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Brexit and Fulfilling Work: Responding to Threats and Exploiting Opportunities

Report by Alan McGregor for CUKT



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ACKNOWLEDGEMENTS

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Foreword

The consequences of the UK leaving the EU is highly unpredictable across a wide array of public policy issues. A great deal will depend on the detailed arrangements that are established to determine the UK's future relationship with the EU. It follows that the impact of Brexit on the wellbeing of UK citizens is uncertain. We have therefore commissioned a series of experts to consider the impact of Brexit on the Trust's three key themes: digital futures, fulfilling work and flourishing towns.

In this paper, Alan McGregor, Research Professor of Economic Development at the University of Glasgow's Training and Employment Research Unit (TERU), provides an independent, expert perspective on the potential threats to fulfilling work arising from Brexit, and assesses the implications and opportunities of each of these issues for fulfilling work.

The purpose of the paper is not to provide a definitive position on these issues but rather to serve as a starting point – or guide – to a wide range of public policy issues that can inform the Trust and others on possible next steps and priorities for fulfilling work in the UK, irrespective of the form that Brexit takes.



Martyn Evans
CEO, Carnegie UK Trust

1. Summary

Fulfilling Work and Why it Matters

The Carnegie UK Trust defines fulfilling work in terms of availability of work, quality of work and wellbeing associated with work. Fulfilling work exerts a powerful influence on individual wellbeing by offering a sense of purpose, social connections and personal agency, as well as generating wider economic and societal benefits.

Fulfilling Work in the UK

Major forces impacting negatively on fulfilling work in the UK over the long term have included technological change, increased competition from overseas labour due to globalisation, and the rise of neo-liberal policies in the UK reducing the power of trade unions and encouraging labour market flexibility. Major recessions, such as in the 1980s and since 2008, shift the balance of power towards employers and exacerbate the long-term trends.

Since the onset of the recession in 2008, employment growth has been particularly strong in part-time employment and self-employment. Temporary employment was in decline prior to 2008 but subsequently surged. Within the temporary category, jobs with zero hours contracts have risen quite dramatically in percentage terms but make up only a little over 3% of all jobs. In terms of access to jobs, in line with previous recessions, employment rates for more disadvantaged groups declined but have subsequently recovered for most groups with the major exception of people with no or low qualifications.

On international comparisons with other OECD economies, the UK is in the lower half of the league table in relation to job insecurity, but close to mid-table for earnings quality. The UK performs well on hard outcomes associated with health and safety in the workplace, but compares very poorly on measures of workplace participation and employee engagement.

Impact of Brexit on Fulfilling Work

It is hard to assess the potential impacts of Brexit on fulfilling work for two main reasons – the precise form that Brexit will take remains uncertain, and the event itself is close to unprecedented, meaning the lessons of history cannot be drawn upon. The approach adopted in this report involved an extensive review of the literature, together with interviews with a range of independent experts. Most of the research literature works on the assumption that the UK leaves the Single Market, takes control of migration from the EU and sets its own regulations in relation to workplace matters.

Four issues of importance to fulfilling work in the UK were examined. These are discussed below.

Issue 1: Size and Structure of UK Economy

There is a near consensus among independent experts that Brexit will lead to slower growth in the size of the UK economy and in employment levels. This will be driven by reduced rates of growth in UK exports and lower foreign direct investment into the UK as a result of leaving the Single Market. If overall global growth trends remain strong, this could mean simply that the rate of growth of UK employment would decline. Nevertheless, the prognosis is a weakening of labour demand – and this tends to be associated with the persistence of temporary work and other manifestations of lower job quality.

Issue 2: Levels of In-migration and Return Migration

One of the most high profile issues in the Brexit referendum, and a likely outcome of the process, is a reduction in migration from the EU to fill lower skilled job opportunities. However, there are growing concerns in the employer community that this will be accompanied by higher rates of return migration. The concern is that the 2.4 million EU migrants currently employed in the UK tend to be concentrated in specific occupations, sectors and regions. Because of this, specific businesses may face recruitment challenges causing them to relocate, downsize or close. Although the most recent statistics show fewer EU migrants coming into the UK and more leaving, the in-migrants exceeded the return migrants by 100,000 over the last full year. Additionally, if Brexit does impact adversely on employment levels as discussed above, then labour surplus and not shortage will become the problem in the UK.

On the positive side, the potential reduction in labour supply for lower skilled jobs does offer greater scope to increase employment rates for those who have often experienced the most difficulty in accessing the labour market. Additionally, a number of independent analysts are suggesting that employers focused more on lower skills may be forced to increase earnings and improve conditions to retain and attract workers.

Issue 3: Employment Protection Laws and Regulations

The dominant view of independent commentators is that membership of the EU has significantly enhanced workers' employment rights and protections. The importance of this contribution is reinforced by international comparisons that show that the UK is weak in relation to the labour market institutions that help in mitigating the forces that drive the polarisation of the labour market and reductions in job quality. There is no compelling evidence to support the contention that reduced employment protection regulation would help stimulate the economy, and indeed this may make it harder to secure new trade deals in the future, with negative consequences for exporting and employment.

Issue 4: European Structural Funds

European Structural Funds have provided substantial funding for the UK's lagging regions, and for unemployed people with more challenging issues trying to secure and sustain employment. Third sector organisations working with more disadvantaged groups of the population are deeply concerned that without European Social Fund monies, many of their critical services cannot be sustained.

However, at least half of the funding comes directly from UK public sector bodies as match funding. Additionally, the bureaucracy associated with EU funding has been severely criticised in many reports, and there are also doubts about the impacts of ESF and Structural Funds money. There is scope to do better if existing UK funding can be rolled forward and possibly enhanced.

Mitigating Threats and Exploiting Opportunities

The report suggests a number of general and specific actions to deal with the threats to fulfilling work posed by Brexit, and proposals on how to make the most of some of the opportunities. These are set out concisely below.

General Actions Required Irrespective of Brexit Outcome

1. Build on the Taylor Review to implement a raft of measures within a strategic framework for tackling employment practices which impact negatively on job quality and fulfilling work.

2. Government and the public sector more generally should use their procurement leverage to favour businesses offering 'good work' to their employees, reducing the demand for goods and services where the business model is built around low pay, insecure employment and poor conditions.
3. As part of a step change in the UK's supply-side infrastructure, reduce significantly the UK's high volume of working age people with no or low qualifications – nearly 8 million in 2016. This is the labour force that helps sustain businesses organised around offering 'poor work'.

Brexit Issue: Rising Unemployment if Economy Shrinks

4. The evidence is clear - buoyant labour markets help promote fulfilling work. If leading indicators suggest that the post-Brexit UK economy is headed for low or no growth, or even decline, the macro-management of the UK economy will need to move quickly and decisively away from the austerity approach adopted in 2010.

Brexit Issue: Declining EU Migration

5. Specific occupational areas, sectors and regions are more dependent than others on workers from the EU. Target these areas with employability and skills interventions to develop a replacement labour supply, drawing in particular on the more disadvantaged sections of the workforce who have difficulty accessing employment.
6. Support employers currently with a high dependency on EU workers to improve the quality of their job offer, and so enhance their capacity to recruit and retain workers. This would involve some form of business development support, and there are many models to draw on.
7. Combine the above two measures in a small number of pilots focused on specific sectors and/or geographies. The planning for these could begin now.

Brexit Issue: Threats to Employment Protection

8. Using fulfilling work as the organising concept, develop an evidence-based manifesto on why it is essential to keep and build upon the employment protections gained during the UK's period of membership of the EU. This could be used across a range of campaigns.
9. Create a Fulfilling Work Impact Assessment to be used whenever any employment protection law or regulation is being reviewed. This could build out from the evidence-based manifesto discussed above.

Brexit Issue: Loss of European Structural Funds

10. Campaign to, at the very least, retain the UK public sector's match funding component of the Structural Funds beyond 2020, and invest this in a new Brexit Economy and Labour Market Adjustment Fund. This would be focused on regions and sub-regions most adversely impacted by Brexit. This would support fulfilling work by seeking to maintain a healthy demand for labour in these areas.

