
London's Changing Economy Since 2008: Flexible, Productive, and Inclusive?

The Committee has formally agreed to an investigation on London's economy with specific reference to changes in the size and structure of London's labour market, and how those changes have affected employment, earnings and labour market productivity.

Overview

One of the five economic objectives set out in the Mayor's Economic Development Strategy is "To give all Londoners the opportunity to take part in London's economic success, access sustainable employment and progress in their careers." Separately, he has stated that his economic priority is to ensure *Londoners make the most of their innate talent and flair, so that they make London's economy even more productive and successful. And to give Londoners the opportunity to find fulfilling jobs while ensuring the conditions are right for the businesses that employ them to flourish.*ⁱ He pledged to create 200,000 jobs over the course of his second term, including 20,000 part-time jobs.ⁱⁱ

London's economy has shown good signs of recovery following the 2008 financial crisis, and job creation has been strong. However productivity, between 2008 and 2013 grew at a slower rate than the rest of the UK.ⁱⁱⁱ And the headline figures appear to mask a reality which, for many Londoners, is far from that reflected in the Mayor's vision. Using publicly available data this investigation will establish how the London economy, particularly as it relates to employment and labour market productivity, has performed since 2008.

n.b. We have focused this investigation on 2008-2015 to reflect the Mayoral term, and to ensure availability of sufficient, regional data. However it is recognised that specific labour market trends, such as increasing use of zero hours contracts, precede 2008.

Background

Studying the changing labour market since 2008, reveals a picture of intricate relationships, between overall employment figures, average hours worked, progression, real pay, inclusion, poverty, and productivity.

Employment Levels

Headline employment figures since 2008 are positive, indicating a 12.4 per cent increase in the number of jobs in London since 2008, compared with a UK average increase of just 4.2 per cent.^{iv} And workforce jobs, located in London, reached 5.62 million in early 2015 – a new high since the measure began in 1996.^v

However the overall employment rate remains lower than the rest of the UK – a gap largely driven by lower female employment in London.^{vi} Additionally, an increase in part-time and self-employed workers since 2008, suggests the headline employment figures may mask an underlying reduction in working hours per person.

Increasing Flexibility?

There has been a clear growth of more flexible means of working in London. Indeed the growth rate of part-time jobs in London has exceeded that of full-time jobs since 1996, with the gap widening in recent years.

The impact of flexibility is widely debated. Reducing hours worked per person, during the recession, is thought to have enabled employee retention during lean times, reducing unemployment, as well as making efficiency savings for employers. However, part-time roles have tended to be weighted towards low-skilled, low-pay professions, in which workers have little control over their hours, pay or conditions. It is unclear how close London is to reaching a mutuality of benefit, for both employees and employers, from flexible working arrangements.

Zero hours contracts (contracts in which there are no guaranteed minimum hours) have drawn much of the flexibility debate spotlight, predominantly due to concerns around exclusivity clauses and alleged abuse of worker rights. And, despite the banning of exclusivity clauses earlier this year, concerns remain that the ban will be difficult to enforce, resulting in 'effective' exclusivity, whereby hours are reduced – or simply not offered – if a worker accepts work with additional employers. Of equal concern is the issue of power imbalance, in contracts where workers feel they have no alternative means of employment, yet are dissatisfied with either a lack, or surplus, of hours.

On the flip-side, recent GLA research^{vii} shows that, despite an upward trend since before the economic downturn, in the number of people claiming to be employed on a ZHC, they are likely to account for a relatively small proportion of all employment in London (less than 2.5 per cent). And the average weekly hours worked by individuals on zero-hours contracts (25 hours), is actually greater than the average for part-time employment (16 hours). It is possible that the flexibility ZHCs offer, can, in some cases, suit both employers and employees, creating a best-fit between organisational needs and work-life balance.^{viii}

Zero hours contracts are only a part of the flexibility picture, which includes self-employed, freelance, agency, and part-time workers, on both permanent and temporary contracts, at a range of skill levels and salary ranges. Part-time jobs are thought to bring opportunities for a greater number of individuals to access the workplace. They allow those with parental, caring responsibilities, or other commitments, to participate in the labour market. And, information suggests, they offer chances for those who might otherwise remain unemployed, for example people with illness or disability. In addition, the exit rate from part-time employment into permanent work is higher than from unemployment into permanent work, and the wages higher when they get there.^{ix}

However, flexibility has also been linked to poor working conditions, and to workers lacking clear understanding, both of their rights, and of the responsibilities of their employer towards them. Additionally, part-time workers may be offered fewer opportunities for skills and career development and risk being trapped in roles which are below their skill and earning potential. And where contracts are temporary or unguaranteed, workers may face insecurity of wages, and may be more vulnerable to in-work poverty.

Finally, while average hours worked in the UK have risen since 2008, on balance there remain signs of underemployment and evidence that a proportion of part-time staff would prefer a full-time job.

To evaluate the real impact, positive or negative, of increasing flexibility on Londoners, we would like to consider:

- Are there sufficient 'quality,' flexible employment opportunities in London (i.e. those which offer work of an appropriate level of skill and remuneration, on a permanent or guaranteed-hours contract, and with opportunities for skills and career development)?
- Are the majority of those working on a part-time basis content to be doing so.

Parental Employment

Research suggests that much of the UK's labour market growth in the past two decades has been driven by improvements in female participation and employment, with maternity policies, public childcare services and tax incentives playing an instrumental role.^x However, the employment rate amongst women in London remains lower than in the rest of the UK and even lower for those working part-time or with dependent children.

Reasons suggested for the lower London rates include higher costs of living, including childcare; commuting costs and time spent travelling to work; and a lack of demand, from employers, for part-time workers.

