

Chapter 1 – The labour market

Summary

- In 1997, five years after the end of the early 1990s recession, the labour market was still characterised by high levels of long-term unemployment, and rising numbers claiming other out-of-work benefits.
- By 2008, more people were in work than ever before, claimant unemployment reached its lowest level for over 30 years, and the numbers claiming other welfare benefits were falling for the first time for decades – reflecting years of steady growth, low inflation and active labour market policies such as the New Deal that the Government pursued.
- As the severe global shocks of 2007 and 2008 sent the UK economy, along with those of other countries, into recession, our priorities were clear: to help people back into work and to prevent the legacy of long-term unemployment and economic inactivity left by past recessions.
- We chose to invest an additional £5 billion to help people move quickly back to work, in addition to the wider government and Bank of England support for the economy and financial stability.
- We also chose to press ahead with our active labour market policies of the past 12 years – providing extra help not just to job seekers but also to lone parents, disabled people and people with health conditions, who with the right support can enter the labour market in the future.
- This action, as well as the strength of the labour market prior to the recession and co-operative working by employers and staff, have helped prevent unemployment rising as far and as fast as in previous recessions.
- Employment levels have fallen by less than output and there are still 2.5 million more people in work than there were in 1997. Claimant unemployment is currently around 5 per cent compared to a peak of nearly 10 per cent in the 1990s and more in the 1980s.



- Claimant unemployment is likely to end 2009 around 400,000 lower than independent forecasts predicted would be the case only six months ago. This is likely to lead to a fiscal saving of over £10 billion over the period 2009–10 to 2013–14 as a result of reduced spending on benefits, compared to the position at the time of the 2009 Budget.
- However, we need to do more. We still expect unemployment to rise into the New Year and this White Paper sets out further measures we believe are necessary to ensure the deep scars left by previous recessions are not repeated again.

The UK labour market before the recession

1. In 1997, five years after the end of the early 1990s recession, the labour market was still characterised by high levels of long-term unemployment, rising numbers of people claiming other out-of-work benefits and significant variation in the labour market experience of different groups and localities.
2. There had been long-term gradual increases in employment for women, but lone parents were unlikely to work and male unemployment and inactivity had grown significantly. The long-term shift from manufacturing to service sector employment was creating new and different kinds of jobs, but communities which previously had high concentrations of manufacturing jobs were left with high unemployment instead.

3. Previous recessions in the 1980s and early 1990s hit the labour market hard, with big drops in the number of people in work, and in the 1980s the labour market did not fully recover before the 1990s downturn began.
4. In the first half of the 1980s, unemployment rose sharply, peaking at over 3 million on both the headline Labour Force Survey measure and the claimant count.² After falling significantly during the second half of the decade, the early 1990s recession saw unemployment again peaking at around 3 million on both measures. There was a sharp rise in long-term unemployment, with the number of people claiming unemployment benefits for a year or more peaking at over a million in 1994. The number claiming incapacity or lone parent benefits increased by a million between 1990 and 1995.
5. From 1992 the economy recovered and, although growth was initially sluggish, by 1997 the employment and unemployment position was improving. However, unemployment remained historically high and serious problems persisted:
 - Over 2 million people were unemployed on the ILO measure and there were over 1.6 million Jobseeker's Allowance (JSA) claimants.
 - Over three-quarters of a million people were long-term unemployed on the ILO definition and well over half a million were long-term JSA claimants.
 - The total number of people claiming out-of-work benefits stood at 5.5 million, with 2.6 million on incapacity benefits (a massive increase from the end of the 1970s) and a million on lone parent benefits.
 - There remained an uneven spread of labour market opportunities across the country. Lone parents, disabled people, older workers, ethnic minorities and those with low skills were significantly more likely to be out of work compared to the national average.

Government policy since 1997

6. Since 1997, the Government has pursued a strong policy to support jobs and employment – through macroeconomic management, investment to support jobs and skills, and an active labour market policy to help individuals into work.
7. Our management of the macroeconomy has supported low inflation and avoided the destructive wage-price spirals of the past. We have promoted investment, skills and flexibility to support jobs and business growth. And we have actively invested in regions to promote regeneration and jobs in areas of high unemployment such as coalfield communities and inner cities.

² In the UK there are two main measures of unemployment. One is derived from the Labour Force Survey of households and is based on definitions set down by the International Labour Organisation (ILO). It is referred to in this document as the ILO measure of unemployment. The other measure is derived from the payment of JSA and National Insurance Credits and is referred to in this document as the claimant count.

