FULL EMPLOYMENT AND GOOD JOBS FOR ALL
WHY THE UK IS SEEING A LOPSIDED JOBS RECOVERY AND WHAT TO DO ABOUT IT

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INTRODUCTION: WE ARE NOT ON COURSE TO FULL EMPLOYMENT AND GOOD JOBS

The UK economy is on its way to recovery. In June 2021, GDP was 2.2 per cent below pre-pandemic levels, with hopes rising that it could reach that milestone before the end of the year. But all is not well. Many jobs have still not returned. And without policy support its entrenched weaknesses, such as insecure work and low pay are here to stay. There are three key aspects to this.

First, there is still a huge jobs gap – jobs that have been hit by the pandemic but have not returned. Despite some firms having difficulties of filling vacancies in particular jobs (such as for HGV drivers), the broader picture across sectors is less favourable. There are still more than 2 million 'missing' jobs in the economy. Especially low-paid workers are at heightened risk of being hit by the end of government support schemes – both in the near term (e.g. end of furlough) and medium term (e.g. low public investment). Industries with average pay below the living wage face twice the risk of unemployment workers in other industries. The labour market recovery is lopsided and many workers' livelihoods are still on shaky ground.

1 We would like to thank Henry Parkes for his in-depth advice. We are also very grateful for the helpful comments by George Dibb, Clare McNeil, David Wastell and Robin Harvey.

Second, even pre-pandemic the economy was not at full employment and is not on track to achieve this. As before, we are in a 'depressed economy', stuck below its potential, growing more slowly than it could. This also means there are not enough 'good jobs' – those that provide security and at least a living wage – for everyone. Over a quarter of low earners are in insecure work, uncertain as to whether they will have enough work the next week, or next month. Relatedly, many people are underemployed: they would like to get more hours but cannot secure enough to achieve a better standard of living. This particularly affects low earners. Moreover, Women and people from minority backgrounds have lower rates of employment, partly because of low demand for workers in a depressed economy. In the pandemic, part-time work – essential for many with caring responsibilities – has shrunk significantly and is far from recovered. All of these are not features of an economy close to full employment.

Third, job polarisation continues. Job polarisation refers to the disappearance of jobs at the middle of the skills scale, while especially those at the top are growing (Author and Dorn 2013, Salvatori 2018). Trends seen over the last decade in the labour market are being exacerbated by the pandemic, some of them good some of them bad. On the good side, more high-paying jobs are being created. On the bad side, many mid-pay and low-pay jobs are being lost. Again, this shows that the labour market is lopsided – and those at the bottom end of the pay spectrum are losing out the most. Due insufficient investment in skills and due to geographical barriers, lower earners are currently not able to transition into higher-paid jobs and often fall into more precarious employment conditions instead. And due to lack of public and private investment, not enough jobs at the middle of the pay spectrum are being created (as we show in Williams et al forthcoming).

This is not inevitable. Starting at this autumn's spending review, the government has the chance to create an economy that provides full employment and good jobs for all. To achieve this, it should:

- **Deliver an investment stimulus focussed on boosting medium-term growth.** This should be aimed at achieving full employment, defined as low unemployment, low underemployment, falling insecure work and 'levelling up' of labour participation for groups for which it currently low. We have argued that the stimulus should contain an increase of public investment in green and social infrastructure and training of about £50 billion per year (Roberts and Jung 2020).
- **Keep and tweak the furlough scheme**. Keep the furlough scheme until after the economy has passed its pre-pandemic level, as many low-paid industries have not yet recovered. Tweak it to encourage part-time work right now. We have proposed to do this in the form of a 10 per cent wage subsidy for hours worked part-time (see further design details in McNeil et al 2020). Moreover, the furlough scheme should be put on a statutory footing, as it has in other countries such as Germany, to be on standby for future shocks and transitions.

- **Trigger a skills-driven jobs shift to future-proof sectors**. Next to streamlining the skills and career transition system, it should include a reformed kickstart scheme, specifically at those who are long-term unemployed and disadvantaged, and creating transitional, supportive jobs that can lead to permanent employment (Williamson et al forthcoming). This could prioritise transitional opportunities in green jobs, as the Net Zero Task Force has called for, alongside other priority industries, supporting a transition into longer-term, sustained employment.
- **Boost labour standards**. As an important step to avoid the return to a 'poor jobs' labour market, the government should finally strengthen employment conditions. It should urgently put forward its long-delayed delayed Employment Bill which was expected to include an overhaul of our enforcement bodies, rights to request a predictable contract, improved redundancy protections for pregnant women, and reforms to protect working carers. As the IPPR Commission on Economic Justice has recommended, it should also include a new minimum wage set at 20 per cent higher than the standard rate, for hours that are not specified in a contract (IPPR 2018).

