

BULLETIN

Impact of the Recession and the Longer-term Demand for Skills

Events in financial markets in 2008, including the so called credit crunch, have brought to a head a deep recession unlike any other of recent decades. This has created uncertainty about future employment prospects for almost all groups of people, especially youngsters first entering the labour market. A sharp downturn in economic growth across the world has been experienced and the length of the recession remains uncertain.

This Bulletin examines various aspects of the recession, based on research carried out by the Warwick Institute for Employment Research. It starts by outlining how unemployment is measured in order to compare the current crisis with past recessions. It discusses who are the most likely to be affected by the crisis, and what might be done to mitigate this. Finally it takes a longer term perspective, drawing on the findings of IER's most recent *Working Futures* employment projections.

Measuring unemployment

Much media coverage of the recession is concerned with how the current downturn compares to previous ones and how far unemployment levels will rise. Speculation abounds as to whether and when unemployment will reach the 3 million mark.

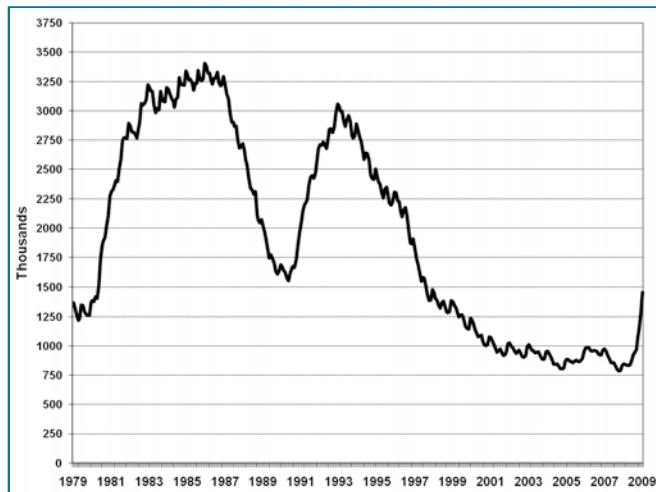
It is important in such discussion to be clear about what is being measured in order that like is compared to like. Current official estimates of unemployment are produced by the Office of National Statistics (ONS) and derived from the Labour Force Survey (LFS). The definition used is that of the ILO (International Labour Organization). It measures the number of jobless people who want to work, are available to work, and are actively seeking employment. The ILO definition is used internationally, so

comparisons between countries can be made, and it also allows for consistent comparisons over time. A separate series – the claimant count – measures how many unemployed people are claiming unemployment-related benefits (Jobseekers Allowance [JSA]). The claimant count tends to be lower than the ILO measure because some unemployed people are not entitled to claim benefits, or choose not to do so. Benefits rules vary over time, so it is more difficult to make comparisons.

There is a large difference between the two unemployment series. Although they move broadly in line with each other, the gap between the two varies depending on economic conditions. When employment is high the gap between ILO unemployment and the claimant count tends to widen, as some jobless people who were not previously looking for work start to do so. The difference between the two measures is wider for women than for men. Currently fewer than half of unemployed women claim related benefits compared with around three quarters of men.

The two most recent recessions occurred in the mid 1980s and early 1990s when the claimant count peaked at just over 3 million in July 1986 and almost 3 million in December 1992. Perhaps as the result of that experience, the figure of 3 million has become a critical yardstick by which commentators seek to judge the depths of the current downturn. Such a comparison is, however, erroneous as the unemployment levels in 1986 and 1992 were measured on the basis of the benefit claimant count whereas the current official figure is the higher ILO measure.

Figure 1 describes the level of claimant unemployment from 1979 to 2009 and it is clear that – for the moment at

Figure 1: JSA Claimants 1979-2009, UK (000s)

Source: Nomis

any rate – the current situation is far removed from that of the depths of the two earlier recessions. The claimant count was 1.51 million in April 2009, still less than half the number of benefit claimants in earlier recessions. There is, however, no room for complacency. While the claimant count is still well below the levels of 1986 and 1992, the number of claimants has increased rapidly over recent months; a trend that if continued would soon see numbers reaching similar levels to earlier recessions. The ILO measure rose at an even faster rate in April 2009.

