pilots for IB recipients. Of course, a significant proportion of this group may be unable to work, or unable to find suitable work, even under very favourable labour market conditions, although there is considerable debate in policy circles about what proportion could or would work under the right circumstances (some estimates suggest that it could be up to a million people at national level: Stanley and Regan, 2003). It is also well-documented, however (Beatty and Fothergill 2004), that the difference between the inactivity rates of disabled and non-disabled people varies dramatically between regions according to the overall buoyancy of the local economy — in tight labour markets, such as the SE, the disadvantage in activity rate terms associated with disability is much less than in regions with more depressed labour markets (as Table 2 confirms: in 2005 disabled people in the SE are 2.3 times more likely to be inactive than non disabled people, but the corresponding figure for the UK is 2.9). The SE is doing relatively well in this respect, therefore, but the evidence suggests that there remains a significant share of this group who could and would work under the right circumstances and with the right support, and **reducing the inactivity rate of disabled people** should remain a key element of any strategy to expand the labour supply in the SE.

Why are they inactive?

In 2005, the most important reason for inactivity in the SE is 'looking after the family' (Table 3), accounting for a third of the inactive (although this share has fallen over time). The second most important reason is being a student (a quarter of the inactive, and an increasing proportion), followed by disability/illness (a fifth of the total). Only one in ten of the inactive in the SE are people who have retired before normal retirement age. This pattern confirms the conclusion that **to increase labour supply in the SE through reducing inactivity, the greatest emphasis should be placed on increasing the participation of mothers/single parents and other carers in the labour market, and in helping disabled/long-term sick people (back) into the labour market.** Comparing the SE with the national picture, the most notable differences are the larger share of inactivity in the SE which is due to taking care of the family, and the smaller share which is due to illness/disability.

Do they want to work?

Survey evidence on the working intentions of economically inactive people needs to be interpreted with caution, but the Labour Force Survey (LFS) suggests that over a quarter (27%) of the economically inactive in the SE might be willing to work if the circumstances are right (Table 3). This share has fallen slightly in the last ten years, but remains higher than the proportion of the inactive who are willing to work at a national level. This suggests that up to 350,000 inactive people of working age in the SE might be tempted back into the labour market by appropriate policy measures; while this would amount to a hypothetical increase of only 6 per cent on the existing workforce of nearly 6m in the SE, this would nevertheless represent a significant easing of labour market constraints in the region. It should be remembered, however, that a large proportion of this group would be relatively low skilled and/or lacking in recent labour market experience, and many would also have other difficulties (eg associated with disability or childcare needs); any strategy to reduce inactivity would, therefore, have significant implications for the provision of learning and skills and other support.