MIND THE JOBS GAP – WHY THE UK DOES NOT HAVE A TIGHT LABOUR MARKET

There is still a gap of more than 2 million 'missing' jobs in the UK – this means more than 2 million fewer people are not working in the same way as they were before the pandemic (e.g. they lost their job, are on full- or part-time furlough). This puts context the positive reports of high numbers of vacancies. With the deadline of the end of furlough in September, there is still a risk that the UK could see a substantial rise in unemployment.

On the one hand, with all restrictions now eased and above 90 per cent of firms trading again, many workers should be able to return to their jobs. This has been partly reflected in July data showing 2 million people starting new jobs between April and June (ONS 2021a). Vacancies for the first time ever were as high as 1 million (ibid.). Survey data suggests that eight out of 10 people who were on furlough this year have now returned to work (RF 2021).

On the other hand, this optimistic view shows only part of the picture. The economy in June was still 2.2 per cent below pre-crisis levels and 28.5 per cent of businesses reported lower turnover than normal expectations for this time of year. Business investment was still 15 per cent below pre-pandemic levels in Q2 2021 (ONS 2021d). And even pre-crisis, UK business and public investment was low by international comparison, relative to the size of the economy (ONS 2017).

This is reflected in the 'jobs gap'. We calculate this as follows. The latest HMRC data shows that at the end of July, there were still 1.9 million furloughed employees. On top of this, there are still about 200,000 fewer employees on firms' payrolls than before the pandemic. Amongst this, part-time work – a key source of income for many with caring responsibilities – is still 9 per cent below pre pandemic levels (HMRC 2021a). Moreover, the number of economically inactive people of working age is still 412,000 higher than before the pandemic. If these return to the labour market not enough jobs might be available. This is not entirely surprising. The labour market – as in many past recessions – is taking longer to recover than GDP. This is likely because many service sector jobs take longer to return even as other sectors return to pre-crisis levels (Hall and Kudlyak 2019).

The jobs gap is widely distributed across industries, but low paid ones are facing twice the risk of unemployment (Figure 1). For every three jobs still hit by the pandemic in below living wage sectors, there is currently only one vacancy. This is more than twice the rate of higher paid sectors. In other words, low paid sectors face twice the risk of unemployment than higher paid ones.[2]

In nearly every industry, apart from health and social work, public administration, defence and social security, there are fewer people in full time jobs now than there were before the pandemic. There are up to four workers per vacancy in some of the hardest-hit industries including accommodation and wholesale and retail. These two industries, on average, have the lowest weekly pay, which falls below the UK living wage. Almost one in three businesses report profits are down from their usual levels, this rises to half in accommodation and food services (ONS 2021e). The two outliers are health and social care and public administration, which can be explained by their sectors being particularly in demand during the pandemic.

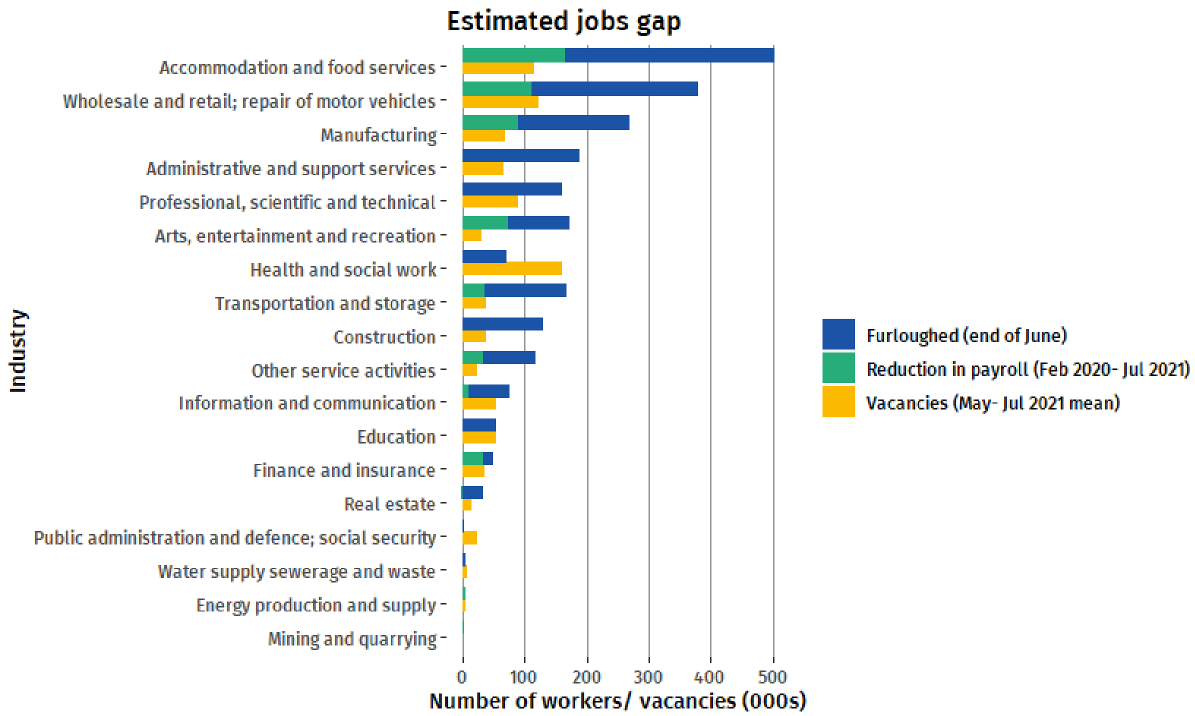
What will be the impact of the end of furlough on unemployment? The British Chamber of Commerce (2021) found in a survey of businesses still using the furlough scheme that one in five are considering redundancies and one in four are considering reducing hours for employees, in response to the upcoming change in policy. So there is a large degree of uncertainty about how much unemployment will increase once the furlough scheme is removed. But the size of the jobs gap relative to vacancies, shown above, serves as an indicator of the size of the risk to employment – and it is particularly high in low-paid industries.