2. Fulfilling Work and why it matters

What is Fulfilling Work?

The Carnegie UK Trust has identified 'Fulfilling Work' as one of its thematic priorities within its 2016-2020 Strategic Plan. In 2016, the Trust published new research examining the different aspects of what might be defined as fulfilling work, including job availability, job quality and work and wellbeing.¹

These three aspects are defined as follows:

- Availability of Work - 'How easily and fairly can people find the type and level of work they would like?'
- Quality of Work - 'Do terms, conditions and opportunities at work meet people's expectations?'
- Work and Wellbeing - 'Do wider factors around engagement, connection and agency at work support personal development and fulfilment?'



Although set out as individual elements, it is not difficult to see the connectivity between the different elements. For example, it is likely that some types of low quality work are more readily available to job seekers, but in a labour market which is highly segmented, with groups such as disabled people suffering significant barriers to employment, there will still be significant competition for low quality jobs. It is also likely that in some instances low quality work will be correlated with low levels of wellbeing in the workforce. For example, the insecurity associated with zero hours contracts may be expected to have a detrimental effect on wellbeing for some of the employees on these contracts.

More detailed features of each of the aspects of fulfilling work are described below. This table demonstrates clearly the considerable complexity lying beneath the concept, but also the specific areas where action is required to make fulfilling work the norm.

¹ Ormston, R., and Hope, S. (2016). Work and Wellbeing. Exploring Data on Inequalities. Carnegie UK Trust.

Quality of Work	Work and Wellbeing	Availability of Work
Income and pay	Personal agency and employee engagement	Job-seeking behaviour
Terms and conditions	Work-life balance	Benefits sanctions
Job security	Management support	Discrimination
Opportunities for progression and training/skills development	Social connections through work	Over or underemployment
	Work with 'meaning'	
	Job satisfaction	

Source: Ormston and Hope (2016)

Why Fulfilling Work Matters

The table above indicates many of the reasons why fulfilling work exerts a powerful influence on individual wellbeing. However, fulfilling work also generates wider economic and societal benefit.

The Link to Inequality

Inequality is increasingly considered to exert not only significant human and social costs, but also a dampening effect on productivity, economic growth and the prosperity of society as a whole.² In terms of the labour market, inequality in relation to the distribution of the burden of unemployment is a longstanding concern, and earnings inequality is one specific component of fulfilling work and job quality more generally. However, as the collection edited by Felstead, Gallie and Green demonstrates convincingly, **inequality in job quality** more broadly defined is a central feature of the UK labour market.³

Many regions of the UK are now characterised by a low skills equilibrium where the demand for and supply of skills settles at a relatively low level, and this feeds through into the UK's lagging productivity performance. A shift in structure is required towards high skilled or high productivity jobs. A defining characteristic of the UK (which it shares with the US) is great inequality in labour market opportunities and outcomes. Additionally, inequality in labour market outcomes across regions and sub-regions of the UK has persisted over many decades.⁴

The links between the economy, the labour market and inequality are increasingly being framed within the notion of 'Inclusive Growth'.⁵ Essentially, this involves trying to spread the benefits of economic growth through a range of measures to all parts of the population.

² Stiglitz, J. (2012). *The Price of Inequality: How Today's Divided Society Endangers Our Future*. London: Allen Lane.; Ostry, J., Berg, A. and Tsangarides, C. (2014). *Redistribution, Inequality and Growth*. IMF Staff Discussion Note.

³ Felstead, A., Gallie, D. and Green, F. (eds). (2015). *Unequal Britain at Work*. Oxford: Oxford University Press

⁴ Amior, M. and Manning, A. (2015). *The Persistence of Local Joblessness*. Centre for Economic Performance Discussion Paper 1357, LSE.

⁵ RSA (2017). *Inclusive Growth Commission: Making Our Economy Work for Everyone*

The Link to Productivity

There is growing evidence, summarised by Rogers and Richmond, that fulfilling work can generate bottom line benefits for businesses through increased employee performance leading to higher productivity and profitability, but also simpler outcomes such as lower labour turnover and lower absence rates.⁶ This can in turn generate productivity gains across the economy. The UK's low productivity, particularly pronounced since the onset of the recession, is a significant drag on international competitiveness and earnings growth within the labour market.

The Public Cost of Poor Work

There are many studies to show that poor and stressful working conditions can impact negatively on both physical and mental health (for example, Nolan and Whelan).⁷ OECD summarises a range of evidence that demonstrates convincingly the wide range of adverse outcomes for mental and physical health that can result from job strain.⁸ Chandola and Zhang suggest that moving from unemployment into poor quality work is associated with higher levels of chronic stress-related biomarkers relative to those remaining unemployed.⁹

There is a wider debate around the interaction between low wages and poor job quality on the one hand, and the tax and welfare systems on the other. This includes the potential role of working tax credits in subsidising the labour supply to employers offering predominantly low wage opportunities.¹⁰ Additionally, attention is now also being directed to the role of the UK tax system in incentivising employers to offer certain types of low quality job, for example treating workers as self-employed who are for all intents employees to avoid paying national insurance contributions, but also holiday and sick pay. This is sometimes termed 'bogus self-employment'. This practice is, however, not restricted to employment in the lower regions of the labour market.¹¹

The strong growth of self-employment also poses problems for tax revenues. On average, the self-employed earn less than the employed and are treated more favourably in terms of what can be offset against tax, both of which reduce the tax base.¹² Additionally, the average real earnings of the self-employed have fallen by more than a quarter since the onset of the recession, more than twice the decline in employee real earnings.¹³

These issues were addressed by the Taylor Review,¹⁴ which was commissioned to investigate how employment practices, some of which impact adversely on the quality of work, need to change in order to keep pace with modern business models. Among many recommendations, the Taylor Review called for greater equality between the employed and self-employed in terms of taxation, as well as access to state-based entitlements. The Review also recommended a clarification of the legal definitions of 'employee', 'worker' and 'self-employed'.

6 Rogers, G., and Richmond, K. (2016). 'Fair work and productivity'. Fraser of Allander Institute Economic Commentary, December.

7 Nolan, B., and Whelan, C. (2014). 'The Social Impact of Income Inequality: Poverty, Dependency and Social Cohesion'. In Salverda, W. et al. (Eds). *Changing Inequalities in Rich Countries*. Oxford. Oxford University Press.

8 OECD (2014). *OECD Employment Outlook 2014*.

9 Chandola, T. and Zhang, N. (2017). 'Re-employment, Job Quality, Health and Allostatic Load Biomarkers: Prospective Evidence from the UK Household Longitudinal Study.' *International Journal of Epidemiology*.

10 Schmitt, J. (2012). *Low Wage Lessons*. Centre for Economic and Policy Research

11 Boheim, R. and Muehlberger, U. (2006). *Dependent Forms of Self-Employment in the UK: Identifying Workers on the Border between Employment and Self-employment*. IZA Discussion Paper, No 1963.

12 TUC (2017a). *The Impact of Self-Employment on Insecure Work and the Public Finances*.

13 Department for Business, Innovation and Skills (2016). *The Income of the Self-Employed*.

14 Taylor Review (2017). *Good Work. The Taylor Review of Modern Working Practices*.

3. Fulfilling Work in the UK

The purpose of this section is to:

- Explore some of the changes over time in relation to fulfilling work in the UK. This will establish the direction of travel against which the impacts of Brexit may be assessed.
- Consider some of the key explanations for these changes.

Explanations of Long Run Change

Leading experts¹⁵ have analysed the changing position on job quality in the UK over 25 years, focusing on four key aspects:

- Wages and monetary rewards.
- Job prospects, including movements up and down the jobs hierarchy, and the uncertainty of employment.
- 'Intrinsic job quality', including skill levels and the intensity of work.
- Quality of working time, in relation to the needs of the employee and work life balance.

Some of the key drivers of change identified in the study are discussed below.