8. At the same time we have substantially reformed the welfare system. We have implemented a more active and individually focused approach to help people take up and remain in work. We have introduced the New Deals as a concerted attempt to deal with the hangover of long-term claimant unemployment from the early 1990s recession. At the outset it targeted long-term unemployed young people, but was later widened to cover the over-25s and those on other benefits. We have also introduced our highly successful Local Employment Partnerships.
9. This additional support has been coupled with benefits and tax reform to make work pay, but also to introduce stronger conditions on benefits to ensure people take up the help that is on offer. The whole benefits system is more active and individually focused. Receiving benefit is linked to greater conditions that the claimant has to fulfil, with a focus on getting back into work wherever possible. This change in the culture of the welfare system includes the introduction of Employment and Support Allowance (ESA), greater requirements that lone parents on benefits have to meet and the introduction of programmes such as Pathways to Work and the Flexible New Deal.
10. By 2008, the long period of steady growth and low inflation, combined with these active labour market policies, meant the labour market was in its strongest position for many years, with more people in work than ever before, and claimant unemployment at its lowest level for over 30 years. Long-term unemployment was less than a quarter of its 1997 level, with the numbers of workless households falling for the first time for decades.
11. ILO unemployment stood at 1.6 million, over 400,000 lower than in 1997. The claimant count had fallen to just under 800,000, half the 1997 figure and a level not seen for more than 30 years. The number who had been claiming unemployment benefit for over 12 months was around 100,000, less than a quarter of its 1997 level. This compares with peaks of over a million following the recessions of the 1980s and 1990s.
12. The number of people claiming a key out-of-work benefit, at 4.5 million, was also over a million lower than a decade ago. This reflected not only the improvement in unemployment, but the first falls in incapacity benefits (after relentless rises in the 1980s and 1990s) and steady falls in the number of lone parents on benefit (matched by employment rates for lone parents rising by around 12 percentage points).
13. Overall, the changes in the labour market in the period up to the recession led to a more diverse labour force and a rise in labour market participation. The headline economic inactivity rate for working-age people fell from 1997 to the end of 2007, and this tells only part of the story. In the intervening decade the number of young people remaining in post-compulsory education increased by more than half a million. Excluding students, inactivity fell from 17.6 per cent of the population in 1997 to 15.8 per cent at the end of 2007.³

³ Economic inactivity refers to those who are not in employment and are either not actively seeking work or not available to take up a job.

Long-term features and trends in the labour market

This paper shows that in many ways the labour market has responded differently in this recession than in past recessions.

One key feature of the labour market is its dynamism. Every year millions of people move into new jobs, move out of work or enter work. This helps to ensure that everyone has access to work, not just those people already in work. In the year to the first quarter of 2009, for example, almost 6 million people moved into employment, nearly three-fifths of whom were previously out of work.

A second key feature is the variety of hours people can work. We have a much more varied range of hours worked than in many other European countries, with fewer 9 to 5 jobs. This diversity is good for employers and employees – the great majority of people in part-time work do not want a full-time job.

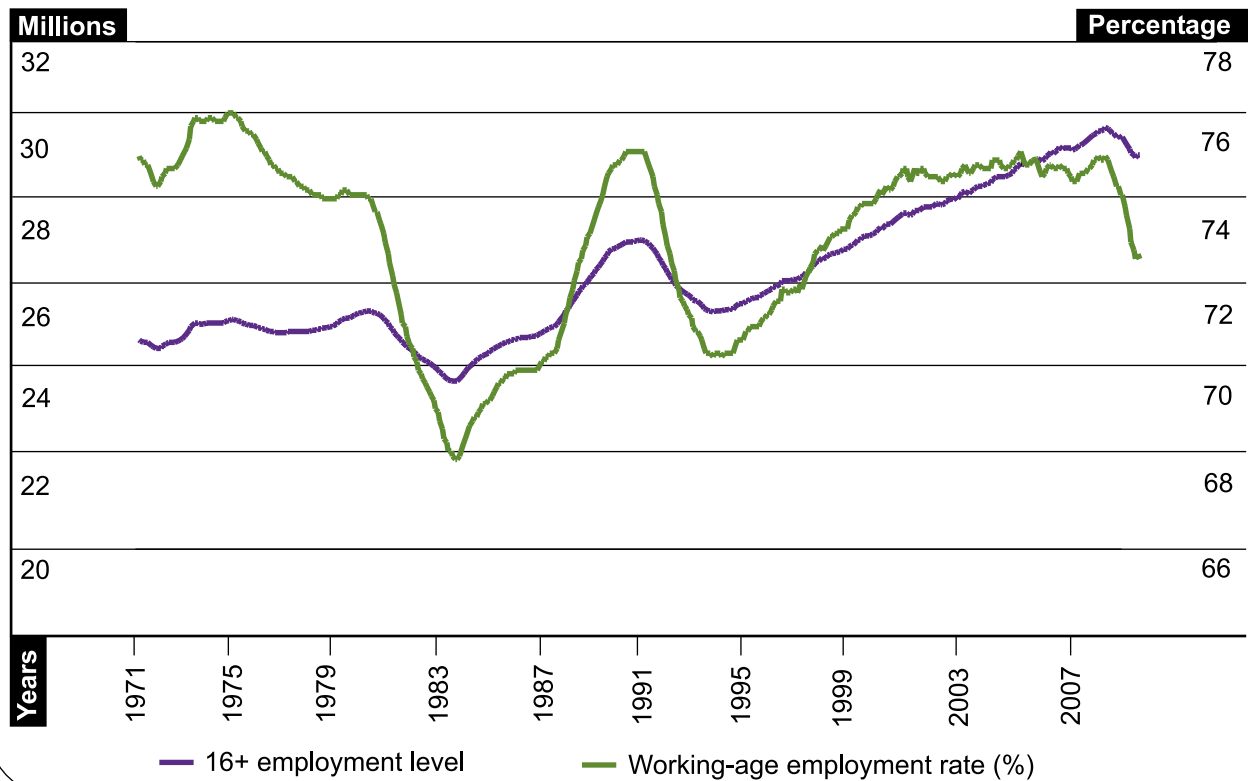
A consistent trend over many decades has been an increase in the percentage of women in work (up from 56 per cent in 1971 to 70 per cent in 2008) and a fall in the percentage of men in work (down from 92 per cent in 1971 to around 79 per cent in 2008). There has also been an increasing proportion of older people in work, adding to the diversity of the workforce.

