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Labour Market Measures in the United Kingdom 2008–13: The Crisis and Beyond

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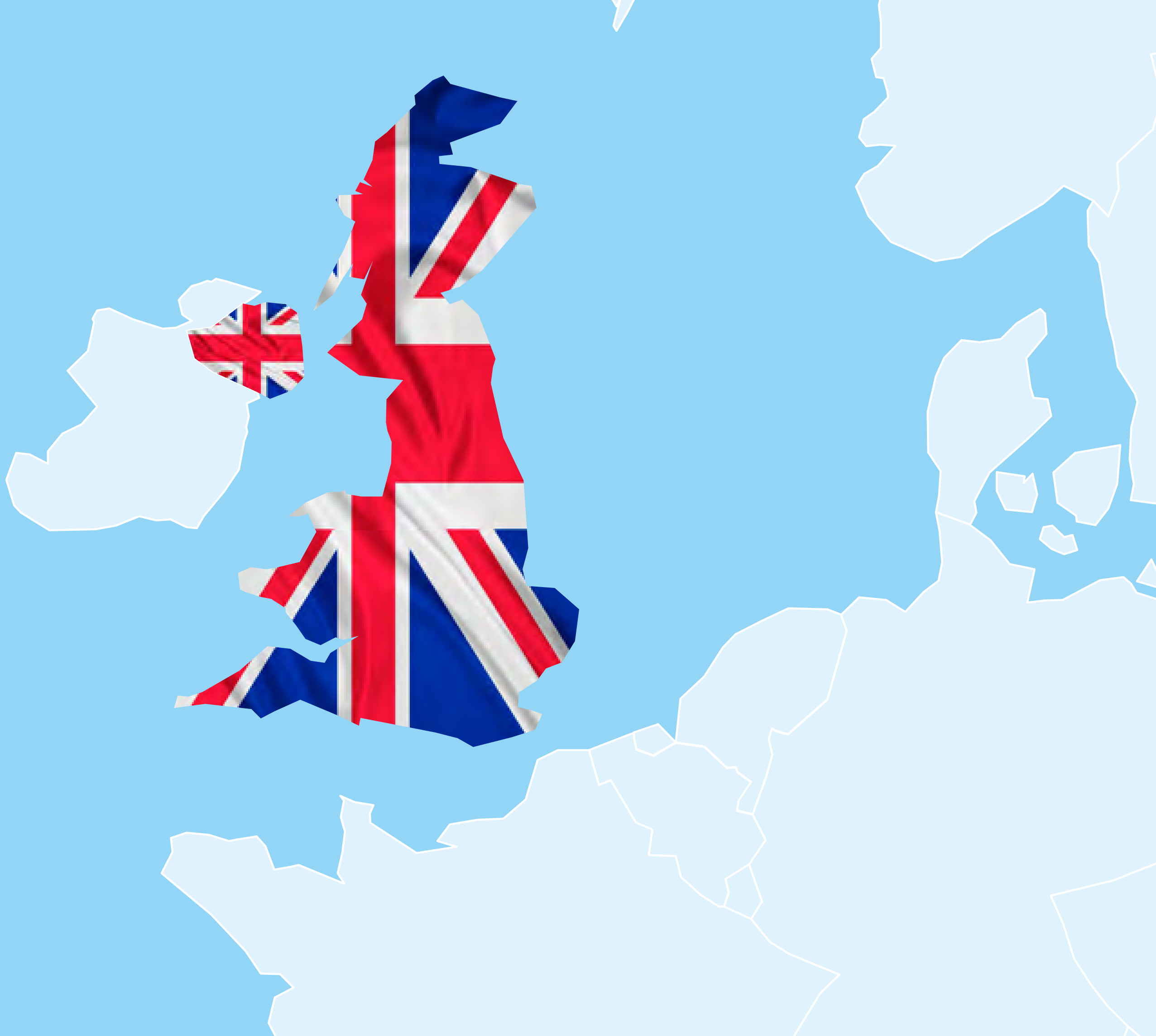

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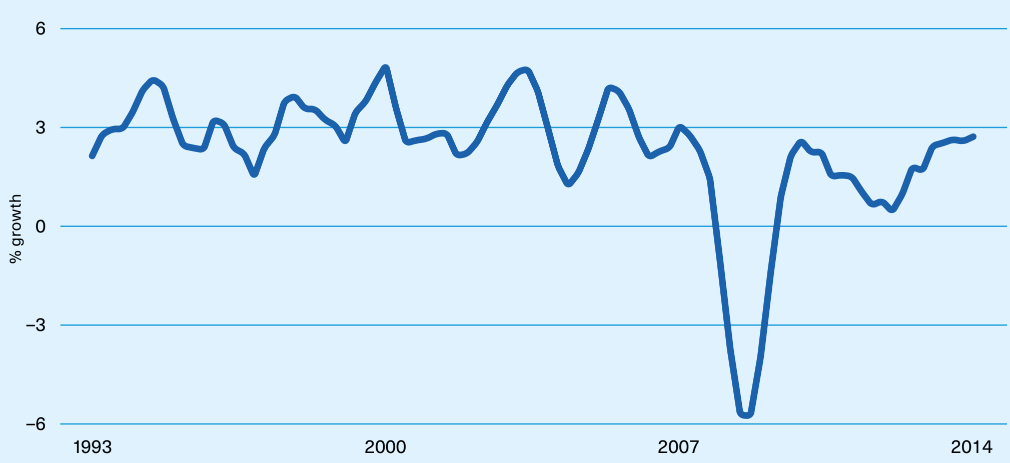
Introduction[1]

The British economy was considered to be in good shape prior to the beginning of the crisis. Actually, the great recession marked the end of a remarkable period of uninterrupted growth. From 1993 to 2007, year-on-year GDP growth averaged a remarkable 3.0 per cent, never falling below 1.2 per cent during this 60-quarter period (figure I-1). Consequently, the unemployment rate declined steadily during the 1990s, finally stabilizing at around 5 per cent at the beginning of the previous decade, and remaining under 6 per cent until the start of the crisis. The good performance of the labour market was helped during the first half of the previous decade by the public sector, which added jobs at a higher rate than the private sector. In particular, during the period 1999–2005, the National Health Service (NHS) expanded by more than 300,000 employees and almost an additional 200,000 people started working for the *Education* sector.

Underlying the healthy appearance of the British economy were two factors that proved to be decisive at the onset of the financial crisis. On one hand, the United Kingdom experienced a housing bubble, starting in 1996. Housing prices rose at a real annual rate of 9 per cent, according to Nationwide Building Society, so that a house valued at £86,500 at the beginning of 1996 would have been worth £223,000 at the end of 2007 (figure I-2). On the other hand, even though the economy as a whole was growing, the financial sector increased its weight on the British Gross Value Added (GVA) from around 5.5 per cent during the first half of the 1990s to just over 7.5 per cent immediately before the crisis. Together, these factors increased the vulnerability of the economy of the United Kingdom to the financial crisis that originated in the United States, helping its propagation to the real economy and amplifying its effects.

The macroeconomic response of the British authorities to the crisis was twofold. On one hand, the government tried to stimulate the economy, mainly through a temporary cut in the VAT rate from 17.5 per cent to 15 per

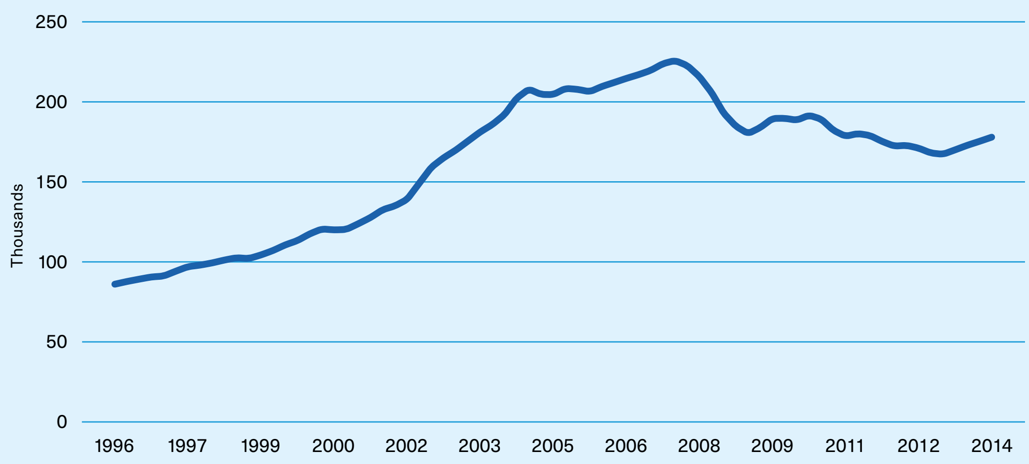
Figure I-1. Year-on-year GDP growth, seasonally adjusted



Source: Eurostat.

1. Abián Garcia Rodriguez is a researcher at the European Univerisity Institute, Economics Department, Florence, Italy.

Figure I-2. Average real housing prices, GBP



Source: Nationwide Building Society.

cent between 1 December 2008 and 31 December 2009. According to the assessment of the Treasury, the cut reduced the tax liability for both businesses and households by around £11,000 million and increased GDP by around 0.5 percentage points in 2009. The government also brought forward £3,000 million of capital spending to support the economy, increasing capital budgets for 2008–09 and 2009–10 with corresponding decreases in the following budgets. On the other hand, the Bank of England (BoE), trying to reactivate the British economy, reduced its interest rates sharply from 5.0 per cent in September 2008 to 0.5 per cent in March 2009. Once the room for further cuts was depleted, the BoE started its Quantitative Easing (QE) programme in March 2009, initially set at £75,000 million but increased gradually to £200,000 million by the end of the year. Under QE, the BoE creates money which it then uses to buy assets, mainly government bonds, so that the monetary base of the economy expands, hopefully boosting economic activity by encouraging banks to lend and consumers to spend.

Finally, the United Kingdom experienced a political change after the general election of 2010. After 13 years of Labour governments, the Conservative party won, though did not gain the majority of seats in Parliament, needing a coalition with the Liberal party to form a government. The resulting Coalition government, the first in British history to be formed directly from an election outcome, has undertaken a wide programme of reforms, including many affecting the labour market, with the main goal of tackling the record levels of public debt.

Literature review

Since the beginning of the economic and financial crisis, the main international organizations have offered their view on the problems and specificities of the recession for the British labour market; a summary of the most interesting findings follows.

The Bank of England, in its *Quarterly Bulletin* from the second quarter of 2014, highlights the rise of self-employment since 2008. Its analysis concludes that this rise is likely to reflect factors associated with the recession (such as weak demand for labour among businesses likely making those who were unable to find a job become self-employed instead, or weakness in real household income boosting labour market participation among potential second earners and those nearing retirement) as well as the ageing of the population. The report also notes an unexpectedly large rise in labour force participation. It concludes that a range of factors (including rising longevity, less generous government benefits, and the squeeze on household income) have boosted participation since the recession, more than offsetting the downward pressure from demographic trends. The Bank of England also studies the perceived slowdown in productivity, arguing that the recent strength in hiring and modest pickup in productivity growth suggests that spare capacity within firms is unlikely to explain much of the current weakness. Factors related to the nature of the financial crisis, such as withdrawal of credit and the upheaval in general of the financial sector, are likely to be having a persistent impact on the level of productivity. The problems of the financial sector in functioning properly have likely reduced investment in both physical and intangible capital, disrupted the efficient allocation of both capital and labour towards their more productive uses and helped less-productive firms survive the recession, all factors leading to observed weak growth of productivity.

The International Labour Organization (ILO), in its publication *Global Employment Trends 2014,* offers some interesting statistics that help to understand the effects of the crisis on the labour market. First, the crisis has barely affected the number of young people that are neither in employment, nor in education or training (NEET), the share of the population aged 15–29. This proportion has remained almost the same since 2007, slightly above 15 per cent. The ILO's rough estimation of unemployment duration climbed during the recession and has kept a more moderate upward trend the years after, reaching a value of more than seven months during 2012. This value is likely to have increased during 2013 and 2014. Also, its estimator of policy uncertainty was at very high levels during 2011 and 2012, coinciding with the new measures introduced by the Coalition government. Finally, the ILO skills mismatch indicator, based on an index of dissimilarity that measures the differences in the shares of educational attainment of the employed in comparison with the unemployed, registered some uptick between 2005 and 2012, motivated by the burst of the housing bubble. The deflation of the bubble produced an important loss of jobs in the *Construction* sector that has led to a shift in skills demand and sectorial movements in employment.

Finally, the Organisation for Economic Co-operation and Development (OECD) published *OECD Economic Surveys: United Kingdom* in February 2013, offering both an analysis of the crisis and policy recommendations. In its opinion, the employment level has performed relatively well during the recession, in comparison with other OECD countries. The OECD argues that the behaviour of the employment level can be attributed to the flexibility of the labour market, so that part of the adjustment in labour utilization has been made through a reduction in hours worked, limiting job losses. However, it warns that the labour market developments have increased inequality, with large underemployment and lower wages: the OECD points to the increases in youth unemployment, long-term unemployment and involuntary part-time work to explain the increase in income inequality. On top of that, skill deficiencies, also detected in the ILO report, are also holding back employment and fostering inequality even more. In light of this picture, the OECD makes the following recommendations for the United Kingdom, among others: first, to enhance workforce skills; second, to introduce changes to the benefit system so as to incentivize work; and finally, to monitor efficiency gains in public services to increase efficiency and reduce costs.

Labour market trends

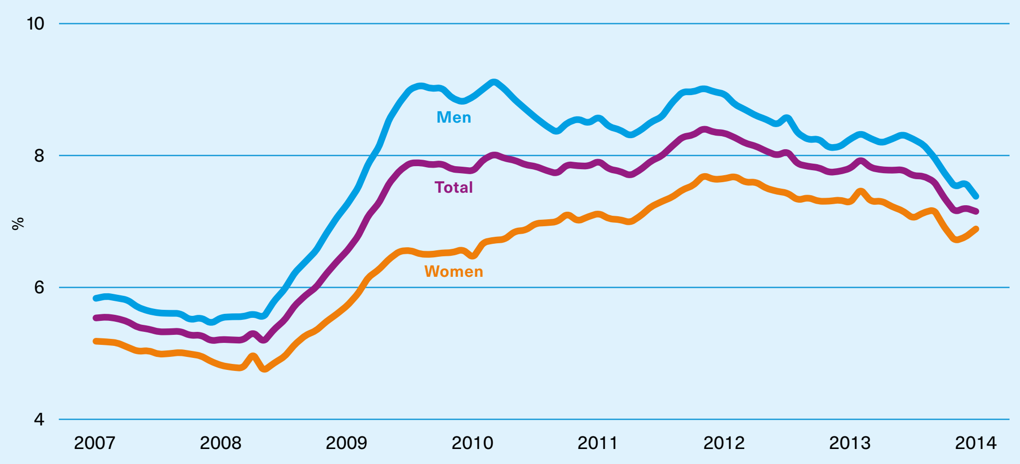
1.1 Unemployment rate

The unemployment rate in the United Kingdom is still above the pre-crisis levels. At the onset of the crisis, the unemployment rate climbed steadily from 5 per cent at the beginning of 2008 to a little below 8 per cent during the third quarter of 2009 (figure 1-1). Then, it stabilized briefly before rising again, mirroring the almost double-dip nature of the crisis, peaking at 8.4 per cent during October 2011. From that point onwards, the gradual recovery of the British economy has allowed the unemployment rate to decrease, with particular intensity from the second half of 2013 onwards.