Technological change has been accelerating in recent decades. The nature of the change has led to an increased demand for higher skilled workers, but a reduction in the demand for those with medium skills. This is viewed as a major driver of the polarisation of jobs, sometimes characterised as the 'shrinking middle', 'hollowed out' or 'hourglass' labour market. One serious implication for those in the lower reaches of the labour market is that the opportunities for progression are much more limited than before.

A high level of **earnings inequality** characterises the outcomes of the UK labour market. This is driven partly by the technological changes noted above, but it also reflects the fact that the supply of skills has not been keeping up with the rising demand for skills.

The rise of globalisation has brought **increased competition from overseas labour** to the UK and other advanced economies, largely through trade and fierce price competition for domestically produced goods and services, but also through migration. The competition through trade has impacted significantly on the manufacturing jobs base, taking out many jobs in the lower to semi-skilled range, and reinforcing labour demand changes resulting from technological developments.

The **global recession** which began in 2008 has shifted the **balance of power** further from employees towards employers. Initially, as unemployment queues lengthen and recruitment levels fall, employers are confronted with much greater choice in terms of who they recruit, and on what terms and conditions. When growth returned to the economy, employment levels began to rise. However, this was characterised by a strong expansion in part-time and temporary jobs, and in self-employment, reflecting a continuing underlying weakness in the labour market.

¹⁵ Green, F., Felstead, A., and Gallie, D. (2015). 'The inequality of Job Quality', in Felstead, A., Gallie, D. and Green, F. (eds). *Unequal Britain at Work*. Oxford: Oxford University Press.

Many analyses of the changing nature of the labour market in recent years reflect simply an updating of similar thinking about the consequences of the major recession of the early to mid-1980s, where one of the key features was a significant rise in temporary employment and outsourcing of labour.¹⁶ An additional process identified by labour economists as far back as the 1960s is the impact of ‘bumping down’ in recessions, where higher and medium skilled workers compete for low skilled jobs, placing intense pressure on labour market opportunities and earnings for workers with low skills.

The rise of neo-liberal policies in the UK in the 1980s and 1990s helped reduce the power of trade unions, and promoted the de-regulation of the labour market, with consequent reductions in employment protection. Although these policies were rolled back to some extent by the Labour administration from 1997, with the added support of EU directives, trade union densities did not recover and trade union power has remained diminished. These changes are critically important as international analysis places a strong weight on the role of labour market institutions in mitigating the potentially negative impacts of some of the key drivers discussed above.¹⁷

The key elements in relation to the positive effects of labour market institutions are collective bargaining coverage, minimum wage legislation, employment protection laws and regulations, the robust enforcement of minimum wages and employment protection regulations, and more generous out of work benefits which place pressure on employers to raise wages.

Meager (2015) summarises the key findings of the Green, Felstead and Gallie book in relation to changing job quality over time.

- In contrast to common perceptions, average job tenure has changed little over time.
- The quality of working time has improved, in terms of hours of work and the coverage of paid holidays.
- Findings are more mixed in relation to autonomy in the workplace.
- There has been a rise in work intensity.
- A key feature is the very uneven distribution of job quality between social classes and other key labour market groupings. Additionally, these inequalities mark out the UK in relation to most international comparators.¹⁸

Interestingly, there is limited discussion in the academic literature of supply-side changes which might have influenced the ability of UK employers to sustain recruitment and retention for low quality and relatively unattractive jobs. There are a number of possible influences on the supply side.

- There are arguments that Working Tax Credits have acted as a subsidy to often major employers paying low weekly earnings.¹⁹
- Migration levels have risen significantly over the last 10-15 years. Although many EU migrants are well qualified and skilled, most appear to go into relatively low skilled and low quality jobs.²⁰ As is argued later, the academic literature is almost exclusively positive on the impacts of migration on the UK economy and labour market. However, there appears to be limited discussion around the contribution of migration to helping sustain a business model in some sectors based on low paid and poor quality jobs.

16 Atkinson, J. (1985). Flexibility, Uncertainty and Manpower Management. The Institute for Employment Studies report 89. The Institute for Employment Studies; McGregor, A. and Sproull, A. (1992). ‘Employers and the Flexible Workforce’. Employment Gazette, 100.

17 Fernandez-Macias, E. and Hurley, J. (2014). Drivers of Recent Job Polarisation and Upgrading in Europe - European Jobs Monitor 2014. Eurofound; Schmitt, J. (2012). Low Wage Lessons. Centre for Economic and Policy Research.

18 Meager, N. (2015). ‘Is Work Getting Worse, and Worse for the Workers?’ IES Viewpoint, Issue 22.

19 Citizens UK (2015). Public Subsidies to Low Wage Employers: Methods Briefing; Neumark, D. (2015). ‘Reducing Poverty via Minimum Wages, Alternatives’. Federal Reserve Bank of San Francisco Economic Letter, December; Schmitt, J. (2012). Low Wage Lessons. Centre for Economic and Policy Research.

20 Portes, J. and Forte, G. (2017). The economic impact of Brexit-induced reductions in migration. Oxford Review of Economic Policy. 33 (S1).

- ‘Work first’ employment policies have been increasingly favoured by the UK government from the early 2000s, and these place pressure on unemployed people to accept potentially unattractive jobs under threat of benefits sanctions. Relative to simply finding a job, quality of work has been a poor relation in employment policy terms.²¹
- Smaller in scale, the substantial increase in higher education participation under a financial regime where student fees have replaced grant aid, has possibly led to increased demand for part-time working. Added to this is the evidence of significant skill underutilisation affecting graduates in the UK.²²

The cumulative effect of these trends dating back 15 to 20 years could be quite significant in terms of the balance of demand and supply at the lower end of the labour market.

Changes Since 2000: Some Statistical Evidence

This section captures some of the changes in more readily measurable indicators relevant to fulfilling work. The focus is on the period since 2000, with a split at 2008 which was the year the global recession first impacted on the UK labour market.

Employment

Analysis of statistical data held by the Office for National Statistics (ONS) shows that total employment (including self-employment) has grown significantly over the period 2000 to 2016, up 7% since 2008, but there have been significant variations across the different types of employment.

- **Full-time employment** grew strongly up to the recession. There has also been a recovery post-recession and a modest growth of 3% since 2008.
- **Part-time employment** grew at the same rate as full-time up to 2008, but at nearly three times the rate of full-time employment since the recession.
- **Self-employment** has been one of the strongest growth components, with the increases particularly marked (24%) since the onset of the recession. However, this was an acceleration of an existing trend with a 19% increase between 2000 and 2008. Clearly there are significant policy and legal issues around the definition of self-employment, discussed in the Taylor Review.²³ Additionally, like employment, self-employment appears to be highly polarised in terms of earnings levels, with a high proportion on low average earnings, exposed to greater volatility in earnings over time and lacking most of the employment protection available for employees.²⁴ Earlier, it was noted that since the start of the recession, real average earnings for the self-employed had declined at more than twice the rate of employee earnings.
- **Temporary employment** is interesting as this was in decline (down by 18%) from 2000 up to the recession. This reflects what happened when the UK labour market emerged from the recession of the 1980s, with employers forced to offer more permanent employment to secure good quality recruits when the labour market tightened. However, after 2008 temporary employment surged, growing by 20%.
- **Zero hours contracts** are a sub-set of temporary employment. These have gained a very high profile but account for only around 3% of all employment. Zero hour contracts fell substantially (by 43%) in the tightening labour market leading up to the recession, but have risen dramatically since. The six-fold

21 Etherington, D. and Daguere, A. (2015). Welfare Reform, Work First Policies and Benefit Conditionality: Reinforcing Poverty and Social Exclusion? Centre for Enterprise and Economic Development Research, Middlesex University.

22 Green, F., and Henseke, G., (2016). ‘Should Governments of OECD Countries Worry About Graduate Underemployment?’ Oxford Review of Economic Policy. 32(4).

