The labour market before and after the recession

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Introduction

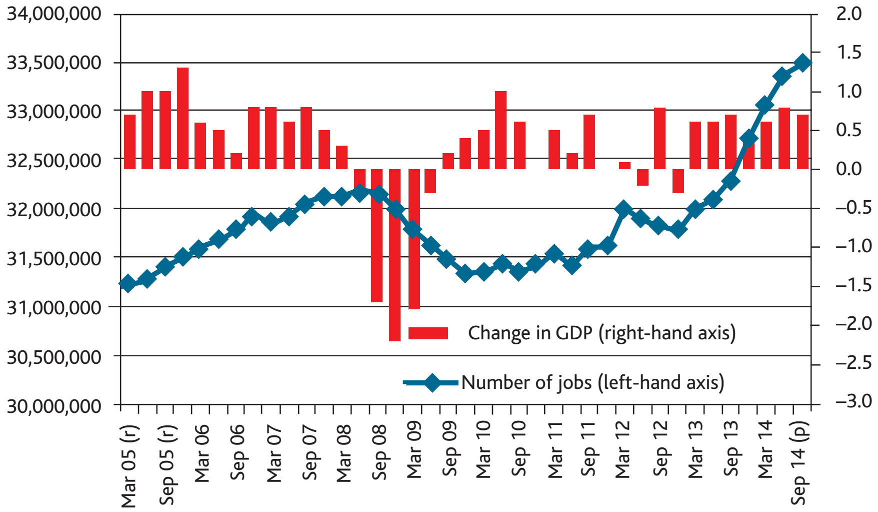
The effects of the global recession and the austerity policies that followed have been felt quite strongly in the labour market. Whilst the total number of unemployed did not rise to historic levels, the job stability and job creation that followed was associated with a rather different employment pattern – with more part-time work, self-employment, zero-hours contracts (ZHCs) and under-employment.

Overall numbers in work – much higher than before

The adverse consequences of the great financial crash have not been felt in the labour market to the extent of past recessions, or at least not in terms of unemployment. The UK economy contracted by 6.2% (June 2008-June 2009), but the number of people in work fell by 'only' 2.6% from peak to trough (see Figure 1). By contrast, in the recession of the early 1990s a drop in output of 2.5% was associated with an employment drop of 3.4% (Faccini and Hackworth, 2010). A recession of the size experienced in 2008-09 might have led to much larger falls in employment. Moreover, job growth has been very strong in the most recent stage of the recovery. Since December 2012 the number of people in work has continued to grow, rising by some 1.7 million in the last two years or so, and now stands well above the level of employment before the recession (albeit less than might have been expected had past growth not been interrupted).

If it is less productive parts of the economy that cease trading in recessions we might expect a bigger employment drop than the drop in output. Because the level of employment held up relatively well in the 2008-09 crash, given the circumstances of a huge drop in output, economists have often referred to this time as presenting something of a 'productivity puzzle', as output per hour worked has declined and has been rather slow to recover. From a social policy perspective it is perhaps the 'pay puzzle' that is of greater salience. Whilst changes in rates of pay have tended to be relatively protected in past recessions, this time it has been the level of

Figure 1: Number of workforce jobs, and quarter-on-quarter changes in GDP.



Source: ONS Workforce Jobs series, and National Accounts pay that has been seen to be particularly sensitive to the economic conditions.

Levels of pay – unprecedented falls in real earnings

Whilst in past recessions earnings have tended to still rise, this recession has been characterised by a large fall in the real (after inflation) value of earnings. Real wages – whether per week or per hour – have dropped by around 9% compared with their peak levels (see Figure 2). Median hourly earnings in 2014 stood at £11.60. Had they grown at a modest 2% in real terms since 2005, they would now stand at £14.80 (even 1% annual real growth would have led to a figure of £13.40). With the benefit of the 2014 (provisional) data there is little sign of this turning around, even if one or two months' figures show tentative signs of growing real wages.