[2] Those workers still on furlough technically still have a job so they wouldn't be the ones necessarily looking for vacancies. However, such a large gap shows that in these industries the labour market is far further away from full employment than aggregate levels suggest.

FIGURE 1

In nearly every industry a gap has emerged between workers that need a job and jobs available

Number of workers and vacancies (000s)



Source: ONS vacancy survey released 17 August 2021, HMRC PAYE RTI (seasonally adjusted) released 17 August 2021, HMRC CJRS released 29 July 2021
Notes: The numbers of vacancies are three-month averages. We omit from this chart the industry of forestry & fishing.

THERE IS DISGUISED SLACK IN THE LABOUR MARKET

There is 'disguised slack' in the UK labour market, indicating that the UK economy is still far away from full employment.

Full employment – also referred to as a 'tight labour market' – has various economic benefits. It makes employers compete for workers, incentivising them to offer better pay and working conditions. As Joe Biden has put it: "Pay them more." As the World Economic Forum highlights, a tight labour market can increase productivity growth by incentivising firms to invest in technology and improving their processes (Carlsson-Sslezak and Swartz 2021). And there is evidence that an economy driven by strong demand (eg through fiscal stimulus) ends up growing more strongly (Ignaszak and Sedlacek 2021).

What would a tight labour market look like? We argue that, next to closing the jobs gap and low unemployment, disguised slack too needs to be reduced. We discuss four aspects of this disguised slack: low wages, job insecurity, underemployment and low labour force participation of some groups.

Wages

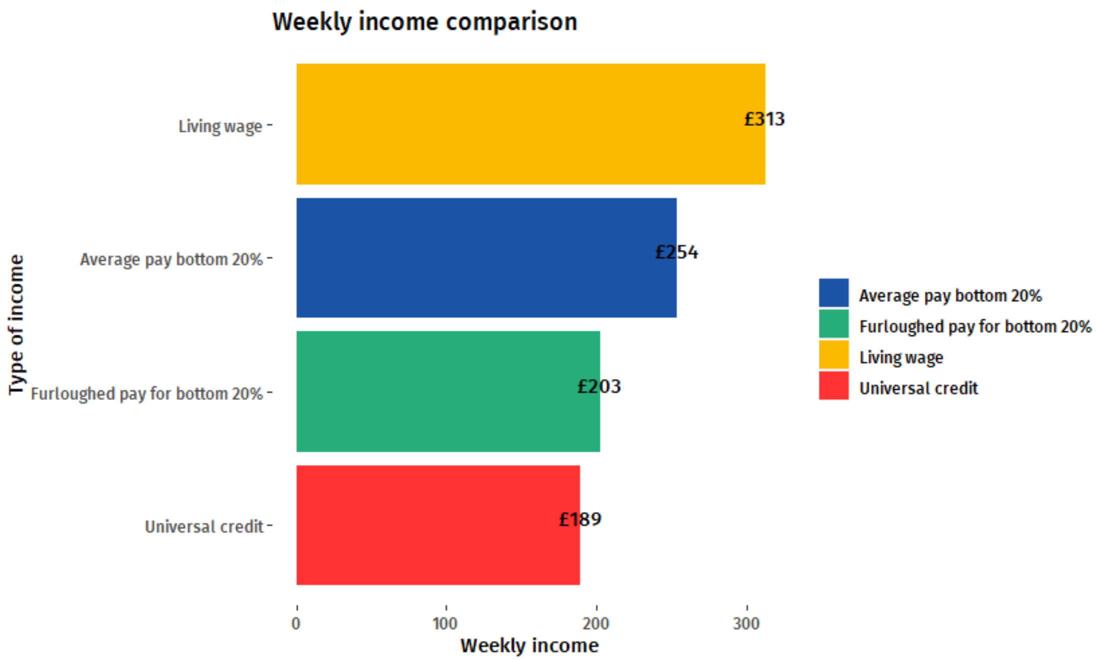
First, wages. A high-level indicator of a tight labour market is wages rising in line with productivity. While low unemployment rates were celebrated before the pandemic, real pay for four out of 10 people had in fact been falling (Dibb et al forthcoming). These poor wage outcomes for a large chunk of workers indicates that, even if we return to pre-pandemic employment levels, the labour market would not be at full employment (Mason et al 2021).