23 Taylor Review (2017). Good Work. The Taylor Review of Modern Working Practices

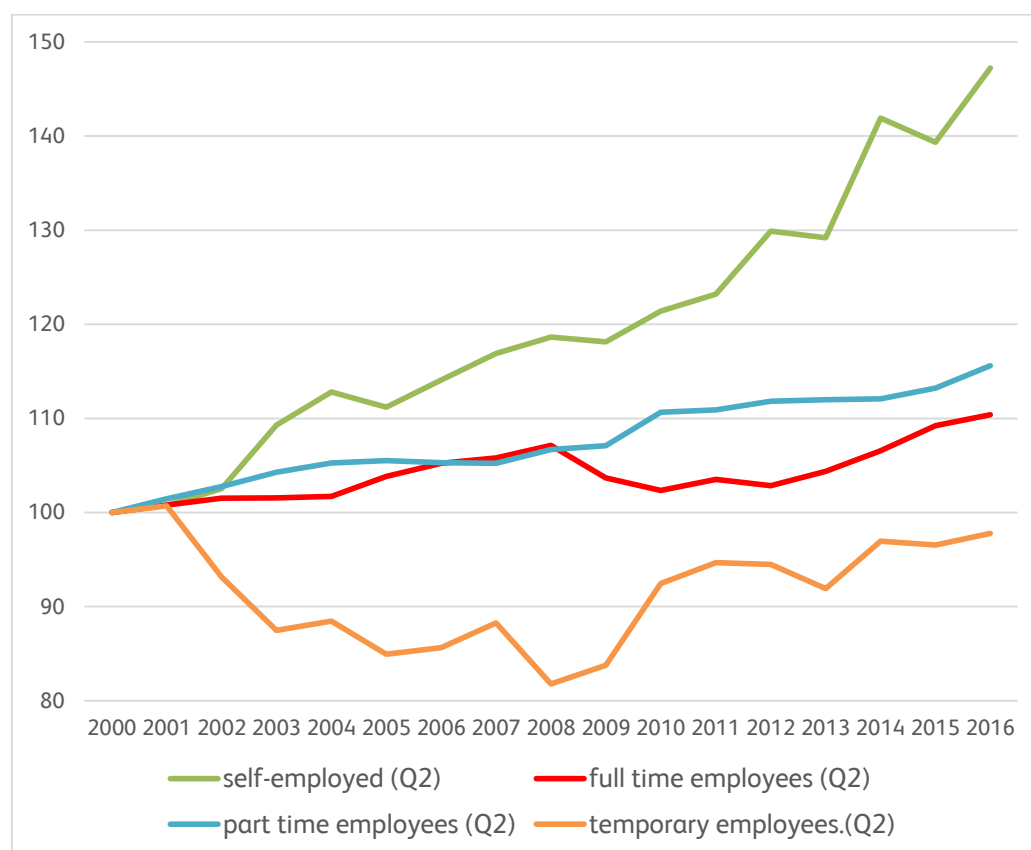
24 Hatfield, I. (2015). Self-employment in Europe. Institute for Public Policy Research.

increase since 2008 may be exaggerated, possibly due to the low base and the heightened awareness of these contracts in the media leading to higher levels of reporting. For example, the numbers increased relatively modestly between 2008 and 2010, but doubled in one year from 2012

Figure 1 captures these changes discussed above, but zero hours contracts have been excluded due to the very wide fluctuations over time.

Access to Employment

Figure 1: Changing Nature of UK Employment (indexed to 2000 = 100)



Source: ONS

The best overarching measure of access to employment is the employment rate, which is the percentage of the working age population in employment. An analysis of data drawn from ONS generates the following conclusions:

- The employment rate has risen over the period since 2000, despite the recession. This is a straightforward reflection of the rising levels of employment, although it takes no account of the changing quality and structure of the employment.
- In terms of **gender**, the employment rate for women has grown at a higher rate than for men.
- The **age** figures clearly show a long term trend on a significant scale, with 50-64s increasingly engaged in the labour market. This is a reversal of a trend established in the 1980s recession, with early retirement to some extent encouraged to reduce the published unemployment statistics, but it also clearly reflects problems in relation to pensions underlining the need for many people to keep on working.

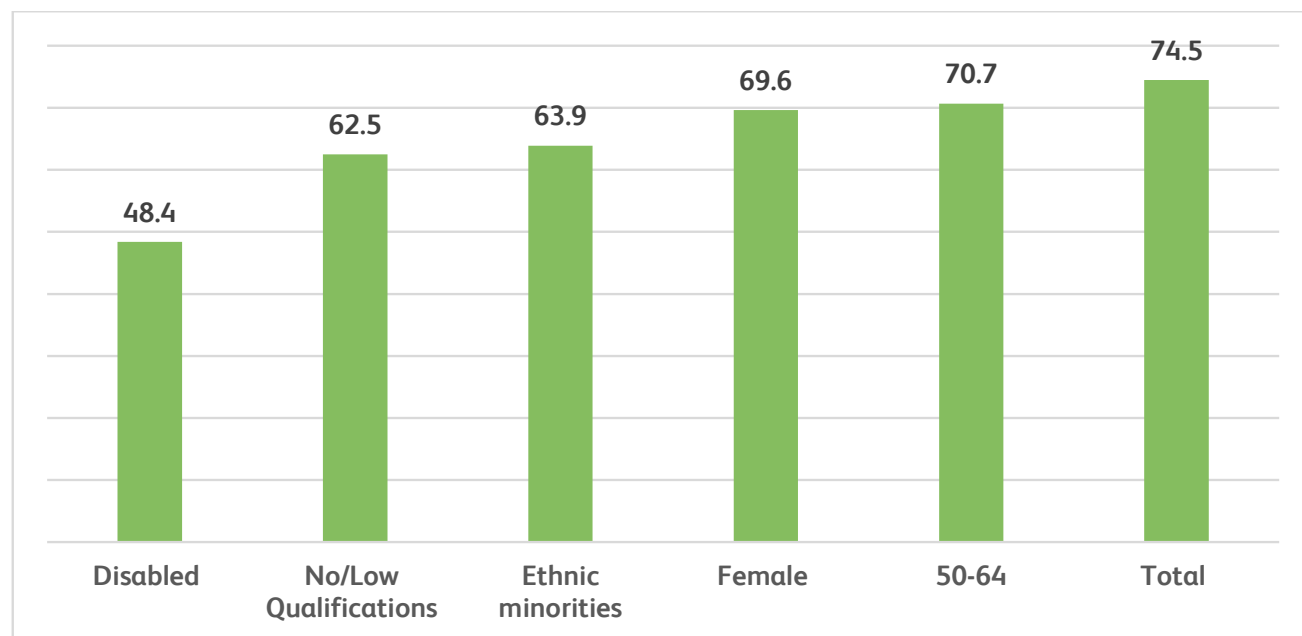
The groups with low employment rates (see Figure 2) are those typically described as disadvantaged in labour market terms, due to discrimination and other factors. Increasing the employment rates for these groups can play an important role in responding to any issues around increased recruitment problems and labour shortages should migration levels fall significantly post Brexit.

- Less than 50% of **disabled people** are employed – but the figures show an interesting perspective which again repeats analysis of the 1980s and 1990s.²⁵ As the labour market tightens, some employers are forced to change their recruitment sources and patterns. The significant growth in employment rates for disabled people between 2000 and 2008 reflects this behaviour. With the onset of the recession, the employment rate for disabled people dipped but has subsequently begun to recover, although changing definitions of disability in the survey tools complicate the analysis.
- A similar pattern can be observed for employees from minority ethnic groups, but here the dip in the early years of the recession was less evident. The employment rate for **minority ethnic groups** has risen from around 56% in 2000 to 64% in 2016.
- Those with **no or low qualifications** seem to have fared worst through the recession, with their employment rate falling from 64.4% in 2008 to 62.5% in 2016.

Narrowing the gap in employment rates for more disadvantaged groups in the labour force relative to the average employment rate has significant win-win potential.

- By raising the effectiveness of the labour supply, the competitiveness of the economy is enhanced, helping to promote productivity and growth.
- By raising the employment rates of the more disadvantaged groups, the prospects of more **inclusive growth** are improved.