By **gender**, it is interesting to note that the increase of the unemployment rate for men was particularly sharp during the first part of the crisis, moving from 5.5 per cent in mid-2008 to just over 9 per cent in mid-2009 (a 62.5 per cent increase), in comparison with a 38.6 per cent increase in the female unemployment rate (from 4.7 to 6.6 per cent). The unemployment rate for women continued to rise during the second part of the crisis, finally reaching 7.7 per cent at the end of 2011, whereas the male unemployment rate was just under 9 per cent.

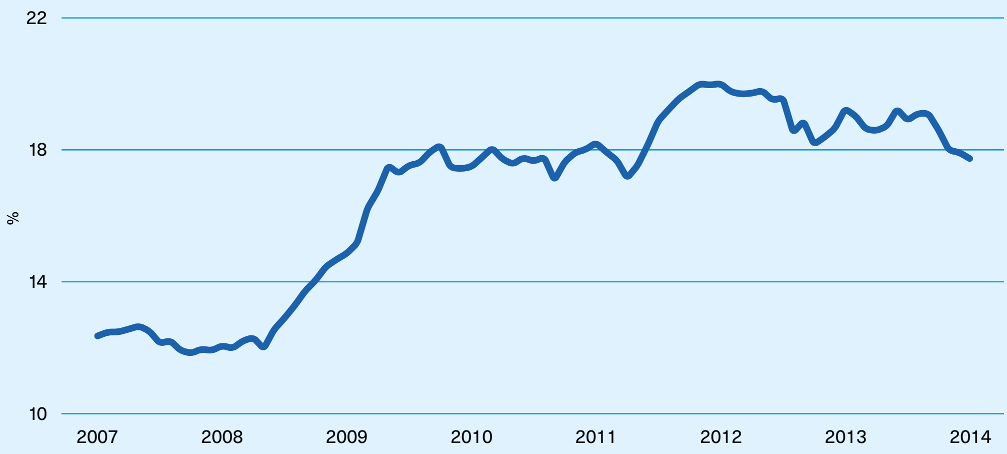
By **age**, the different groups were hit differently by the crisis. The increase in the unemployment rate was a bit more intense in the 25–34 age group, almost doubling the rate from valley to peak (from 4.7 to 8.0 per cent). On the other hand, the increase in the unemployment rate for the 18–24 cohort was mainly responsible for the aforementioned general uptick of unemployment during 2011, increasing from 12.7 per cent just before the crisis to 17.5 per cent during June 2009 and then to 20.0 per cent at the end of 2011 (figure 1-2). Finally, the 35–49 and 50–64 groups observed a valley-to-peak increase in their unemployment rate from 3.4 to 5.5 per cent and 3.2 to 5.2 per cent, respectively.

Figure 1-1. Unemployment rate



Source: Labour Force Survey, Office of National Statistics.

Figure 1-2. Youth unemployment rate



Source: Labour Force Survey, Office of National Statistics.

1.2 Unemployed workers

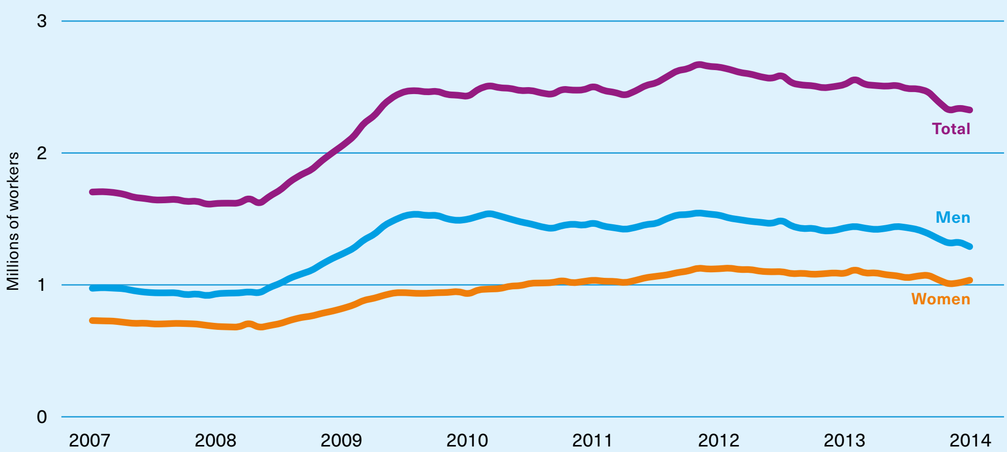
The number of unemployed workers in the United Kingdom rose from just over 1.6 million in mid-2008 to a peak of almost 2.7 million towards the end of 2011, a 66 per cent increase (figure 1-3). The number declined to less than 2.3 million at the beginning of 2014.

By **gender**, the number of unemployed men rose markedly from just under 950,000 during mid-2008 to more than 1.5 million at the end of the second quarter of 2009, a 63 per cent increase, stabilizing around that level for almost three years before starting to fall during 2013. On the contrary, in the same period, the number of unemployed women rose from around 675,000 to just less than 950,000, an increase of almost 40 per cent. However, as opposed to male unemployment, its number continued to climb, peaking at more than 1.1 million unemployed women at the beginning of 2012.

Analysing unemployed workers by **age groups**, only the 35–49 cohort presents a distinctive trend in comparison with the other cohorts. This age group registered a sharp increase of unemployed workers, from about 387,000 in mid-2008 to more than 600,000 during the summer of 2009, but then remained relatively stable until the end of 2012. By contrast, the remaining age groups experienced a second increase in the number of unemployed workers, peaking in 2011.

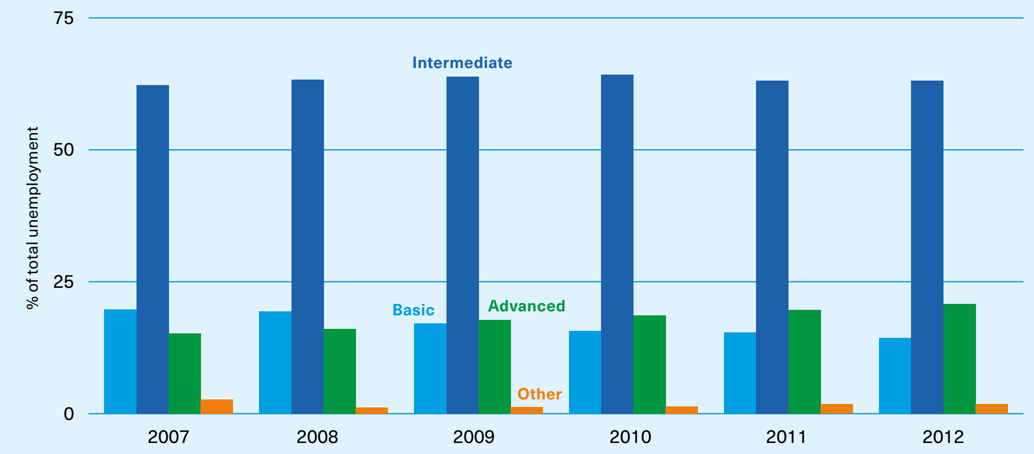
By **education level**, two changes of trend stand out. First, the proportion of unemployed people with

Figure 1-3. Unemployed workers



Source: Labour Force Survey, Office of National Statistics.

Figure 1-4. Unemployment by education level, percentage of total unemployment



Source: ILOSTAT.

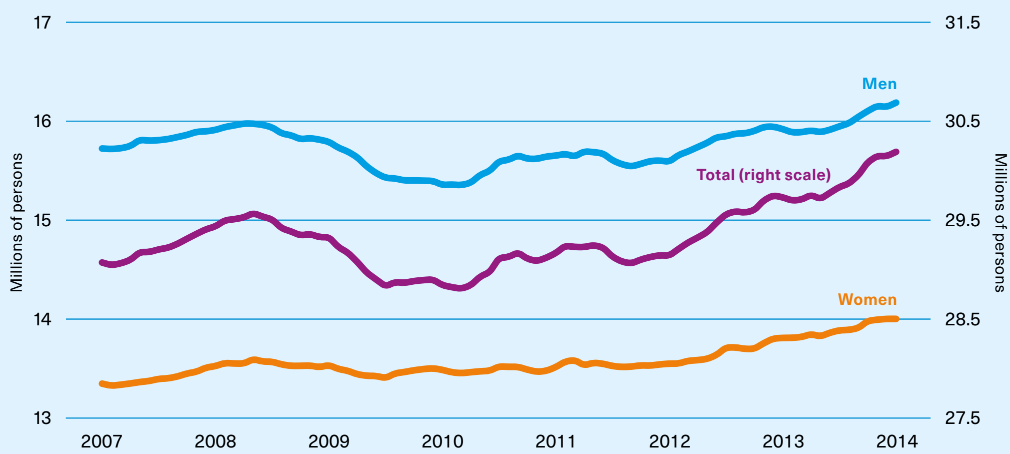
advanced education (at least short-cycle tertiary) rose from 15.2 per cent during 2007 to 20.8 per cent during 2012 (figure 1-4). On the other hand, during the same period, the proportion of unemployed people with basic education (lower secondary at most) decreased from 19.8 per cent to 14.4 per cent.

It is interesting to note that the proportion of unemployed people with advanced education has grown and, at the same time, the proportion of employed people with advanced education has risen too, as discussed in section 1.3. The explanation of these seemingly contradictory trends lies in the large increase of population with tertiary education in the United Kingdom. The OECD's report *Education at a Glance 2014* describes an increase of more than 15 percentage points, from 25.68 per cent during 2000 to 40.98 per cent during 2012, in the percentage of tertiary-educated adults (25–64-year-olds). For reference, the OECD average for those two years was 22.11 per cent and 32.62 per cent, respectively.

1.3 Employment

The number of employed workers in the United Kingdom during the last quarter of 2012 surpassed its pre-crisis level of around 29.5 million workers (figure 1-5). During the low point of the recession, employment remained under 29 million workers from mid-2009 to mid-2010, scoring a peak-to-bottom decrease of 2.6 per cent or 765,000 workers. From that point onwards, the

Figure 1-5. Total employment



Source: Labour Force Survey, Office of National Statistics.

employment level increased gradually, except for another slowdown during the second half of 2011.

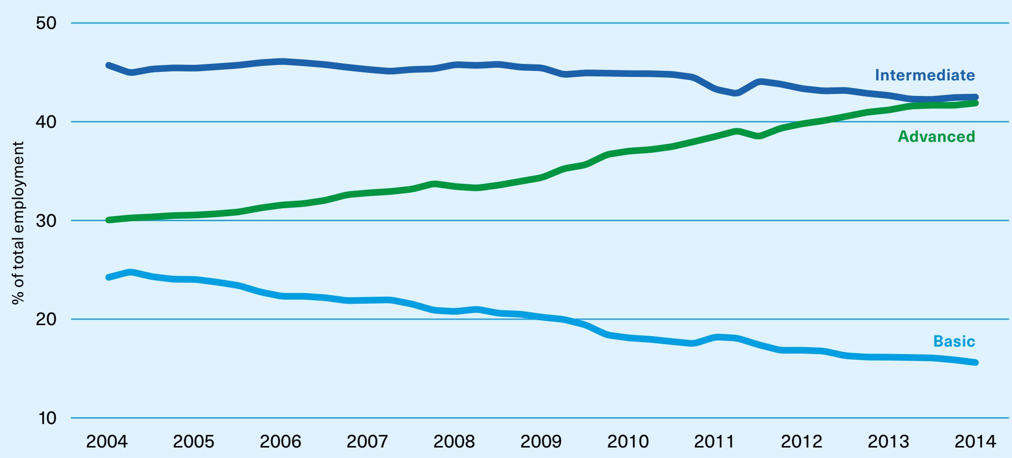
By **gender**, the number of employed men has been more responsive to the economic cycle during the period of analysis than the number of employed women, suffering a bigger drop at the onset of the crisis but rebounding with more intensity. The initial peak-to-bottom decrease in male employment was 3.9 per cent, equivalent to 622,000 jobs lost. In comparison, the number of female workers decreased by 143,000, a 1 per cent drop, from its peak in May 2008 to July 2009, starting a relatively stable upward trend from that point onwards. The severity of the initial job destruction meant that the number of employed men reached its pre-crisis level more than a year after female employment did.

There are remarkable differences in the behaviour of employment by **age groups**. Both the 18–24 and 35–49 cohorts are yet to regain their pre-crisis levels. In the case of the former, from a level of around 3.7 million workers during the first quarter of 2008, the number of employed young workers reached a minimum of less than 3.3 million during the summer of 2013, a decrease of 11.7 per cent. The 35–49 cohort also registered a continuous decline, with a total drop of 5.1 per cent, from about 11.1 million workers at the beginning of 2008 to just over 10.5 million at the end of 2013. In comparison, the 25–34 and the 50–64 cohorts experienced a small (if at all, in the case of the latter) decrease in employed workers during the recession, and have seen a sustained increase afterwards.

Studying the level of employment by highest level of **education** attained, following the classification of the International Standard Classification of Education (ISCED), the recession has not stopped the trend of the British labour market towards a bigger proportion of workers with higher education and fewer workers with secondary education or lower (figure 1-6). The workers in the intermediate category, those with upper secondary and post-secondary non-tertiary education, accounting for around two-fifths of total employment prior to the crisis, have experienced a change of trend, decreasing their relative weight since the beginning of the recession.

Before analysing the behaviour of employment by occupation, it is interesting to observe the diverse evolution of employment in the **public and private sectors**. The level of employment in the private sector registered a significant drop during the recession, from just under 22.4 million during the summer of 2008 to about 21.4 million during the first quarter of 2010, a 4.6 per cent decrease. From that point onwards, the number of private employees has registered an upward, though bumpy, trend, surpassing their pre-crisis level during the summer of 2012. On the other hand, the employment level in the public sector has registered a lot of variation. Before the crisis, the public sector added over 600,000 jobs between 1999 and 2005, slowing down just before the crisis because of the introduction of cuts in the National Health Service that peaked around 2007. Then, during the same period in which the private sector lost 1 million workers, the public sector added almost 200,000 jobs, a 3 per cent increase. However, after peaking at 7.25 million workers during the first quarter of 2011, the number of public workers suffered a sharp drop of 6.3 per cent, bottoming at just

Figure 1-6. Employment by education level, percentage of total employment



Source: Labour Force Survey, Office of National Statistics.

under 6.8 million workers in mid-2012. Employment in the public sector is yet to recover its pre-crisis level.

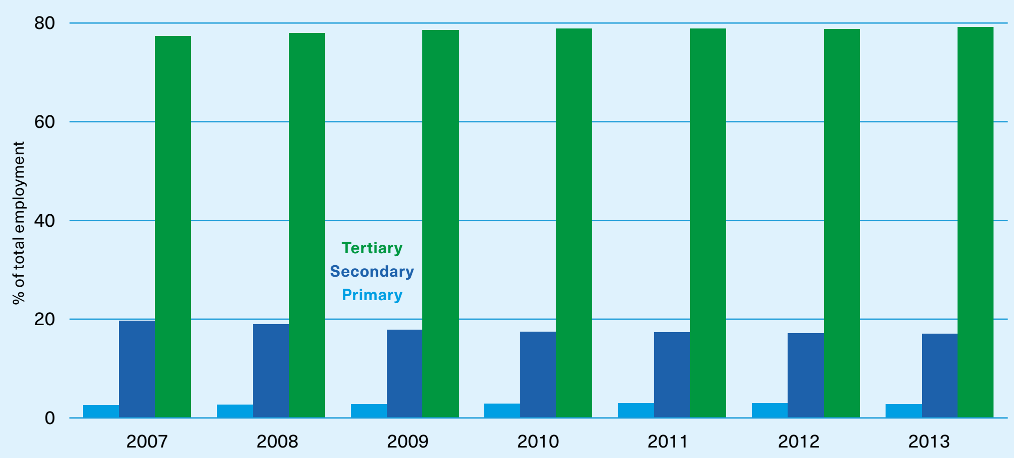
By **industry**, following the Standard Industrial Classification (SIC) 2007, the biggest loss of employment during the recession (approximately from the third quarter of 2008 to the first quarter of 2010) occurred in the *Construction* sector, with a drop of more than 370,000 workers, a 14.4 per cent contraction. It was followed by another two sectors with an important weight on the British economy: *Wholesale and retail* and *Manufacturing*. The former registered a reduction of almost 310,000 workers (–7.3 per cent) whereas the latter sector destroyed more than 250,000 jobs (–8.4 per cent). On the other hand, the *Human health and social work activities* and *Education* sectors added employment despite the recession, 172,000 (4.8 per cent) and 252,000 (9.0 per cent) respectively. As described in the previous paragraph, the situation reversed completely after the first quarter of 2011. From that period until the second quarter of 2012 the *Human health and social work activities* sector lost almost 100,000 jobs (–2.4 per cent), the *Public administration, defence and social security* sector reduced its employment level by almost 67,000 workers (–3.6 per cent) and the number of workers in the *Education* sector was reduced by 40,000 (–1.3 per cent).