A labour market that is depressed means that, for many people, it does not provide them with enough income for a decent living. In figure 2, we compare the UK living wage, average wage of a lower skilled worker, their furloughed wage and universal credit weekly income. It shows that the average net weekly pay for the bottom 20 per cent of earners is £59 a week less than the UK living wage. This supports the finding that rates of in-work poverty rose to a new high of more than one in six workers before the pandemic (McNeil and Parkes 2021). Moreover, benefits are also far below the living wage, giving low paid workers the unjust choice of in-work poverty or poverty on benefits.

FIGURE 2

Weekly income for the bottom 20% falls short off the living wage and is anchored by extremely low benefits

Weekly income (£)



Source: Living Wage Foundation, Labour Force Survey ONS Q2 2021
Notes: To enable comparison, we used the UK living wage for a full working week of 37.5 hours minus taxes. Furloughed wage is 80 per cent of the average net weekly pay. Universal credit includes housing benefit and is calculated for a 40-year-old living in a typical UK area (without the current uplift). The UC is calculated for a 30-year-old living alone in Manchester, not currently receiving any other benefits, excluding the £20 per week pandemic uplift which will end at September.

Insecurity

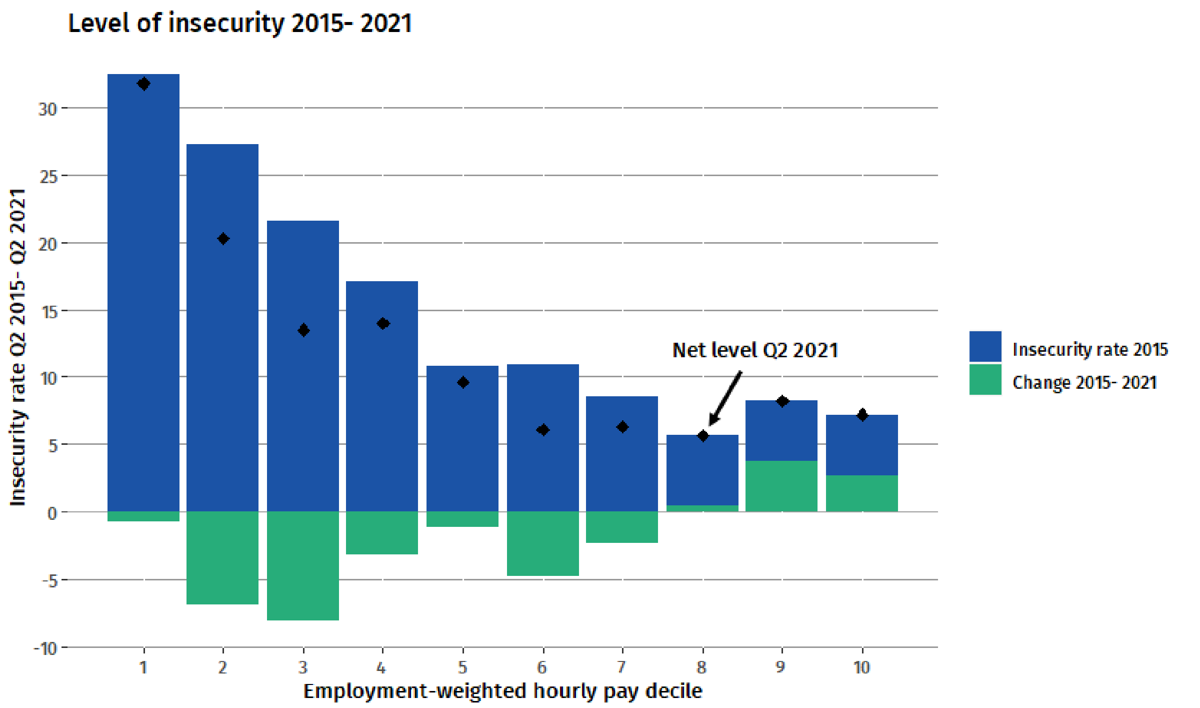
Second, job insecurity too remains extremely high. Job insecurity can come in many forms (such as zero-hours contracts, temporary work or insecure contracting through agencies).[3] But in all of them it means employers shifting risk onto the worker. In recent times, employers have been enabled in this by weak employee rights, low union membership, technology advancements and a weak social security system (Dromey 2018). But high job insecurity it is also a reflection of a labour market not in full employment, as it depresses workers bargaining power (Mason et al 2021).