Figure 2: Employment Rates for Specific Groups, 2016



Source: ONS, Eurostat

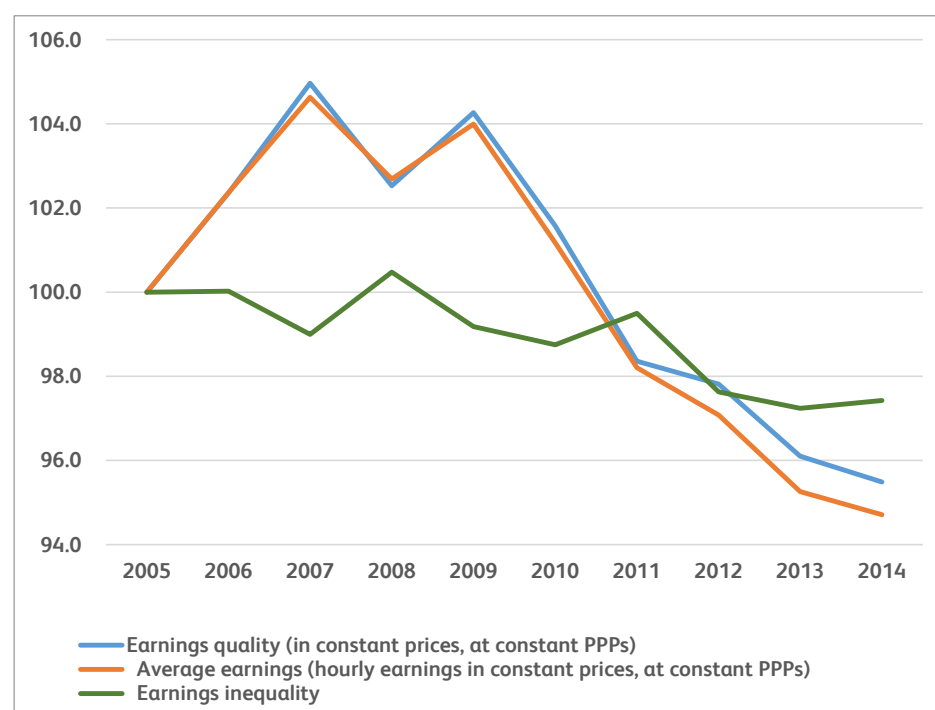
²⁵ Berthoud, R. (2007). Work-Rich and Work-Poor: Three Decades of Change. Policy Press/Joseph Rowntree Foundation.

Earnings

Level of pay is clearly an important element of fulfilling work.

- Over the period from 1986 to 2008 average real earnings rose steadily. However, subsequent to the onset of the recession, real earnings fell sharply.²⁶
- ‘Earnings quality’ is measured by the OECD based on real average earnings and inequality of earnings.²⁷ Analysis of OECD data for 2005 to 2014 shows that for the UK, earnings quality peaked around 2007 but then declined through the recession and the period of recovery.
- The decline in earnings quality is explained by the fall in real average earnings rather than changes to earnings inequality. The proportion on low wages, using the OECD measure of two thirds of median earnings, has remained reasonably steady at a little above 20% for the previous 20 years.²⁸

Figure 3: UK Earnings Quality (Indexed to 2005 = 100)



Source: OECD Data

Labour Market Insecurity

The OECD²⁹ calculates labour market insecurity on the basis of the risk of becoming unemployed and the compensation for unemployment should it occur. Analysis of OECD data for the UK covering the period 2007-2013 indicates that labour market insecurity surged in 2008 but began to decline from 2011, in line with a sustained fall in the risk of unemployment as indicated in Figure 4. Given the cut off point for the data, it is not possible to say whether labour market insecurity in the UK has now declined to pre-recession levels but as of 2013, labour market insecurity was still around 30% higher than in 2007.

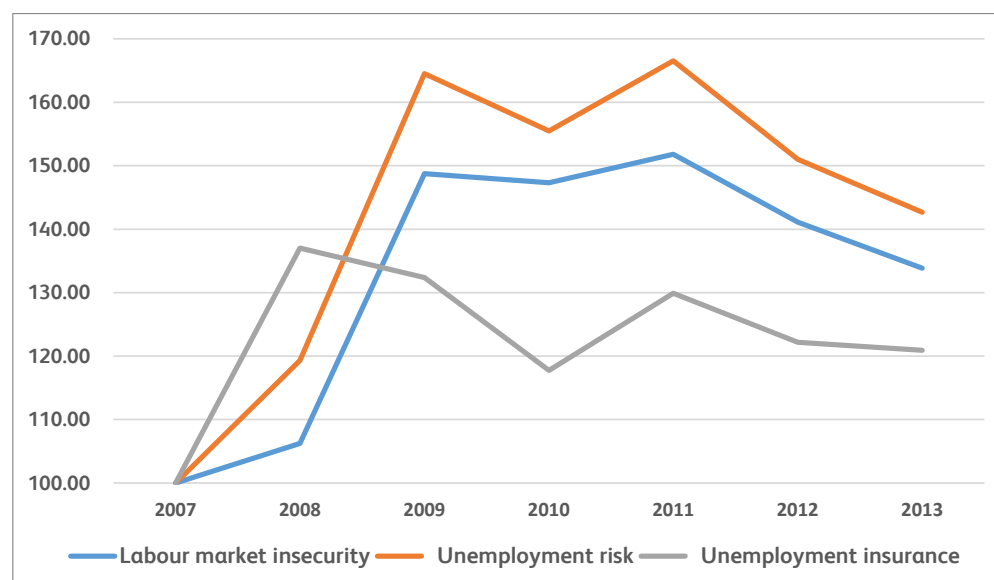
²⁶ Green, F., Felstead, A., and Gallie, D. (2015). 'The inequality of Job Quality', in Felstead, A., Gallie, D. and Green, F. (eds). *Unequal Britain at Work*. Oxford: Oxford University Press.

²⁷ OECD (2014). *OECD Employment Outlook 2014*

²⁸ Clarke, S. and D'Arcy, C. (2016). *Low Pay in Britain 2016*. Resolution Foundation.

²⁹ OECD (2014). *OECD Employment Outlook 2014*.

Figure 4: UK Labour Market Insecurity (Indexed to 2007 = 100)



Source: OECD Data

Quality of Working Environment

The OECD measurement of the quality of the working environment (OECD, 2015) is complex, based on the twin concepts of job demands and job resources (which include autonomy and social support in the workplace). Each of these concepts is in turn measured by a number of individual indicators, which makes it challenging to present the results using graphs. Analysis of OECD data for the UK for 2005, 2010 and 2015 suggests the following:

- The big changes were between 2005 and 2010. In particular, job demands and physical health risk factors increased and social support at work declined very significantly. On the other hand, time pressures declined and work autonomy and learning opportunities increased.
- By 2015, the level of job demands and physical health risk factors declined and an increase in social support at work was experienced – but the overall position was still much poorer than before the recession.

This pattern is consistent with the kinds of impacts that would be expected in a period of severe recession, but the failure to recover pre-recession outcomes by 2015 is concerning.

How Does the UK Compare With Other OECD Countries?

This section looks at the evidence from academic studies, but also OECD statistics on various aspects of job quality. The overarching view from the comprehensive analyses in the book edited by Green, Felstead, and Gallie is that the UK has **greater inequality in job quality** compared to most other comparator economies. Some of the different elements of job quality are discussed below.³⁰

Labour Market Insecurity

International comparisons using OECD data on labour market insecurity generate the following findings.

- The UK, perhaps surprisingly, is in the lower half of the league table – and the same could be said for the United States – as both economies have relatively low unemployment rates. However, the nature of the employment opportunities available clearly comes into play here.

³⁰ Felstead, A., Gallie, D. and Green, F. (eds). 2015. *Unequal Britain at Work*. Oxford: Oxford University Press.

- There is significant dispersion across the EU economies, possibly reflecting the underlying economic fragility of some of these economies.

Whatever overall employment protection measures are in place in relation to EU regulations, backed up by investment through the European Social Fund, the implementation appears to vary across member states.

