

Bulletin

Institute for
IER Employment
 Research

The Economy and Employment in the 1990s

There have been very substantial shifts in the structure of employment over the past forty years. Changes in technology, in the way work is organised, in the pattern of demand for goods and services, and in Britain's trade performances have all contributed to these developments. The IER's present assessment of the UK labour market is based upon the use of a detailed computerised model of the British economy which attempts to take into account how these various factors are likely to influence the labour market up to the turn of the century.

The twin problems of high inflation and persistent balance of payments difficulties continue to dog the British economy at the start of the 1990s. Despite the government's efforts to restrain demand through its interest rate policy, high pay increases are persisting, partly fuelled by the high mortgage rate. The sustained period of rapid growth combined with low inflation and falling unemployment appears to have come to an end. Evidence is emerging which indicates that recent performance in terms of productivity and competitiveness has not been as good as initially thought. The balance of payments problems are reminiscent of those that plagued the British economy in the 1960s and 1970s.

Productivity growth is expected to slow significantly in most sectors. The growth rates observed during the 1980s are not expected to be sustained over the medium term. Nevertheless, some improvement in the long-term trend rate of growth is expected compared with the 1970s, reflecting changes in technology, organisation and attitudes. Substantial further improvement is required, however, if we are to keep up with our international competitors.

The macroeconomic scenario underlying this occupational assessment suggests that the difficulties with inflation and the trade deficit will gradually be resolved, partly as a result of a continued improvement in the performance of the real economy relative to the 1970s and partly due to the benefits of joining the exchange rate mechanism of the European Monetary System. The very rapid growth in GDP achieved during the late 1980s is however not expected to be sustainable over the medium term.

The economy is projected to achieve an average growth rate for GDP of around 2 per cent per annum between 1989 and 2000. The average rate of increase in consumer prices is projected at about 5 per cent per annum (after peaking at almost 7 per cent in 1990). Earnings are expected to grow more rapidly, reflecting continuing improvements in productivity. As a consequence, real incomes rise steadily resulting in continued growth in consumer's expenditure which, together with gross fixed capital formation, provides the main source of expansion in domestic demand.

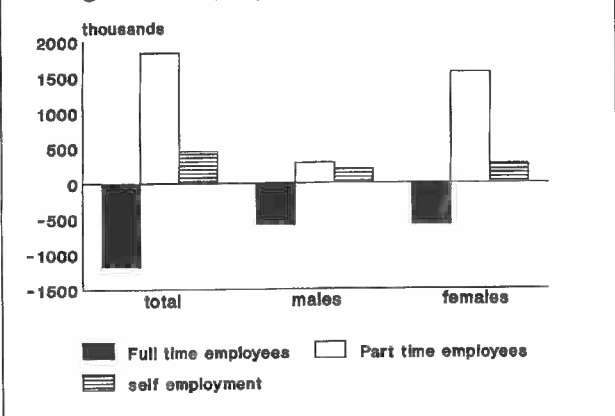
The projected balance of payments deficit gradually falls over the decade as strong growth in invisible earnings reinforces an improving visible trade position. The latter occurs because of quite firm UK export performance and despite the fact that the rundown in North Sea oil production leaves a widening gap for the manufacturing trade balance to fill. The improvement in the balance of payments is only achieved after some further depreciation in the exchange rate, although from 1991/92 onwards it is assumed that the UK joins the European Monetary System and that Sterling tracks the Deutschmark very closely thereafter. The expansion of

domestic income and expenditures, together with the relatively modest growth in public expenditure, results in the government being more than able to balance its budget.