References

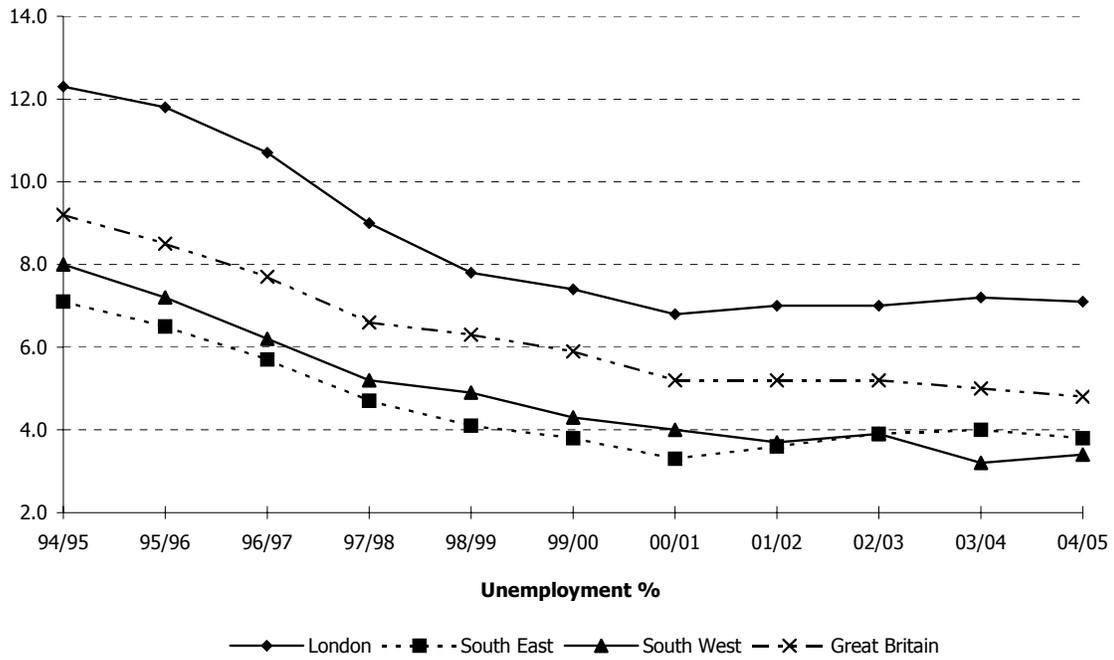
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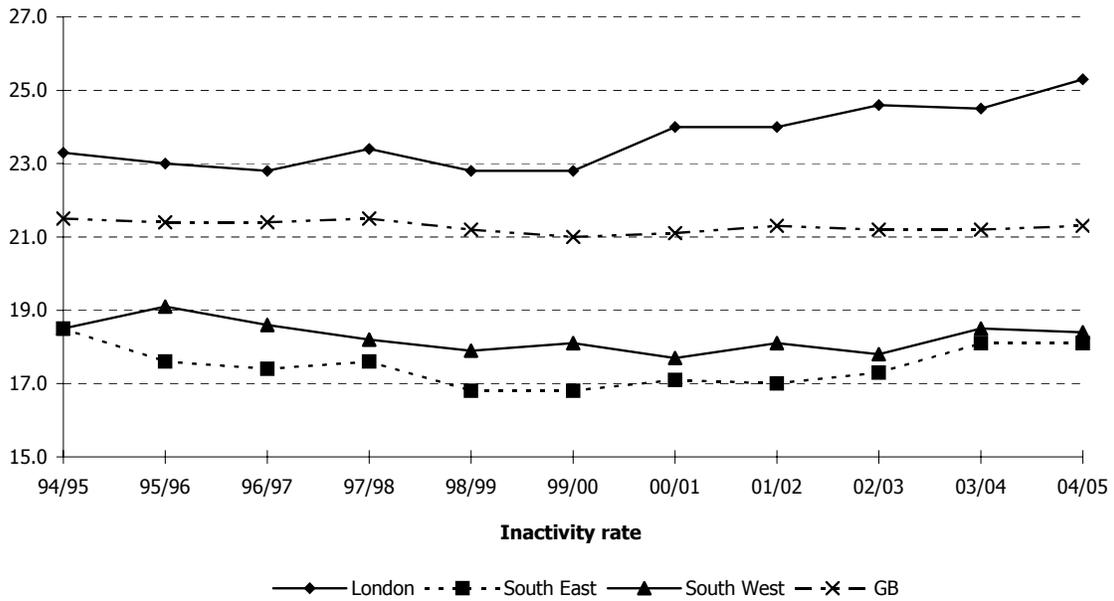
Tables and charts