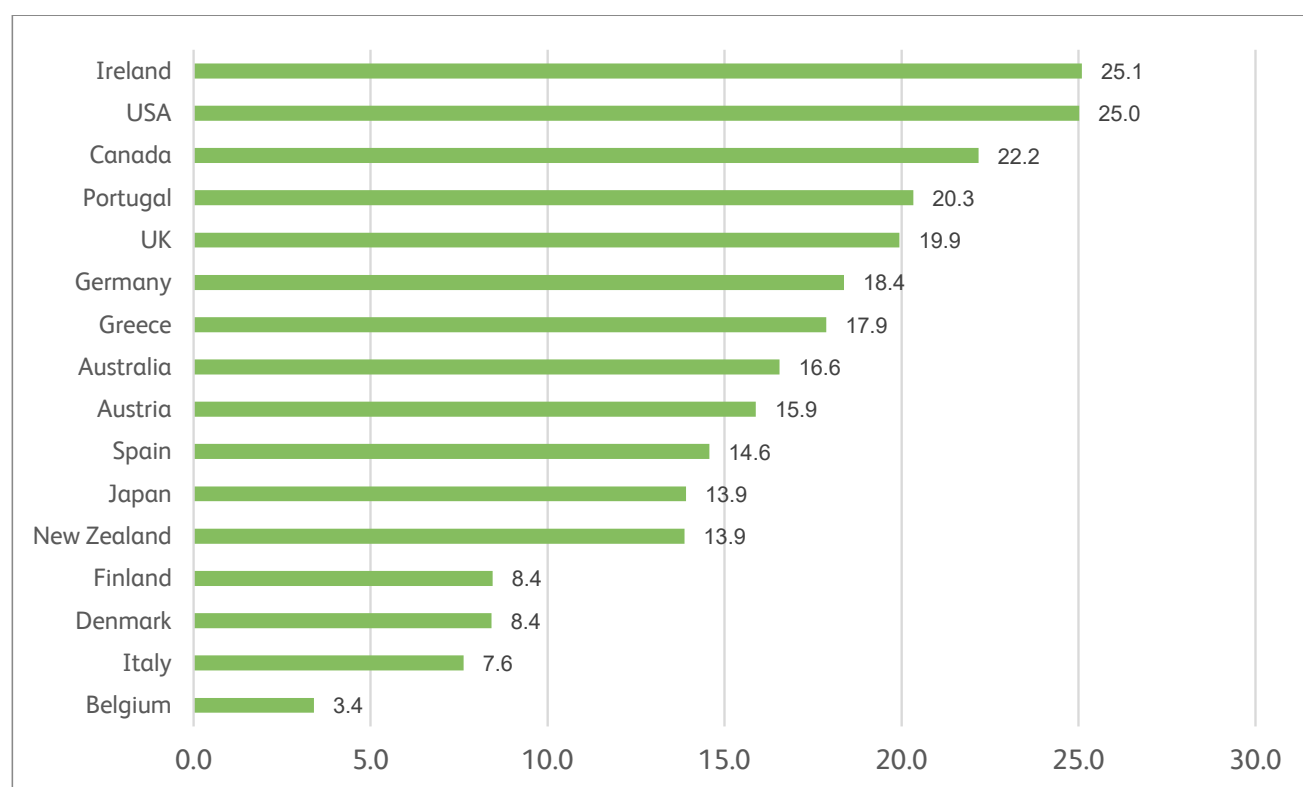
Earnings Quality

On the OECD measure of earning quality, which looks at both average earnings and the incidence of low pay:

- The UK is close to mid table for the OECD economies, but this is due to reasonably high average earnings.
- In terms of the proportion of employees in low waged work (see Figure 5), the UK figure of 20% is relatively high on international comparisons; however the figure for Germany is 18%. There is again a very substantial variation across EU member states on this specific indicator, with Germany and the UK much closer to the US than to many of their EU compatriots.

High levels of GDP and GDP growth clearly do not automatically reduce the incidence of low pay.

Figure 5: Share of Employees in Low-wage Work, Selected Economies 2014



Source: OECD

Note: Data for all countries are from 2014 except Canada, the UK and United States which is from 2015 and Spain which is from 2012.

Working Conditions and Environment

As noted earlier, there are a number of different elements used by OECD and others in assessing workplace conditions.

- The UK scores relatively well against overall indicators of **job strain and job resources**.
- In the important area of **health and safety**, the UK performs extremely well in comparisons across the OECD on hard outcomes such as fatalities, non-fatal injuries and reported health problems.
- On a range of measures of **workplace participation and employee engagement**, involving such measures as trade union densities and collective bargaining coverage, the UK scores very badly relative to EU counterparts. This is an important area of deficit, as research discussed earlier in this report noted the strong international evidence on the great value of labour market institutions in mitigating the worst impacts of the main economic drivers behind the polarisation of the labour market.

Overview

The analysis of the statistical evidence base produces a mixed picture of what has happened to the quality of work moving into and through the recession. Likewise, the UK's comparative record on job quality across the OECD is mixed. What is clear, however, is that there is much to be done to increase the incidence of fulfilling work across the UK.

The next section turns to the issue of the potential impact of Brexit on fulfilling work in the UK.

4. Impact of Brexit on Fulfilling Work

The objective is to consider a range of potential impacts arising from the UK's exit from the EU, which may have positive and negative implications for fulfilling work. By considering the potential changes, a base is created for identifying policies and interventions to mitigate on the downside and make the most of opportunities where they arise. The discussion is organised in the following way:

- Key potential issues arising from Brexit are identified, followed by an overview and analysis of each issue and the potential impacts of Brexit.
- The implications of each of the consequences for fulfilling work are then explored, differentiating, where possible, between potential impacts on job quality, work and wellbeing and access to work.

Context

A critical starting point for this analysis is that it is extremely difficult to assess the consequences of Brexit for the UK economy and labour market. Economists in a number of agencies and organisations have been working on forecasts since well before the referendum. However, as pointed out by the editorial in an issue of the Oxford Review of Economic Policy in 2017 dealing exclusively with Brexit,³¹ forecasting models do not work well in a situation where:

- The event – Brexit in this case – is unprecedented. In other words, there is no or little history to build on.
- There are a wide range of impacts that need to be assessed due to changes in microeconomic policy, trade, migration flows, sectoral factors, etc.
- The impacts of Brexit could be spread over a very long period of time. For example, negotiations around trade could take many years to conclude.
- All of this is in the context of the ongoing development of the global economy, as well as global issues around security and the environment.

However, it is certain that unless there is a very 'soft' Brexit, there will be significant changes, particularly in relation to trade and migration, and potentially investment as a consequence.

- Changes to the [trade](#) arrangements will generate potentially the most significant impacts on overall employment levels and the sectoral composition of employment in the UK.
- [Investment levels](#) are also potentially threatened by the direct and indirect consequences of Brexit. Less Foreign Direct Investment (FDI) may come to the UK if there is no continuing access to the Single European Market (SEM), and there may also be a reduction in domestic investment with some of this potentially transferring to continental Europe.
- [Migration](#) from the EU is likely to be curtailed to some degree under most scenarios, in part driven by the political impetus given to this issue by the EU referendum.

Other potential influences on fulfilling work flowing from Brexit include the following:

- Changes in areas such as [employment protection](#) and working time, which are currently regulated through EU directives.
- Loss of [structural funds](#), where the European Social Fund (ESF) supports a major investment in skills and employability across the UK.

31 Oxford Review of Economic Policy, 33(1). 2017.

Issue 1: Impacts on Size and Structure of the UK Economy

Overview and Analysis

The consensus among economic analysts and forecasters is that in the medium to long term, Brexit will impact adversely on the size of the UK economy. These impact assessments typically focus on two measures – Gross Domestic Product (GDP) and GDP per capita.

Emmerson et al. tabulate the results from a range of Brexit impact studies.³² Virtually all project a reduction in GDP in 2030, ranging from -1% to 7.5%, taking the central values of the individual forecasts. Only one forecast projects a positive GDP impact. The expectation is that the economy will shrink, and employment will fall as the demand for labour diminishes. There may also be negative consequences for the growth of real earnings, but this is hard to predict as price levels will be impacted by changes in exchange rates which are very difficult to model over the medium to long term. Clearly there has already been a significant decline in the value of the pound – and rising inflation – in the wake of the referendum result.

