Globalisation, recession and employment impacts in South West England

Professor Stephanie Tailby
Centre for Employment Studies and Research (CESR)
University of the West of England, Bristol

CESR Review interviewed Chris Harries of the Engineering Employers' Federation about the effects of the recession for manufacturing in South West England. The opening sections of this article sketch the global and local economic and political context.

The banking crisis

The banking crisis, as it intensified in September 2008, sent stock markets crashing and plunged countries around the world into synchronised economic recession. Governments have been obliged to intervene. Eye watering sums of (tax payers') money have been diverted to the project of recapitalising the banks, in particular in the UK and America. Interest rates have been cut and fiscal stimuli (on varying scales) have been applied in efforts to invigorate demand and restore business confidence. Whether the interventions will be sufficient to avert an economic downturn of 1930s proportions remains to be seen. Stock markets have bounced back; at the beginning of May this year they were reported to be bullish. Green shoots of other varieties have been sighted; the service sector survey suggests companies in emerging markets and some European countries are more confident now than six months previously that business volume will improve in the coming year (Giles 2009). However, optimism is far from universal. The International Monetary Fund continues to predict little or no growth among advanced economies in 2009 and a weak recovery in 2010. Münchau in *the Financial Times* in April reported that the lion's share of the estimated £2,800bn 'bad assets' in the financial system were held by European banks who had written down much less than American ones. And economic historians are quick to point out that there were several false dawns during the Great Depression that followed the 1929 Wall Street Crash (Hutton, *the Observer* 9 May 2009).

Economic crises are said to be turning points that afford choice in respect of future development paths. Certainly in the immediate aftermath of the 2008 financial crash there has been a good deal of questioning of economic orthodoxies. The spotlight initially centred on the international finance sector, its epicentres in New York and London and the activities of investment banks operating therein. Greed (personal or corporate) was one explanation for bankers' application of enterprise to the origination of new financial products, processes and 'shadow banking' entities that combined to encourage risk rather than minimise it. Inadequate regulation by government at national and international levels was another. Yet further analysis highlighted the contribution of the macro-financial environment.

Globalisation has been a controversial process; a meeting of the World Trade Organisation would not be complete without an anti-globalisation protest. At the end of 2008 and start of 2009, however, newspaper economic correspondents who had formerly emphasised the win-

win gains – cheaper consumer goods and low inflation for developed economies and higher incomes for the millions drawn into market relations in post-communist and developing countries – were now highlighting globalisation's risks (Wolf 2009; see also HM Government 2009). Global economic imbalances (trade surpluses and deficits) had grown in the decade to 2007. The foreign currency reserves earned on exports by rapidly industrialising countries that lacked developed financial systems flowed into finance heartlands in the west where, in combination with lax (or blinkered) monetary policy, credit became cheap, asset bubbles grew, returns to conventional finance products (government bonds) were kept low and bankers were excited to innovate in the search for higher yield.

America has been the dominant world economic power and key exemplar of what has variously been termed Anglo-Saxon capitalism and liberal market economy. The financial crisis has brought the model under critical scrutiny. In his opening contribution to *The Future of Capitalism* series in *the Financial Times*, Martin Wolf cited the late Ronald Reagan's view that 'the nine most terrifying words in the English language are "I'm from the government and I'm here to help"'. Wolf continued:

> *"The financial system is the brain of the market economy. If it needs so expensive a rescue, what is left of Reagan's dismissal of governments? If the financial system has failed, what remains of confidence in markets?"*

In fact the financial press in the UK has been replete with articles weighing the virtues of Anglo-Saxon and European Social Market models of capitalism. *The Economist* pledged its colours to the former on the principle that 'it leaves more power in the hands of individuals rather than the state'. The editors nevertheless felt 'governments on both sides of the intellectual divide could go a long way to making their models work better, without changing their underlying beliefs' (2009: 13).

The UK economy and employment flexibility

The UK became more of a liberal market economy in the closing quarter of the twentieth century. Conservative governments substantially de-collectivised industrial relations and deregulated markets including those of the finance sector. New Labour from 1997 promised a 'third way', between American and European models of market capitalism. The political changeover was virtually seamless on a number of dimensions: low inflation remained the central priority of macro-economic policy and industry policy continued to centre on measures to strengthen markets. It is true that Labour handed interest rate setting to a Monetary Committee of the Bank of England, in order to 'de-politicise' the process. Yet the innovation had been intended by the outgoing Conservative administration. And while the objective was to achieve macro-economic stability, in the interests of building investor confidence, post-mortems of the 2008 financial crash suggest an effect of the reforms (as in the USA) was to deafen monetary policy to 'the noise' of the business cycle (HM Government 2009; Coats *et al*. 2009). New Labour raised substantially public expenditure investment in public services but pressed forward reforms designed to extend a mixed-economy in public service delivery. The recession and government measures to counter its impacts have blown a large whole in public finances, however, and it seems likely that public sector retrenchment will be the political response following the 2010 general election.

