

## Introduction

The 15 years of output expansion from 1993 to 2008, the longest period of continuous growth in modern times, helped ease many of the labour market problems that had emerged on the backs of the deep recessions of the 1980s and 1990s. Yet growth alone was not responsible for the improvement. Policy too needed impetus and direction and the 1997 Labour administration undoubtedly devoted a considerable amount of energy and attention to the labour market. It is almost inconceivable that institutions that are now seemingly well-established and accepted, such as the National Minimum Wage, the New Deals or the expanded Working Tax Credits, would have been introduced under an administration with a more laissez-faire view. The undoubted labour market progress during this time was however brought to a grinding halt with the collapse of the speculative financial bubble that pushed the UK and much of the industrialised world into the deepest recession seen for 80 years.

This book is about the performance of the UK labour market before, during and after the 2008–9 recession. It is the third volume in the State of Working Britain series and comes, unlike its predecessors, at a period in the economic cycle when the UK economy is just beginning to emerge from the downturn. In some ways, politicians, policy makers and academics were better prepared this time round. There had, after all, been two severe recessions well within memory of most adults over the age of 30. The understandings that were gained during these periods undoubtedly helped frame a policy response in the latest downturn.

Yet there was more to it this time round. Economic orthodoxy had ventured for 30 years that the only way for a country to achieve economic success was to pursue ‘labour-market flexibility’ and the UK was sometimes held up as an exemplar of this approach. While the meaning of this phrase is, in truth, somewhat nebulous, it is sometimes taken as shorthand for weak employment protection legislation; weak union power; low levels of, and short-lived, unemployment benefits; a low or non-existent minimum wage and extensive opportunities for employment at relatively low wages. Yet the UK now has

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institutions—such as minimum wages, family-friendly work policies or in-work welfare payments—that stray far from the orthodoxy. It is also true that, for the past decade, the UK enjoyed lower unemployment rates relative to most of the rest of the OECD.

Just before the recession, however, there were significant shifts in thinking amongst several influential international institutions, recognising that there could be more than one way of achieving a given level of labour market performance. Indeed, going into the recession, policy makers in the UK and elsewhere have dusted off interventionist economic policy tools that for 30 years had been seemingly discredited. This, we believe, has helped make the labour market consequences of the recession more benign than they otherwise would have been.

Economic fashions are rather capricious. No one currently sees Ireland as the economic success story it was held up to be in the middle of this decade. Germany, Sweden, Japan and the US, along with the UK, have all in their turn been held up as economic paragons and no doubt a new champion will emerge from the current downturn and recovery. The real debate is whether minimal regulations and limited institutions are the key to economic success or whether targeted, costed interventions can help alleviate labour market failures. The aim of this book is to try and help make an assessment of it all, bringing together the thoughts and appraisals of key labour market analysts on the trends, policies and impacts on the labour market over the past ten years. The result is a serious comprehensive analysis of the record of the Labour government in the field of employment spanning its entire time in office.

Labour market performance can be judged along many different criteria. No one should ever judge labour market performance by recourse to a single indicator like the unemployment rate. Different institutional criteria across countries and within countries across time mean that success (or otherwise) needs to be assessed by use of more than one performance indicator. The more criteria in which a country does well, the easier it is to declare the overall performance to be a success. In order to support these claims it is essential that there be empirical verification. This book attempts to provide some evidence across a range of labour market issues.

The book is divided into three parts. The first part deals with jobs, the second looks at the characteristics of jobs and the final section looks at labour market inequality across various dimensions. The theme that runs through the first part is that, on aggregate, the performance of the labour market before the recession was good and that during the recession the aggregate outcomes were not as bad as some feared (see Gregg and Wadsworth, Chapters 1 and 2). This is to be welcomed. The unprecedented increase in the number of immigrants appears to have been absorbed without large-scale effects on the wages

and employment of UK-born individuals. Also, unlike in previous recessions, immigrants have not borne the brunt of the downturn (see Nickell and Saleheen, Chapter 6). Older workers, on average, have done relatively well unlike in previous downturns, (see Disney et al., Chapter 4) and younger workers have not been disproportionately hit this time round (Goujard et al., Chapter 3). It is not all good news with regard to jobs however. Youth unemployment and in particular inactivity were rather high going into the recession. As a result, joblessness among youth has ratcheted up to levels not seen for a very long time. It was also, once again, a male-centric recession (Swaffield, Chapter 12). Likewise, inactivity among men, particularly older less skilled men, remains stubbornly high (Gregg and Wadsworth, Chapter 2). Workless household rates have also ratcheted up once again after failing to fall much during the recovery (Gregg and Wadsworth, Chapter 5).