A key point to note is that the impacts will almost certainly vary significantly across regions and local economies, and there is a comprehensive assessment of these potential impacts in Athey³³ and Centre for Cities.³⁴ One analysis predicts that areas in the South of England will be the hardest hit.³⁵

What sits behind these assessments? Productivity, employment and GDP can be impacted in a number of ways through:

- Shrinking trade volumes,
- Falling FDI, and potentially also declining domestic investment, and
- Reductions in the migrant contribution to the workforce and economy.

We discuss the first two of these briefly in turn. Migration is examined in more detail in the next section of the paper.

Impacts on Trade

It is difficult to see any scenario where UK exports will rise in the period around the implementation of Brexit, unless the UK and the EU can come to an agreement where the UK maintains access to the SEM. If there were any advantages to the UK from the development of new trading relationships these would take a number of years to bear fruit. In the shorter run, the depreciation of sterling post-referendum has led to no sustained increase in exports or reduction in imports to date.³⁶

There are, however, clear risks on the downside if existing trading arrangements with the EU are significantly altered and lead to increased frictions to trade. The likely consequences here would be a fall in exports due to new tariff and non-tariff trade barriers with the EU. Non-tariff trade barriers are likely to generate the more significant negative impacts on UK trade and the economy, as the development of

32 Emmerson, C., Johnson, P., Mitchell, I., and Phillips, D. (2016). Brexit and the UK's Public Finances. IFS Report 116. Institute for Fiscal Studies.

33 Athey, G. (2017). Brexit: Potential Impacts for Local Economies. My Local Economy.

34 Centre for Cities (2017). Cities Outlook 2017.

35 Dhingra, S., Machin, S. and Overman, H. (2017). The Local Economic Effects of Brexit. CEP Brexit Analysis No. 10. LSE.

36 Dhingra, S. and Samson, T. (2017). Brexit and the UK Economy. CEP Election Analysis EA040, LSE.

the SEM has been associated with substantial reductions in frictions to internal EU trade by simplifying customs procedures, as well as harmonising regulations and product standards.³⁷

Most analyses of different post-Brexit trade scenarios are generally extremely pessimistic. For example, Dhingra et al. suggest that:

- If the UK remains in the European Economic Area (EEA) there will be a 1.3% fall in GDP per capita, mostly due to the return of the frictions to trade (such as more onerous customs procedures) discussed above.
- If the UK leaves the EEA and reverts to World Trade Organisation (WTO) rules, the fall in GDP is predicted at 2.6% - but with substantial negative impacts on FDI which may then impact more severely on GDP than the reduction in trade.³⁸

Impacts on Investment

Several different types of investment may well suffer as a consequence of Brexit.

Foreign Direct Investment

FDI has been important for the UK economy in many key sectors. For example, car manufacturing, which is a high productivity and high earnings sector, is largely dependent on foreign investment and ownership. There are significant threats to FDI should the UK leave the SEM.

- The UK benefits from the largest FDI investment of all member states, in part due to the ease of access gained to the SEM. Dhingra et al. estimate that the SEM has raised FDI to the UK by around 28%.³⁹
- The EU constitutes the single largest source of FDI for the UK, and it is difficult to see the rationale for this continued high level of investment in a country with no access to the SEM.
- Dhingra et al. estimate that leaving the SEM will reduce the UK's FDI by 22% over a 10-year period, with major impacts on real incomes of approximately £2,200 per household.⁴⁰

Domestic Investment

Domestic investment may also decline for reasons similar to those discussed above for FDI. Additionally:

- Large UK businesses may invest in continental Europe specifically to retain access to the SEM.
- Additionally, UK businesses may relocate some or all facilities to continental Europe for supply chain and labour supply reasons.

Changes in the level of FDI and domestic investment are almost certain to have significant implications for the sectoral balance of the UK economy, and car manufacturing looks very vulnerable, as well as financial services where FDI is strong.

Implications for Fulfilling Work

All of these changes combined could **impact negatively and significantly on the agenda for fulfilling work in the UK**, unless developments in the wider global economy help sustain growth in aggregate demand for labour and support real earnings growth.

- With regards to the availability of work, as discussed in the previous section, as the labour market slackens, the opportunities for more disadvantaged groups to access work decline.

³⁷ Dhingra, S., Ottaviano, G., Sampson, T., Van Reenan, J. (2016a). The Consequences of Brexit for UK Trade and Living Standards. CEP Brexit Analysis No. 2. LSE

³⁸ Ibid

³⁹ Dhingra, S., Ottaviano, G., Sampson, T., Van Reenan, J. (2016b). The Impact of Brexit on Foreign Investment in the UK. CEP Brexit Analysis No. 3. LSE.

⁴⁰ Dhingra, S., Ottaviano, G., Sampson, T., Van Reenan, J. (2016a). The Consequences of Brexit for UK Trade and Living Standards. CEP Brexit Analysis No. 2. LSE.

- Periods of significant economic recession, such as the early to mid-1980s and the period since 2008, have been associated with rises in less desirable forms of employment, such as temporary contracts and the substitution of conventional employment contracts with self-employed sub-contracting. Effectively, as discussed earlier, rapid and substantial reductions in employment significantly disturb the balance of labour demand and supply, giving more power to employers to offer less favourable working conditions.
- This places great importance on the constraining effects of employment protection and other forms of labour market regulation, which is discussed later.
- There are potentially damaging changes to the structure of employment if UK manufacturing becomes subject to significant tariff barriers. In car manufacture and its supply chain there are many skilled manual working jobs which are full time and have relatively high average earnings.
- On trade specifically, Baldwin, Collier and Venables argue persuasively that a new broader based trade policy needs to be developed, with a greater integration of trade policies with domestic economic and social policies. They recommend that:
*‘The British government should recognise that globalisation is acting in new ways and that this requires new domestic policy responses. Specifically since it is much harder to identify who will win and who lose, and since it is basically impossible to determine precise causes (globalisation, demographics, immigration, robots, technology, climate change, etc.), a new social compact needs to accompany Britain’s new trade policy. Education, infrastructure, regional, technological and industrial policies all need to be more nuanced, nimbler and more tightly focussed on helping losers adjust. The key is to focus on helping workers adapt; to protect workers and communities, not particular jobs and sectors’.*⁴¹
- The decline in the quality of jobs is likely to feed through into reductions in wellbeing in the workplace. A greater sense of insecurity is likely to prevail with reductions in labour demand.

On the flip side to these challenges, it is difficult to see any opportunities flowing from a reduction in employment levels in relation to the fulfilling work agenda. There could be an opportunity in terms of the need to view trade policy, industrial strategy and other higher level economic perspectives through the lens of improving inclusivity in the labour market and economy. The UK government may well wish to avoid Brexit giving rise to a new set of negative employment experiences in communities already experiencing high levels of social and economic inequality.

Issue 2: Changes to Levels of In-migration and Return Migration

Overview and Analysis

Migration and the Economy

There is extensive evidence to suggest that migration impacts positively on a number of key characteristics of a successful economy.

- It changes the demographic balance towards a higher percentage of working age to total population.
- It helps increase productivity through introducing key skills as well as attracting highly motivated potential employees.
- More specifically, it can address persistent skill shortages (for example, IT) or areas where recruitment difficulties are endemic (for example, the care sector).
- It can lead to a positive fiscal contribution where tax receipts exceed demands on publicly funded services and facilities.

⁴¹ Baldwin, R., Collier, P. and Venables, A. (2017). ‘Post-Brexit Trade and Development Policy’. Policy Insight No. 88, Centre for Economic Policy Research.

The empirical evidence on this is almost exclusively positive in relation to the UK economy.