Figure 1: Unemployment rate (%), southern regions and Great Britain



Source: NOMIS LFS 1994/95 to 2004/05

Figure 2: Inactivity rate (%), southern regions and Great Britain



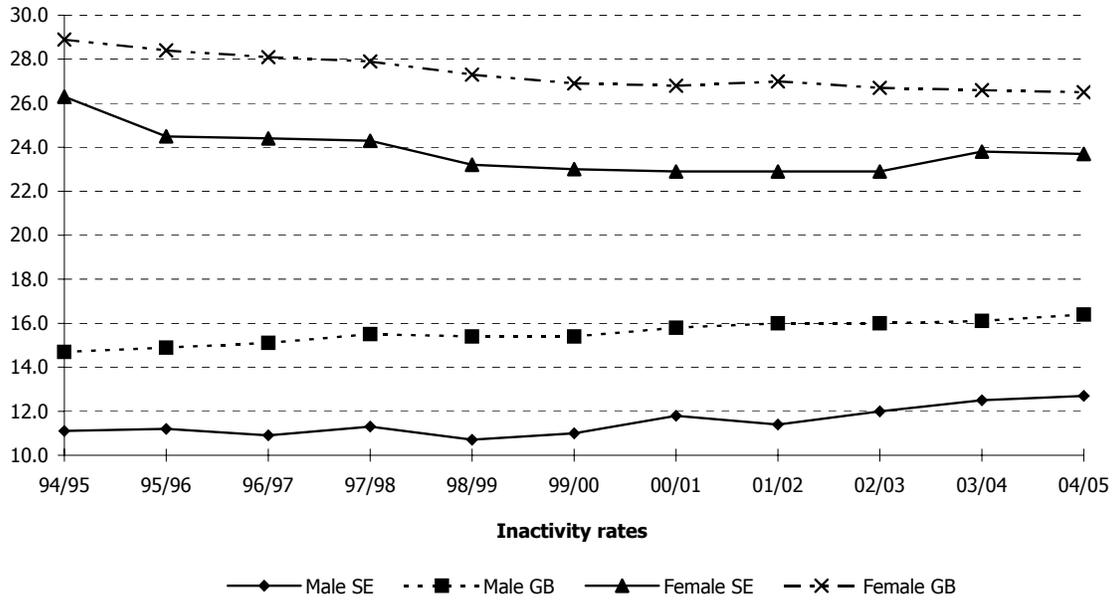
Source: NOMIS LFS 1994/95 to 2004/05

Table 1: Inactivity rates by sex, South East Local Authority areas

	All working age	Males	Females
Slough	22.9	14.6	31.3
Kent	21.5	16.1	27.2
Isle of Wight	21.2	19.2	23.3
Southampton	19.6	15.6	24.1
Windsor and Maidenhead	19.3	13.6	25.4
Medway	19.2	12.4	26.1
East Sussex	19.1	12.4	26.0
Portsmouth	18.3	13.6	23.8
Reading	18.3	12.1	25.2
Brighton and Hove	17.9	16.2	19.7
South East	17.9	12.6	23.4
Surrey	17.7	11.9	23.9
West Sussex	16.5	11.6	21.6
Hampshire	16.3	10.5	22.2
Oxfordshire	16.1	11.4	21.0
West Berkshire	15.9	11.4	20.5
Milton Keynes	15.8	9.5	22.1
Buckinghamshire	15.1	10.4	19.9
Bracknell Forest	14.9	10.0	20.1
Wokingham	14.0	9.0	19.4

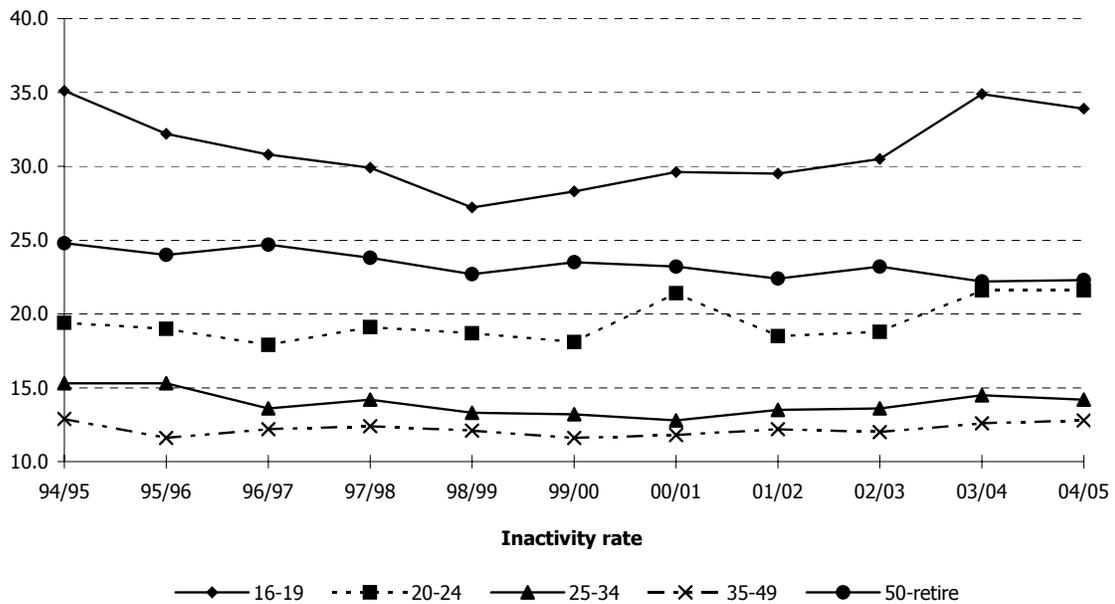
Source: NOMIS Local LFS, March 2003 to February 2004