New Labour in 1997 promised its employment legislation would be 'light touch' but that it would add fairness at work to the policy goals of flexibility and efficiency in the labour market. Some new collective worker rights have been added (a statutory union recognition procedure since 2000) yet their number has been modest. A raft of new individual employment rights (IERs) is in place. Many of these are European Union in origin; early in its reign New Labour reversed the UK's Social Chapter opt out. Government ministers introduced the new rights as supportive of social justice and economic efficiency. Their argument, then, has been that minimum standards are necessary to counter market failures; for example, a self-defeating spiral of inter-firm competition on wage costs alone. Nevertheless the legislation remains controversial. One set of critics argues that for many employees, in particular the low paid and unorganised (a substantial segment of the labour force), the IERs are 'missing in tooth and claw' (Pollert 2007). Another contends that they are burdensome on business and especially small firms.

Labour flexibility comes in a number of forms. In a recent interview for *the Financial Times*, John Cridland – deputy director general of the Confederation of British Industry – listed four: 'the ability to hire and fire easily; the ability to adjust wage levels; workers having skills that allow them to perform a variety of roles within organisations; and their being mobile enough to take jobs in different sectors or parts of the country' (Groom, April 13 2009). The varieties of capitalism debate contrasts liberal market economies' resource of quantitative flexibility with the qualitative flexibility that legal and social regulation in social market (or coordinated market) economies obliges employers to develop. In the FT interview Cridland continued that:

> *"Traditionally in the UK we have relied on flexibility in hire-and-fire and wages to make up for weaknesses on the skills side. In contrast, Germany has less flexibility on numbers and wages but much more on skills and productivity."*

The recession in a sense is a test of the extent to which the UK's post 1997 legislation has made it any the less a liberal market economy.

ONS output and employment data

The UK economy's dependence on the finance sector increased in the two decades after the stock market's deregulation ('big bang') in 1986. In mid 2008 it therefore seemed likely that it would be among the hardest hit by the financial crisis, in terms of output loss. GDP contraction was dramatic – 1.6 per cent in the final quarter of 2008 and 1.9 per cent in the first quarter of 2009 - yet less so than that recorded by Germany and Japan which each have a relatively large, internationally competitive manufacturing sector. They were hit by the slump in export markets while UK exporters to an extent gained relief from the fall in the value of sterling (*The Economist* May 9 2009: 13).

That said, manufacturing in the UK – which accounts for 14 per cent of total national output compared to 20 per cent in Germany – shrank by 7.7 per cent in the final quarter of 2008 and contributed 1.1 per cent of the 2.0 per cent fall in UK GDP recorded for the year to that quarter. The Office for National Statistics (ONS, Chamberlain 2009) noted the scale of contraction was more reminiscent of the early 1980s than the recession of the early 1990s. The service sector accounts for around three quarters of UK GDP. It showed a relatively modest output fall of 0.5 per cent over the year to the final quarter of 2008, equivalent to 0.4 per cent of the 2.0 per cent UK GDP contraction. However, the ONS notes that annual growth in this sector in the previous ten years had rarely fallen below 3 per cent and that there was substantial variation within the sector in terms of recession experience in 2008. Wholesale and retail output contracted by 5 per cent and 'renting of machinery and equipment and other business activities' – one of the principal drivers of UK economic growth in the past decade – fell by 1.9 per cent. Telecommunications and health and social services each showed positive output growth, as did financial intermediation – although in part this was a function of the way output for that sector is recorded.

The data for the demand side suggested that de-stocking on the part of production and manufacturing firms accounted for much of the output fall in the year to the end of 2008, which accords with the evidence of prevalent short-time working (discussed later). The extent of capacity scrapping remains to be assessed. UK GDP contracted by 1.9 per cent in the first quarter of 2009, which was a larger fall than the government had anticipated and hence raised doubts about its prediction of a 3.5 per cent fall for the year. As noted earlier, however, some industry analysts were detecting green shoots by the second quarter, or at least a bottoming out of the rate of contraction.

