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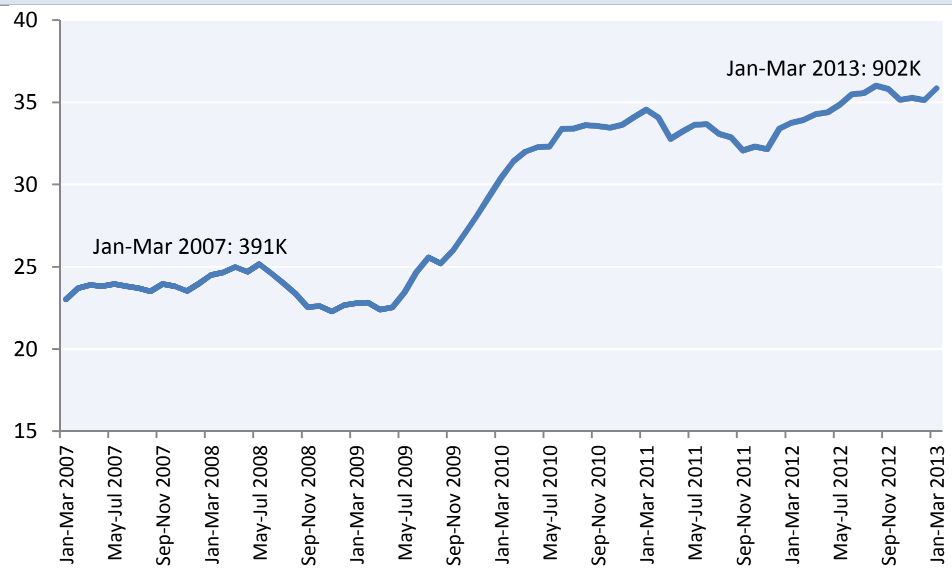
World of Work Report 2013
Snapshot of the United Kingdom

International Institute for Labour Studies

Unemployment remains stagnant…

- More than 43,000 jobs were lost between the last quarter of 2012 and the first quarter of 2013. As a result, more than 2.5 million people are unemployed and the unemployment rate at 7.8% remains unchanged in comparison with the previous two quarters, although this rate is relatively low in comparison to other EU economies.
- Since the onset of the crisis, improvements in the labour market have been slow. Since mid-2009, there has been no change in the unemployment rate and at 7.8%, it remains 2.6 percentage points above the pre-crisis rate (5.2% in the fourth quarter of 2007). The employment growth of 823,000 since the third quarter of 2009 (trough in employment) was only sufficient to accommodate the growing labour force.
- Much of the employment growth in recent years has been temporary or part-time in nature. In fact, more than 62% of jobs created since the third quarter of 2009 were either part-time (334,000) or temporary (182,000). Moreover, in the first quarter of 2013, more than 58% of the temporary and part-time workers reported that they could not find full-time work – compared to 35% in the first quarter of 2007.
- The number and share of long-term unemployed, i.e. those looking for work more than a year, continues to increase. In fact, the number of long-term unemployed has more than doubled since 2007, increasing from 391,000 to more than 902,000 (Figure 1). As a share of total unemployment, in the first quarter of 2013, more than one-third (35.2%) of all unemployed persons were in search of employment for more than a year compared to 23% in the same period 5 years earlier.

Figure 1. Long-term unemployment, 2007-2013 (percentage)