Figure 3: Inactivity rates by gender, SE and GB



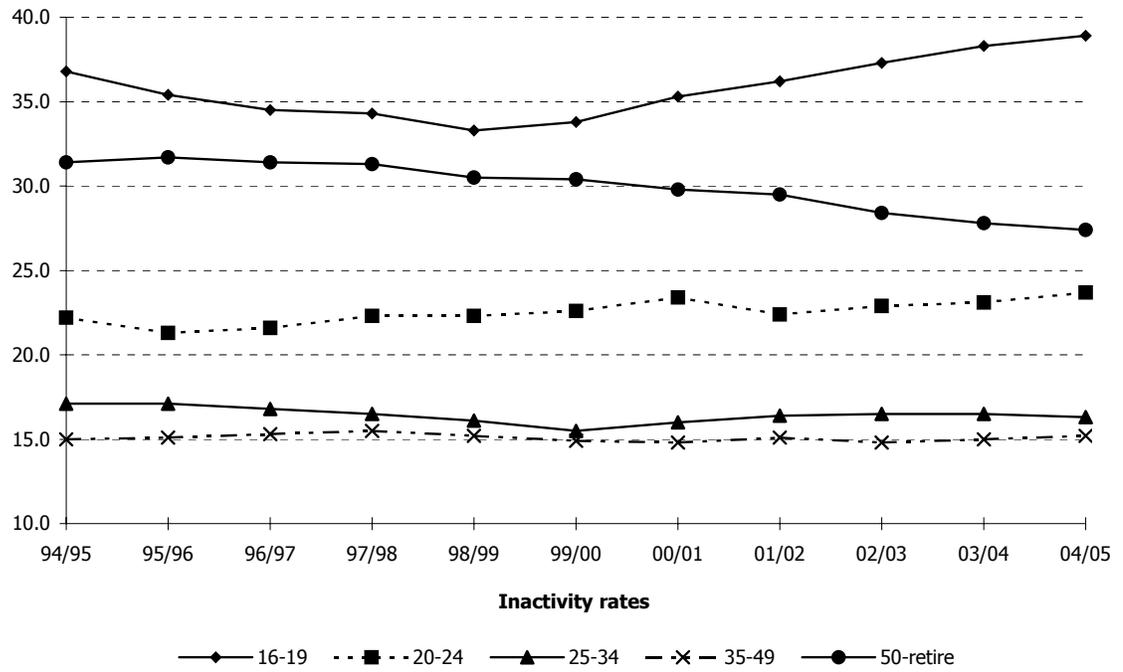
Source: NOMIS LFS 1994/95 to 2004/05

Figure 4: Inactivity rates by age, South East



Source: NOMIS LFS 1994/95 to 2004/05

Figure 5: Inactivity rates by age, GB



Source: NOMIS LFS 1994/95 to 2004/05

Table 2: Economic inactivity rates by individual characteristics 1995, 1999, 2005: South East and UK

	SE			UK		
	1995	1999	2005	1995	1999	2005
Sex						
Male	11.4	11.6	13.2	15.4	16.0	17.2
Female	26.1	24.3	23.9	29.4	27.9	26.9
Age						
16-19	37.6	33.8	37.6	40.2	37.9	43.5
20-24	18.9	20.9	22.7	23.7	24.8	26.3
25-34	15.6	13.6	13.6	17.3	16.0	16.2
35-49	12.1	12.0	13.3	15.1	15.2	15.1
50-59/64	25.0	23.7	22.1	31.9	30.7	27.5
Highest qualification*						
Degree or equivalent	8.6	8.6	8.8	9.4	9.5	9.7
Higher education	11.0	11.9	11.8	13.7	12.3	12.2
GCE A level or equivalent	15.5	15.2	17.6	18.9	18.4	19.0
GCSE grade A-C or equivalent	18.7	17.6	17.6	20.2	19.3	20.8
Other qualification	18.5	20.3	21.7	21.1	22.8	24.2
No qualification	32.3	35.2	40.4	38.1	43.3	47.1
Ethnicity						
White	18.0	17.1	17.7	21.1	20.8	20.5
Black	20.4	26.1	19.2	27.7	28.6	31.2
Asian	30.5	35.6	31.9	38.3	40.1	37.5
Other	35.9	36.0	29.5	38.3	33.9	32.9
Disability						
Disabled	n/a	37.4	35.2	n/a	48.9	46.3
Not disabled	n/a	14.1	15.1	n/a	15.7	16.1
Total	18.4	17.7	18.4	21.9	21.8	21.9

* = Question only asked of people of working age or in employment

Source: Labour Force Survey, Spring 1995, 1999, 2005

Table 3: Reasons for inactivity, and working potential, SE and UK

	SE			UK		
	1995	1999	2005	1995	1999	2005
Reason for inactivity						
Student	21.2	22.3	24.5	21.1	21.3	24.5
Long-term illness or disability	17.6	20.6	19.1	25.0	28.2	26.9
Looking after the family	39.8	35.2	33.0	35.3	31.6	28.7
Retired	7.4	8.1	9.9	5.7	6.7	7.5
Other reasons	14.0	13.8	13.6	12.8	12.2	12.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Whether seeking work or wanting to work						
Seeking but unavailable to start work	5.0	3.2	2.9	3.6	3.2	3.0
Would like to work but not seeking work	24.6	25.5	24.3	25.8	26.9	22.5
Would not like to work, not seeking work	70.4	71.3	72.7	70.6	69.9	74.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Labour Force Survey, Spring 1995, 1999, 2005