We find that 5.5 million workers across the UK are in insecure employment. This was concentrated in the lowest paid 30 per cent of the workforce. In the lowest pay decile, more than one in three workers is insecure (Figure 4). Moreover, amongst low earners, people from minority ethnic backgrounds were 13 percentage points more likely to be in insecure work.

There was a slightly positive trend, in the 5 years running up to the pandemic, of insecurity decreasing, like underemployment, but this is at risk of being reversed because of the jobs downward pressures on low earners we present in this paper.

FIGURE 4
Level of insecurity has shown some small signs of improvement but remains very high for the worst-paid workers

Insecurity rate (%) and deciles



[3] See definition for insecurity in the note below figure 4.

Source: IPRR analysis of LFS (2021, 2015).
Notes: For the purposes of our analysis, we defined a job as insecure if it is temporary, agency work, a zero-hours contract; or if a worker is looking for another job because of lack of security or sufficient hours; looking for a job on top of their current job; if a worker would work more hours at the job's basic pay rate; or if a worker is classed as self-employed but paid by agency.

The consequences for workers are severe, not least for their mental health (Thorley and Cook, 2017). Weak employment rights mean employers often opt to keep workers on the end of the phone, only offering them work unreliably. The lack of union organisation and ability to organise has restricted worker power and thus ability to negotiate better working conditions and contracts (Dromey J,2018). Employers increasingly use phone apps to track and communicate with workers live, giving them the ability to squeeze every minute they can off their books (CIPD, 2019). Workers do not have access to the same levels of flexibility: electronic balloting for trade unions is still illegal in the UK (Kibasi et al 2018). Social security reform since 2010 has weakened the social safety net, driving an "any job" culture and weakening the relative bargaining power of workers who face a bleak alternative reliant on the benefit system if they do not take work. The outcome of these contributing factors can be seen in figure 5, where we measured insecurity by wage level.

Underemployment

Underemployment remains very high, especially for low-paid workers (Figure 3). Underemployment refers to workers being unable to work as many hours as they would like, and thus taking home less pay. It is a sub-category of insecure work. Despite a welcome reduction in underemployment since 2015, in total there are still 2.3 million underemployed workers. For low earners, living standards are hit by low wages and not enough hours of work.

With so many in work but looking for more hours, low-paid workers' have less bargaining power to support improvements in their working conditions. With an economy closer to full employment, workers would have more power to demand better conditions (Mason et al 2021).