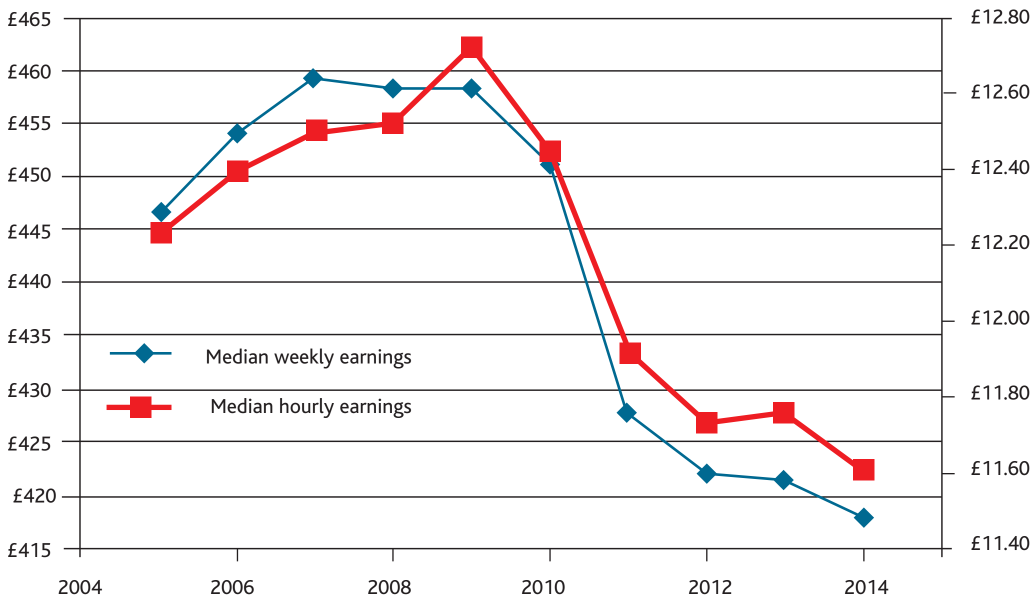
Since 2005, wages in cash terms have risen by around one-fifth. This compares with rises in gas and electricity bills of 120%, 50% for water charges, and rises in transport costs of around one-third. There have been reductions in the prices of other goods (such as clothing and footwear) but the rising costs of utilities and of travel have clearly had strong effects on household budgets and may be less discretionary spending than some of the items whose prices have fallen.

The record on employment must thus be put into context with the data on levels of earnings. There are more people in work, but this has been associated with gaping reductions in the real level of earnings, and particularly in the level that might have been expected in the absence of the recession. As has been widely appreciated, one consequence of this changing labour market is that most poor people are now living in households with someone in paid work.

Types of jobs

The precipitous drop in real earnings provides some kind of hint about the types of jobs being created as the recovery gains pace. Firms did not respond to the recession by large reductions in staffing, but instead seemed to have held on to existing staff. However, that has meant that some groups – such as the young and the long-term unemployed – have faced disproportionately harder conditions. Moreover the emphasis has been on having a job, perhaps any job, rather than on the quality of jobs. That pattern may also have been prompted by the steep rise in the

Figure 2: Levels of real pay (adjusted by CPI)



Source: ONS, CPI figures and Annual Survey of Hours and Earnings number of sanctions taking place for those on Jobseeker's Allowance.

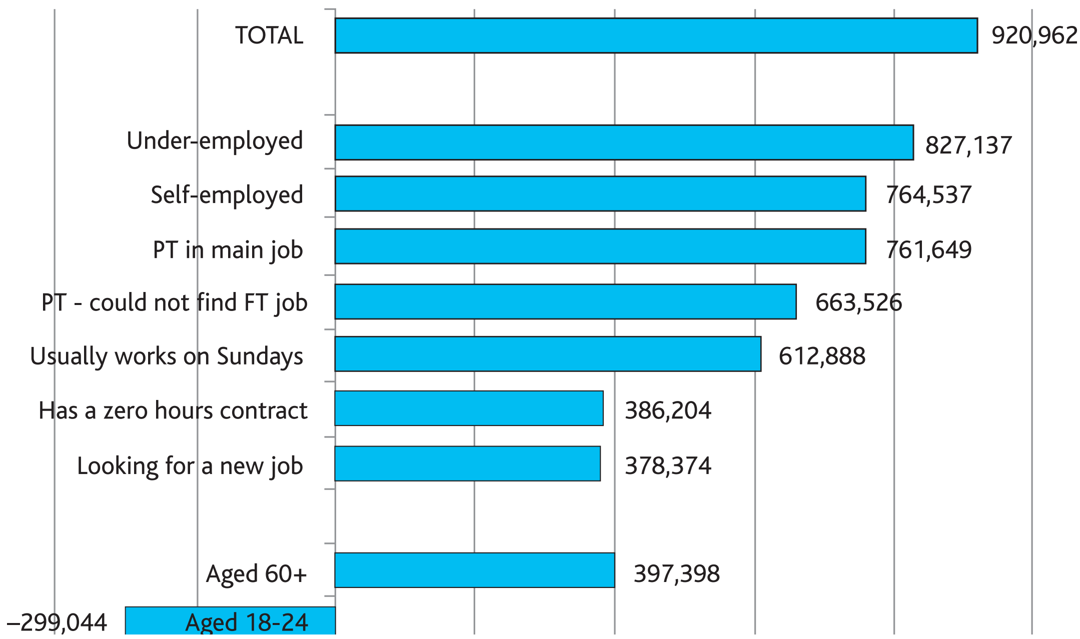
If we compare 2008 before the effect of the recession really hit, and recent data for 2014, we see that total employment has risen by over 900,000. However, accompanying this overall expansion has been significant increases in particular kinds of employment. The number being employed on zero-hours contracts expanded over the same period by close to 400,000. These have been the subject of political concern, with the Labour Party committed to ending any related exploitation from them, and the Conservatives seeking to stop any exclusivity clauses.