By **sectors**, the British labour market is dominated by the *Tertiary* sector, representing almost 80 per cent of total employment through the sample. This dominance has increased during the recession, peaking at 79.18 per cent during 2013 (figure 1-7). The gain in importance of the *Tertiary* sector is explained by the corresponding decrease of the *Secondary* sector, which has moved from almost 20 per cent of total employment in 2007 to less than 17 per cent in 2013, coinciding with the destruction of employment on *Construction*. Finally, the *Primary* sector remains marginal, at less than 3 per cent of total employment.

As mentioned above, the proportion of workers classified as either **self-employed** or employees has continued its pre-crisis trend during the recession. The proportion of employees in the total workforce has been declining more or less steadily since the beginning of the previous decade. Between 2008 and 2013 this proportion fell from 86.4 per cent to 84.4 per cent. Similarly, the proportion of self-employed workers has risen during the past decade, and since the recession it has increased a percentage point from the 13 per cent registered at the beginning of 2008.

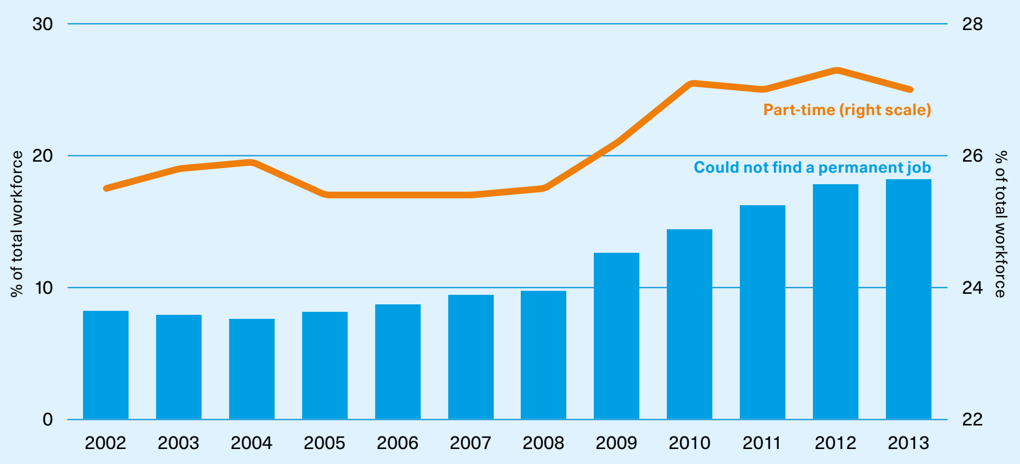
On the contrary, the evolution of **part-time** and full-time employment has changed during the recession. The proportion of these types of workers had remained relatively constant since the mid-nineties. During the recession, however, there was a shift towards a higher proportion of part-time workers, moving from 25.3 per cent of the workforce in 2008 to 27.3 per cent during the third quarter of 2010 (figure 1-8). This shift has yet to revert, as the proportion of part-time workers is still above its pre-crisis level. This increase in part-time workers is not voluntary; according to the Labour Force Survey (LFS), the rise in part-time workers and the rise of respondents that choose the option "Could not find full-time job" as the reason to work part time is almost one-to-one, both increasing by around 475,000 people between mid-2008 and late 2010. Consequently, the proportion of employees

Figure 1-7. Employment by sectors, percentage of total employment



Source: Labour Force Survey, Office of National Statistics.

Figure 1-8. Part-time workers out of total workforce and involuntary part-time workers, percentages



Source: Labour Force Survey, Office of National Statistics.

working part time because they could not find a full-time job, out of the total part-time workers, climbed from 9.5 per cent during the first quarter of 2008 (close to its pre-crisis average) to 18 per cent during the last quarter of 2012 and has remained at similar levels since. Another interesting development is the decrease in the proportion of workers with part-time jobs because they are students or at school, decreasing from an average of 15.8 per cent during 2007 to 12.6 per cent during 2013.

Finally, the proportion of **temporary** workers has increased somewhat, from 5.4 per cent at the beginning of 2008 to 6.3 per cent mid-2010 and, similarly to the proportion of part-time workers, has yet to return to its pre-crisis level. Also, as with part-time workers, there has been a notable increase in temporary workers who pick the option "Could not find a permanent job" when responding why they have a temporary job, from 25.5 per cent to 38 per cent during said period. This proportion has been declining since the beginning of 2013, but is still well above its pre-crisis level.

1.4 Participation rate

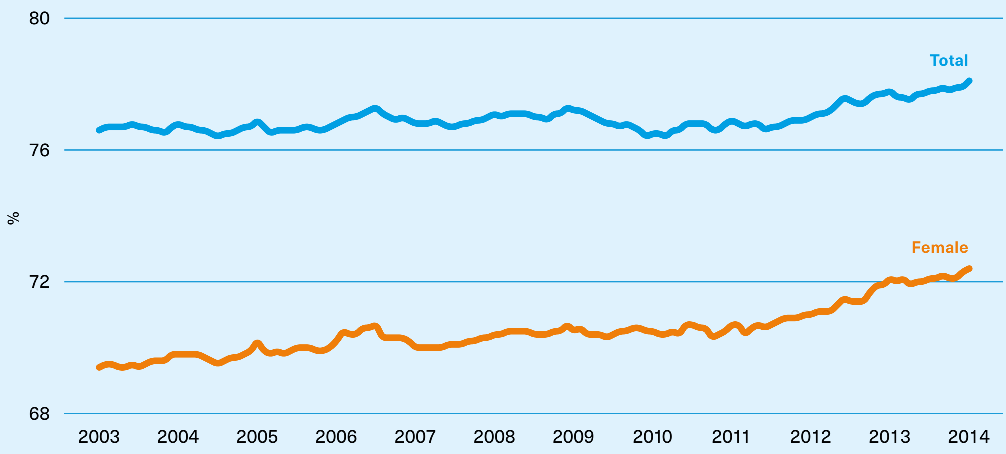
The participation rate remained relatively stable during the recession, as it had been during the previous decade, oscillating around 76–77 per cent. Recently, however, since mid-2011, the participation rate in the UK has registered an upward trend, reaching an average of 78.2 per cent during the first four months of 2014 (figure 1-9). As discussed later in the report, some legislative changes regarding retirement and disability have contributed significantly to this trend.

This upward trend is being led by the increase in **female** participation. The participation rate for women increased in a sustained way over the last few decades, reaching 70.1 per cent during 2007. The rate slowed down during the recession and its aftermath and reached an average of 70.4 per cent during 2010. From that point forward, female participation regained momentum, sitting at 72.4 per cent during the first quarter of 2014.

The evolution by **age** also offers interesting data. The youth participation rate, for those aged between 18 and 24, had been on a long downward trend. Their rate dropped even more with the recession, from 73.8 per cent during 2007 to 71 per cent during 2010, oscillating around that value since. On the other hand, during the recession the participation rate for the 50–64 cohort maintained the upward trend initiated in the mid-nineties and has even intensified this trend after 2011, moving from 68.3 per cent during the second quarter of 2011 to 71.6 per cent during the first quarter of 2014. The behaviour of the older cohort is in line with the one observed in most European countries, were older workers have also increased their participation rate.

Furthermore, the LFS collects data on economic inactivity by **reason**. The analysis of the data shows clearly the effects of two legislative changes: first, during 2011, the Coalition government eliminated the Default Retirement Age and introduced the Pensions Act 2011, which progressively will push the retirement age to 66 by October 2020. The result was decreasing numbers of inactive workers by reason of being retired, from an average during 2011 of around

Figure 1-9. Participation rate



Source: Labour Force Survey, Office of National Statistics.

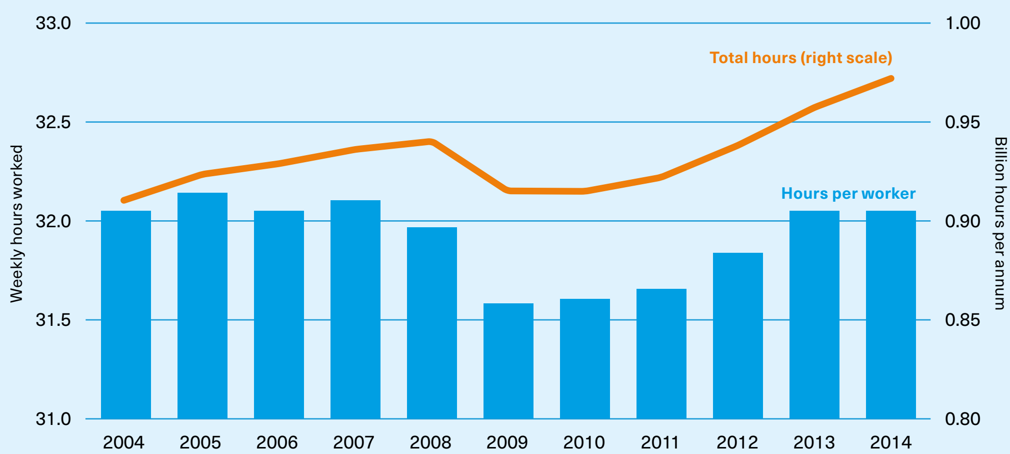
1.55 million to 1.36 million during 2013, a 12.6 per cent decrease. Second, during 2010, the Coalition government increased the intensity of enforcement of the Work Capability Assessment, the test to determine the entitlement of disabled welfare claimants to Employment and Support Allowance. As a result, the number of people inactive for reasons of long-term sickness declined from an average of 2.2 million during 2010 to just over 2 million during 2013, a contraction of 8.75 per cent. In total, the decrease of the number of inactive workers because of retirement or long-term sickness represents 96.4 per cent of the total decrease of inactive workers during 2010–13.

1.5 Hours worked

The total number of hours worked has moved in tandem with the data on total employment, as can be expected. The number of total hours peaked at over 940 million on average during 2008, declining during the deepest part of the recession (figure 1-10). The number of total hours started recovering during the second part of 2009, surpassing the pre-crisis level at the end of 2012 and continuing to rise since then.

More interesting is the analysis of the weekly hours worked per worker. The average for all workers had remained consistent at over 32 hours per week before

Figure 1-10. Total number of hours worked and weeakly hours worked per worker, yearly averages



Source: Labour Force Survey, Office of National Statistics.

the crisis and after 2008. Starting at the beginning of 2009, the average number of weekly hours declined until bottoming out at less than 31.5 hours per week during the third quarter of that same year. From that point onward, first slowly and with more momentum from 2012, the average number of weekly hours returned to normality.

The data on weekly average hours per worker can be disaggregated by type of job. For full-time workers, the recession marks an inflection point, with 2009 as the hinge between a downward and an upward trend. The weekly average of hours worked by a full-time worker moved from 37.56 during 2002 to 36.80 during 2009 and back up to 37.53 during 2013. On the other hand, part-time workers, following a dip in 2009, now work more hours per week on average than before the crisis: from an average during 2002–07 of 15.62 hours per week, part-time workers worked 15.79 and 15.93 hours per week on average during 2012 and 2013, respectively.

Finally, by usual weekly hours of work per worker, the most interesting trend is the decline in the proportion of workers that declare working more than 45 hours per week, from almost a quarter at the beginning of the previous decade to 19.2 per cent during 2009, remaining at similar levels since.

1.6 Vacancies, redundancies and unemployment duration

The number of **vacancies**, again with data from the LFS, dropped substantially at the beginning of the recession. The total number of open positions in the United Kingdom fell from almost 700,000 during April 2008 to around 430,000 in just five quarters, a contraction of 38.4 per cent. Despite remaining under its pre-crisis level, the number of vacancies has accelerated since 2012, with increasing levels of year-on-year change.

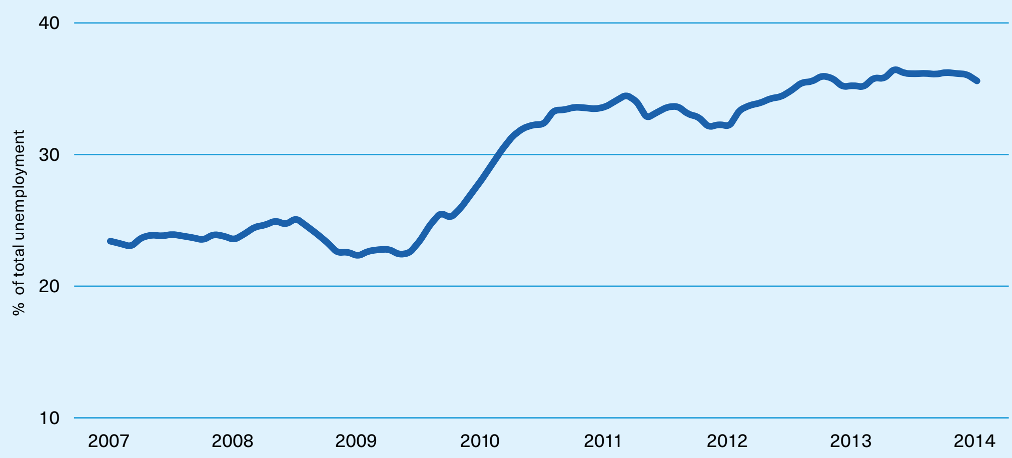
To offer an easier comparison between sectors data on **vacancies per 100 jobs** is used. This ratio dropped from 2.5 to 1.6 during the recession and, similar to the number of vacancies, is still below the 2008 level. By this measure, prior to the recession, the sectors with more slack were *Transport* and *Accommodation and food service activities*, whereas the tightest sectors were *Public administration and defence*, *Administrative services* and *Education*. When the crisis hit, the sectors that experienced a bigger increase in tightness were two sectors with a high level of vacancies in 2008: *Financial and insurance activities* and *Professional scientific and technical activities*. At the other extreme are the sectors of *Public administration* and *Education*, which remained at approximately their pre-crisis levels. However, these two sectors registered a sharp reduction in 2011, in line with the policies introduced by the new government resulting from the general election of 2010.

The number of **redundancies** peaked at 310,000 during April 2009. To place this number in perspective, the average of the previous five years was 142,000 per month and the historical series had never surpassed 210,000 redundancies in the last 20 years. The most affected sector was *Construction*, with a redundancy rate (measuring redundancies divided by the previous period level of employment) in said month of 29.8 per cent. Other sectors with a high redundancy rate were the group of sectors *Transport and storage, Accommodation and food service activities* and *Information and communication* (22.3 per cent) and *Manufacturing* (20.9 per cent). At the other end of the spectrum lies the combined group of *Public administration, Education* and *Health*, with 1.8 per cent during said month, but reaching a maximum rate of 4.5 per cent during the third quarter of 2011.