Clearly the latter point does not marry with evidence suggesting an increase in the availability of part time jobs. However, as discussed above, it is important to distinguish between part-time jobs per-se, and quality part time jobs, particularly as there is evidence to suggest that part-time job opportunities decline as salary increases.

Are there sufficient, quality roles (annual salary of £20,000(FTE) or greater) available, for parents wishing to return to the workplace on a part-time basis? And what has been done to ensure the inclusion of parents, particularly women, in London's labour market?

Pay and Career Progression

Figures for the UK reveal an outwardly positive trend of increased tenure in jobs since 2008. Of particular note, there has been a continual decline in the numbers of workers exiting employment to worklessness.^{xi} There has also been a marked increase in the average tenure in one job, particularly amongst younger workers.

However job mobility, particularly early in one's career, is a key enabler of pay progression and career development. Is this trend therefore a worrying indicator of low rates of both types of progression?

Additionally, it has been suggested that pay and career progression in flexible jobs is even less likely, as employers are less inclined to invest in career development and training for temporary or part-time workers.^{xii} We would like to establish whether there is any evidence that supports that supposition.

In-work Poverty

According to the LEP, London has 28 per cent of people living in a low income household, compared with 21 per cent nationally. And 57 per cent of Londoners in poverty are now in working families.^{xiii}

There are indications that this situation has worsened since 2008. A recent Economy Committee report^{xiv} found evidence to suggest that inequalities in earnings and incomes increased between 2006/08 and 2010. Those living on the lowest incomes were hit hardest, seeing their incomes, after housing costs, fall by twenty-four per cent in real terms compared with three and a half per cent nationally.^{xv}

Indeed UK overall wage growth has been largely suppressed since the recession due to slack in the labour market, with more employees than jobs, or hours, to fully employ them; and a concentration of employment growth in lower-skilled jobs, which tend to be less well paid.^{xvi}

Is work no longer a guaranteed route out of poverty? To what extent have low income workers, (particularly those employed on a part-time, freelance or self-employed basis, and who have fewer hours of work than they would like), found it increasingly difficult, since 2008, to meet minimum income standards in their current job, or to progress to a role in which they might?

The Welfare System and Low-Paid Workers

Current labour market trends present a challenge for the welfare system. As flexibility increases within the labour market, it raises questions as to whether the social security system sufficiently supports people who find themselves working highly variable hours each week, out of work at short notice, or moving frequently between different jobs.

Increasing awareness of this challenge prompted growing calls for a 'dynamic' welfare system, which would take account of households' real-time earnings. The coalition government introduced Universal Credit, which is designed to offer varying levels of financial support as a household's income fluctuates. The intention is that unlike previous systems, payment levels are tied to earnings not hours, in order that claimants will always earn more whilst in work and there are no incentives to only work a certain number of hours.

There are a number of issues emerging during the roll out of Universal Credit, which may limit the Government's ambition to meet the needs of the current labour market. For example, claimants are asked to commit to increasing their earnings (whether through increasing their pay or hours worked). Yet low paid workers can struggle to progress and employers may not recognise this demand.

Also, self-employed people also need to be deemed to be taking all reasonable steps to build their business and increase their profit to maintain their Universal Credit claim. If not, they may be required to seek a salaried job. Does this risk the self-employed, for whom work levels are perhaps less guaranteed than any other working group, suffering considerable levels of in-work poverty?

Labour Market Productivity

Productivity, as a measure of output per worker (whether overall or per hour worked) is intrinsically linked to the changing nature of the labour market.

For example, the Economy Committee has found previously, that increasing wage levels for the low-paid is intrinsically linked to boosting productivity. And that attention to skills and progression should play a role in tackling persistent low pay.^{xvii} Some commentators argue that increasing wages will help to shape a more productive workforce, or lead employers to adopt a more productive business model. Others argue, on the contrary, that productivity should be increased first so that employers can raise pay levels.

Figures suggest UK productivity is up to eighteen per cent lower in 2015, than it would have been based on a simple extrapolation of the pre-recession growth trend.^{xviii} And recent data indicates that London's productivity has fared worse than the rest of the country, growing at a rate of 1.7 per cent compared with 1.9 per cent in the UK as a whole^{xix}, and lagging well behind where it would have been had pre-recession growth trends continued.

And there are fears that, with rising employment, productivity may fall further still if the productivity of those still to enter employment is lower, on average, than the productivity of the existing workforce. While, conversely, driving productivity may result in a reduction in employment, as wages rise, and companies are forced to seek efficiencies to reduce labour costs.

We would like to better understand, how changes in the labour market since 2008, such as an increase in flexible working, have impacted upon London's productivity. What can be done to boost productivity whilst improving the nature of the labour market for both employees and employers?

Terms of reference

- To establish how the London economy has changed since 2008, focussing on key trends in the labour market, particularly employment, earnings and labour market productivity;
- To explore how far the changes have been in the interests of London's employees and employers;
- To examine the extent to which the Mayor has met his economic priorities, as they relate to the labour market. And to suggest what the next Mayor ought to include, on the labour market, in their economic development agenda.

Key questions

What are the most significant changes in the London economy since 2008?

Has London's economy become more or less beneficial for employers and employees?

- Are jobs more, or less, fulfilling for London workers?
- Are London's workers facing more, or less, in-work poverty?
- Is London's labour market more, or less inclusive?
- Is London's economy more productive or less, and why?

What should the Mayor of London do to support more Londoners to get well paid, rewarding jobs in the capital?

What should the Mayor of London do to sustain London's economic dynamism?

References

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- ^v GLA Economics, Current Issues Note 45, *The extent and consequences of zero-hours contracts and labour market casualization in London*, 2015
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