The largest changes have been in terms of those working but 'underemployed', and working as self-employed. The total number working as self-employed has risen by over 750,000. Whilst this is perhaps not a concern in and of itself, commentators on the labour market have noted that most of the rise in self-employed is at the lower-skilled end, rather than in terms of more professional roles (D'Arcy and Gardiner, 2014). The level of earnings of the self-employed over this period have dropped even more than for employees. This is also a group tending to have lower than average provision for retirement, and this research by the Resolution Foundation raises concerns about their apparent security and vulnerability.

Another significant development is the rise of 'under-employment', which is now close to 3m workers. In terms of the changes from 2008 to 2010, the number of people saying that they would want to work more hours at the same rate of pay exceeds 800,000. Alongside these may be placed the rise in part-time work of 760,000 with many of this group saying they are working part-time principally because full-time work was not available.

The profile of those in work has also become somewhat older. Over a six-year period when total employment has increased, the number of those aged 18-24 in paid work has fallen back by 300,000. To that extent, young people have been the most adversely affected by the recession. At the same time the number of those aged 60+ who are in paid work has increased by close to 400,000. This tends to support a picture of employees being retained, but with less hiring of new workers. This also happened against the backdrop of legislation removing compulsory retirement (in 2011), which may have assisted some older workers in remaining in employment for longer.

Figure 3: *Changes* in numbers of people in work 2008-2014 (Q2 for each year)



Source: analysis of quarterly Labour Force Surveys, 2008-2014

Private and public sectors

All of the increase in employment has come from the private sector (at least using the Labour Force Survey measurement of status). Between 2008 and 2014, employment in the public sector actually fell back (by around 150,000) with the private sector expanding by over a million. Most of the growth in zero-hours contracts has also occurred in the private sector, though that may also have been related to public sector contracting out of services. Because the public sector has fallen in size compared with the private sector, it is perhaps unsurprising that most of the overall changes have largely taken place within the private sector (and all of it, for self-employment). Nevertheless, a similar *proportion* of public sector workers as private sector workers say that they are under-employed (9% vs 10%), or that their part-time job is because they were unable to find full-time employment.

Policies that might help

A return to economic growth, at moderate levels, has helped to accelerate the number of jobs being created, and there is tentative evidence that the pressure on real wages may be falling. However, as shown above, job creation has not tended to be generating full-time jobs with secure conditions at high (or even average) rates of pay. Only time will tell if the current labour market trends associated with the recession and recovery are a temporary feature or instead will persist in the longer-term. Two areas that receive considerable attention are the regulation of earnings and the regulation of employment contracts.

The national minimum wage provides a floor to hourly earnings, but at £6.50 has not kept pace with inflation since 2008 (though neither have average wages), and more people are paid at the minimum level (Plunkett et al., 2014). Consideration might be given towards increases, and the Living Wage Campaign is seeking to encourage more firms to pay their workers and sub-contractors the living wage. It remains to be seen how far this figures in the election campaign, as prominent politicians from different political perspectives are interested in this concept. Another area that has received political attention is the sharp growth in the number of workers on zero-hours contracts. This could be regulated in different ways, and ideas of removing any exclusivity, or the duration of such contracts, have been discussed. The care sector employs a large number of workers on ZHCs, and often the underlying funding is from state sources, meaning the potential for quite clear state intervention. There has been lesser attention to how to deal with underemployment, except perhaps to note that Universal Credit is designed to be more responsive than existing transfers to fluctuations in earnings (which might also help those on ZHCs) and to avoid cliff edges at particular numbers of working hours (with currently 16 and 30 hours being crucial thresholds). Universal Credit is still a long way from implementation, but if it works as designed (a big if) it should match financial support to changing earnings, smoothing out variations in disposable income.

Conclusions

Over the course of the recession and the recovery the UK has, in effect, traded off lower wages for higher employment, and particularly so when compared with the experience of past recessions. Employment stayed higher than would have been expected, and has increased to an impressive degree. But real wages have dropped considerably. And many of the jobs created have been in a combination of insecure positions, with uncertain hours. Many more people are working part-time for the want of a full-time job. One of the clearest changes has been a rise in the extent of underemployment, with around 10% of workers wanting to work longer hours (at the same rate of pay) if they were able to.

References

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