As employment falls, the gap between the claimant count and the official ILO measure of unemployment will decrease. This is a reflection of the fact that some jobless people will withdraw from the job market (i.e. they no longer actively seek work) usually because they see a diminishing probability of obtaining a job (they are discouraged). This will diminish the ILO measure. In addition, some jobless people who previously would not bother with a short-term JSA claim since they normally obtain a new job quickly will register for JSA when they find themselves jobless for longer than expected. This will boost the number in the claimant count. Thus, while the number of JSA claimants can be expected to increase sharply over the next year, it does not follow that the official unemployment count will increase proportionately and it is likely that the two measures will converge, although at what level remains to be seen.

A very different recession?

In many respects the current recession of is very different from that of the mid 1980s. In the mid 1980s the British economy suffered from high interest rates and a high-value pound, which made goods very expensive to export. In 2008-2009 interest rates are very low while the pound has depreciated significantly against other currencies, notably the dollar and the euro.

The big difference, however, is that the recession is global. The roots of the recession may have been in the US, but not

a single country is unaffected because the world economy is much more interlinked.

The Government's strategy is different this time, too. Mrs Thatcher's policies were all about fiscal prudence, tight control and opposition to public spending. The current Government is adopting a different approach and wants to boost demand through public borrowing and spending and has cut VAT to help consumption spending.

The risk facing the economy is that a reverse “multiplier” is triggered. In Keynesian economics, a multiplier refers to a situation in which an initial rise in spending (say, investment in a factory) leads to increased income (for the workforce), then increased demand (for goods) and therefore increased prosperity. In reverse, the multiplier means that negative shocks such as a fall in consumer spending leads to cutbacks in output and employment, more people on benefits with lower spending, which means lower sales and so on. ‘Big ticket’ consumer items such as cars, household durable goods and investment by business will all be cut back due to uncertainty about the future and this exacerbates the decline still further. Virtually every employment sector is vulnerable to this vicious circle. In good times, even inefficient businesses can survive, but in bad times, the weak will go to the wall.

Middle class dole queue?

While the immediate effects of the “credit crunch” were first evident in the city of London, the recession in the ‘real economy’ has rapidly rippled out to every region in Great Britain, although there are regional differences and local unemployment “hot spots”, reflecting the industrial composition of those areas.

It has been claimed, and there is some evidence to suggest, that the current downturn has impacted on professional and other white collar jobs to a greater extent than in previous recessions. Table 1 shows how the number of JSA claimants in different occupations have fared over the past six months. It indicates that some of the largest rates of increase were for groups such as skilled trades (both construction and metal & electrical) and operatives but also managers (both corporate and agricultural), professional occupations (both scientific & technical and business & public sector) and business & public sector associate professionals. While striking, it should be noted that many of these increases are from a relatively small base. The largest single category of JSA claimants remains that of people who usually work in elementary (or unskilled occupations) who account for some 448,000 claimants. Thus, most JSA claimants are still people who previously worked in comparatively low skilled jobs.

Part of the reason why the incidence of JSA claims is highest amongst those in elementary occupations, and why the relative incidence can be expected to increase in the longer-term, is that recession may bring with it a ‘bumping down’ process where available jobs go to over-qualified people, while those who would normally have

Table 1: Claimant numbers and change August 2008-February 2009 by usual occupation, UK

	Number of claimants	% change Aug 08-Feb-09
Occupation unknown	4,800	146
Skilled Construction and Building Trades	103,735	122
Skilled Metal and Electronic Trades	52,690	109
Corporate Managers	58,185	103
Science and Technology Professionals	19,955	90
Transport and Mobile Machine Drivers and Operatives	106,295	87
Business and Public Service Professionals	12,450	82
Process, Plant and Machine Operatives	74,560	82
Protective Service Occupations	1,615	80
Business and Public Service Associate Professionals	29,375	76
Managers and Proprietors in Agriculture and Services	13,165	75
Textiles, Printing and Other Skilled Trades	22,730	64
Science and Technology Associate Professionals	19,800	61
Skilled Agricultural Trades	23,220	60
Secretarial and Related Occupations	19,400	57
Leisure and Other Personal Service Occupations	18,410	54
Elementary Trades, Plant and Storage Related Occupations	306,870	48
Customer Service Occupations	31,335	47
Administrative Occupations	128,090	47
Sales Occupations	185,555	45
Culture, Media and Sports Occupations	27,470	43
Elementary Administration and Service Occupations	132,115	38
Caring Personal Service Occupations	44,805	29
Health and Social Welfare Associate Professionals	8,560	17
Health Professionals	690	5
Teaching and Research Professionals	9,735	-17
All claimants	1,455,610	58