Prospects for Employment

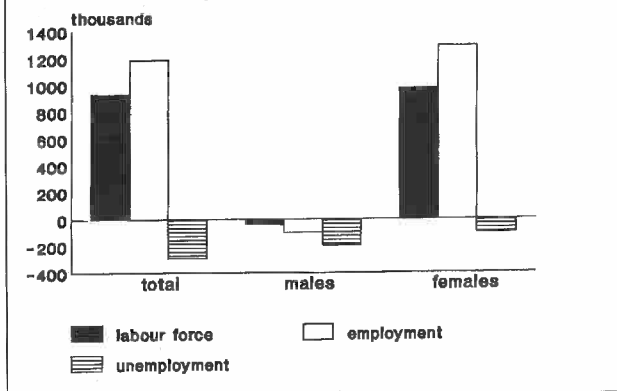
Employment has grown quite rapidly in the late 1980s and further large increases are expected, with 1.1 million more jobs appearing by the turn of the century. However, continuing change in the industrial structure of employment, in favour of services and away from primary and manufacturing industries, means that many of these jobs will be part-time and low paid. The main areas of job loss will be amongst primary and manufacturing industries. In total, these sectors are expected to lose almost a million jobs, one third of which are in the engineering sector. The largest increases will occur in miscellaneous services, which alone gains over a million jobs. Tourism and leisure related businesses will probably be the most important source of employment growth.

Changes in Employment Status, 1989-2000



over a million persons have been added to this category, which now accounts for almost 12 per cent of total employment. Self-employment is projected to continue to increase its share of total employment to 13¼ per cent, with a further rise of over half a million between 1989 and 2000.

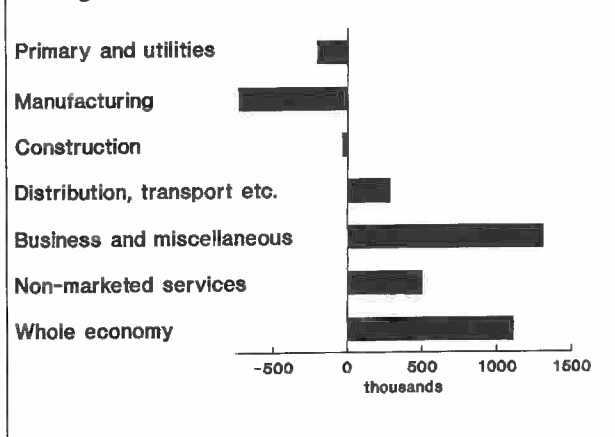
Changes in Labour Force, Employment and Unemployment, 1989-2000



Women are expected to be the main beneficiaries of these changes, accounting for nearly all of the net increase in employment. The numbers of 'prime age' females entering the labour force is expected to grow steadily, more than offsetting the much publicised decline in the numbers of young entrants. In total the labour force is projected to grow by around 1.1 million by the turn of the century. Most of the net additions will be women aged 25-54. As a consequence, unemployment only falls marginally, despite the substantial growth in employment and an assumed expansion of numbers covered in government enterprise, employment and training schemes. By 2000, unemployment reaches about 1½ million after rising in the early 1990s.

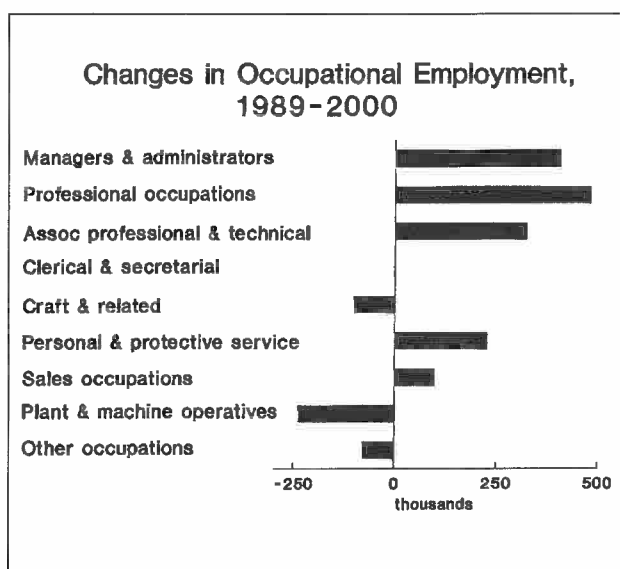
Self-employment has grown very rapidly in the last decade. In 1979 there were 2 million persons so classified. This was little different from the corresponding figure 30 years earlier. During the 1980s