There have also been some shifts in the type of employment. Manufacturing employment has fallen from 7 million to 3 million since 1978, while the service industry has grown to employ around four in every five people. We have also seen a steady rise in the number of skilled jobs. We need to be aware of these trends when assessing the skills that people will need in the future.

The impact of the recession

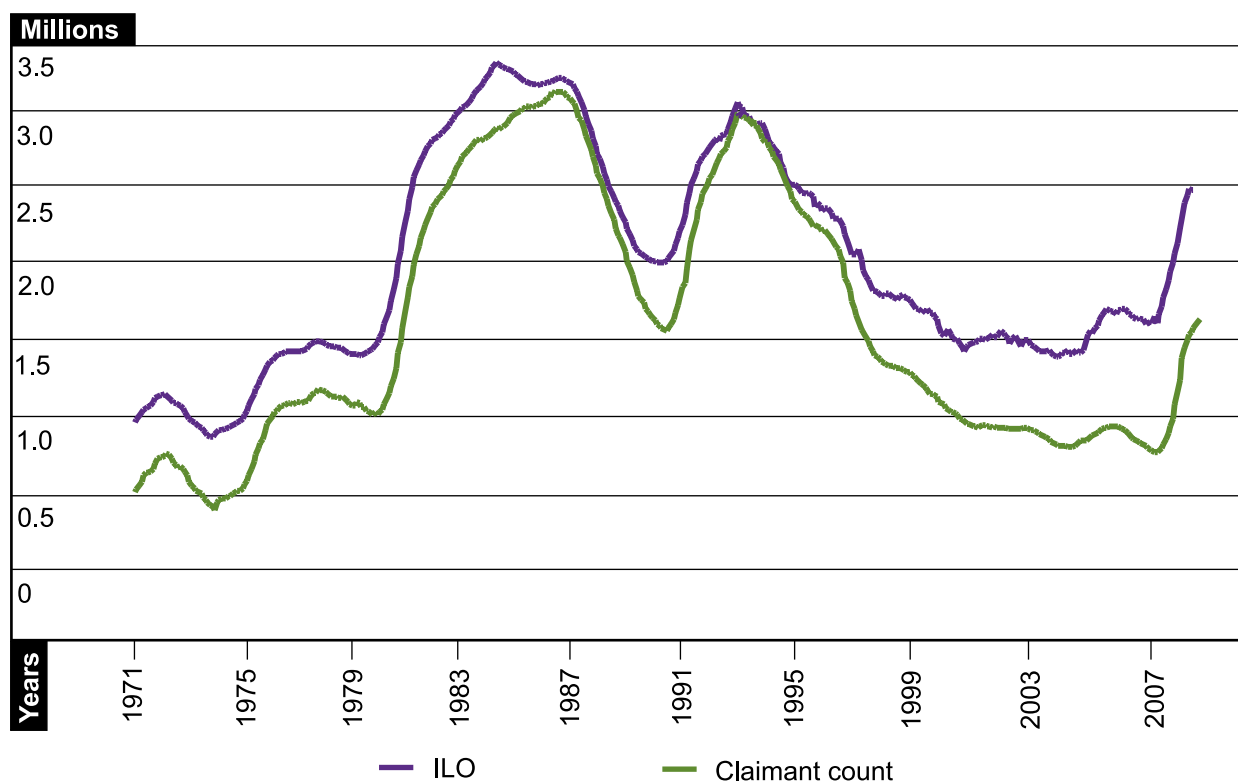
14. The world economy has faced exceptional challenges over the last year, with the financial crisis of 2008 precipitating a steep and unusually synchronised global downturn. All the world's major advanced economies have experienced recession and 2009 is expected to see the first contraction in the world economy in the post-war period.
15. The sheer scale of the global recession has hit the UK hard. Like other advanced economies, it has seen a large fall in output. The labour market impact has been felt in falling demand and fewer jobs across nearly all parts of the economy. In human terms this has meant companies cutting costs as they struggle to ride out the recession. Many people have suddenly and unexpectedly found themselves out of work.
16. Employment started falling in the middle of 2008, and then declined more sharply during the first half of 2009. The number of people in work has now fallen by around 635,000 from its peak and the employment rate is down over two percentage points to 72.5 per cent. The global reach of the recession can be seen in the fact that employment rates have fallen in 24 out of 27 EU member states over the past year. Despite the recession, the UK continues to have one of the highest employment rates in the EU.