Unfortunately, is not possible to compute the **average unemployment duration** due to censoring of the data. Decomposing total unemployment by duration shows a drop during the recession of those who have been unemployed less than six months, from an average 60 per cent of total unemployment before the crisis to 47 per cent since the beginning of 2010, remaining around this number since.

Crucially, the number of **long-term unemployed**, those unemployed for more than a year, climbed from 380,000 at the beginning of 2008 up to 800,000 during mid-2010. The number of long-term unemployed continued to rise at a much more reduced pace, peaking at 915,000 during the second quarter of 2013, and declined mildly during the second half of 2013 and into 2014. Consequently, the proportion of long-term unemployed over total unemployment jumped from under 24 per cent during 2007 to 34.5 per cent during the summer of 2011 and has continued to rise since, reaching 36.8 per cent during the first quarter of 2014 (figure 1-11).

Figure 1-11. Long-term unemployed, percentage of total unemployment



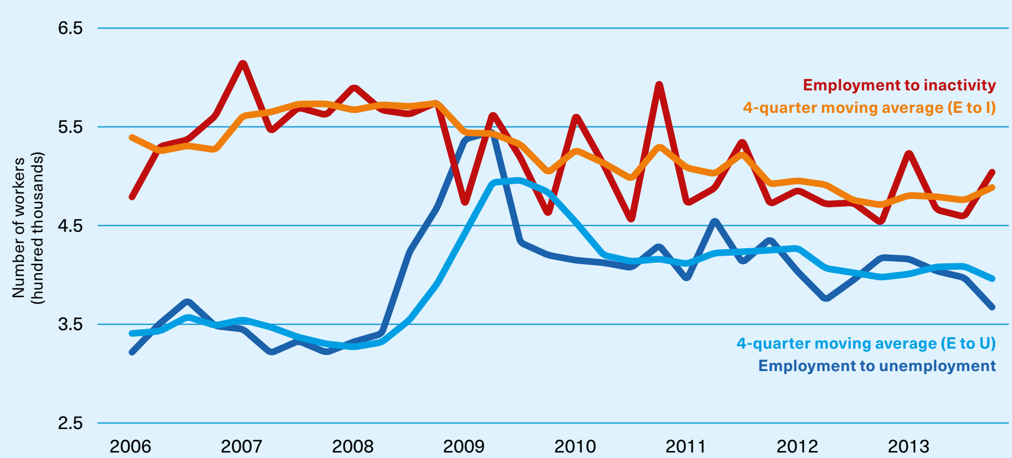
Source: Labour Force Survey, Office of National Statistics.

1.7 Labour market flows

The LFS offers estimates of labour market flows; these data are experimental and therefore do not have National Statistics status and are not suitable as labour market indicators in their own right, but offer invaluable help to understanding the movements in the published LFS aggregate estimates. Methodologically, in the LFS, respondents are interviewed for five consecutive quarters over a 12-month period, with 20 per cent of the sample being replaced each quarter. This allows for a longitudinal dataset to be created over a limited time interval, where respondents' characteristics can be tracked over their time in the survey.

The most interesting **employment** flow is the flow of workers from the employed to unemployed status. The number of employed workers losing their job every quarter was relatively constant, around 340,000 on average. This figure started to rise during the second half of 2008 up to a maximum of 546,000 during the second quarter of 2009, capturing the high point of the job destruction during the recession (figure 1-12). The flow slowed down in the following quarter, but it stabilized at a level higher than prior to the crisis, so that after the crisis British workers are more likely to lose their job than before. In the recent quarters, the flow of workers moving from employment to unemployment seems to

Figure 1-12. Labour market flows out of employment, number of workers



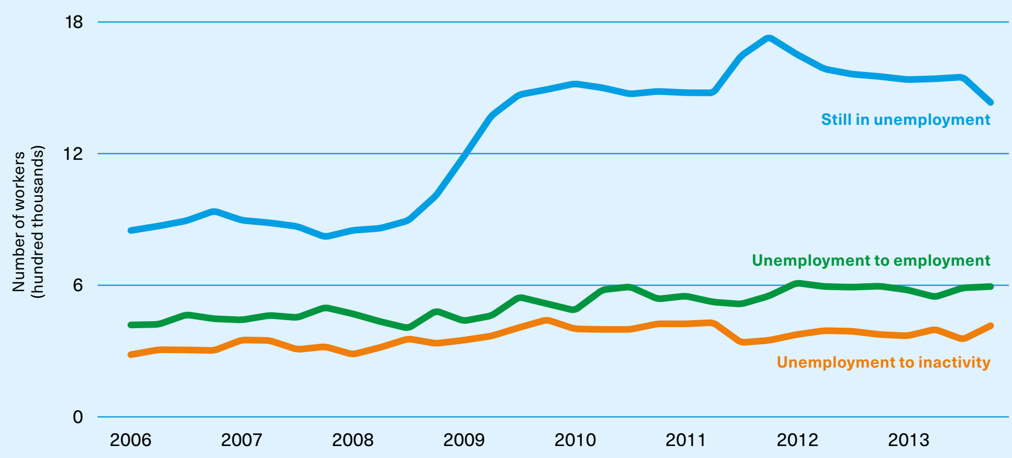
Source: Labour Force Survey, Office of National Statistics.

be returning to the pre-crisis level. On the other hand, the number of workers moving from employment to inactivity has slowed down from 2009, probably as a consequence of the aforementioned changes to retirement.

On the flows out of **unemployment**, it is interesting to observe how both the flows from unemployment to employment and from unemployment to inactivity have increased with respect to their pre-crisis levels (figure 1-13). However, the large inflow of employed workers losing their jobs during 2008 and 2009 created a net positive flow into unemployment and the relatively high level of job destruction afterwards has introduced a high degree of persistence in unemployment. This persistence has translated into the increased level of long-term unemployment described in the previous subsection. The improvement in the situation of the British job market from 2012 can be observed in the decline in the number of workers moving from employment to unemployment, which is reducing the number of workers that remain unemployed, given the stability in the number of workers moving from unemployment to employment.

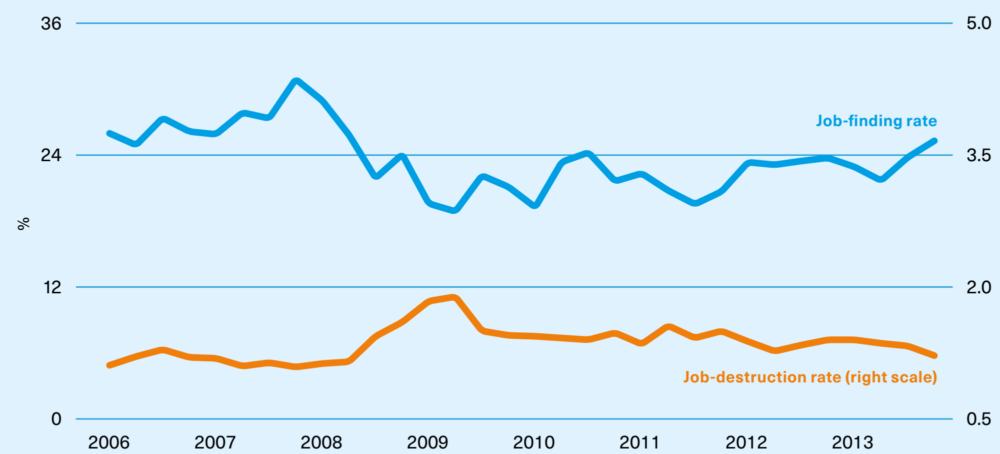
Finally, the net flows related to **inactivity** have observed changes around the crisis. The net flow from employment, normally positive, has declined, whereas the net flow from unemployment has become even more negative. Both trends have reduced the pool of inactive workers.

Figure 1-13. Labour market flows out of unemployment, number of workers



Source: Labour Force Survey, Office of National Statistics.

Figure 1-14. Job-finding and job destruction rates



Source: Labour Force Survey, Office of National Statistics.

The flow data from the LFS also enables the analysis of the **job-finding and job destruction rates**, defined as the number of people who leave unemployment each period divided by the number of unemployed and the number of people who become unemployed each period divided by the labour force, respectively. The evolution of these rates confirms the previous analysis: the crisis created a spike in job destruction and then the economy kept destroying jobs at a higher rate than before the crisis, although the tendency has receded in the last few quarters (figure 1-14). When it comes to job creation, the British labour market is still far from its pre-crisis level, although is involved in an upward trend and getting close to pre-crisis levels.

1.8 Labour-related trends

In the following subsection the evolution of two aspects of the British economy that have a very important impact on its labour market are studied: the evolution of migration and the creation and destruction of firms.

1.8.1 Migration

The *Migration Statistics Quarterly Report* is a coordinated release between the Office of National Statistics (ONS), the Home Office and the Department for Work and Pensions (DWP), which collects long-term international migration data. The report was biannual prior to 2010, but still offers an invaluable analysis of the recent trends in migration in the United Kingdom.

Long-term immigration into the United Kingdom has been relatively stable during the last few decades, around 575,000 people per year. However, there was a notable decline starting in 2011, which can be attributed almost entirely to the decline of immigration from the so-called New Commonwealth countries.[2] The immigration coming from these countries declined from 151,000 people in 2011 to 78,000 in 2013. Despite this decline in immigration, the United Kingdom remains a net receptor, with an average net immigration of around 200,000 people per year.

Starting in 2008, the number of people migrating to the United Kingdom for work-related reasons, both looking for jobs or with a definite job, declined from its pre-crisis average of around 220,000 workers yearly to 175,000 in 2012, although since then it has come back to levels similar to the pre-2007 period. In this case, the workers more affected were those from the countries accessing the European Union in 2004,[3] which moved from 59,000 migration workers in 2007 to 29,000 in 2009 and have continued the downward trend. On the other hand, the recovery of work-related migrants during 2013 and 2014 corresponds to the increase in workers coming from the pre-1996 European Union countries, rising from 95,000 workers during 2012 to 125,000 during 2013.

1.8.2 Firm creation/destruction

The Office for National Statistics releases yearly data on business demography; the last publication corresponds to 2012 data. In terms of destruction of firms, the worst year of the recession was 2009, when 280,000 firms closed, representing an increase of more than 20 per cent over its pre-crisis average (figure 1-15). Firm destruction came back to levels similar to those previous to the recession already in 2011, although with a small increase during 2012. The year 2009 was also the worst for firm creation, although in this case the slump was prolonged during 2010. Consequently, 2009 and 2010 were years of net destruction of firms, and the relative weakness of the recovery of firm creation and the uptick in firm destruction during 2012 have kept net firm creation at levels inferior to the pre-crisis period.

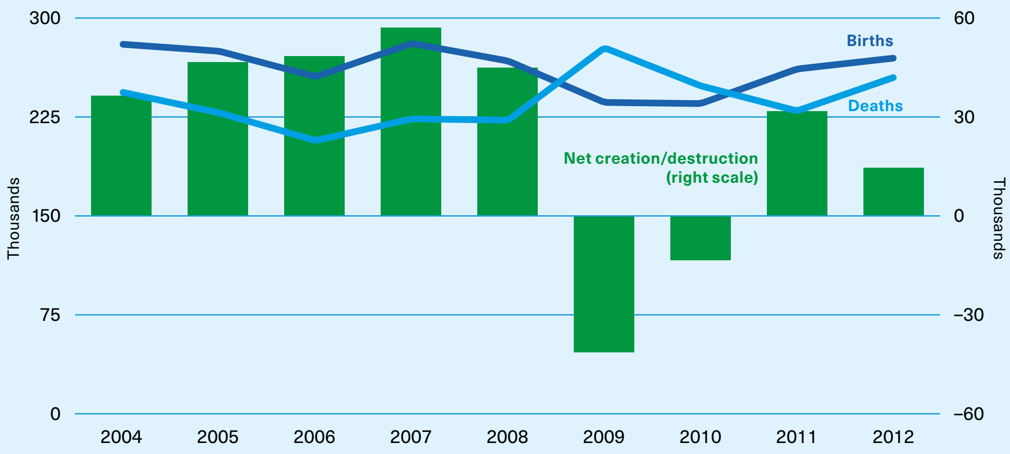
The worst-hit industries were those related to the housing bubble. Between 2008 and 2009, housing-related industries[4] were responsible for 30 per cent of the increase in firm destruction and 47 per cent of the decrease in firm creation, for a total net destruction of more than 14,000 firms in 2009, about a third of the total. For the rest of the economy, it is worth mentioning the industries of business support activities (such as consultancy, office support or computer programming), which account for 38 per cent of the decrease in firm creation, and wholesale and retail trade, which together account for 11 per cent of the increase in firm destruction.

2. India, Pakistan, Bangladesh and Nigeria represent 85 per cent of the population of the New Commonwealth.

3. Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, excluding Cyprus and Malta.

4. These industries are: specialized construction activities; construction of buildings; architectural and engineering activities; and real-estate activities.

Figure 1-15. Firms births, deaths and net firm creation/destruction



Source: Business Demography, Office of National Statistics.

1.9 Analysis

An important element in understanding the recent evolution of the British job market and the policy responses of the government are the long-term unemployed. The number of people unemployed for more than a year doubled between the beginning of 2008 and mid-2010 and then kept rising, reaching a peak of over 900,000 during the third quarter of 2013 and improving mildly from then on. The increase in long-term unemployment has moved the Coalition government to implement measures to mitigate it, such as the Help to Work programme, explained in Section 5.

The proportion of part-time employees and temporary workers, although with less intensity in the latter, has experienced a change of trend as a result of the crisis. The proportion of part-time workers had been stable at around 25 per cent of the total workforce before the crisis, but after the recession it has remained close to 27 per cent, with no signs of returning to previous levels. In the case of temporary workers, the crisis broke an 11-year downward trend. For both types of workers, these increases have corresponded almost entirely to workers who could not find a permanent or full-time job.

Therefore, the data on long-term unemployment and part-time and temporary employment describe a recovery of the British job market still at a very early stage, with a large number of workers unemployed for more than a year who cannot find a job and a significant number of workers who would like to have more stable forms of work but have to settle for part-time or temporary jobs.

It is also interesting to note the situation of female workers. The initial rise of the unemployment rate was smaller for women, but it continued to climb after the male unemployment rate stabilized around 2009 and has shown a slower recovery from its peak. The behaviour of the unemployment rate occurred even as the employment level recovered quicker than its male counterpart, as the participation rate returned to its pre-crisis upward trend.

On the other hand, there are two trends unchanged by the crisis: first, the British labour market continues to be increasingly populated by workers with higher education. If the current trend continues, in the next quarters the number of workers with at least short-cycle tertiary education will surpass those with lower secondary as its maximum degree attained for the first time ever. Second, the proportion of self-employed workers out of the total labour force continues to rise, extending a trend initiated at the beginning of the previous decade and reaching maximums of the historical series.

Employment Protection Legislation (EPL)

2

This section will analyse the evolution of the contractual forms in the United Kingdom, with a special emphasis on labour flexibility and employment protection. The analysis will include a look back at the recent evolution of employment protection in the United Kingdom as well as the legal changes introduced in the aftermath of the crisis.