Source: Nomis

taken those jobs are squeezed out. This process arises because many employers will attempt to retain the skilled element of their workforce in whom they have made an investment (although in extreme cases even this may not be possible). Consequently, the impact of the recession is likely to affect not only the level of unemployment, but also the composition of those who remain in jobs and those who are unemployed. The pool of unemployed people will become disproportionately concentrated on people with low levels of skill or those with skills that have become obsolete. Those most vulnerable to rising unemployment are likely to remain poorly qualified young people in areas of deprivation.

Vulnerability of different groups

Within regions there have also been shifts in the quantity and quality of employment in recent years, most notably, a general trend towards spatial decentralisation of employment from inner city areas to urban peripheries and rural areas (Green and Owen, 2006; Social Exclusion Unit, 2004). This has implications for geographical access to employment opportunities, since the public transport infrastructure does not coincide with the economic geography of the 21st century.

Quantitative variations in numbers of employment opportunities are manifest in geographical differences in employment and non-employment, whereas qualitative variations are reflected in the nature of employment opportunities available and prospects for labour market advancement. In general, 'quantitative' concerns about numbers of jobs tend to be greatest at times of rising

unemployment when labour markets are slack. Overall, however, in recent years there has been a general shift towards greater policy emphasis on 'qualitative' aspects of employment, while in analyses of joblessness the trend has been towards consideration of aspects of inactivity alongside unemployment.¹

Traditionally, economic geographers have been most interested in sectoral variations in the composition of employment. Historically, there were marked geographical variations in key sectors, reflecting local concentrations of raw materials (especially in mining and extractive industries) and specialist manufacturing traditions, which in some instances are reflected in area names (such as 'The Potteries' for the Stoke-on-Trent area). Over time, however, with the loss of employment in agriculture, mining and manufacturing, and the increase in employment in services, sectoral differentials in employment structures over space have become less pronounced. So regional variations in the sectoral composition of employment are less marked than formerly, and rural economies now have a similar sectoral structure to urban ones. Nevertheless, there remains considerable interest in sectoral variations in employment. In the context of the current recession attention has been focused on sectoral composition in order to provide intelligence on the vulnerability of local areas and sub-regions to the credit crunch and recession.

Sub-national sectoral variations in employment are less marked than formerly, with the decline in many traditional areas of employment now well stabilised. Yet, there is still considerable interest in sectoral vulnerability to the credit crunch. This may affect a number of new areas not previously considered vulnerable. For example, the focus of the initial impact of the credit crunch on banking and finance means that the City of London is now at the top of the list as well as other affluent regions, such as Kensington and Westminster.

Researchers at IER are evaluating the City Strategy (CS) initiative.² This involves measuring process change and the effectiveness of partnerships in procuring and delivering employability services and improving performance. It also involves assessing changes in how worklessness is tackled at the local level. Having some measure of the quantitative success of the CS initiative is vital also. The onset of recession means that achieving reductions in JSA, Incapacity Benefit and Income Support claimants is very challenging. Changes in benefit

¹ Here it is salient to note that geographical variations in non-employment (i.e. unemployment and inactivity) are more pronounced than those in unemployment. The general rule is the greater the degree of labour market slack, the less appropriate unemployment is as a measure of labour reserve. (MacKay, R.R. (1999) 'Work and nonwork: a more difficult labour market', *Environment and Planning A* 31, 1919-1934).

² This evaluation is being undertaken on behalf of the Department for Work and Pensions. Two initial National Evaluation 'Update' reports have been produced to date (Hasluck, Green and Adam 2008, 2009).

claimant levels over time *might* be attributable to the activities of City Strategy Pathfinder (CSPs), although they might also reflect changes in the wider economy or the impact of other policies operating in CS areas. ‘Soft’ as well as ‘hard’ outcomes are important in evaluating the success of CS.