The quality and nature of jobs is also an ongoing cause for concern. While comments about the end of a job for life have been exaggerated, it is true that stability in average job tenure over time disguises a sharp fall in average job tenure among men and an equally sharp rise in job tenure among women (Faggio et al., Chapter 7). Hours of work have fallen and paid holiday rights extended almost throughout the workforce (Green, Chapter 8). Practices to improve employees' work-life balance have become more widely available, but while the work intensification of the early 1990s has levelled off since 1997, there has been no reduction in work intensity and workplace stress remains a serious problem (Green, Chapter 8). It seems that the mental well-being of workers is pro-cyclical (Clark, Chapter 9). Well-being is significantly higher in booms than in busts. However, satisfaction with work itself is counter-cyclical, being higher in busts. The same is true of overall job satisfaction. Nevertheless, the past decade has seen a sea change in the support available for working parents (Waldfogel, Chapter 10). Paid maternity leave has doubled. Paid paternity leave has been introduced. Preschool is now universal for 3 and 4 year olds. Support for child care has been greatly expanded and parents now have the right to request part-time or flexible hours. This expansion in support has not come cheap. Government spending on early learning and childcare quadrupled between 1997-8 and 2007-8, but in addition to promoting better child health and development, the policies also provide an important boost to parental employment and family incomes.

It would be a mistake, however, to think that the period just before the latest recession was as good as the UK labour market could get. One problem that has dogged the labour market for three decades now and that so far has not been tackled satisfactorily, is the degree of inequality within the labour market. This is not only inequality in wages but also inequality in terms of employment chances and educational opportunities. This is the theme of the third part of the book. Despite welcome levels of performance on average

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across a range of labour market measures, there is a huge variation in performance around this average. For example, at the height of the boom in 2007 the unemployment rate had fallen to just under 5%. At the same time, the unemployment rate was 1.7% in Rutland and the unemployment rate in Hartlepool was 10.5%, five times larger. The spread of employment rates around the 72% average was 22 percentage points (60% in Ceredigion and 82% in West Berkshire). One in two men without qualifications was not in work and two in every three men over 50, without qualifications and living in Tyne and Wear were jobless. And all this at the height of a boom.

The key thing to note here is that it was not always thus. The UK in the past has managed to combine good aggregate performance with much lower levels of inequality and opportunity. Yet, for the last 30 years, wage inequality has first grown rapidly and then stubbornly refused to fall, despite the undoubted effects of the Minimum Wage in shoring up the bottom of the wage distribution (Machin, Chapter 11). Moreover, the ability of individuals to move through the wage distribution over time, so offsetting any wage inequality, is much lower now than in periods when wage inequality was much lower. Job prospects continue to vary considerably across the familiar dimensions of education, region, (Dolton et al., Chapter 19), age, gender (Swaffield, Chapter 12) and ethnicity. There have been important changes in the rate of both inequality and inter-generational mobility (Blanden and Macmillan, Chapter 13) that suggest it has become harder to move up an increasingly widening income distribution. It does seem though that inter-generational mobility among the UK's ethnic minority population has improved (Dustmann et al., Chapter 15). The ability of trade unions to act as a voice for concerns over inequality is now almost confined to the public sector (Bryson and Forth, Chapter 17). Despite apparent 'sector envy', with more private sector workers thinking their public sector counterparts are better off, over the last ten years the rate of growth in private sector earnings settlements has, on average, matched—more or less exactly—the rate of growth in the public sector (Dolton and Makepeace, Chapter 18). The relative buoyancy of public sector employment during the latest downturn, undoubtedly helped maintain higher levels of consumer demand.

Yet despite widening inequality making the task much harder, there are positive outcomes to report. It does seem that after a decade of the 1997 Labour government, about half a million children were lifted out of relative poverty; short of their target, but certainly reversing the previous record increases under the Conservatives (Dickens, Chapter 16). By far the largest impact on child poverty has come about through the increased generosity of both in-work and out-of-work benefits. Without these reforms, there would be an extra 1 million children living in poverty in the UK today. It also seems that over the last ten years, educational attainment has improved dramatically and

that the pace of improvement has been greater in economically disadvantaged areas (McNally, Chapter 14).

Clearly the immediate task following a recession is to ensure that recovery in output is accompanied by recovery in employment. This book is, in part, a record of the issues in need of attention. In our view, the level of inequality in the UK labour market, along several dimensions, is the outstanding area of concern. In the last edition of *The State of Working Britain* we worried that progress was neither sustained enough nor balanced enough to bring many marginalised groups back into the labour force without inducing widening levels of wage inequality. This time round, the basis for targeted, costed, policy intervention that may help address these concerns is in place. All that is needed is the willingness to direct policy accordingly.