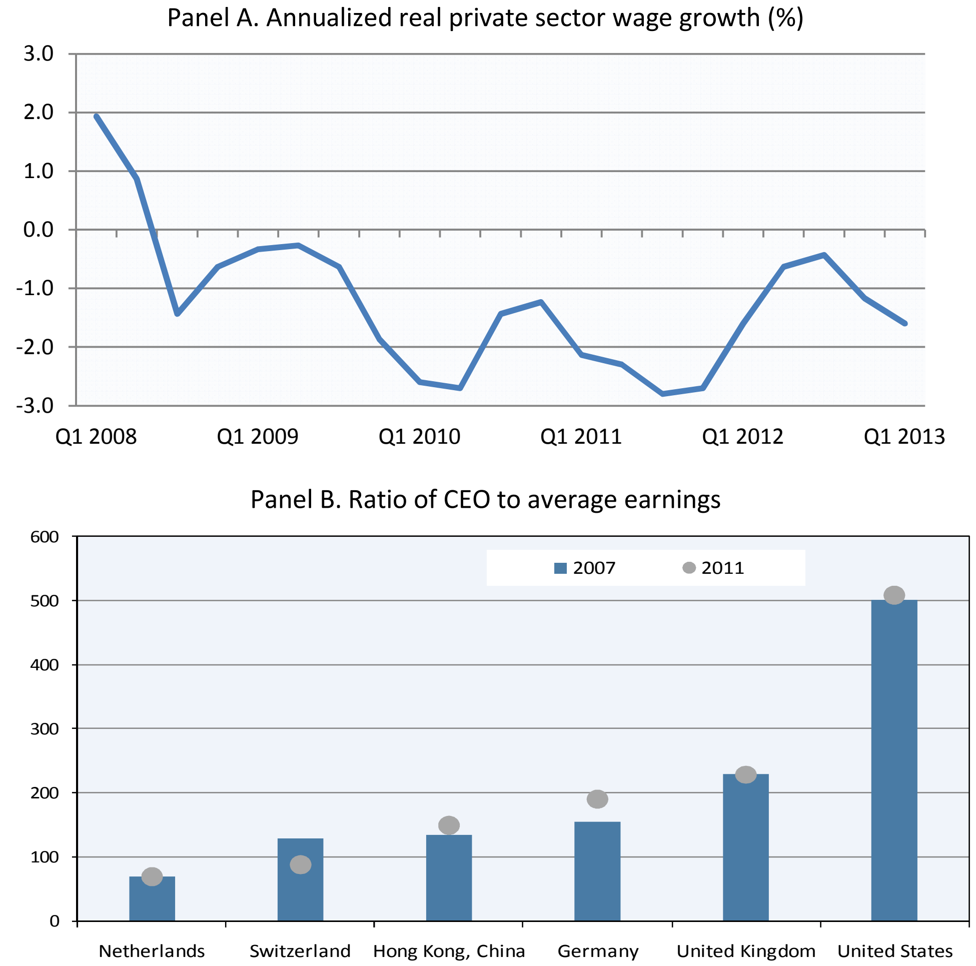


Source: Office for National Statistics and ILO LaborSta.

…held back by low wage growth and depressed investment – although CEO pay remains elevated

- Given that an export-led recovery is unlikely in light of the Euro crisis and global economic slowdown, domestic demand becomes particularly important. However, real private sector wage growth has been negative since the onset of the crisis due to low nominal wage growth and high inflation (Figure 2, panel A). Yet, CEO pay in the United Kingdom remains elevated and close to levels attained in 2007 (Figure 2, panel B). In 2011, CEOs of the 15 largest firms in the United Kingdom earned on average 238 times the annual earnings of the average UK worker. For the average executive this figure stood at 113 times average earnings.
- Investment, which in 2012 stood at just over 14% of GDP is among the lowest in advanced economies and has fallen by more than 3 percentage points since 2007. The United Kingdom is caught in a vicious spiral of weak aggregate demand and lack of productive investment. Stagnating wages are adversely affecting demand, which in turn is dampening real investment, leading to poor job creation – reinforcing weak demand and so on.

Figure 2. Wage growth in the United Kingdom



Source: Panel A: LMS Labour Market Statistics (nominal wage growth), Office for national statistics (CPI). Panel B: IILS estimates based on the annual reports of the top firms by market capitalization.

Moving forward, the challenge is support employment and incomes while paving the foundation for long-term growth through productive investment.

The Report presents components of a comprehensive policy package to promote investment and employment growth. A number of measures could be envisioned that would set in motion a positive series of mutually reinforcing effects:

- *Stimulate investment in the real economy*: The Report highlights a number of areas where governments, together with social partners can stimulate job-friendly investment. For job-rich SMEs this includes credit guarantees, earmarking financing, credit mediation, as well as direct addressing bank losses in a manner which is friendlier towards employment. In addition, governments could consider offering firms a range of tax incentives to undertake productive investment, e.g. accelerated depreciation, lowers the cost of acquiring new assets and thus removes some of the uncertainty associated with replacing older machinery. Another possibility is to even exempt certain investments from taxation. In order to ensure maximum employment effects, such policies can be targeted towards capital assets that are known to be employment-intensive or meet other goals such as investments with energy-saving characteristics.
- *Ensure the financial sector acts as an enabler of the real economy:* In addition to the measures to stimulate investment, efforts are needed to better align the activities of the financial sector with the needs of the real economy. In this respect, financial systems could better act as the enabler to promote and facilitate productivity –enhancing private and public investment.
- *Improve design of executive compensation:* Executive compensation packages that primarily reward short-term performance can encourage management practices that may harm firms and their shareholders over the medium term and can have serious negative externalities. Greater emphasis could be placed on incentive schemes based over a three- to five-year period. Where short-term bonuses are paid, part of the payment could be made in the form of shares that vest only after a certain amount of time. Introducing complementary measures of performance in addition to shareholder value and introducing a binding “say on pay” for shareholders could also be considered.
- *Improve effectiveness of minimum wage policies*: Chapter 3 of the Report shows that there is only a small or zero effect of minimum wages on employment. Indeed, well-designed minimum wages can provide a significant boost for low wage workers. And while the increase in the minimum wage announced in April 2013 is a step in the right direction, the increase was not enough to cover increase in the cost of living. Moreover, there are concerns about compliance rates with respect to apprentice workers – a key issue taken up in Chapter 3. More regular – and effective – updating of the minimum wage and oversight with respect to compliance are merited and progress to address the latter (recently announced) should be monitored closely.

World of Work Report 2013: Repairing the economic and social fabric is available at (www.ilo.org/INST). For further comments, journalists are invited to contact Raymond Torres (tel: +41 22 799 7908; email: torresr@ilo.org), Director of the ILO’s International Institute for Labour Studies.