Figure 1 – Employment 1971–2009



17. The recession has so far seen ILO unemployment rise by 847,000 to 2.46 million, with the unemployment rate up from 5.2 to 7.8 per cent. The number of people on JSA, which reached a low point of 788,000 in February 2008, is up 852,000, to stand at 1.64 million in October 2009. The claimant count rate is now 5.1 per cent, compared to 2.4 per cent just before the recession.
18. With rising unemployment driven by higher redundancies and much larger numbers starting claims for JSA, the main impact has been reflected in rising short-term unemployment. While most people continue to leave unemployment quickly, long-term unemployment is also now rising, though it remains low by the standards of past recessions. The number of long-term ILO unemployed is around 625,000, with about 175,000 long-term JSA claimants.

Figure 2 – Unemployment 1971–2009



The Government response

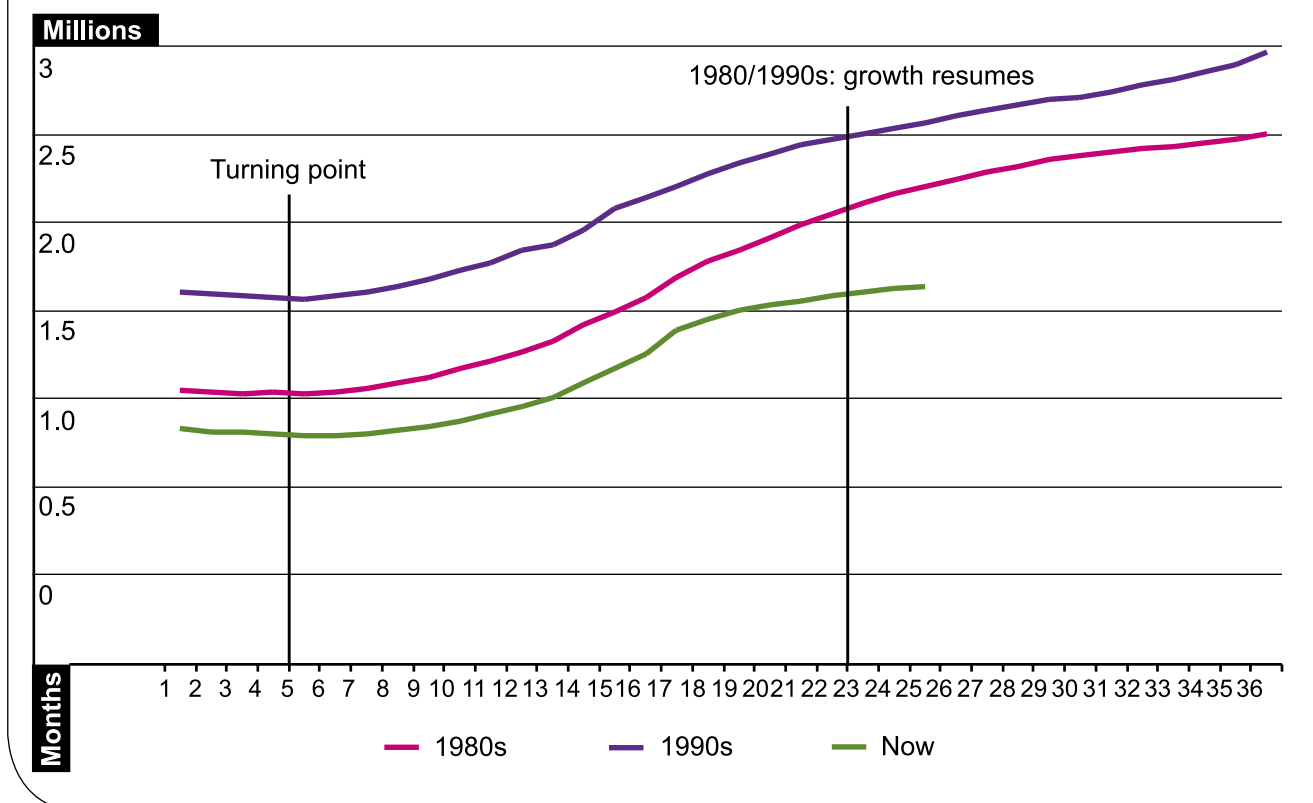
19. In response to the recession, the Government has taken decisive action to prevent the collapse of the banking sector, protect people's savings and support the economy through the downturn. Action taken by the Bank of England supported the economy by reducing interest rates to 0.5 per cent and introducing £200 billion of quantitative easing to increase the supply of money and help boost demand.
20. The Government has also been at the forefront of international efforts to increase the stability of the world's economies. Ahead of the G20 London Summit in April 2009, the Department for Work and Pensions (DWP) convened a Jobs Conference which gathered experts from across the G20 and from international organisations including the OECD, the World Bank, and the ILO. It proposed three priorities for G20 governments:
 - Helping people back into work, particularly through active labour market policies and policies to maintain or increase labour demand.
 - Supporting disadvantaged and vulnerable groups through social protection policies, linked to employment measures.
 - Developing education and skills policies to increase employability now and in the future.