Past recessions show a lag in the UK in the labour market's 'adjustment': employers stop hiring as a first response before shedding labour (South West RDA 2009a). For the UK as a whole, the ONS in its April 2009 Economic Review detected a 'fairly strong pass through from falling output to jobs' although did not give any exact detail of how this compared with previous recessions. ILO unemployment was 2.1 million in the three months to February 2009; up 486,000 on the same period a year earlier and 177,000 on the three months to November 2008. The rate was 6.7 per cent compared to 5.2 per cent a year earlier.

The Labour Force Survey (LFS) showed total employment in the three months to February 2009 was down 126,000 (-0.4 per cent) on the three months to November 2008 and down by 227,000 (-0.8 per cent) compared to a year earlier. The contraction was more pronounced for men than for women; male employment in the three months to February 2009 was down by 93,000 (-0.6 per cent) on the previous quarter and female employment was down 32,000 (-0.2 per cent). The fall in full-time employment was twice that of part-time employment in aggregate numbers (-81,000 and -44,000 respectively) but the percentage change was higher for part-time employment (-0.6 per cent compared to -0.4 per cent for full-time) which had continued to grow until the end of 2008. The number of employees in employment fell by 87,000 in the three months to February 2009 compared to the previous quarter but there was a larger percentage change in self-employment (-0.8 per cent compared to -0.3 for employees). By age, job losses were disproportionately high among young workers (16 to 24 years) in relation to their share of employment.

The number of workforce jobs fell by 203,000 in the final quarter of 2008 (-0.6 per cent on the preceding quarter) and by 284,000 over the year (-0.9 per cent). In absolute numbers the service industries made the major contribution. Overall service workforce jobs fell by 147,000 in the final quarter of 2008, with finance and business services contributing 102,000 (predominantly 'office' workforce jobs as opposed to senior positions) to the total, and distribution, hotels and restaurants a further 83,000. However, contraction of manufacturing workforce jobs was greater in percentage terms; -1.7 per cent compared to – 0.6 per cent for the services.

In the year to March 2009, claimant count unemployment increased by 672,100 to 1.46m; the rate rose from 2.4 to 4.5 per cent. Clayton (2009) used this measure to analyse the geography of unemployment and test the idea that London and the South East had been especially affected by the recession by virtue of the finance and business service skew of their economies. For the year to January 2009 she found that:

- in terms of absolute increases in claimants, the 'labour market downturn is a story of core cities' and, in particular, those in the North of England, Glasgow in Scotland and Birmingham in the Midlands
- the greatest percentage changes in the claimant count were in South East England and the East Midlands, but the absolute increase in these regions was often modest: the claimant count rise started from a low base
- increases in the claimant rate (the claimant count weighted by population) presented no distinct geography or north-south divide but the highest increases were in local authority areas that had experienced large job losses in manufacturing as well as in retail and distribution. These areas included Swindon in South West England.

Spotlight on manufacturing in the South West

For much of the decade to 2007 South West England outperformed other UK Government Office Regions (GORs) in terms of its employment rate, which was second only to the South East. It had the lowest unemployment rate of the 12 GORs. In the three months to January 2009, the ILO unemployment rate was 5.1 per cent, still some way below the UK average, but the region had slipped to second in the GOR rankings (South West RDA 2009b). The claimant count rate had risen to 2.9 per cent from 1.4 per cent a year earlier, closing the gap with the UK average. There was still an exit flow from the claimant register but the gap between this and the number of people registering for unemployment benefit increased. The rate was highest in the region's major urban areas and peaked in Torbay at 4.8 per cent. The Regional Development Agency reports that in the three months to February 2009 there were 12,000 notified redundancies – a 227 per cent increase on the same period in 2007/8, although from a low base and the totals had fluctuated monthly. Manufacturing contributed 30 per cent and retail and wholesale 29 per cent of the 3,400 notified redundancies in the quarter to February 2009.

The region is internally diverse; broadly speaking the north is more urbanised and industrialised than the south. The available evidence shows the (hitherto) 'golden triangle' of Bristol-Swindon-Gloucester together with Plymouth further south have borne the brunt of contraction to date; 45 per cent of the regional total of notified redundancies in the quarter to February 2009 were in the northern triangle. Tourism in the south may have benefited from *staycationing* – that is, households opting to holiday in England rather than abroad. Nevertheless, there has been diversity of experience within and between urban centres in the north. Bristol has defence-related manufacturing that to date has been less exposed to recession pressures than some industry sub-sectors, notably automotive, and the Ministry of Defence presence. It is the regional financial services 'capital' and Lloyds-TSB is head-quartered here. There has been substantial consolidation of ownership in the finance sector since September 2008 and jobs are vulnerable to 'rationalisation'. Lloyds-TSB acquired HBOS and has since announced the closure of its subsidiary, the Clerical Medical, which is an important local employer. Nationwide, which has large offices in Swindon, in contrast has been creating new jobs. The Japanese car manufacturer Honda is another major employer for the town. In February 2009 it announced a four month production shut-down, to avert job cuts – or compulsory layoffs, as it is reported that 1000 employees have taken voluntary redundancy (Walsh 1.2.2009; SWRETG 2009). In May the workforce was asked to accept a temporary 3 per cent pay cut. TS Tech, a Honda supplier, has shed jobs. In retail, the Woolworths collapse led to 500 lost jobs at the chain's Swindon warehouse (Clayton 2009). The claimant count unemployment rate more than doubled in the year to February 2009, to 4.7 per cent. That is in this local authority area it moved from below to above the UK average.