Initiatives to address spatial concentrations of worklessness

Over the years various policies and interventions have been put in place to ameliorate spatial concentrations of worklessness. One such is the CS initiative, which is part of the UK Government’s drive to reform the welfare system as set out in the January 2006 Welfare Reform Green Paper.³

At the heart of proposals for reform is a vision of a modern, devolved welfare state in which there is a sharing between state and communities of the responsibility for tackling worklessness in Britain. A key element of this new approach is that tackling localised pockets of long-term worklessness (i.e. both unemployment and economic inactivity) requires action appropriate to the needs of local areas and the individuals within them. CS is about creating local partnerships in which existing agencies develop a shared vision, set out in a business plan, of what is needed to reduce worklessness in their area and then are empowered to work together in more effective ways by combining and aligning their efforts behind common priorities to reduce worklessness and raise employment.

There are 15 CSPs in some of the most disadvantaged areas across the UK: 10 in England; 3 in Scotland; and 2 in Wales. These range in size from large city-region scale CSPs (such as Birmingham, Coventry and the Black Country; Greater Manchester; Merseyside; and Tyne & Wear); groups of London boroughs (in East London and West London); large cities (defined in terms of a single local authority area – such as Glasgow, Edinburgh and Leicester); to CSPs covering a smaller local authority area (such as Blackburn with Darwen); or part of a local authority area (in the case of Rhyl). The CSPs were launched in April 2007, initially for a period of two years, but in July 2008 it was announced that City Strategy would be extended for a further two years from the end of March 2009.

CS is not mainly about new activity. Rather it is about establishing a framework for more effective co-operation between key stakeholders from the public, private and voluntary sectors; aligning funding streams and co-ordinating activity so as to remove unnecessary competition and duplication of effort; and adding value to existing provision and delivery. Hence, it is not easy to delineate where CS activity begins and ends.

Moreover, in the period since the introduction of the CS initiative, the ongoing reform of labour market policy has continued apace. For instance, in England the Working

Neighbourhoods Fund has been introduced and in some local areas the CSPs have been rolling forward their activities in multi-area agreements. Other initiatives in related policy areas, such as health, also have had implications for CS activities.

Role of Apprenticeships

There is emerging evidence that young people may be faring badly in the current recession, either through the loss of their jobs or struggling to make the transition from education into employment. Recent figures from the Office of National Statistics (ONS) show that the number of people aged 18 to 24 who had been unemployed for up to six months rose by almost 10% during the three months to the end of November. This was almost 21% higher than a year ago.

Long-term unemployment among any age group is calamitous, but among the young it is especially so. For those young people able to relatively quickly resume their careers, their current spell in unemployment, no matter how unwelcome, may represent nothing more than a blip in their long-term plans, but others may struggle much more in their attempts to find suitable employment. This represents a loss not only to the individual, but to the productive capacity to the economy. It has the potential to hamper recovery from the current recession because skill shortages have slowed the pace of recovery from previous ones, and possibly constrain longer-term growth.

Historically, governments have responded to youth unemployment through the creation of programmes such as the Youth Training Scheme (YTS). These programmes were often criticised for the lack of suitable training opportunities and their tendency to supply lower quality employment. With the introduction of Modern Apprenticeships in 1994, government made a decisive break with the past in the creation of a training scheme linked to the needs of employers, but which provided the apprentice with structured, accredited training.

Although not without its critics, Modern Apprenticeship is generally regarded as an improvement over previous youth training schemes. It is, therefore, not surprising that the current government has announced a boost to the Apprenticeship programme with the provision of an additional 35,000 places for this year. Apprenticeship is no longer confined to young people with the introduction of Adult Apprenticeships, but for many it is a programme associated with the provision of initial training in a given trade, typically associated with younger rather than older people.

Ultimately, boosting the supply of apprenticeships is dependent upon companies willing to take on apprentices. At a time when many may be reducing the size of their workforces this may be an optimistic hope, but reports in the Financial Times provide anecdotal evidence that some major employers are holding on to their current apprentices and are looking to recruit more.