21. These priorities were welcomed by the London Summit, which produced a detailed commitment to strengthen the financial system and additional resources of \$1.1 trillion to support jobs and growth across the world.
22. Government has set aside £5 billion extra to expand and increase the active labour market policies to help people back into jobs as swiftly as possible. That investment is expanding employment services through Jobcentre Plus and other providers to give people more rapid help and support, and funding extra training places, work experience and jobs. In contrast to previous recessions we are also strengthening policies to prevent people becoming inactive, and are continuing the reforms to get people who have been inactive for many years seeking work again.
23. The effect of this co-ordinated domestic and international action has taken time to work its way through. **Most forecasters now expect the UK economy to stabilise by the end of the year, with growth picking up progressively in 2010 and 2011.** The next section of this chapter looks in more detail at the way the labour market has responded to the recession, and how this compares to previous experience. The final section looks at labour market prospects in the recovery.

The performance of the labour market

24. The labour market has so far proved considerably more resilient than in previous recessions, with higher levels of employment, lower levels of unemployment and shorter periods of unemployment for individuals than we saw in the 1980s and 1990s despite the fact that the overall shock to the economy from the world financial crisis has been much greater than in previous recessions.
25. So far the recession has seen total economic output fall by 5.8 per cent. By comparison, the 1980s and 1990s recessions saw falls of 6 per cent and 2.5 per cent respectively from the peak. Despite this, the impact on the labour market has been less than might have been expected. Employment is down by 636,000 (2.2 per cent), compared to a 1.06 million (3.9 per cent) fall over a similar period in the 1990s and 731,000 (2.9 per cent) in the 1980s.
26. **The UK continues to have a lower unemployment rate than the G7, EU and OECD averages.** The United States has seen the largest increase in unemployment in the G7 group of major industrialised countries but a below average fall in Gross Domestic Product (GDP). Germany has seen only a small rise in unemployment while experiencing a more severe fall in GDP. The UK position falls somewhere in between, with a rise in unemployment that is broadly in line with the G7 average.
27. **Trends in claimant unemployment suggest that the labour market has been better able to absorb the shock of the recession than in the past.** The claimant count has so far risen by around 850,000, compared to increases of a million or more in similar periods in the 1980s and 1990s. The current claimant rate of 5.1 per cent compares to peaks of 10 per cent or more following the recessions of the 1980s and 1990s.