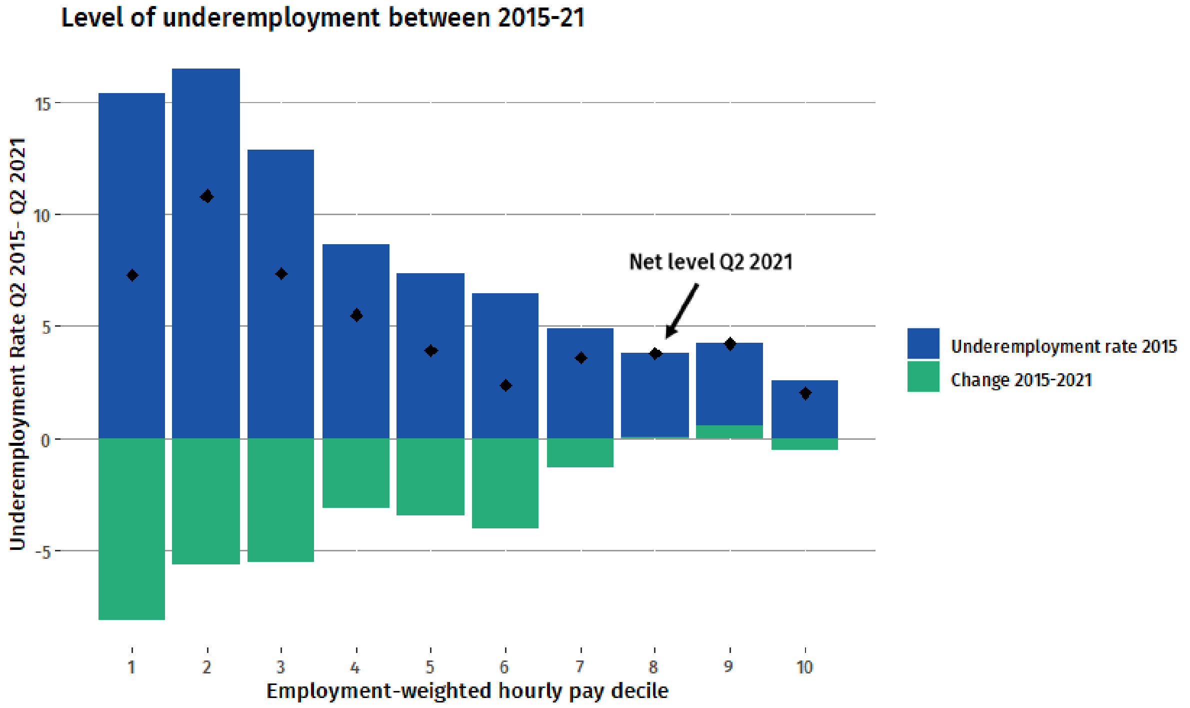
Labour force participation

Finally, low labour force participation of several groups in the UK is a further indicator of hidden slack. The participation gap between men and women has narrowed over the years; but it was still about 8 percentage points higher for men in 2019 (ONS 2021b). Moreover, groups from minority backgrounds equally, are 12 percentage points less likely to be in employment than people from white (British and other) backgrounds (ibid.). This is due to an array of factors, but a depressed economy that is not at full employment is a key contributor, as Mason et al (2021) have argued.

FIGURE 3

While the level of underemployment has improved over recent years, the low paid are still badly effected

Underemployment rate (%) and pay deciles



Source: IPPR analysis of LFS (2021).
Notes: Along with the International Labour Organisation definition, we define underemployment as workers who would like to work additional hours at the basic wage rate and are available to do so in the next two weeks.

THE PANDEMIC HAS EXPOSED THE IMBALANCES OF THE LABOUR MARKET

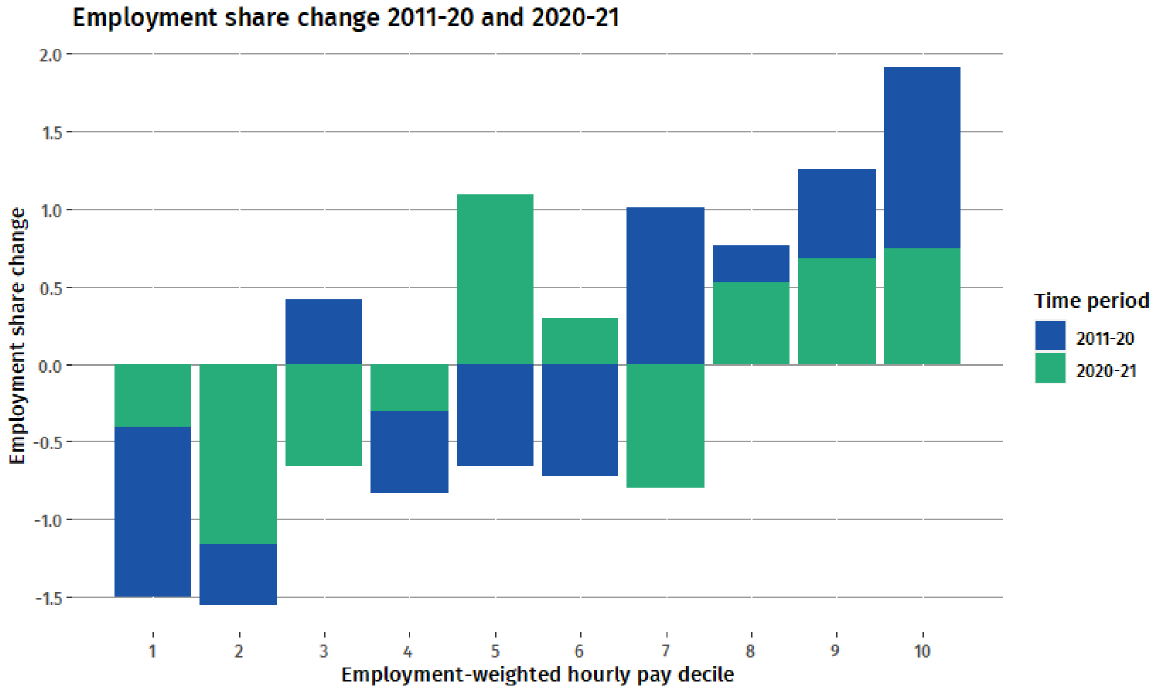
The pandemic has further exacerbated wage pressures for low earners. Before the pandemic, there was a trend towards growing job opportunities for the most skilled and weak growth for the rest which could continue post pandemic, as we show below. In the pandemic, the number of some high-paid jobs has been growing (e.g. business professionals), while hours worked in lower-paid occupations have collapsed.

Figure 5 breaks these developments down by pay decile. It shows that in the decade running up to the pandemic there was strong jobs growth at the top end of the pay spectrum, but very little growth in the middle and some growth towards the bottom. This trend towards the disappearance of mid-skilled and mid-paid jobs. is often referred to as 'job polarisation', or 'the hollowing out of the middle' (Salvatori 2018). And it is reflected in downward wage pressure in those jobs. The pandemic has further exacerbated wage pressures for low earners. While the pandemic has negatively affected employment in eight out of 10 pay deciles, it led to relatively large growth towards the top. It also led to a large increase around the median wage, driven by administrative services.