2.1 Labour relations in the UK after the crisis

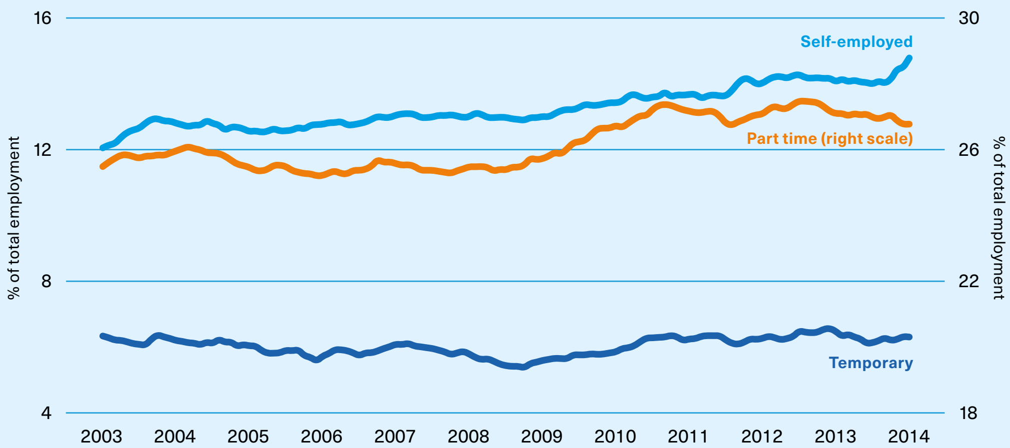
Following the recession, one of the most important developments in the British job market has been the decrease in full-time employees as a percentage of the total workforce in favour of other forms of employment, such as part-time or temporary, and self-employment (figure 2-1). Furthermore, as discussed in the previous section, the rise in these other forms of labour has been mostly involuntary. The proportion of workers engaged in part-time or temporary labour who would rather have a more permanent or stable position has increased in tandem with the rise in part-time and temporary employment. Also, in comparison with full-time employment, these other forms of employment generally imply lower incomes and/or pecuniary benefits, worse working time arrangements, less employment security and social protection and fewer incentives from employers to provide training. Therefore, it can be concluded that after the crisis there has been an overall decline in employment quality in the United Kingdom.

2.1.1 False self-employment

Within self-employment, successive governments have been concerned about the possibility that the rise in self-employment can be the consequence of a rise in false self-employment: a situation where workers sign contracts with payroll companies that classify them as self-employed when in practice they work for a single company. With this arrangement, employers benefit by not paying national insurance contributions and making savings in holiday pay, sick pay and pension contributions, all to the detriment of the worker.

Not only the worker is worse off; false self-employment is a form of tax evasion. In the United Kingdom, in a direct employment relation, the employer has to pay 12.8 per cent of the wage as Class 1 National Insurance and the worker 11 per cent; under self-employment,

Figure 2-1. Self-employed, part-time and temporary workers, percentage of total employment



Source: Labour Force Survey, Office of National Statistics.

only the worker contributes (technically, there is no employer) a reduced rate Class 2 National Insurance of 8 per cent of the wage.

Concerns about false self-employment have been focused on the *Construction* sector. Naturally, the *Construction* sector tends to have a higher proportion of self-employed workers, but this proportion is even higher in the United Kingdom: with data of the European LFS, the proportion of self-employed workers in the British *Construction* sector was around 50 per cent on average during the ten years prior to the recession; in contrast, the same proportion in France, Spain or Germany was around 20 per cent, 19 per cent and 17 per cent, respectively.

Other than the transitory nature of the construction industry, where workers frequently have to change sites and employers throughout their working lives, two other factors seem to affect the increased likelihood of false self-employment: first, the existence of the Construction Industry Scheme (CIS), which allows companies to make tax deductions from the pay of self-employed sub-contractors at source, might have encouraged false self-employment; and, second, the emergence of payroll companies. These companies are entities acting as intermediaries between the worker and the engager, facilitating tax avoidance.

In 2009, the Labour government, following the publication in 2008 of a report by the Union of Construction, Allied Trades & Technicians (UCATT), commissioned from Professor Mark Harvey at the University of Essex, started a consultation on false self-employment in the *Construction* sector, but various disagreements led to no action being undertaken. More recently, in the 2013 Budget the Coalition government announced that it would consult on proposals to tackle tax avoidance by intermediaries, based offshore, who provided labour services to UK companies; in December 2013 the Coalition government published a second consultation, on proposals to prevent intermediaries based in the UK labelling workers as self-employed, by means of contrived contractual terms, so as to avoid tax and National Insurance payments. The discussion about the design and implementation of measures to tackle false self-employment is still ongoing.

2.1.2 Zero-hours contracts

The term "zero-hours contract" refers to an employee who is "on call", without setting a minimum number of hours or a definite schedule, who works under an employment contract which nevertheless meets the requirements of the Employment Rights Act. The employer has no obligation to provide work for the employee and the employee agrees to be available for work as and when required and to receive compensation only for hours worked.

The main advantage of this type of contract is its flexibility. Sectors such as tourism and hospitality, which can be subject to a high degree of variability and seasonality, can use zero-hours contracts to adjust their personnel to their demand, reducing layoffs and their associated costs. Some workers, such as students, who want occasional earnings and are able to be entirely flexible about when they work, can benefit from zero-hours contracts. On the other hand, zero-hours contracts might not offer enough financial stability and security, especially for workers with family obligations. Also, employees on zero-hours contracts do not have the same employment rights as those on traditional contracts. Therefore, there is the concern that zero-hours contracts are being used to avoid employer responsibilities to employees. On top of that, employers can use the distribution of hours to pressure their employees, offering more hours to favoured employees and fewer to those less valued.

Measuring the amount of workers with zero-hours contracts is complicated. Given that there is no legal definition of a "zero-hours contract", surveyors must rely on the perception of the surveyed, which can lead to huge differences. For example, the LFS, based on a survey of workers, estimated that 583,000 workers (1.93 per cent of the total workforce) were on zero-hours contracts between October and December 2013. However, a separate survey of 5,000 businesses conducted by the ONS indicates that in January to February 2014 there were around 1.4 million employee contracts that did not guarantee a minimum number of hours. The ONS explained that the difference between the two figures was partly because one worker could hold more than one contract but also, more importantly, employers may be more aware of formal contractual arrangements than their employees. Interestingly, the time series of the LFS spikes in 2013, the year in which zero-hours contracts took the spotlight in the media. Therefore, it is possible that the same interest that turned zero-hours contracts into an important issue for the assessment of the labour market have rendered it impossible to analyse its evolution.

In any case, it is still possible to analyse zero-hours contracts transversally. First, workers on zero-hours contracts are more likely to be women, in full-time education, young (aged 16-24) or older (aged 65 and over). These patterns may partly reflect the groups most likely to find the flexibility of zero-hours contracts an advantage, as commented above, such as young people combining flexible working with their studies or people working beyond state pension age. Second, nearly two-thirds of people on zero-hours contracts are part-time workers, compared with a total workforce average of around 27 per cent. Finally, from the employers' perspective, firms that use zero-hours contracts tend to be larger (46 per cent of firms with more than 250 employees use them) and from the *Accommodation and food* sector (45 per cent of firms from that sector use zero-hours contracts).

Given the rise in prominence of the topic, the Coalition government launched a consultation on zero-hours contracts. The Consultation lasted from September 2013 to March 2014, finally producing a Consultation document which identified exclusivity clauses as being particularly concerning. With an exclusivity clause, the worker agrees to a contract that does not guarantee a minimum number of hours and is banned from working for another company. In certain cases, this restriction was enforced to prevent the worker from looking for work elsewhere, particularly when they needed more hours to bump up their earnings. Based on the analysis of the Consultation, the Coalition government has put forward the Small Business, Enterprise and Employment Bill,[5] which both introduces a formal definition of zero-hours contracts and bans exclusivity clauses.

2.2 Legislative changes in employment protection

The level of employment protection in the United Kingdom, according to the OECD Indicators of Employment Protection and the Employment protection legislation database of the ILO, has remained for the past decades very stable and at low levels, in comparison with the average for the OECD. Only two major changes had occurred in the two decades prior to the crisis: a reduction of the trial period in contracts to one year during 1999 and the introduction of a limit on the maximum cumulated duration of successive fixed-term contracts during 2002.

This stability has continued following the recession and there have been three major changes in employment protection legislation in the aftermath of the crisis. All these changes have occurred after the general election in the United Kingdom of 2010.

First, the Agency Workers Regulations 2010 came into force in October 2011. These regulations have been introduced to implement the 2008 European Union Temporary Agency Work Directive, requiring agency workers to be treated equally with comparable employees, with regards to basic employment conditions. More specifically, with the new law, after an agency worker has spent 12 weeks in a given job, the worker is entitled to working and employment conditions that are equal to those of the hirer's own employees with regards to pay, the duration of working time, night work, rest periods, rest breaks and annual leave. The reaction from the social agents was mixed. While the Trades Union Congress was in favour, the Confederation of British Industry claimed that the regulations will create extra process costs for employers and further over-complications. Finally, the Recruitment and Employment Confederation, representing recruitment agencies, considered that the Regulations will create some additional challenges, but will not impact their basic functioning.

According to the LFS, prior to the crisis, agency workers constituted 18 per cent (about 260,000–270,000) of total temporary workers. This proportion decreased slightly in the years after, reaching a low of just over 15 per cent at the beginning of 2010. From that point onward, the proportion and number of agency temporary workers has been slowly increasing, already surpassing their pre-crisis levels. Even though more data will be needed to assess the exact impact of the Agency Workers Regulations, these preliminary data suggest that the regulations have not had a negative impact on working agencies.

Second, the Unfair Dismissal and Statement of Reasons for Dismissal (Variation of Qualifying Period) Order 2012 was enacted in April 2012. This order effectively increases the duration of the trial period for workers from one year to a maximum of two years. It is interesting to note that the Employment Rights Act of 1996, the fundamental regulatory law of the British labour market, does not legislate the probationary period as such. However, its Section 108 provides for a "qualifying period of employment" which is comparable to the probationary period insofar as employees are excluded from the protection against unfair dismissal during that period of time.

Finally, the Trade Union and Labour Relations (Consolidation) Act 1992 (Amendment) Order 2013

5. At the time of writing, final amendments were made to the Bill during the third reading in the House of Lords on 17 March. The Bill will now go to the Commons for consideration of Lords amendments.

came into effect in April 2013, reducing the consultation period on redundancies affecting 100 or more employees from 90 to 45 days. The rationale of the government behind the decision is that redundancy consultation is usually completed well within the existing 90-day period, so the previous limit can cause unnecessary delays for restructuring and make it difficult for those affected to get new jobs quickly. The employer's groups have welcomed the order as a change that would modernize the system, although some wanted a further reduction to 30 days, in line with the time allowed for consultation affecting between 20 and 99 redundancies. On the other hand, unions opposed the move, claiming that it would increase job insecurity among temporary staff and would give unions less time to work with employers to find ways to save jobs.

2.3 Analysis

Debate about EPL in the United Kingdom is scarce. The level of employment protection of British workers remained relatively stable at low levels, in comparison with the other OECD countries, during successive Labour governments. Consequently, the arrival of the Coalition government changed little: the Agency Workers Regulations were introduced to comply with European directives, the reduction of the consultation period for large redundancies will likely affect a limited proportion of the workforce and the extension of the trial period has less bite in a country with reduced redundancy pay such as the United Kingdom. On the other hand, though small, these changes will hurt the protection of the workers. In conclusion, the legislative changes will probably have a small effect on the job market, keeping the United Kingdom as one of the countries with the lowest level of employment protection in the developed world.

Unemployment benefits, social insurance and social assistance

3

This section presents the current state of unemployment benefits and social assistance and its recent evolution. There will be a thorough discussion of the different types of support that jobseekers can obtain, its prerequisites, number of claimants and its effects on the job market and in the economy.

3.1 The Jobseeker's Allowance

The Jobseeker's Allowance (JSA) is the main form of unemployment benefits in Great Britain. Its origins can be traced back to the National Insurance Act of 1911, which granted a maximum of 12 months of benefits to those who had recently been in work.

Unemployment benefits, such as the JSA, are a fundamental element of a country's safety net, providing economic support to those who cannot find a job. Concerning its effects on the labour market, standard economic analysis concludes that unemployment benefits increase unemployment by reducing the incentives of unemployed workers to search for jobs. On the other hand, unemployment benefits can also make the worker more selective when accepting a new position, increasing job quality in terms of wage and average duration. The length of the period in which an unemployed worker can receive unemployment benefits is also an important element of the programme: longer periods can allow the worker to acquire new skills and human capital that can lead to better employability and a better job.

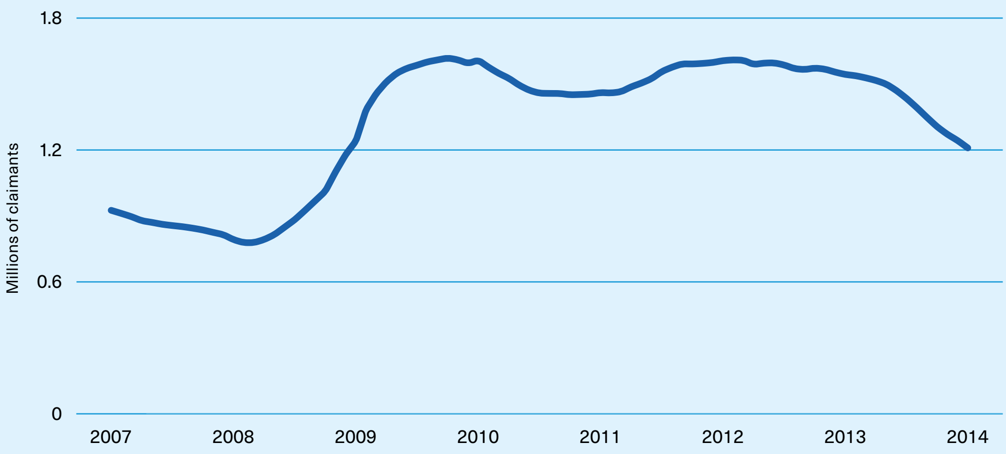
In the United Kingdom there are two types of this allowance: contribution-based and income-based. The contribution-based JSA falls into the category of social insurance. It is limited to up to 182 days and only workers that have paid enough Class 1 National Insurance contributions in the last two tax years are entitled to it. The exact quantity received varies just with age: those under 25 receive a weekly amount of £57.35 and those over 25 receive £72.40. When the contribution-based JSA is exhausted, the person can claim the income-based JSA, if eligible. The income-based JSA is a form of social assistance and so is means-tested: to receive it, the household must have less than £16,000 in savings. Below this limit, for each £250 of your savings over £6,000, your benefit is reduced by £1 per week. Apart from age, family status also affects the quantity received. In this case, singles under 25 receive a weekly amount of £57.35, singles over 25 and lone parents receive £72.40 and couples receive £113.70 per week. There is, therefore, no explicit link between the unemployment benefits received and its duration and the business cycle.

The common requirements for both types of JSA are to be 18 years old or over, able and available for work, not to be in full-time education and to be actively seeking work. This last requirement is enforced via the "Jobseeker's Agreement". Claimants are required to attend an initial New Jobseeker interview, sign said Jobseeker's Agreement (stating, for example, how many companies they will phone each week or how many times they will search the DirectGov website's job section each week) and must go to a Job Centre every two weeks to "sign on", certifying that they are still actively seeking work.

3.2 Claimants statistics

The number of claimants of the Jobseeker's Allowance more than doubled during the recession, rising from 780,000 during March 2008 to 1,620,000 during October 2010 (figure 3-1). By **gender**, the proportion of claimants has suffered a change of trend. After remaining relatively stable at around a 73/27 per cent split between men and women, this proportion has narrowed progressively since mid-2009, reaching a 64/36 per cent split by mid-2014. By **age**, the proportion of claimants aged between 18 and 24 years old declined steadily from around 31 per cent at the beginning of the crisis to under 25 per cent in 2014, except for a bump during 2011. Finally, the percentage of **claimants over total unemployed**, after reaching a minimum of 48 per cent during the first quarter of 2008, climbed to 66 per cent during the zenith of the recession, staying at similar levels for most of 2009. After dropping below 60 per cent during 2010, the ratio rose slowly the next two years, finally starting to decline in 2013.