Changes in Industrial Employment, 1989-2000



Simultaneously with the shift towards self-employment has been the move towards a greater proportion of part-time working, with more than one in five of today's workforce being in part-time employment. The 1980s saw a substantial loss of both male and female full-time jobs: female part-time jobs, on the other hand, grew rapidly. The majority of these jobs were in the service sector: around one half of all employees in non-marketed services, business and miscellaneous services, and distribution and transport were working part-time in 1989. In contrast, part-time employment in manufacturing has recently begun to decline. Continued changes in the industrial structure of employment in favour of services, coupled with growing proportions of part-timers in most of these industries, is expected to result in an increase of over 1½ million part-time jobs by the year 2000.

The pattern of demand for skills is also expected to alter significantly by the turn of the century. The pattern of change during the 1980s has strongly favoured professional, associate professional and managerial occupations at the expense of more traditional blue collar jobs. Some of this change can be attributed to changes in industrial structure, notably the impact of further declines in production industries upon the loss of many blue collar jobs and of the continued growth in service industries upon job opportunities for white collar workers. However, a much more significant role was played by the changing structure of occupational demand within industries than was the case during the 1970s. For a number of key occupational categories, a major part of the growth in employment opportunities over the period since 1981 has been attributable to increased demand for their skills within individual industries. Technological and organisational change during the 1990s will reinforce this trend.



The implications are likely to be continued job losses in traditional blue collar areas, with offsetting growth in managerial, professional, associate professional (technician) and skilled personal service occupations. The number of jobs for the professions is projected to increase by 480 thousand (20 per cent) while the corresponding figures for the associate professions are 320 thousand (15 per cent) and for managers and administrators, 400 thousand (12 per cent).

Clerical and secretarial employment is expected to decline slightly over the next decade reflecting the continued effects of computerisation on the demands for such skills. Sales occupations are expected to grow modestly, but many of these jobs are likely to be part-time. Amongst blue collar/manual workers, only the personal and protective services category is expected to increase significantly. A slight decline in employment of 30

thousand is projected for craft and skilled manual occupations. This compares with the much more dramatic reductions during the 1970s and 1980s and reflects the slow-down in the rate of decline in manufacturing. Plant and machine operatives bear the brunt of any such decline and are projected to lose about 200 thousand jobs. Finally, amongst other mainly unskilled occupations, a decline of about 80 thousand is expected. However, this disguises a continuing shift away from male, full-time workers in primary and manufacturing industries towards female part-time workers employed in services (mainly as cleaners).

Skill Shortages

In the case of **managers and administrators**, it seems likely that the demand for 'high fliers' will continue to grow and that some shortages may arise, especially for corporate managers and administrators. The declining numbers of new graduates caused by demographic changes, coupled with the general growth in demand for such personnel, seems likely to cause recruitment problems. For managers and proprietors of small businesses in services, some increase in demand is also anticipated, but this trend is largely dependent on supply side factors (ie. whether individuals continue to be willing to undertake the risks of setting up small businesses).

Amongst **professional occupations**, all groups other than health professions are expected to see employment grow by about 2 per cent per annum with especially rapid growth expected for scientists and engineers. This is in contrast to the supply side, where again the prospective decline in the flow of new graduates promises a sharp tightening of the labour market in many cases. The most likely areas where shortages will be a problem are those such as electronic engineering, business studies, economics and computing which are already facing severe difficulties. Even those areas where smaller increases in demand are anticipated may experience problems, especially if relative pay levels are such that young entrants are not attracted into the profession concerned. In teaching, for example, there are already acute problems in finding secondary teachers in subjects such as foreign languages and mathematics, while universities are finding it increasingly difficult to recruit and retain top quality personnel for many technological and business-related disciplines.