FIGURE 5

Long term trend of poor growth for middle-pay jobs

Employment share change (%) and deciles calculated using variables



Source: IPPR analysis of LFS (2011, 2021).
Notes: This figure is the standard way of showing job polarisation. It does so, by fixing The deciles are fixed at their 2011 levels and the bars show how much jobs that were at that level in 2011 have changed since then.

Figure 6 illustrates the lopsided impact of the pandemic on the labour market. It shows the fall in hours worked mapped onto weekly pay by occupation group and skill level during the pandemic. During the pandemic, the highest skill level saw an increase in hours of 16 per cent whereas the other three skill levels saw an average fall of 16 per cent, which would include jobs in hospitality, transport, and manufacturing. Occupations growing particularly strongly include business, media and public service professionals and science, research, engineering, and technology professionals, both making up a large part of the job creation but require highly-skilled workers.

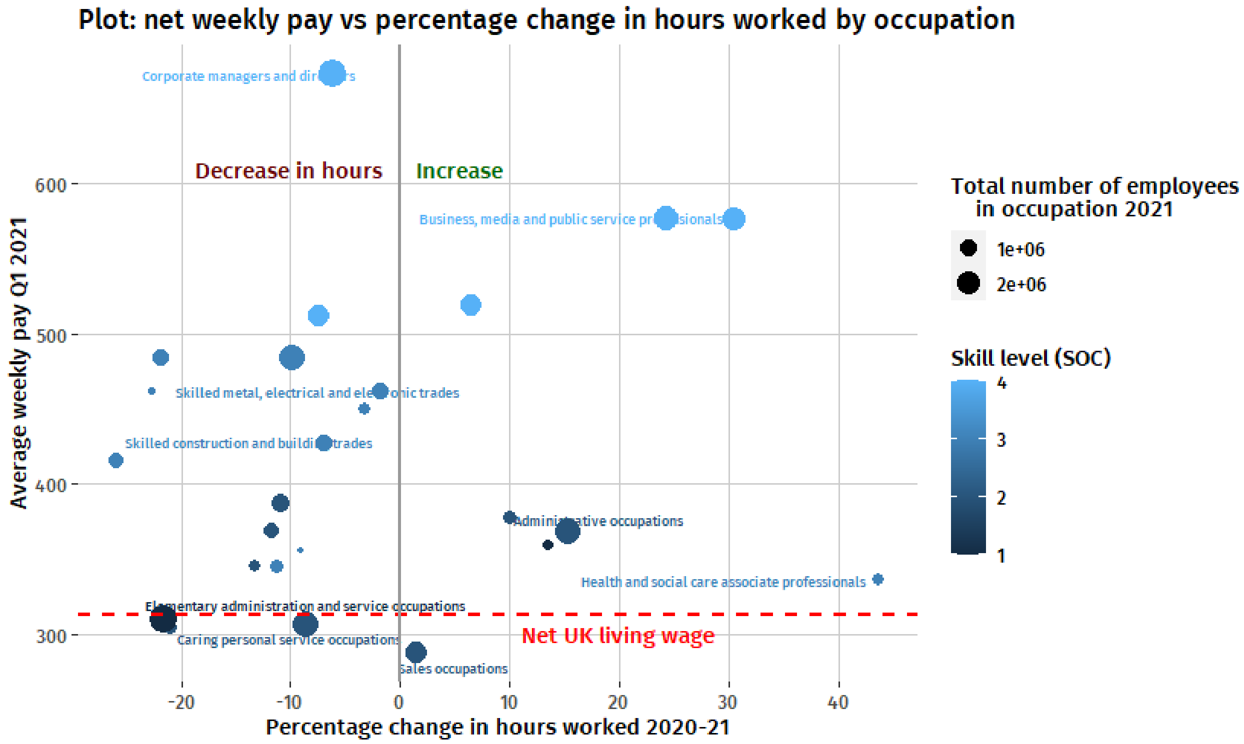
Job opportunities in the top skill level 4, which includes barristers, actuaries, and researchers, had been growing at over five times the rate of the three lower levels in the pre-pandemic period. This is not a new development. In a study on UK job polarisation, Salvatori (2018) found that top occupations gain 80 per cent of employment share losses by mid-occupation losses between 1978 and 2012.

As figure 6 shows, jobs in low-paid occupations tend to have lower education requirements, a transition into higher-wage job is often difficult to achieve for those losing their jobs. Therefore, such a top-heavy labour market in terms of pay and job creation is not benefiting the vast majority of people, absent more concerted government support for upskilling workers towards these more technical occupations.

FIGURE 6

Lower skilled and paid workers saw the biggest decrease in hours worked over the pandemic

Average weekly pay (£s) and change in hours worked (%)



Source: IPPR analysis of LFS
Notes: To enable comparison, we used the UK living wage for a full working week of 37.5 hours minus taxes.