Figure 3-1. Claimants of unemployment benefits



Source: Labour Force Survey, Office of National Statistics.

3.3 Reforms related to unemployment benefits

The main reform related to unemployment benefits is the projected introduction of the Universal Credit (UC) to substitute the income-based JSA. The UC was introduced in the Welfare Reform Act of 2012 with the goal of replacing six of the main means-tested benefits and tax credits: income-based JSA, Housing Benefit, Working Tax Credit, Child Tax Credit, Employment and Support Allowance, and Income Support. The functioning of the UC is designed to, in principle, encourage work, as financial support is withdrawn at a slower rate than under the current system as claimants earn more income and there is no limit on the number of hours a claimant can work per week before losing its entitlement. As for requirements, the UC inherits all of the requirements of the income-based JSA. The UC is still in the roll-out phase (full implementation is not expected until 2016); therefore, it is too early to measure its effects on employment and job searching.

Also, during 2011 and 2012 the Coalition government rolled out the Single Work Programme to replace the old New Deal workfare system, introduced during 1998. Many of the elements of this programme affect recipients of the JSA. For example, those aged between 18 and 24 who have received the JSA during the previous nine months (or 12 months for those over 25) are required to participate in the Work Programme, a payment-for-results welfare-to-work programme. The Single Work Programme will be analysed in depth in Section 5.

Two other minor changes have been introduced related to the JSA. First, for claims made from the first day of 2014, most jobseekers, including UK nationals returning from living or working abroad, will be unable to claim the income-based JSA until they have been living in the UK for three months. Second, a tougher JSA sanctions regime was implemented in October 2012. This new regime increases the administrative penalty for benefit fraud to £350 or 50 per cent of the amount overpaid, whichever is the greater, plus extended periods for which those convicted of fraud will forfeit their benefit, alongside any court punishments.

3.4 Analysis

The debate about social insurance and social assistance is, in principle, more about form than about substance. All major parties agree to the principle of "workfare" or welfare tied to work. Consequently, the system of contribution-based unemployment benefits has remained unchanged, while covering more people with social assistance. In contrast, after the crisis, and with particular intensity in the pre-2010 period, many countries acted on social insurance. To name just a few examples, France granted for a limited period an exceptional subsidy of 500 euros for those who become unemployed having worked for two to four months (so were not eligible for unemployment benefits); Spain eliminated the waiting-time period so that workers could receive unemployment benefits immediately after losing their jobs; and Italy increased the maximum duration of ordinary unemployment benefits for workers suspended from work due to enterprise internal crisis or occupational crisis to 90 annual days. On the other hand, some countries decided to reduce benefits or add conditionality. Again, just to name a couple of examples, Ireland reduced its Jobseeker Benefit by 4.1 per cent in 2010 and Switzerland abolished the rule whereby unemployed people need only accept a job offer that corresponds to their qualifications for those under the age of 30.

The main change of the Coalition government has been in social assistance with the introduction of the Universal Credit. The amalgamation of benefits is in effect doubling down on the idea of workfare, increasing the linkage between job searching and welfare. The Universal Credit, as with any simplifying programme, should also increase the efficiency of its application and reduce fraud which, together with the Benefit Cap, should reduce the cost for the Public Administration, one of the main goals of the Coalition government.

4 Wages

This section will analyse wages and fiscal policy related to wages. On one hand, there will be a discussion of recent trends in wages (including the evolution of productivity, pay differentials and the labour share) and the evolution of wage bargaining in Britain. On the other, this section presents and studies two very important government tools: minimum wages and public employment and wages, through which the government can deeply influence the economy in general and the labour market in particular.

4.1 Statistics

Nominal wages followed a modest upward trend prior to the crisis, moving up from an annual growth of 3.2 per cent in 2003 to 4.8 per cent in 2007. At the onset of the crisis, the year-on-year growth of nominal wages slowed down sharply during 2008 and 2009 to an almost stagnation during the latter. From that point forward, the annual growth of nominal wages has stabilized below 2 per cent.

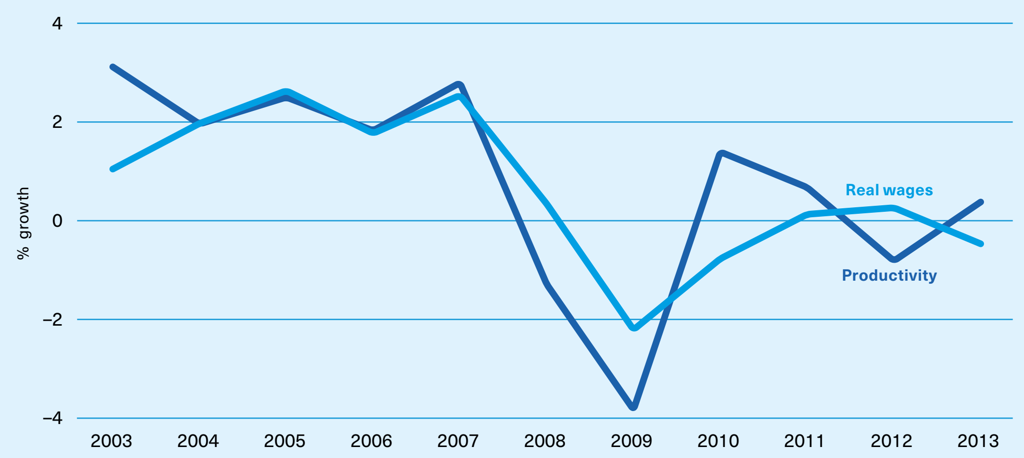
Correspondingly, the annual growth of **real wages** has been negative since the summer of 2008 (figure 4-1). Since then, the evolution of real wages has fluctuated around a year-on-year growth of minus 1 per cent. This fall in real wages is unprecedented in its length; the UK had not experienced any continuous period of more than a year of negative real wage growth since modern records began in 1964.

In terms of **productivity**, measured both in output per worker and per hour, the recession broke an upward trend, with an average annual growth during 2003–07 of around 2.5 per cent. Following the recession, the productivity growth has been irregular, alternating increases and contractions. As a result, the productivity level is still below its pre-crisis level.

Therefore, comparing both real wages and productivity, wages have lagged behind productivity following the recession. On average, during 2010-13, the annual growth of productivity was 0.62 percentage points per annum higher than for real wages.

The **labour share of GDP** measured as total compensation of employees as a share of GDP declined prior to the recession from 54.3 per cent in 2002 to 53.1 per cent in 2007. Then, the collapse of GDP during the central

Figure 4-1. Real wages and productivity (output per worker), year-on-year change



Source: Eurostat.

years of the recession created a spike in this index, but in the following year this indicator returned to its pre-crisis level, closing 2013 at 53.5 per cent.

The **wage differential** between the bottom and top deciles has been widening slightly during the last decade, including the recession. The ratio between the weekly salary of those in the top and the bottom deciles has risen from an average of 3.71 during 2002 to 3.94 during 2012. This increase implies that the nominal wages of the bottom decile have increased an accumulated 26.9 per cent during said decade, whereas the nominal wages of the top decile have grown 34.8 per cent during the same period.

Despite this evolution, **inequality** has showed some decrease after the crisis. The Gini index in the United Kingdom moved from 34.7 during 2007 to 33.2 during 2013, partly reflecting the decrease in the ratio of incomes at the 90th and the 10th percentile from 4.5 to 4.1 during the same period. The contrast between the wage differential and the measures of inequality presented here respond to the redistributional effect of the government: the same ratio of income at the 90th percentile to the 10th before taxes and benefits is almost 15 to 1. The recent evolution has approached the income inequality of the United Kingdom closer to the average of the European Union, but it remains one of the European economies with the highest levels of inequality.

The ONS publishes every year *Patterns of Pay: Estimates from the Annual Survey of Hours and Earnings,* studying the **gender pay gap** (GPG) in the United Kingdom. The last report in 2013 registers a GPG, defined as the difference between men's and women's median hourly earnings as a percentage of men's earnings, of 19.7 per cent. The GPG has maintained a downward trend in the last few decades (the GPG was 27.5 per cent during 1997) that has not been interrupted by the recession.

By **industry**, following again the SIC 2007, workers of the *Finance and businesses services* sector registered the highest average wages, whereas workers in the *Wholesaling, retailing, hotels and restaurants* sector registered the lowest in absolute terms. Furthermore, the difference between both widened prior to the crisis, from a ratio between both average wages of 1.3 during 2002 to 2 during 2008. The *Construction* and *Manufacturing* sectors also offer higher than average wages, but wages in the former have stalled since the recession so that the average wage in the *Manufacturing* sector surpassed those in *Construction* for the first time during 2013.

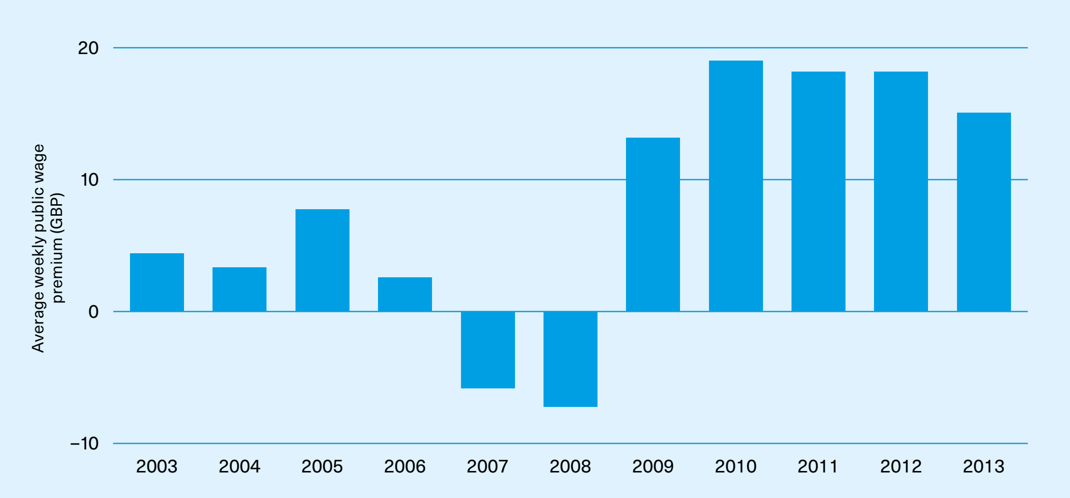
Given that average wages are a limited indicator of what happened to the wage distribution during the crisis, data on median weekly wages per **occupation** are also discussed below. The Annual Survey of Hours and Earnings uses the Standard Occupational Classification 2010 to sort the workers into 9 categories and 25 subcategories. The most recent data of 2013 put *Corporate managers and directors*; *Science, research, engineering and technology professionals;* and *Protective service occupations* as the occupations with the highest median weekly income at £768.10, £728.10 and £674.30, respectively. On the other end of the scale are those occupied in the *Sales; Elementary administration and service;* and *Caring personal service* subcategories, with £179.00, £194.00 and £248.30 median weekly incomes, respectively. Since the beginning of the crisis, the three subcategories that have observed the largest increases are *Elementary administration and service*; *Customer service*; and *Business and public service associate professionals*, whereas the lowest increases are registered in occupations linked to the public sector, like *Education* and *Health,* but also in *Process, plant and machine operatives*.

By **sectors**, the aftermath of the recession has brought an interesting development to the wage differential between public and private employees. Prior to 2007, there were usually small differences in remuneration in favour of public employees (figure 4-2), of less than 2 per cent. The recession produced negative public wage premiums during 2007 and 2008 but, after this period, private wages have grown at a consistently lower rate than public wages so that, between 2010 and 2012, public wages were on average 4 per cent higher than private wages. This tendency partially reverted during 2013, coinciding with the restrictive measures introduced by the Coalition government, as explained below.

The **wage composition** has also registered variations. The proportion of bonuses out of total wage climbed from 5.2 per cent during 2003 to 7.4 per cent during 2007. This proportion fell during the recession and has finally recovered some of the lost ground, fluctuating between 6 and 6.5 per cent during the past few years. The evolution of this indicator matches with the fall in activity of the financial sector and the cooling of the housing market, hurting the real-estate sector, at the beginning of the crisis and its posterior recovery without reaching pre-crisis levels.

Finally, **overtime** compensation has remained steady, at around £19 per week and per worker, until 2009. During that year, overtime compensation fell below £17 and has remained at that level since. Consequently, given the general upward trend in wages, overtime

Figure 4-2. Public wage premium (average weekly public wage minus private wage), GBP



Source: Labour Force Survey, Office of National Statistics.

compensation as a percentage of total compensation has been declining steadily, from over 5 per cent of total compensation during the second half of the 1990s to less than 3 per cent during the current decade.

4.2 Wage bargaining in the United Kingdom

The firm is the dominant level of wage and working conditions bargaining in the United Kingdom. As a consequence, the United Kingdom has comparatively low levels of both union density and collective bargaining coverage. According to the LFS, the proportion of union members out of total employment was 23.7 per cent during 2010. The current crisis has done nothing to change the downward trend of this indicator. Similarly, the collective bargaining coverage rate as a percentage of total employment was 30.4 per cent during 2010. Given the uncoordinated nature of labour bargaining in the United Kingdom and its lack of legal backing and promotion (for example, there is no mandatory extension of collective agreements by public law to non-organized firms) there have been no main legislative changes in this domain.

However, sector-level bargaining is predominant in the public sector (and a small part of the private sector), which translates into big divergences between the public and the private sector. Again with data from the LFS of 2010, union density in the public sector is much higher than in the private sector, 56.2 per cent versus 12.9 per cent, whereas the collective bargaining coverage rate is 73.3 per cent in the public sector versus a mere 16.2 per cent in the private sector.

4.3 Wage-related policy

4.3.1 Minimum wage

Since its introduction by the National Minimum Wage (NMW) Act of 1998, the minimum wage in the United Kingdom is set every October by the government, usually following (although it is not compulsory) the recommendation of the Low Pay Commission, an independent body formed by nine commissioners selected by the Department for Business, Innovation and Skills. The Low Pay Commissioners are drawn from a range of employee, employer and academic backgrounds.

Prior to the crisis, there were three different minimum rates according to age: an adult rate, for those 22 years old or older, a youth development rate, for those between 18 and 21 years old and a rate for those under 18. The Coalition government made two changes to this scale in 2010: first, it moved the adult rate to 21 years old or older and, second, it introduced a rate for apprentices.

In 2013, the National Minimum Wage was £6.31 hourly for the adult rate, £5.03 for the youth development rate, £3.72 for those under 18 and £2.68 for an apprentice.

The evolution of the minimum wage has followed a markedly different trajectory before and after the crisis. Before the recession, the NMW had grown faster than inflation, measured by the CPI, so that the bite of the minimum wage (its value relative to median or mean earnings) rose steadily until 2007. Starting in 2009, the NMW has grown below inflation, including a freeze of the youth development and under-18 rates in 2012. This way, the adult rate set in October 2013 is comparable in real terms (deflected by the CPI) to that of 2004.

The Low Pay Commission, with data from the Annual Survey of Hours and Earnings, estimates that around 5 per cent of workers are paid at or below the NMW. This proportion marks an increase with respect to the pre-crisis levels, which were usually under 4 per cent.

In general, it is difficult to evaluate the effects of the changes in the NMW, as these will tend to be entangled with the effects of the economic recession, which peaked around 2009, precisely the year of the change of trend in the NMW. The consensus in the literature, for countries such as the United Kingdom or the United States with moderate minimum wages, is that its effect on employment is small or negligible, as minimum wage increases were generally modest relative to the wages paid to low-paid workers, and that the cost increase to employers was small relative to most firms' overall costs. However, since 2007, the number of jobs in the low-paying sectors has increased faster than the number in the whole economy. Furthermore, the employment performance of groups of workers most affected by the minimum wage (such as women, older workers, disabled workers, ethnic minorities, and migrants) has been generally better than the average, although that has not been the case for young people and workers with no qualifications.