The South West Regional Development Agency notes that evidence of how the recession is impacting on businesses by sector and how they are responding to the pressures experienced is still limited. To gain insight the *CESR Review* in April interviewed Chris Harries, Employment Relations Adviser for the Engineering Employers' Federation (EEF) in the South West.

Chris graduated from Manchester University in the mid 1980s before qualifying for CIPD membership (then the Institute of Personnel Management). He was employment relations manager in blue chip engineering and telecommunications companies before joining the staff of the EEF in 1992. He qualified as a barrister and services the Federation's membership in the South West in the areas of HR and legal advice. Within the typologies of labour flexibility he is multi-skilled and multi-functional.

He emphasised that, as elsewhere, the pressures of the recession have been felt more immediately in some industry sectors than others in the South West and that within manufacturing 'of course automotive is the one that's hurting by far the most'. For some other sub-sectors, as at the beginning of April 2009, there had so far been a 'looming recession, or a forecast recession'. There had been continuing 'consolidation' or concentration of productive capacity within firms, on particular sites, but relatively few large scale redundancies occasioned specifically by the economic downturn. Recalling his experience as a company manager at the time of the last major recession in the early 1990s, Chris commented:

> *"We went, as an electronics manufacturer, from recruiting people on September 1 to making redundancies on September 30. It was that short a transformation. … The nature of this recession is different. It doesn't feel the same experience as the early 1990s. It may well prove to do, I don't know."*

Of the changes that have taken place since the early 1990s he emphasised the framework of employment law: 'the sheer weight of regulation that's taken place since 1997 is breath taking'. Highlighting EU-derived legislation, in particular relating to age and disability discrimination, he argued employers' ability to meet pressures on costs and profitability through redundancies was constrained because of the legal complexities and potential for employment tribunal claims.

"The current system of law has not been tested in a recession and we're now seeing that. Carrying out a redundancy programme is very different, especially because of age discrimination legislation. The law is unclear in many respects. If you consider the new discrimination law that's in place, specifically disability and age, how does that affect redundancy selection? It is very uncertain. Employers are struggling to implement redundancies in these circumstances. The propensity for people to submit a claim is significantly greater than it was back in the early 1990s."

Chris identified as a further constraint on labour shedding, however, the fact that firms do not want to lose workers whose skills, company and product knowledge is difficult and costly to replace:

"Within manufacturing you still have high levels of skill in some areas. I heard an aerospace member the other day saying 'our products are essentially manufactured by hand' … If you think about that, in effect they are building for a highly specialised market with highly specialised systems of control and safety and specification and all the rest of it. If you dismantle that workforce you are never going to reassemble it."

Moreover, much of manufacturing is now 'lean' and 'taut'. Capacity to pare the workforce is limited and in automotives companies are 'hanging on because they don't want to lose skills, they don't want to lose their suppliers'. The inter-dependency of firms in the supply chain, Chris suggested, 'is a huge concern' for those so involved.

The academic 'flexible firm' policy model in the 1980s proposed employers could protect 'core' workers from external market turbulence by using explicitly insecure contractual employment forms to create a numerically flexible 'peripheral' workforce. There have been well publicised cases in the UK in the current recession of employers laying-off temporary agency workers as an early response to deteriorating order books. The Work Foundation estimates that around a third of all people who lost jobs in the early quarters of the recession were those who had held temporary work (casual/seasonal, fixed term or temporary agency work). However, the Labour Force Survey shows the rate of temporary employment was falling before the onset of the recession; it was 5.7 per cent of all employees in December-February 2008 compared to 6.1 per cent in the same quarter a year previously. The downward trend continued through much of 2008 but in the quarter to February 2009 was reversed; while the female temporary employment total continued to fall, there was an increase of 30,000 in the male total and overall an increase of 21,000 on the previous quarter. The most recession-sensitive measure, perhaps, is the proportion of temporary workers who report having the employment for want of a permanent job opening. This increased for men from June-August 2008, to 30 per cent in the three months to February 2009, and for women (a little later) to 25 per cent in the December-February quarter (Chamberlain 2009). In Chris Harries' experience in South West England there was 'a very mixed picture'. He referred to one company that manufactured household appliances that had laid-off its agency workers in January but had taken them back on again subsequently, to meet production needs. He argued that the agency workers EU directive 'scares a lot of companies because they see that as attacking their ability to use these avenues in managing demand'.