Figure 3 – Claimant unemployment has risen less than in the 1980s and 1990s



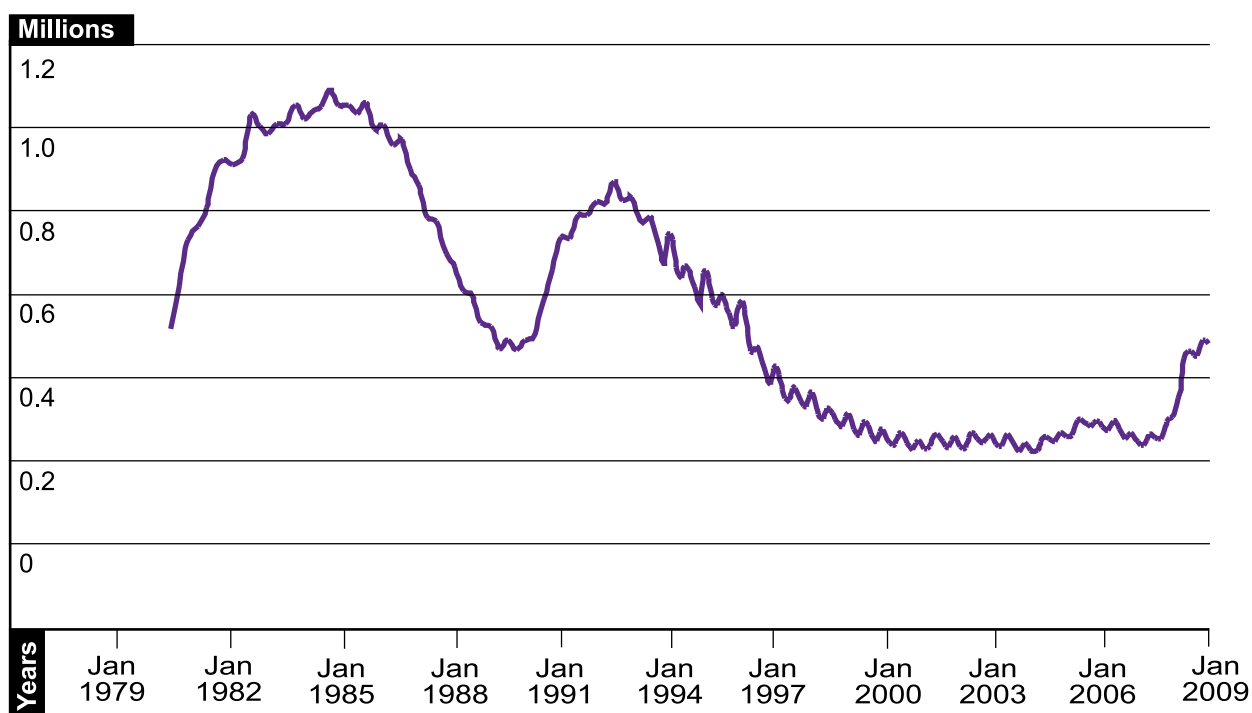
28. The impact of additional resources, in supporting an already well-established system of active employment help, can be seen in the way that the number of people leaving JSA has held up. Before the recession, the rate at which people left JSA was at an historic high. Around 60 per cent of new claimants left within three months and 80 per cent within six months. These rates have fallen back during the recession, but have now stabilised at levels well above similar points in the past. Currently, 55 per cent of new claimants are leaving JSA within three months and 73 per cent within six months. This compares to 44 per cent and 64 per cent respectively at the worst point in the 1990s recession. In the three months to September 2009 alone, around a million people left JSA. Around 550,000 recorded a reason for leaving, of whom two-thirds said they had moved into work.
29. The result is that many of those who have moved into unemployment since the recession started have already moved out again, taking advantage of the thousands of new jobs still coming up all the time. Jobcentre Plus alone has continued to take an average of at least 10,000 new vacancies every working day throughout the recession and this is only a part of the total recruitment. This is helping to reduce the rise in long-term unemployment. Additional capacity has also been put in place to support those who spend a longer period on benefit because they find it particularly difficult to overcome the problems caused by the recession. The support for long-term unemployed people is discussed further in Chapter 2.

30. In line with the experience in previous recessions, men have experienced a larger fall in employment and a larger rise in unemployment than women. In general, however, the impact of the recession on different groups and different parts of the country has been relatively more even than in the past.

Youth unemployment

31. During the recession, youth claimant unemployment has risen broadly in proportion with that of other ages. There are currently 500,000 18–24-year-olds claiming JSA. This compares with over a million young people on JSA during the 1980s recession and over 850,000 during the 1990s recession.
32. The number of young people who are ILO unemployed is higher than the number of young people on JSA. This is partly because 16 and 17-year-olds can be ILO unemployed and partly because an increasing number of full-time students are being classified as ILO unemployed. The level of ILO unemployment today is 943,000 compared with 680,000 before the recession. However, over a quarter of ILO unemployed people in this age group (267,000) are in full-time education. As a proportion of the total 16–24 age group, around 9 per cent not in full-time education are ILO unemployed, compared to 13 per cent in 1985 and 12 per cent in 1993.
33. Within the 16–24 age group there have been falls in ILO unemployment in recent months among the 16–17 age group as a result of measures to increase the proportion of this age group continuing in education. Chapter 2 looks in more detail at policies to help young people find work or stay in education or training.

Figure 4 – Youth claimant unemployment



Note: The figures are seasonally unadjusted.