BARRIERS TO FULL EMPLOYMENT AND GOOD JOBS: UNCERTAIN DEMAND, LACK OF SKILLS AND REIGONAL FACTORS

If strong jobs growth at the top end of the pay spectrum (as before the pandemic) continued, this could be good news for low-paid workers who could transition into higher-paid jobs. But there are three barriers preventing this: lack of public investment, lack of retraining opportunities, and geographical barriers.

First, uncertain demand due to lack of public investment. The government is currently investing too little to ensure there is a strong recovery from the pandemic (Roberts and Jung 2020). All main forecasters expect that, after the current 'reopening bounce', GDP will remain below the pre-crisis trend (HMT 2021). And medium-term growth is expected at subdued rate, as it was before 2020. This contrasts with the US where – thanks to a strong stimulus by the Biden administration – GDP is already exceeding the pre-pandemic path. We argue that, in particular in the medium term, subdued public investment is keeping growth low growth and the economy below full employment.

Second, skills. Underinvestment in skills is holding back the transition into good jobs and full employment. In fact, a recent ONS (2021e) found that two thirds of businesses struggling to fill vacancies did not lack applicants but rather had problems with their suitability. To illustrate this, the Jobs Tracker from Recruitment and Employment Confederation cite occupations such as photographers, insurance writers, farm workers, HGV drivers and audio-visual broadcasters as the fastest growing for vacancies (REC 2021). These are not occupations one might easily accessible without prior skills. The Industrial Strategy Council estimate that by 2030, 7 million additional workers in the UK will be under-skilled for their occupation (ISC, 2019). The OECD (2015) skills for jobs database reports that in 2015, 40 per cent of workers in the UK were underqualified for their job, however there is still a lack of government support for businesses that would like to upskill their workers.

Third, regional inequalities. Regional inequalities are holding back the transition into good jobs. The jobs gap is currently most severe in London where over half a million workers are either still on furlough or fell off the pay roll last year (ONS 2021c, HMRC 2021b). London is also the place of slowest growth in vacancies: over half of businesses there report that their profits are down for this time of year, the highest rate across the UK (REC 2021). One explanation for this is that the transition to remote working has had a significant negative effect on the economies of metropolitan areas, low footfall and a lack of demand for office services such as cleaning. However, it would be premature to write off many services sector jobs in metropolitan areas. We do not yet know what future working behaviour will be like and therefore it seems ill advised to prematurely withdraw support schemes which support businesses in these areas, as demand may yet fully return to pre-pandemic levels.

RECOMMENDATIONS

In order to get the economy to full employment and deliver good jobs for all, the government should do four things.

- **First, deliver an investment stimulus focussed on boosting medium-term potential growth.** This should be aimed at achieving full employment, defined as low unemployment, low underemployment and low insecure work.
- **We have suggested that the UK should follow a similar approach to the US and 'boost it like Biden'** (Jung et al 2021). We have proposed raising public investment from 3 to 5 per cent of GDP, with a focus on green and social infrastructure (Roberts and Jung 2020). The IMF (2020) has found that every pound of public investment, in turn, can trigger 6 pounds of private investment. Such an investment revolution could increase potential supply and growth. And it has the potential create jobs across the skills spectrum that are more accessible for workers with fewer qualifications (Williamson et al forthcoming). Such an overall

demand stimulus – made up of public and private investment - would increase the demand for workers, and lead to a tighter labour market. If combined with the below policies, it could ultimately lead to full employment.

- **Second, keep and tweak the furlough scheme**. Keep the furlough scheme until after the economy has passed its pre-pandemic level, as many low-paid industries have not yet recovered. Tweak it to encourage part-time work right now. We have proposed to do this in the form of a 10 per cent wage subsidy for hours worked part-time (see further design details in McNeil et al 2020). Moreover, the furlough scheme should be put on a statutory footing, as it has in other countries such as Germany, to be on standby for future shocks and transitions.

- **Third, trigger a skills-driven jobs shift to future-proof sectors**. Next to streamlining the skills and career transition system, it should include a reformed kickstart scheme, specifically at those who are long-term unemployed and disadvantaged, and creating transitional, supportive jobs that can lead to permanent employment (Williamson et al forthcoming). This could prioritise transitional opportunities in green jobs, as the Net Zero Task Force has called for, alongside other priority industries, supporting a transition into longer-term, sustained employment.

- **Fourth, boost labour standards**. As an important step to avoid the return to a ‘poor jobs’ labour market, the government should finally strengthen employment conditions. It should urgently put forward its long-delayed delayed Employment Bill which was expected to include an overhaul of our enforcement bodies, rights to request a predictable contract, improved redundancy protections for pregnant women, and reforms to protect working carers. As the IPPR Commission on Economic Justice has recommended, it should also include a new minimum wage set at 20 per cent higher than the standard rate, for hours that are not specified in a contract (IPPR 2018).

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