³ http://www.dwp.gov.uk/welfare-reform/docs/A_new_deal_for_welfare-Empowering_people_to_work_Full_Document.pdf

Evidence from the IER's latest report from its Net Costs of Training series commissioned by the Apprenticeship Ambassadors Network (AAN) indicates that the costs of training apprentices can be recouped by the employer over a relatively short period of time once the apprentice is fully trained.

The study estimated the discounted net present value (NPV) of an apprentice to an employer (i.e. the sum future benefits from employing the fully trained apprentice) and then subtracted the cost of training the apprentice from the NPV. Assumptions were also made about the share of the fully trained apprentice's marginal productivity which is captured by the employer (rather than by the fully-trained apprentice in the form of higher wages). Despite some sectors recording relatively high training costs over the training period, such as engineering, the employer is able to recoup these costs over a short space of time, if they retain the fully trained apprentice.

Over the longer-term there are substantial gains for the employer (*see Table 2*). There are many other benefits to the employer from engaging in apprenticeship training, including: a better fit between the organisation's skill needs and those of its employees; a source of new ideas; supplying a cadre of skilled workers from which future managers may be selected; and lower labour turnover. These, and other benefits, are fully documented in the IER's Net Benefit to Employer Investment in Apprenticeship Training study (Hasluck, Hogarth, Baldauf and Briscoe, 2008).

The importance of the study is its demonstration that apprenticeship training pays for itself. For those employers wavering in their support for apprenticeship training in these difficult economic times, the study quantifies the positive contribution of apprentices to the organization. This also needs to be seen in the light of likely skill needs when the economy begins to recover and the possibility of skill shortages emerging.

The take-up of apprenticeships by employers will be dependent upon the level of demand for their output. The danger in such difficult times is that the decision is made

Table 2: Net Present Value of employers' investment in Apprenticeship training (£)

	Period after apprenticeship training completed				
	Year 1	Year 2	Year 3	Year 4	Year 5
Engineering	-17,900	-7,700	-2,000	-11,100	19,700
Hospitality	-1,500	1,100	3,500	5,800	8,000
Retailing	-700	900	2,400	3,700	5,000
Public Administration	-800	2,200	5,000	7,600	10,100
Social Care	-5,500	-3,400	-1,400	500	2,200
Construction	-10,400	-5,100	10,900	20,600	29,900

Source: Hasluck, Hogarth, Baldauf and Briscoe (2008)

based on short-term considerations rather than a longer-term view more appropriate to an investment. Of course, the key question is how employers' investments in apprenticeships can be effectively supported at a time when the problem of youth unemployment is once again on the horizon.

A longer-term perspective: Working Futures 2007-2017

In such gloomy times it is good to take a longer term perspective. The IER's projections for Working Futures were produced before the events that followed the credit crunch fully unfolded. However, the focus is on medium to long-term projections, 5-10 years ahead. Assuming that the economy returns fairly quickly to its long term growth path, such results can provide a robust picture of likely developments in employment and skill patterns over the longer term.

Recent developments in financial markets and the world economy have made it more difficult than usual to generate reliable estimates of employment change. Over the longer term, the key drivers of employment are expected to re-assert themselves. In particular, technological change, including its implications for economic, social and political structures, is expected to continue to fuel globalisation and world economic growth. Together with a number of key domestic drivers, including demography and government policy, will have significant implications for the demand for and supply of skills over the coming decade.