The South West England RDA in February suggested that in comparison with previous economic downturns more employers in the region were taking a three-stage in place of a two-stage approach to capacity management. The first response to falling demand, pressure on costs or profitability was a recruitment freeze. The second was a reduced working week or temporary halt in production. Redundancies followed where 'demand conditions deteriorate further and longer than hoped' (2009a: 26). Chris Harries agreed there was currently fairly widespread use of short-time working, in particular among hard hit automotive companies. He argued the scope for this approach to labour hoarding had been increased by trade union fears for members' jobs.

> *"The reason is the trade unions are looking at the world around them, looking at manufacturing jobs in particular in the last ten years that went overseas, have seen their members' jobs on the line and are signing up to short time working agreements, sometimes of six months or more duration, in order to safeguard peoples' jobs. In this climate, if people are made redundant, where are they going to go?"*

He added that:

> *"In the same way, the pressure on pay has almost vanished. Last August I was in pay talks with a union over whether they had 3.2 per cent or 3.1 per cent and the difference between the two was going to lead to industrial action, or a ballot at least. That's only six months ago, isn't it? That's disappeared. No one wants to talk pay anymore*."

At the end of April, the EEF nationally reported average level of pay rises agreed in the first three months of this year at 1.7 per cent, well below inflation as measured by the Consumer Price Index (*Financial Times* 30.4.2009).

Prior to the April 2009 Budget the EEF at national level allied with other interest and lobby groups (including the Work Foundation) to press government to introduce a wage subsidy linked to training to support short time working, skills retention and, indeed, upgrading (EEF 2009). This was on the model of schemes operated by governments in the Netherlands and Germany, and the Pro-act pilot scheme in Wales. As explanation for the apparent shift in favour of 'social market' government intervention, Chris Harries asked:

> *"Why do people get thrown out of work and then have to draw benefits? Can't we redirect that to maintain the workforces that exist, maintain those skills?"*

The South West Regional Economic Task Group headed by Ben Bradshaw M.P. in March 2009 reported 'growing calls' for such a scheme. Among companies or operations of foreign-owned multinationals there was apparently the perception that they were being disadvantaged, in relation to the parent organisation's operations in continental Europe (2009:12). Conservative governments up until 1984 maintained types of short-time working subsidy. Yet the Labour government did not concede this in the April 2009 Budget, possibly because it was under opposition party fire for the large public borrowing over-spend it had to announce. A conclusion nevertheless could be that the Labour government is anchored more to the Anglo-Saxon than European Social Market end of the varieties of capitalism spectrum.

References

Chamberlain, G. (2009) *Economic Review*. Office for National Statistics. April

Clayton, N. (2009) *The Geography of Unemployment: How the recession has affected different cities*. The Work Foundation Research Paper, February

Coats, D., Hutton, W. and Razzanelli, M. (2009) *Tackling the Global Jobs Crisis: Why the G20 Summit Matters*. London, the Work Foundation, November

EEF (2009) *Short-time working vital to help businesses survive the downturn*. Media and Campaigns Release. April 16.

Giles, C. (2009) Services sector starts to feel more confident. *Financial Times*, May 11

Groom, B. (2009) A fragile flexibility. *Financial Times*, April 13

HM Government (2009) *The road to the London Summit: The plan for recovery*.

Münchau, W. (2009) Eurozone banking needs a co-ordinated strategy. *Financial Times*, April 26

Pollert, A. (2007) ‘Individual Employment Rights: Paper Tigers, fierce in appearance but missing in tooth and claw’, *Economic and Industrial Democracy*, 28(1) 110-39

South West RDA (2009a) *Economics Review*. Issue 15. Ist Quarter, February.

South West RDA (2009b) *Regional Economic Profile*. *Recession Special. South West England*. Issue 7, April.

South West Regional Economic Task Group (2009) *Briefing on SW Economic Conditions.* SWRTEG Paper 5.1, March.

The Economist (2009) A new pecking order. May 9-15.

Walsh, K. (2009) Swindon on the Ropes. *Times-online* February 1.

Wolf, M. (2009) Seeds of its own destruction. *Financial Times* March 8.