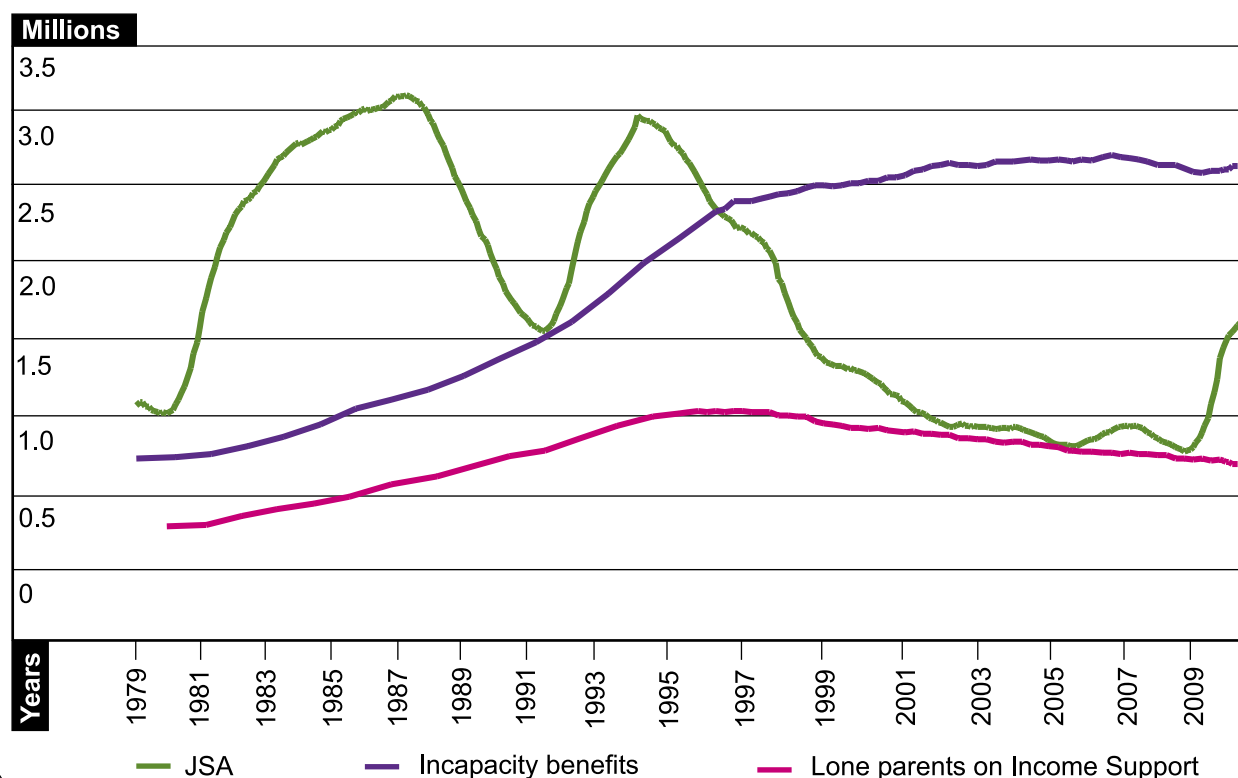
Impact on disadvantaged groups and communities

34. Rising unemployment has affected all parts of the country. Although the impact has been spread more evenly than in previous recessions, some areas are facing bigger challenges than others. In general, areas that started the recession with relatively higher levels of unemployment have seen larger absolute increases. This has partly reversed the trend in the decade up to 2008 that had seen a significant narrowing of the gaps between one part of the country and another.
35. The impact of active labour market policies, together with greater support for at-risk areas through the Working Neighbourhoods Fund and the Future Jobs Fund, is helping to ensure that all parts of the country are in a stronger employment position than in previous recessions. Labour market disparities also remain much smaller than in the 1980s and 1990s. Chapter 2 considers further the policies needed to encourage and sustain economic recovery and employment growth across the country.
36. In general, the last year has also seen employment rates for disadvantaged groups fall by a similar amount or less than the overall average. This means that so far we are not seeing the widening gap between different groups that characterised past recessions.

Inactivity

37. It is important to consider not just unemployment but changes in the level of economic inactivity. Rising inactivity was a feature of both the 1980s and 1990s recessions. This was driven in part by structural change, exacerbated by a lack of help and support for individuals to re-engage with the labour market or retrain. This was particularly true for lone parents and those claiming incapacity benefits.
38. The number of people claiming out-of-work benefits other than JSA rose inexorably from the end of the 1970s until the mid-1990s. The result was that in 1997 about 5.5 million people were claiming one of the key out-of-work benefits, around two-thirds of whom claimed incapacity or lone parent benefits. These trends have begun to reverse over the last ten years, supported by sustained economic growth and the extension of a more active system of help and support to all those claiming benefits.
39. **In contrast to previous experience, the current recession has so far seen no significant rise in the number of people claiming lone parent or incapacity benefits.** Between 1990 and 1991 alone, the numbers on these benefits rose by over 200,000 and by 1995 the number was a million higher than five years earlier.
40. As a result, virtually all the rise in the overall number of people claiming benefits during the recession reflects the larger number claiming JSA. The total number claiming an out-of-work benefit remains around 350,000 lower than in 1997.

Figure 5 – Number claiming unemployment and other out-of-work benefits



Factors affecting labour market performance

41. There are several factors that look to be contributing to the very different labour market impact of this recession. Unemployment benefits were managed only passively in the 1980s, with many claimants allowed to drift into not looking for a job. Although this had improved by the early 1990s, the level of inactivity was again allowed to rise significantly.
42. Since that recession there has been further reform with the introduction of JSA and programmes such as the New Deal. With the creation of Jobcentre Plus there is now an integrated benefits and job finding service of a kind that has never before existed during a recession. As a result, the emphasis is now on helping people to look for and be ready to take up work. As unemployment began to rise last year, the Government responded immediately by putting in place additional resources for Jobcentre Plus. This has meant it has continued to meet its targets for getting financial support to people quickly, even in the face of much larger numbers making claims for JSA. It has also been able to maintain and strengthen the support it provides to help people find their next job.
43. Equally important, the Government has maintained its focus on disadvantaged people and people not in the labour market. It has pressed ahead with reforms to incapacity and lone parent benefits, largely closing off inactivity as an option for those affected by the recession.

