2.0 The UK Recession and its legacy for employment.

Post WW2 recessions have been typically, but not wholly, unilateral affairs either in response to traditional economic overheating, that is, **cyclical**;- the boom & bust cycle synchronous with the production of manufactured goods, or more radically **structural**;- the demise of UK heavy industry; coal, steel and shipbuilding for example in the 1970s and 1980s. At least with these recessions other parts of the world were less affected and re-balancing eventually took effect and the UK was able to find its way out of trouble.

With the recession of the late 1990s, due to the bursting of the Dot Com bubble, the picture began to change. Recessions took on a more multilateral affair and when one nation sneezed others sneezed with it. The UK & other Western nations were not the only ones to be hit hard. Many Asian (Tiger) economies also suffered because they had invested heavily in the Dot Com enterprises.

Moving forward; Globalisation and the adopted strategy of Western businesses to offshore their manufacturing and service capabilities to the emerging economies, with their abundant labour, low wages and lack of regulation, resulted in a scarcity of investment opportunities in the West. The gap was filled by mortgage backed securities and money was poured into these by Western & Asian investors alike.

However when very vast amounts of money are invested into one particular sector, resources start to get misallocated. Once the good investments have gone, the money gets allocated to increasingly risky, complicated & incomprehensible investments. These risky “toxic” investments were seen all over the Western World, for example; Subprime Mortgages, (Loans to customers with no income, job or assets), Credit Default Swaps & Collateralised Debt Obligations.

In the UK the British banks with their investment & securities subsidiaries joined the clamor to create similar derivatives, invest in such & advocate investment. With low interest rates, excess liquidity, continuing relaxed regulation and a blind trust in the consumer not to default there was nothing holding them back.

UK consumers saw the opportunity afforded to them from the lending institutions and took advantage of the cheap offers of high loan to value mortgages and other easy consumer credit regardless of their own job securities.

So the boom experienced by the UK, (and globally), was in-effect “artificial”, with Investments that became increasingly complex & toxic and consumption that was fueled by the borrowing of great amounts of money which became a spiral of ever increasing credit. None of this was underpinned by sufficient wealth generating investments to be economically sustainable so the collapse of the derivatives market (the market where these toxic investments were traded) quickly triggered the credit crunch and the recession. The bubble had burst.

Consequently the boom that should never have been allowed to happen, has created a recession unparallel to any previously experienced in modern history. The established economic rule book has been torn up but no one has yet been able to replace it. Conventional economic policy does not work very well, if at all, and the recovery is painfully slow with some economic analysts forecasting a whole lost decade ahead of us.

The legacy for employment is challenging and slightly perplexing. Jobs growth will be overall sluggish and will be biased against certain demographic groups (the young). It is unclear weather new working arrangements will yield permanent or temporary, full time or part time work. Also will jobs growth be cyclical or structural in origin and will the loss of the high number of skilled roles disappear for good substituted by lower skilled jobs? Whatever will evolve, will be influenced by what has happened in the recent past and what is happening now. Only when this is appreciated will it be possible to cement an employment vision for the future. The following observations may well have a bearing;

The age of “Buy Now, Pay Later” is no longer an option;

Government has been at pains to convince the Markets that it will stop at nothing to correct its fiscal deficit and it is implementing debt reduction Austerity as fast as it dares. This is resulting in a significant contraction in public service provision and the loss of, and threat to countless public sector jobs and private sector contracting jobs within the public sector. The question must be: Can the creation of other private sector employment continue to compensate for these losses?

Consumers are shunning the High street. Confidence in the economy is low, the fear of unemployment is high and most consumers are reigning in their expenditure and paying down their high levels of personal debt. National retail chains & local independents have all struggled. E-shopping is hastening the failure rate and the high street of every community is littered with vacant shops. Retail, a major beneficiary of the consumer boom, is now feeling the pain of the credit melt-down. Consumers are spending less and seeking out the best deals wherever they may be.

Further Consumers have to cope with rising inflation, which has increased the cost of the basics, and frozen or below inflation wage increases which has consequently led to reduced spending on the non-essentials such as holidays, travel and anything discretionary. This has choked employment in many sectors and will continue to do so whilst the economic uncertainties prevail.

Public works, Civil Engineering projects & infrastructure construction have taken a serious battering. This sector was the traditional main stay of recession busting economics but employment in this area has also failed because it is government as well as consumers that are broke.

House building and all the employment from it has floundered. Again job insecurity and barriers to obtaining mortgages have stalled demand. Also the industry was riding a false high and the slow correction process is bringing the industry down to earth.

Private Companies are being ultra cautious about their investment plans often scaling them back, postponing or cancelling them fearing the uncertainty of the future. Corporate investment is another catalyst for new employment which is yet to materialize.

The problems experienced because of the Eurozone crisis & the possibility of contagion.

The UK's largest export market is the EU including the Eurozone, however UK manufacturers are struggling with a sharp production contraction. Amidst the prevailing economic conditions weak overseas sales globally and especially in the Eurozone indicate that the manufacturing sector is unlikely to drive export led growth in the short term and a reduction in UK unemployment.

The severe problems that beset Greece, Ireland, Portugal, Spain and Italy has not only led to a resounding reduction in the proportion of exports to the Eurozone members of the EU (down to 44% of the EU total in July 2012), but if the sovereign debt crisis continues and the bailouts fail with the consequence of the Eurozone breaking up, the proximity of the UK means that it will get dragged into the crisis that will follow.

The lost great spenders;

Not every section of the consuming population fall into the category of those that are paying down their existing debt and will not be spending again until they have the money behind their purchases. Reference here is being made to two demographic groups; the working young and the pensioned retired. Sadly these two groups are equally as handicapped in spending, and stimulating employment, as all the others. The young, who aren't yet straddled with financial commitment and would normally have a high propensity to spend cannot because full time youth employment is at an all time record low. The pensioned retired though no longer debt ridden are also finding that their costs of living are rising disproportionately but their savings incomes are falling as interest rates are at an all time low also.

From this very fragile state of affairs, changes are emerging that will influence future employment:

New Public & Private Sector workplace employment practices and arrangements are emerging that will change the shape of the labour market.

Companies in all sectors of the economy are surviving but now have to work very hard to do so and often at lower margins as the spending power of consumers have declined.

The provision of services provided by the state will diminish. The third sector and the Big Society will only have a limited ability to plug the gap.

Trade figures show the weakness of the European export market. There is appearing an important shift in the focus of UK exporters towards emerging economies as they become a more attractive proposition.
Also beginning to emerge is a decline in the Far East price advantage because of rising costs in the region. This gives rise to the possibility of more inward investment in the UK and the return to wealth creating investment so catastrophically shunned for over a decade.

Source & extracts various incl.
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