The situation for **associate professional and technical occupations** is in many ways similar to that for the professions. Demand is projected to rise while the number of new entrants is likely to fall sharply. In this context it is likely that recruitment and retention problems will increase, especially in those areas where employers fail properly to address problems of declining relative pay and conditions of employment. At the present time there are high rates of turnover in some

occupations, notably nursing, particularly in the more buoyant local labour markets. With the demographic downturn in numbers of young people, more attention will have to be devoted to considering new recruitment channels. The situation for nurses will, at least in the short term, be exacerbated by 'Project 2000', which involves radical reorganisation of the way training is organised 'on the job'. Greater emphasis on computing skills is likely to be a feature across a wide range of occupations and, particularly in more specialist occupations, there may be growing pressures to concede professional status.

Skill shortages seem unlikely to be very important amongst **clerical and secretarial occupations**. The overall numbers are expected to decline slightly and it seems likely that increasing supply of labour, particularly by women wanting part-time work, will at least keep pace with demand.

Amongst **craft and skilled manual occupations** employment has been in decline for many years, yet shortages still apparently persist. This seems to reflect the failure to train sufficient numbers of new entrants into such occupations, together with the loss of skilled persons to other jobs as a result of falling relative pay. It is likely that recruitment problems and skill shortages encountered recently will increase.

Demand for **personal and protective service occupations** is expected to continue to rise during the 1990s especially for females in personal service occupations. Given the anticipated growth in female labour supply, employers are not, however, expected to face serious problems in meeting their labour requirements; indeed, there may well be further downward pressure on the relative pay of those in personal service occupations. The main caveat to this relates to the impact of the declining numbers of young people aged 16-19 entering the labour market. This may pose particular problems for employers trying to maintain, or even raise, entry standards (as measured by the possession of formal qualifications). This seems more likely to be a problem for protective service occupations than for personal service occupations.

Sales occupations as a whole seem unlikely to face significant shortages. This group largely comprises relatively low skilled jobs such as sales assistants and

checkout operators. Demand is only expected to grow slightly and will mainly affect part-time employment among women. There are, however, some more skilled categories also included in this group for which the situation may be different, such as buyers, sales representatives and agents.

The overall demand for **plant and machine operatives** is projected to decline during the 1990s, although the rate of job loss is expected to be much less than that of the 1970s and early 1980s. Changes in the industrial structure of employment and technological developments, such as the application of information technologies in fixed plant and some increase in vehicle capacities, will result in fewer persons being required than in the past. Further increases in the proportions of self-employment and those holding formal qualifications are expected. Given the overall state of the labour market, significant skill shortages seem unlikely and, indeed, some deterioration in relative pay is in prospect.

A similar picture is expected for **other occupations**. This group comprises 'other occupations in agriculture' (mainly farm workers) and 'other elementary occupations' (which includes labourers and cleaners working in all other industries). The demand for the former has been declining steadily for many years as a result of mechanisation, technological innovation and reorganisation of the agricultural industry. These trends are expected to continue; general problems of skill shortage are unlikely and relative pay levels will probably continue to decline. The non-agricultural category has experienced steady job losses in recent years, particularly for males. This has been partly a consequence of the overall decline of total employment in certain industries such as manufacturing and construction, but stems principally from the declining proportions employed in labouring jobs in most sectors, as a result of a continuous extension of mechanisation and of technological improvements in those areas already mechanised. Further job losses are expected in the 1990s. These are likely to affect men rather than women since the latter will benefit from some further growth in part-time employment opportunities. Given the prospective growth in female participation in economic activity and the general state of the labour market, it is, however, unlikely that employers will face serious recruitment problems.

A full account of the material summarised in this **Bulletin** can be found in the forthcoming **Review of the Economy and Employment, 1990***

*Review of the Economy and Employment, 1990
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