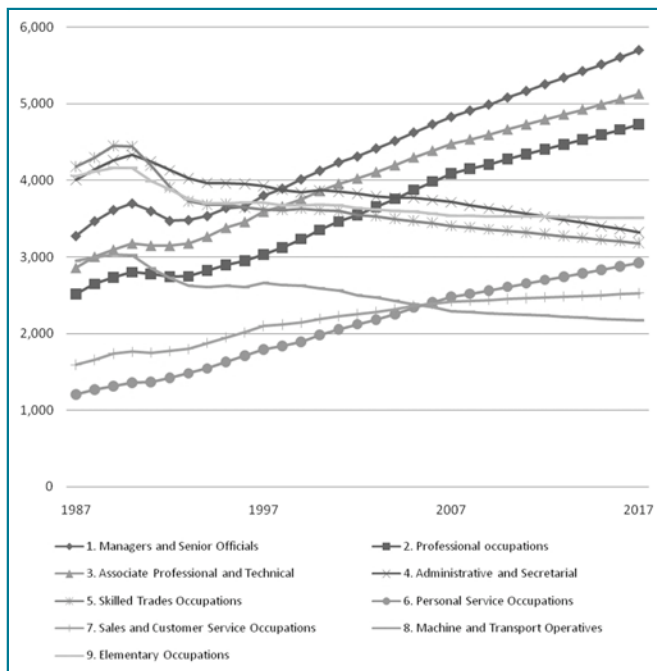
Macroeconomic context

It is important to set these results into context. The collapse of both financial and housing markets in the UK and elsewhere has had a big impact on employment, as economic activity slows in response to such global events. Producing robust economic and labour market projections in the face of such uncertainty is extremely difficult.

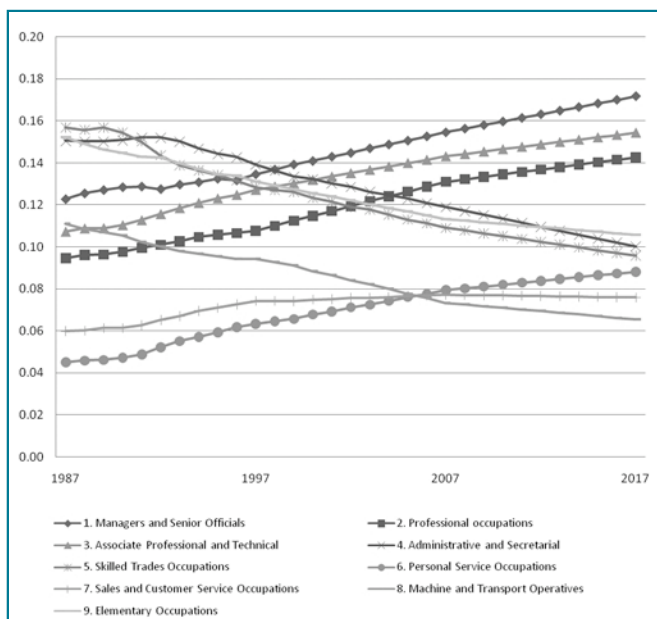
Even before these momentous events, rising commodity price inflation, including a record price for oil had resulted in a very uncertain short-term outlook for the UK economy. Growing competitive pressures, especially from the Far East, meant that UK producers were already facing a very difficult period ahead. The forecast assumes that a recovery in confidence will eventually bring about renewed economic growth in the UK, which will sustain employment growth and return the economy and labour market to something like their long-term trend paths.

General labour market prospects

Over the longer term to 2017 employment is projected to rise, driven by a significant increase in population levels. The long-term rate of employment growth (jobs) is expected to be just under 0.5% p.a., resulting in almost 2 million additional jobs over the decade to 2017.

Figure 5: Occupational Profiles, 1987-2017

Source: Wilson, Homenidou and Gambin (2008)

Figure 6: Occupational Profiles, (Shares), 1987-2017

Source: Wilson, Homenidou and Gambin (2008)

the recession having only a modest impact. If the current recession has a similar effect, then the underlying, longer term trends that are built into the *Working Futures* projections can be expected to still provide a useful guide to longer term developments in the demand for skills.

It will, of course, be important to monitor developments closely, and to consider when it is necessary to undertake a more detailed reassessment of how the financial crisis and subsequent events in the real economy have impacted on

the patterns of demand for skills. A deeper recession over the short-term based on past experience might be expected to have a particularly hard impact on skilled trades, elementary occupations and also managers.

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Further information

This Bulletin was produced by Rob Wilson, Anne Green, Terrence Hogarth, Chris Hasluck, Ilias Livanos and Luke Bosworth using recently published research and forecasts undertaken by IER. For further information about these and other projects visit the IER website at www.warwick.ac.uk/IER or e-mail: ier@warwick.ac.uk.

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