44. Although the level of redundancies has increased sharply, at least some of the effect of the recession looks to have been absorbed through reduced hours and wages. Average hours worked have fallen by over 2 per cent and there has been a shift towards part-time working. This partly reflects more people working shorter hours in their current job and partly those who have lost a full-time job taking a part-time alternative.
45. There are a number of examples of firms looking to arrange pay cuts and freezes or reductions in hours to manage the impact of a temporary fall in demand and avoid or minimise the need to make redundancies. Anecdotally there is some suggestion that this kind of coping strategy may be more widespread than in previous recessions.
46. Taking account of inflation, real earnings growth appears to have been lower and for longer than in previous recessions, though the differences are not dramatic. Unit wage costs have risen by less than in equivalent periods in the 1980s and 1990s and nominal wages for new employees have fallen, providing more ability for firms to hold onto labour or continue to recruit despite overall falling demand.

The labour market in the recovery

47. This chapter has shown that the labour market has coped better in this recession than in past recessions, and set out some of the reasons for that.
48. In recent months there have been some encouraging signs with falls in employment easing and both the claimant count and ILO unemployment rising much more slowly. The rise in claimant unemployment has fallen back from over 25,000 a week in February to around 3,000 a week in October. ILO unemployment was still rising significantly in the spring, but more recent figures have shown increases slowing sharply in line with the trend in the claimant count.
49. Looking ahead, prospects for future trends in employment and unemployment depend both on how quickly the wider economy turns around, and how fast the labour market then responds to any recovery in output.
50. In the 1980s recession, unemployment remained high for many years, with the result that many people drifted away from the labour market altogether, never to return. For young people, claimant unemployment kept rising for four years after the recession ended and remained above a million for another year after that. By the early 1990s the lag between recovery in output and recovery in unemployment appears to have shortened, but the problem of rising numbers claiming other benefits continued until much later in the decade. Again, youth unemployment continued to rise for more than a year after the recession had ended. Our challenge today is to turn things around more quickly than in the past, avoiding the scars left by long-term unemployment and inactivity.
51. There are some reasons to believe that the lag between the economy and the labour market might be even shorter now than in the 1990s recession. The fundamentals of the economy were stronger leading into the current recession, with inflation and interest rates lower and a more balanced spread of people out of work across the country. This provides an opportunity to make further and faster progress in tackling unemployment and inactivity than was possible following previous recessions, although this will happen only if we continue to take the actions necessary to promote recovery.

52. Independent forecasters' projections have improved markedly since March 2009, although they still anticipate a lag between recovery in output and recovery in the labour market. The latest average of independent forecasts is for claimant unemployment to be 1.71 million by the end of 2009 and 1.92 million by the end of 2010.
53. At the time of the Budget, the average of independent forecasts suggested that claimant unemployment would reach nearly 2.1 million by the end of this year and over 2.4 million by the end of 2010. **On the basis of current independent forecasts, claimant unemployment will end 2009 around 400,000 lower than they predicted would be the case back in March.**

Implications for the public finances

54. These figures mean that the public finances will see lower unemployment-related spending than projected, on the basis of cautious National Audit Office (NAO) audited assumptions, in Budget 2009. This reflects in part that lower claimant unemployment leads to lower spending on Jobseeker's Allowance payments and associated benefits such as Housing Benefit (HB) and Council Tax Benefit (CTB). In addition, as lower forecasts for claimant unemployment imply more people in work than would otherwise have been the case, there are wider benefits to the Exchequer from higher tax revenues.
55. In the projections of the public finances, the Government uses an NAO audited assumption for claimant unemployment. If unemployment were to follow the latest assumption at the time of the Pre-Budget Report, this would imply savings of approximately £10 billion over the next five years from lower benefit spending alone, compared to the assumption at the time of the Budget.
56. In the Pre-Budget Report, the Treasury published for the first time a projection for claimant unemployment. This shows the claimant count rising to 1.75 million in 2010 before falling back to 1.5 million in 2012 and 1.25 million in 2014.
57. The policies in this White Paper are designed to help bring unemployment down further and faster than in previous recessions, saving billions of pounds in benefit payments as well as increasing tax revenues for the future.

Conclusion

58. This chapter has looked at the changes that have taken place in the labour market both before and since 1997. It has shown how these changes, supported by the policies introduced since 1997, ensured that the UK was better placed to withstand the recession than was the case in the 1980s and 1990s.
59. Helping as many people as possible to be in work has wider economic benefits, as well as the obvious human ones. More people in work means more people paying taxes and fewer claiming state benefits.
60. It also means that the UK is better placed to avoid the long-term problems of persistently high unemployment and inactivity that characterised the years that followed previous recessions. Our aim is to return Britain to the levels of employment achieved before the recession. Once we have done that we want to go still further, as we set out in Chapter 3.