The effect of the NWM goes beyond just its effect on employment. The research undertaken in this area, put together by the Low Pay Commission, finds that employers have adopted a number of strategies to cope with the minimum wage, including: adjusting pay structures; reducing non-wage costs; small reductions in hours; increases in productivity; some increases in prices; and some squeezing of profits, although insufficient to lead to an increase in business failure.

4.3.2 Fiscal policy

The reduction of government deficits and debt turned into a priority even before the beginning of the crisis, due to worries about public sector inefficiency or demographic changes, to name some of the reasons argued by the successive governments. These efforts have affected public spending, first with the 2007 Comprehensive Spending Review of the Labour government and more markedly with the 2010 Spending Review of the Coalition government.

In terms of public wages, the emergency budget of 2010 included a two-year pay freeze within the civil service for all employees earning more than £21,000 and a flat-rate £250 pay rise for those earning under £21,000. The pay freeze was applied immediately for all workers not covered by a collective agreement and delayed until the end of the agreed period for those within agreements. The following year, the government announced that pay increases would average 1 per cent for the two years following the pay freeze, well below inflation. The pay freeze together with the announcement of changes to the public pension system led to industrial and legal action by the public workers and their representatives.

The reduction in the Departmental Expenditure Limits of many departments, included in the Spending Reviews, had as a consequence a reduction in public jobs. With seasonally adjusted data from the Quarterly Public Sector Employment Survey of the ONS (not comparable to the LFS data), total public employment in the United Kingdom has dropped from almost 6.3 million during 2010 to under 5.7 million during 2013, for a 10 per cent contraction.

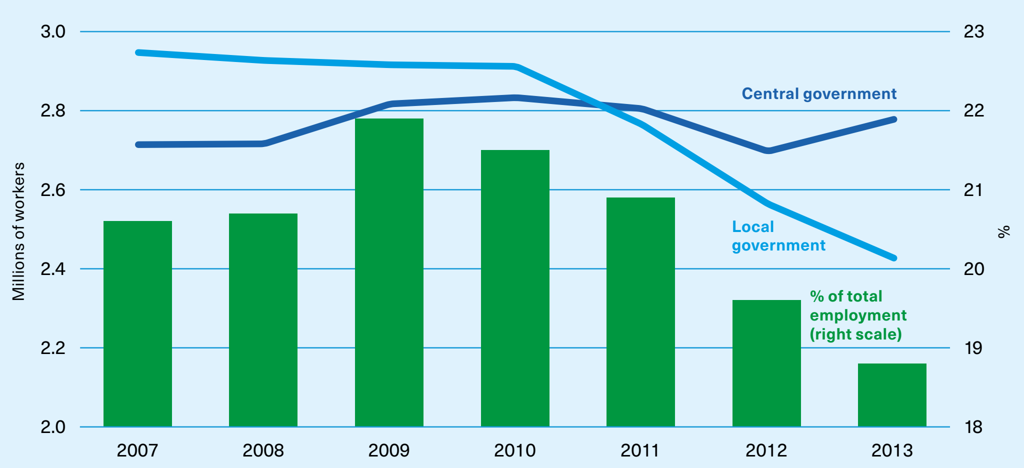
The reduction in public employment post-2010 has fallen disproportionally in the local administration. The number of people working for the local governments fell by 515,000 (a fall of 17.7 per cent from its 2010Q3 value) between mid-2010 and the end of 2013, following a continuous downward trend (figure 4-3). By subsectors, during the same period, the three most affected have been *Education*, *Public administration* and *Civil service*, with reductions of 165,000 workers (–9.8 per cent), 140,000 (–11.6 per cent) and 77,000 (–14.8 per cent) respectively.

4.4 Analysis

The biggest differences between the Labour and Coalition governments in labour policy can be found in wages and public employment.

First, there has been a notable change in the minimum wage. The Labour governments raised the National Minimum Wage over the level of inflation every year since its introduction, therefore increasing its real value and its value relative to median earnings. In contrast, under the Coalition government the NMW has increased below inflation every year, including a partial freeze in 2012 for those under 21 years old. It is important to note than the Low Pay Commission, in their Report 2014, so far has found no significant effect of increases in the NMW on employment, whether analysing aggregate employment, individual employment probabilities, relative employment shares of low-paying sectors or regional employment differences. There is some evidence, since the beginning of the recession, on how the groups of workers most affected by the NMW have generally performed better than average in terms

Figure 4-3. Public employment: central, local and as a percentage of total employment



Source: Quarterly Public Sector Employment Survey, Office for National Statistics.

of employment, but it is difficult to extract conclusions given that the main changes in the NWM coincided with the nadir of the crisis.

Second, the evolution of public employment has changed drastically. From the beginning of the recession until 2010, the public sector added 200,000 new jobs. In contrast, between the first quarter of 2011 and mid-2012 there was a reduction of more than 450,000 public employees, centred on the *Social work* (100,000 fewer jobs), *Public administration* (67,000) and *Education* (40,000) sectors.

Finally, the Coalition government introduced a two-year pay freeze for public workers earning more than £21,000 and a flat-rate £250 pay rise for those earning under £21,000. Interestingly, the public wage premium has increased after the recession, although it has declined since the pay freeze. This phenomenon responds to, among others, two factors: on one hand, private wages have been very flat since the recession; on the other, the pay freeze only affected salaries outside collective bargaining. As the collective bargaining coverage rate is almost three-quarters in the public sector, the impact of the pay freeze was seriously reduced. The downward stickiness of public wages probably led to the aforementioned reduction in public jobs as the different departments had to cope with the reduction in their budgets imposed by the Coalition government.

Regarding the evolution of wages, the most important development has been the decline in real wages following the recession. At the beginning of 2014, the real average weekly wage deflected by CPI of a British worker was at the same level as during 2003. At the same time, after the recession, the average yearly growth of productivity has been generally higher than the growth of real wages. These two elements, however, have not translated into a declining labour share so far.

What explains the decline in real wages? Partly, the decline is consequence of a composition effect: the proportion of part-time and temporary workers has increased during the recession. These types of workers tend to have lower wages than their full-time, permanent counterparts. The reduction in the average number of hours worked per worker registered between 2009 and 2012 is acting in a similar way. On top of the composition effect, overtime payments dropped during 2009 and have remained at those levels. Together with the different pay freezes introduced in the public sector, all these factors help explain the decline in real wages.

Active labour market policies (ALMPs)

5

The situation of active labour market policies in the United Kingdom changed drastically following the General Election of May 2010, with most of the programmes initiated by the previous cabinet to deal with the recession being stripped of funding or cancelled, to be replaced with the Single Work Programme of the new cabinet. The analysis of the ALMPs is therefore divided into before and after 2010, stressing the period of validity of the policies before 2010 and making special emphasis on the Single Work Programme after.

Before starting the analysis, it is important to distinguish between various types of ALMPs, as the literature that has looked into their effects has found differences in effectiveness on the different programmes. Here, the classification of Kluve (2010) is followed, itself very similar to corresponding classifications that have been suggested and used by the OECD and Eurostat. This classification defines four programme types:

- *Training:* includes classroom training, on-the-job training and work experience, both specific to a particular job and more general, such as computer or language courses. The aim is to enhance the productivity and employability of the participants.
- *Private sector incentives:* mainly wage subsidies, but can include self-employment grants or grants to start new firms. These incentives are created to encourage certain behaviours in the receiving firm, such as hiring younger workers.
- *Direct employment:* the creation of direct employment and provision of public works or other activities that produce public goods or services. The effect on unemployment is straightforward, although the new jobs might crowd out private employment.
- *Services and sanctions:* includes all measures aimed at enhancing job search efficiency, such as job search assistance or as sanctions in the case of non-compliance.

Some programmes are designed in a way that they fall under two or more categories: for example, Routes into Work offers training for the unemployed and a wage subsidy to the contracting firm, so the programme is categorized as both training and private sector incentives.

On top of that, programmes can be targeted, if they are focused on a particular subgroup of the population, such as people under 25 years old, the disabled or the long-term unemployed. The target of the programme affects its efficiency, according to the literature.

In the analysis that follows, every programme will be categorized according to the classification described above. Then, at the end of this section, this categorization will be used, first, to compare the prevalence of the different types of programmes with the rest of Europe; and, second, to evaluate the match between the ALMPs that the governments are putting forward, their general effectiveness and their fit to the situation of the labour market of the United Kingdom.

5.1 ALMPs introduced before 2010

Once the depth of the crisis became apparent, one of the first measures was to **increase the Public Employment Services staff**, a policy to help in particular those out of work. Jobcentre Plus, the primary government agency for employment services, recruited 16,000 additional positions. Jobcentre Plus began recruiting after the Pre-Budget Report 2008 announcement to deal with increased workloads as a result of the economic downturn. The majority of recruitment took place between April 2009 and September 2009, but Jobcentre Plus kept making job offers in lower numbers up to December 2009, until hitting the projected mark.

The **Flexible New Deal** (FND) started its roll-out phase in October 2009. The main target group were those unemployed under 25 years old, although some other groups were also targeted with less intensity. The FND intended to revamp the New Deal, a programme created in 1998 with the goal of reducing unemployment by providing training, subsidized employment and voluntary work to the unemployed. In itself, the FND represented the fourth stage of the Jobseeker Regime, aiming at increasing the support offered to JSA customers while also increasing the obligations of these jobseekers. A person still claiming JSA after 12 months was referred to an FND provider (such as charities and private companies) for further work preparation support. These providers were granted the freedom to design a personalized package of work preparation and job search support to address the needs of the customer, balanced with the needs of the local labour market. As a minimum, providers were required to meet with each customer every fortnight and arrange at least four continuous weeks of full-time Mandatory Work-Related Activity (MWRA) for each customer. They were also expected to monitor customer activities and report non-compliance to Jobcentre Plus for possible sanctioning. The FND was discontinued in June 2011 when the Work Programme was launched, although it should be noted that both programmes share many similarities. In total, the scheme helped 16,300 people find permanent work, compared with a total of 279,000 people who entered into the programme over the period, for a cost per job of £31,284. However, all main political parties support this kind of programme, as shown by the continuation of workfare despite government changes. Furthermore, there is longer-term evidence from other countries that schemes similar to this have been more effective than just leaving people to turn up to job centres, such as the studies of Richard Layard, then professor at the LSE and one of the main architects of the New Deal, in Sweden.[6] Also, the statistics cover the period at the bottom of the recession; the numbers were showing improvement as the recovery was gaining momentum. The FND is, therefore, a prime example of a services and sanctions programme.

The **Young Person's Guarantee** (YPG) was formally introduced in January 2010, although some parts of the programme, including the Future Jobs Fund, began earlier. Under the YPG all jobseekers aged 18–24 years old and reaching six months of unemployment were guaranteed an offer of a job, training or work experience. The claimants were required to accept one of the YPG offers by the tenth month of their claim. Under the guarantee, the claimant had many options, listed here and explained in more detail below: apply for new jobs created through the Future Jobs Fund; apply for a job in a key employment sector with pre-employment training if needed; take up Work Focused Training; take a place on a Community Task Force or access support for self-employment. The YPG is a youth-targeted training programme.

6. On Sweden, see, for example, Layard, Richard (1997) Sweden's road back to full employment. *Economic and Industrial Democracy,* 18 (1), pp. 99–118, ISSN 1461-7099. On the New Deal, see Vegeris, Sandra; Adams, Lorna; Oldfield, Katie; Bertram, Christine; Davidson, Rosemary; Durante, Lucia; Riley, Catherine; and Vowden, Kim (2011). Flexible New Deal evaluation: Customer survey and qualitative research findings. *DWP Research Report No. 758.* Leeds: CDS.

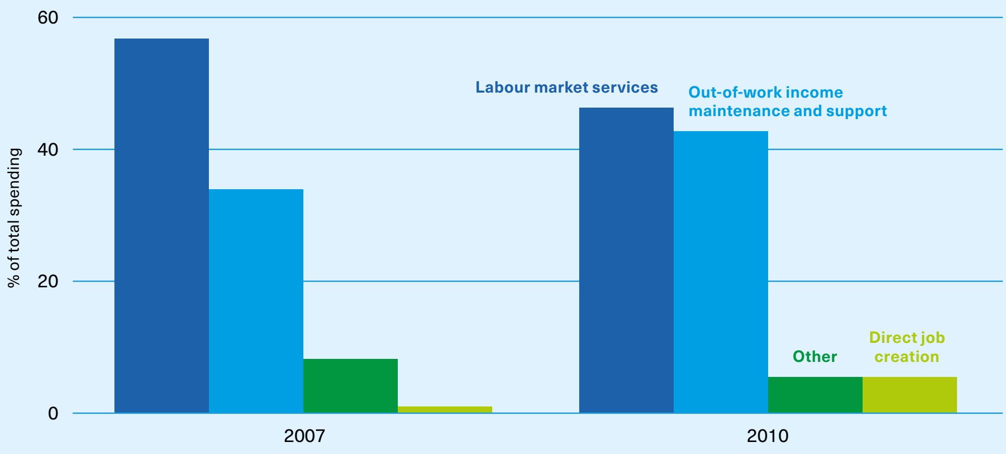
The **Future Jobs Fund** (FJF) was introduced in October 2009, just before the YPG, to support the creation of subsidized jobs for unemployed people, especially young people, who were at a disadvantage in the labour market. The programme was primarily aimed at 18–24-year-olds receiving the JSA (although a smaller number of places were available to older claimants in regions with very high unemployment). Until its cancellation, just over 105,000 jobs were created in over a year and a half, for a total cost of approximately £680 million. The programme was cut by the Coalition government in 2011, claiming that it was badly targeted and too expensive, even though a 2012 cost–benefit analysis carried out by the Department for Work and Pensions estimated a net benefit per participant. The FJF is a youth-targeted private incentives programme.

Routes into Work and **Care First Careers** allowed claimants to apply for a job in a key employment sector with pre-employment training, if needed. Routes into Work provided unemployed young people with access to existing jobs in sectors such as *Retail*, *Hospitality*, *Leisure*, *Travel and tourism* and *Facilities management*. Care First Careers was the specific programme for the *Adult social care* sector. The programme included up to eight weeks of pre-employment training, work trial, direct referral to a vacancy and a recruitment subsidy of up to £1,000 paid to employers. As with most of the components of the YPG, the programme was discontinued in March 2011, with a total of 28,750 starts. Both programmes are mixed programmes, combining elements of training and private incentives programmes.

Work Focused Training lasted for up to 24 weeks full time and offered unemployed young people a significant skills boost or reskilling, delivering training and/or units towards a Level 2 or Level 3 qualification required in a specific sector. This was only available in half of Great Britain where the Flexible New Deal was in place. Those who wanted to access this skills provision in the rest of the country could access training through the existing New Deal for Young People. A total of 13,140 young people benefited from this programme before its cancellation in March 2011. Work Focused Training is a training programme.

Community Task Force (CTF) provided work experience in placements for the benefit of the community. Alongside the placement, CTF providers delivered job search support. Placements lasted three months with the option available for participants to extend their time in CTF by a further three months on a voluntary basis. Participants undertook 30 hours of activity per week, consisting of 25 hours on a work placement plus an

Figure 5-1. Composition of LMS spending, percentage of total spending



Source: European Commission, Eurostat.

additional five hours of job-searching activity. CTF was launched on a voluntary basis in January 2010. When the YPG became mandatory in April 2010, those who had not exercised their guarantee ten months into their claim were required to participate in CTF or the New Deal for Young People equivalent where available. The CTF was extended to allow starts up until the end of May 2011 and it is estimated that 60,000 people participated. The CTF is a training programme with a particular emphasis on the community.

In total, according to the data of the Directorate-General for Employment, Social Affairs and Equal Opportunities of the European Commission, during 2007–10 the British government spent an annual average of £9,060 million on Labour Market Policy (LMP) interventions. The bulk of that spending corresponds to the categories of *Labour market services* (50.8 per cent of the total) and *Out-of-work income maintenance and support* (40.5 per cent). The former category includes mostly the functioning costs of Jobcentre Plus, but also includes programmes such as the FND, whereas the latter category corresponds to the payments of the JSA.

Naturally, the composition of the total LMP interventions spending changed between 2007 and 2010, with the spending on *Out-of-work income maintenance and support* gaining importance as the number of claimants of the JSA grew (figure 5-1). The increase in spending on *Direct job creation* is also noticeable, mainly because of the introduction of the FJF, which jumped from £72 million during 2007 to £582 million during 2010.

5.2 ALMPs after 2010: The Single Work Programme

The **Single Work Programme** is a welfare-to-work programme designed to replace most of the ALMPs introduced by the Labour government and described in the previous section. The programme was rolled out during June 2011 and is, along with the Universal Credit described in Section 3.3, a key element of the welfare reform programme of the Coalition government.

In practice, the Work Programme substituted all the pre-existing welfare-to-work programmes such as the Flexible New Deal or the Employment Zones (areas of high unemployment where contracted providers were given greater flexibility to deliver support but only got paid if they got jobseekers into sustainable employment) that were considered by the Coalition government to be too fragmented, over-specific and with poor incentive design. Therefore, the Work Programme has the same principles that the ALMPs described in the previous section, but amalgamates them into a single programme to increase efficiency, and also introduces a new system of payments to providers more dependent upon results.

The Work Programme is closely connected with the Jobseeker's Allowance. Individuals in receipt of the JSA are mandated to the Work Programme after nine months, if they are between 18 and 24 years old, or a year, for those older than 25. Claimants keep the JSA while on the Work Programme and must still prove that they are actively seeking and are available for work. A claimant mandated to the Work Programme is referred to a provider by the corresponding Jobcentre

Plus. Once Jobcentre Plus refers a participant on to the Work Programme, the provider has 104 weeks to work with that participant to help them into sustained employment. This help takes the form of, for example, one-to-one support from an employment advisor, advice on job searching, CV writing and interview skills or the use of computers and phones to find and apply for jobs.

As for the payments to providers, there are three main types of payments that are available for each participant: first, providers will be paid a small "start fee" for each new participant in the early years of the contracts but this will be reduced each year and eliminated after three years; second, providers can claim a "job outcome payment" after a participant has been in a job for at least three months; and, finally, providers can claim "sustainment payments" every four weeks for at least a year when a participant stays in work after receiving a job outcome. The maximum payments per participant are: a start fee of £400, a job outcome payment of £1,200 and sustainment payments of £2,200 for 18–24-year-old workers or £2,800 for workers over 25.

With statistics for the first two years of the programme, until September 2013, the total number of referrals and attachments to the Work Programme were 1.41 million and 1.36 million, respectively. Of those, 208,000 job outcome payments were made to providers, representing 16.6 per cent of eligible referrals. As a replacement for the Flexible New Deal, the Single Work Programme is also a services and sanctions programme.

As a complement to the Work Programme, the Coalition government launched the **Youth Contract** in April 2012 to provide additional support against youth unemployment, mainly in the form of wage incentives. To qualify for the wage incentive, the participant needs to be aged between 18-24 years old on the day the employment starts and be a participant in the Work Programme prior to the start of employment. On the other hand, the job being made available to the participant must be a vacancy for a permanent position (expected to last at least 26 weeks), of at least 16 hours per week or more on average, that will not displace a current employee and paying a wage that is equal to or more than the National Minimum Wage rate or Apprenticeship National Minimum wage rate. The incentive payment is £1,137.50 per person working part time between 16 and 29 hours and £2,275 per person working full time for 30 hours or more per week (once the employee has completed 26 weeks in continuous employment). Small businesses with fewer than 50 employees may claim a partial payment after eight weeks. From the beginning of the programme until the end of 2013 there have been 65,470 job starts, which is the number of wage incentive forms issued to employers when young people are recruited. On top of the Young Contract, an additional 20,000 Apprenticeship Grants for Employers (AGE 16–24) to encourage starts into apprenticeships are being made available by the National Apprenticeship Service. The Youth Contract is, therefore, a youth-targeted private sector incentive programme.

Another option for claimants of the JSA is the **New Enterprise Allowance** (NEA), rolled out nationally between April and August 2011. The NEA helps unemployed people who want to start their own business, providing access to mentoring and financial support. Participants work with a volunteer business mentor who provides guidance as they develop their business idea and supports them through the early stages of trading. To be eligible for financial support, the claimant has to demonstrate that their business idea is viable and has growth potential. Support consists of a weekly allowance payable over 26 weeks, worth up to a total of £1,274, and they may also apply for an unsecured loan of up to £1,000. The programme was expected to end in September 2014, but it has been extended, with the details of the extension still pending. With data available until March 2014, a total of around 46,000 new businesses have been set up with the help of the NEA. Although the incentives go to the unemployed and not to a firm, the NEA still falls under the private sector incentives category.

Finally, as an extension to the Work Programme, the **Help to Work** programme was introduced in April 2014. This programme focuses on the long-term unemployed, as it is intended for those returning from the Work Programme; that is, claimants of the JSA that have not found a regular job after two years. Claimants in this situation will go on to one of three intensive modes of support. First, attending the Jobcentre every day, with a daily meeting with the job advisor to discuss the progress made looking for a job; this is designed for claimants who would benefit from regular support with looking for jobs, including those who need to build motivation, momentum and engagement. Second, community work placements in a range of roles in the voluntary and community sector for up to six months for 30 hours a week, backed up by at least 4 hours of supported job searching each week; this option is suitable for claimants who lack experience where this is felt to be holding them back from finding a job. Third, the Mandatory Intervention Regime is designed for jobseekers with multiple or complex barriers to work. The Jobcentre Plus advisers will spend more time with the claimant, looking at how to tailor back-to-work support, with more flexibility to send people on intensive training schemes, ad hoc funding to overcome issues blocking a return to work such as initial travel costs or suitable clothes for a job interview, and referrals to work experience opportunities with local organizations. The Help to Work programme is a more targeted version of the Single Work Programme, focused on the long-term unemployed, and therefore should still be categorized as a services and sanctions programme.

5.3 Analysis

The substitution of the New Deal created by the Labour government by the Work Programme of the Coalition government highlights the agreements and differences in the debate on ALMPs between the main political parties in Britain.

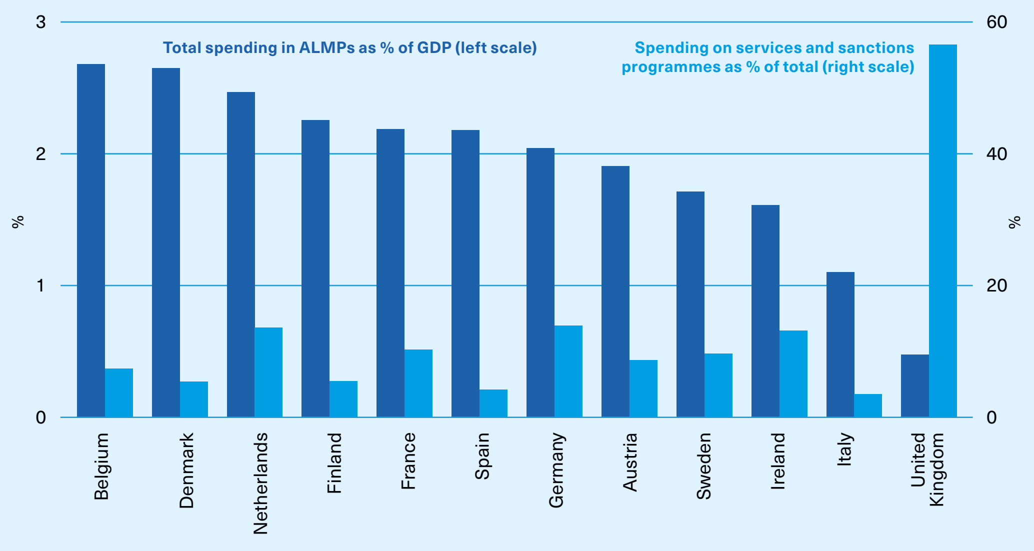
First, both parties agree on the substance of the programmes. Both the New Deal and the Work Programme work mainly through the JSA, therefore tying participation in the programme with job searching. Also, both programmes were designed to heavily involve external agents such as private providers of the workfare industry or charity organizations to provide education, training, job placements or voluntary work. Furthermore, the emphasis of both programmes was on those between 18 and 25 years old.

On the other hand, the changes between both programmes also highlight the differences between the main political parties in job market policy and government goals in general. For example, the emphasis on deficit reduction of the Coalition government helps explain the design of the Work Programme as a simplification and amalgamation of the New Deal and other ALMPs of the previous government. This simplification should lead to more efficiency and less fraud, therefore reducing costs. The revamped system of incentives for providers can be interpreted in a similar manner, as the monetary payments in the Work Programme are less general and more conditional on results, again looking at increased efficiency and fewer costs.

Another difference is the increased emphasis of the Work Programme on apprenticeships, a figure that has generated an intense debate. The view of the Coalition government is that apprenticeships help reduce youth unemployment, allow the worker to become familiar with a new craft and can provide an entry point towards a more stable position, as the employer can form a solid opinion of the worker. On the other hand, apprenticeships are seen as an excuse to provide cheap labour to firms and to push down labour costs.

Also, the Coalition government manifests its preference for entrepreneurship and self-employment with the New Enterprise Allowance, helping unemployed people who want to start their own business by providing access to mentoring and financial support. In contrast, the introduction of the Work Programme eliminated two programmes that expressed the preferences of the previous government for increasing employment in the *Social care* sector and for work-oriented education.

Figure 5-2. ALMPs spending, total and on services and sanctions programmes (2007 data)



Source: European Commission, Eurostat.

These two programmes were Care First Careers, which included training, a work trial, direct referral and a recruitment subsidy in the *Adult social care* sector; and Work Focused Training, which delivered training and units towards a Level 2 or Level 3 qualification required in a specific sector.

Finally, it is interesting to note how the evolution of the crisis, whose duration has exceeded the forecasts of the government, forced the Coalition government to introduce a specific programme to deal with the increase of long-term unemployment. This programme is Help to Work, targeting those who have completed the Work Programme and therefore have not found a permanent position after being JSA claimants for more than two years.

To conclude this section, the ALMPs implemented in the British job market can be analysed according to the classification developed at the beginning. As previously discussed, the ALMPs in the United Kingdom are structured around a large services and sanctions programme; first the Flexible New Deal, then the New Work Programme. The configuration of the ALMPs in the United Kingdom is truly unique, in comparison with the rest of Europe: services and sanctions programmes have a much larger weight, making spending on ALMPs very low (figure 5-2).

The reliance of the United Kingdom on services and sanctions programmes is a reasonable choice, according to the literature that has studied the effects of the different types of ALMPs. Services and sanctions programmes tend be cost-effective and to have a positive effect on employment in the short run, making them an excellent weapon to cope with the recession.

Finally, many programmes, such as the Future Jobs Fund, the Young Person Guarantee or, more recently, the Youth Contract, are targeted to younger jobseekers; according to the literature, youth programmes tend to be less effective. On the other hand, programmes linked to labour demand and real workplaces are more efficient, and the successive governments have introduced some programmes following this prescription, like Routes into Work or Care First Careers.

Conclusion

The labour market in the United Kingdom is characterized as an example of a flexible job market, in comparison with the average European country. The financial and economic crisis initiated in 2007 has done little to change the status of the British labour market, not even after the political change consequences of the 2010 general election. The Coalition government has introduced legislative changes that have nonetheless kept up with the spirit of the existing legislation. Given the continuation of the British job market's status as a flexible job market, it is an interesting exercise to evaluate its response to a prolonged slump.

The flexibility of the British job market was reflected in the evolution of wages. During 2008–13, real wages, measured per full-time and full-year equivalent employee, have declined in the United Kingdom. In fact, among the OECD countries, only Greece, involved in the painful process of internal devaluation, has managed to surpass the reduction in wages registered in the British labour market. Even countries such as Spain or Ireland, despite their huge increases in unemployment, have shown some downward wage rigidity, in contrast with the United Kingdom.

Even with a general decrease in wages, income inequality has shown some decline in the United Kingdom, as captured by the moderate downward trend in its Gini index. This trend is mainly a consequence of the reduction in the ratio of disposable incomes between the top and bottom deciles, even though wages in the top decile have grown faster than wages in the bottom decile. Therefore, the reduction in inequality has been achieved through redistributive policies, such as the decision of the Labour government to create a new 50 per cent tax band in 2010 for anyone with yearly incomes over £150,000 (later cut by the Coalition government to 45 per cent in April 2013). Despite this recent evolution, the United Kingdom remains one of the OECD countries with the highest income inequality.

On the other hand, the impact of the crisis has decreased job quality, another consequence of the flexibility of the labour market. The proportions of workers with part-time or temporary jobs out of total employment have increased since 2008, and still remain above their pre-crisis levels. More importantly, these increases do not respond to a personal choice; the increase in these types of labour is matched with the number of workers declaring to be working part time or temporarily because they cannot find a permanent or full-time job.

To sum up, the response of the British job market to the deep crisis initiated in 2007 corresponds to what can be expected of a flexible job market: a lower increase in unemployment than other countries also hit by financial turbulence, but with the trade-off of lower wages and lower job quality.

In terms of policy response, even though the changes introduced in some aspects of the labour legislation have been relatively small, these changes have gone the way of reinforcing the flexibility of the British labour market, such as the increase in the trial period for new contracts or the reduction of the consultation period for large redundancies. On ALMPs, even a change apparently as deep as the move from the Flexible New Deal to the New Work Programme did not change the general approach to labour market intervention that has been dominant in the United Kingdom in recent decades, based on the reliance on workfare and the collaboration with private providers.

The changes introduced by the Coalition government were not a response to the crisis, but are better understood from an ideological standpoint: the introduction of the Universal Credit reinforces the ideas of government efficiency and reduction of bureaucracy; programmes such as the New Enterprise Allowance promote entrepreneurship and the value of the "job creators"; and the small increases in the National Minimum Wage respond to the belief that minimum wages introduce a distortion of the labour market and increase unemployment.

The most important response to the crisis from the Coalition government, which is also the biggest change with respect to the policy of the Labour government, was the introduction of austerity measures in the British economy. In terms of labour, these measures produced a drop in direct job creation and lower wages in the public sector, affecting the overall levels of unemployment and aggregate demand in the United Kingdom. The benefits to the economy from this austerity in terms of debt reduction and market confidence have been so far difficult to quantify, but the negative effect on the job market was straightforward.

In conclusion, the responses of successive British governments to the economic crisis have been focused on reinforcing the elements of the labour market that provided resiliency during the recession: labour market flexibility, which led to an increase in unemployment smaller than similarly hit countries (although paired with lower wages and worsened job quality); and workfare, which has proved to be a cost-effective tool to fight unemployment. The depth of the recession, together with the push for austerity of the Coalition government, is testing the resiliency of the British labour market and the Public Employment Service. Many important indicators of the labour market remain below their pre-crisis levels and it will be interesting to see in the near future if wages and job quality return to where they were or if the economic downturn has pushed the labour market in the United Kingdom to a new equilibrium.

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