- Portes and Forte argue strongly that migration has significant positive benefits for both GDP and GDP per capita.⁴²
- Other analysts - for example, Meager⁴³ and Migration Observatory⁴⁴ - agree about the significant positive impact on GDP, but interpret the evidence as suggesting smaller gains or neutral impacts on GDP per capita.
- Finally, Dustman and Frattini estimate that there is a positive fiscal contribution from EU migration of around £2 billion per annum.⁴⁵

One very likely consequence of Brexit is reduced levels of migration from EU countries. Additionally, there may be a higher rate of return migration based on choices made by EU citizens currently working in the UK. The analysis for the year ending June 2017 shows a rise of 33,000 in the number of EU migrants leaving the UK compared to the previous 12 months. However, it was still the case that the number of EU migrants coming to the UK greatly exceeded the numbers leaving – 248,000 versus 122,000.⁴⁶

EU Migrants and the UK Labour Market

Based on data for April to June 2017 there were nearly 2.4 million EU migrants working in the UK, around 7% of the workforce.⁴⁷ The numbers have grown significantly from 590,000 in 2005, doubling to 1.1 million in 2008 and doubling again between 2008 and 2016.

The different measurement methods for calculating migration figures make it a complex process to determine migration inflows and outflows in a given quarter or year with certainty.⁴⁸ For example, ONS estimated using survey methods that, for the year to end September 2016, 180,000 EU citizens migrated to the UK for work, but in the year to end December 2016 the Department for Work and Pensions issued 626,000 National Insurance numbers to non-UK EU citizens.⁴⁹ These substantial variances have persisted for a number of years.

It is clear that EU migrants make a sizeable contribution to the UK's labour supply, and so potentially there are significant impacts on the ability of employers to recruit should immigration volumes decline.

The general view among analysts is that EU migration has been largely positive for the UK labour market. Petrongolo draws a number of positive conclusions from the available evidence and previous research.⁵⁰

- At a time of demographic challenge, EU migrants have contributed to growing the working age population, with their share increasing from 1.8% to 6.3% over the past 20 years. Within this, EU migrants have higher employment rates than UK born citizens.

⁴² Portes, J. and Forte, G. (2017). The economic impact of Brexit-induced reductions in migration. *Oxford Review of Economic Policy*. 33 (S1).

⁴³ Meager, N. (2012). 'Lies, Damned Lies and Migration Statistics'. *IES Viewpoint*, Issue 15.

⁴⁴ The Migration Observatory (2016). 'Project Unclear: Uncertainty, Brexit and Migration'. University of Oxford.

⁴⁵ Dustmann, C., and Frattini, T. (2014). 'The Fiscal Effects of Immigration to the UK'. *Economic Journal*, Vol.124, Issue 580.

⁴⁶ Office for National Statistics (2017a). Sources of Migrant Statistics. ONS Website.

⁴⁷ Office for National Statistics (2017d). Employment by Country of Birth and Nationality. August. Available online at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentbycountryofbirthandnationalityemp06>

⁴⁸ Office for National Statistics (2017a). Sources of Migrant Statistics. ONS Website.

⁴⁹ Office for National Statistics (2017b). Migration Statistics Quarterly Report, February. Available online at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/feb2017>

⁵⁰ Petrongolo, B. (2016a). 'Brexit and the UK Labour Market' in Baldwin, R. (ed). *Brexit Beckons: Thinking Ahead by Leading Economists*. Centre for Economic Policy Research.

- Most studies conclude that migrants have not exerted a downward pressure on the average earnings of UK born employees. Work by Nickell and Saleheen did find a small but statistically significant negative impact on the earnings of unskilled and semi-skilled service sector workers. A 10% rise in the proportion of migrants in these occupations was associated with a reduction in earnings of close to 1.9%.⁵¹
- There is limited convincing evidence of a causal relationship between EU migration and the labour market prospects of UK born members of the labour force. Wadsworth et al. find that this conclusion holds at the UK level and across local authority areas.⁵²

Sectoral Variations

The employment of EU migrants has increased markedly in specific sectors and occupations in the UK over the last decade. The Migration Observatory reported that between 2006 and 2014, the EU migrant proportion of the workforce rose from 3% to 9% in manufacturing, from 7% to 12% in accommodation and food, and from 3% to 7% in construction. In terms of occupations, there was an increase from 4% to 11% in process, plant/machine operatives, and from 6% to 11% in 'elementary' occupations.⁵³

Meanwhile, Ruhs and Vargas-Silva note that an increase in the flow of migrants towards low skilled jobs may help expand businesses and sectors which use low skilled labour intensively.⁵⁴ Some of the statistics on the concentration of migrants in specific occupations and sectors in 2016 are illustrated below. These appear to be occupations and sectors with high demands for unskilled and semi-skilled labour, and this accords with most analysis on the types of jobs secured by EU migrants to the UK labour market.

Table 1: Occupations and Sectors with High EU Migrant % in Workforce, 2016

Occupation		Sector	
Elementary Process Plant Occs	32	Manufacture of Food Products	31
Process Ops	30	Undifferentiated Goods	28
Elementary Storage Occs	23	Domestic Personnel	24
Cleaning + Housekeeping Managers	22	Accommodation	19
Elementary Cleaning Occs	17	Warehousing + Support for Transport	17
Assemblers and Routine Ops	16	Manufacture of Wood + Wood Products	14
Mobile Machine Drivers + Ops	16	Manufacture of Leather + Related Prods	13
Metal forming, welding + related	15	Mining of Metallic Minerals (Ores)	13
Plant + Machine Operatives	14	Services to Buildings + Landscape	13
Elementary agricultural Occs	14	Waste Collection, Treatment, Disposal	13

Source: Computed from Labour Force Survey 2016 dataset.

This type of analysis provides some detail both in terms of sectoral and occupation areas at risk if the supply of EU migrants reduces, and helps pinpoint where potential interventions might be required, such as sector and/or occupationally specific skills investment programmes.

51 Nickell, S., and Saleheen, J. (2015). 'The Impact of Immigration on Occupational Wages: Evidence for Britain'. Bank of England Staff Working Paper, No. 574.

52 Wadsworth, J., Dhingra, S., Ottaviano, G., and Van Reenen, J. (2016). 'Brexit and the Impact of Immigration on the UK'. CEP Brexit Analysis No. 5.

53 The Migration Observatory (2016). 'Project Unclear: Uncertainty, Brexit and Migration'. University of Oxford.

54 Ruhs, M., and Vargas-Silva, C. (2016). The Labour Market Effects of Immigration. The Migration Observatory, University of Oxford

A Recruitment Challenge?

Depending on the specific changes to UK migration policy post-Brexit, the recruitment challenge for employers could be manageable, at least in the **short term**.

- Annual inflows of EU migrants seeking work in the UK may be as low as around 200,000 if the ONS estimates are accurate.
- There may be a risk of higher levels of return migration. Recent statistics suggest this is the direction of travel, but there is still an excess of EU immigrants relative to return migration.
- It is difficult, whatever the nature of the UK's future relationship with the EU, to see the UK government significantly curtailing the inflow of skilled EU migrants, although there are fears that there will be a reduction in the numbers of skilled EU migrants wishing to come to, or remain in, the UK.
- Even if the UK government were, for the sake of argument, to halve EU migrant flows to cut back on the numbers going into low skilled jobs, the reduction of, say, 100,000 per year should not constitute a serious shock in the short term to a UK labour market made up of around 30 million jobs. However, specific localities, sectors and employers could be hard hit.

Clearly over the **medium to longer term**, if there are sustained reductions in inflows from the EU, and higher rates of return migration, the losses to the UK labour supply will become much more significant – but there should be time to adjust to these in the ways described below.

Sectors and employers with a particularly high level of dependence on EU migrants will have a number of options in terms of how they adapt if there is increased return migration alongside a reduced inflow of new EU migrants.⁵⁵

- They may try to substitute technology for labour.
- They can upskill and recruit existing UK workers to fill vacancies that would otherwise have been filled by EU migrants.
- They can increase wages and improve conditions – within limits in price- competitive product markets – to attract more UK-born recruits.
- They can relocate to other economies – although this is constrained for businesses engaged in many service sectors. In the same vein, they could outsource processes which they now find difficult to deliver directly. Public sector employers do not have the relocation option, and would find themselves constrained in terms of outsourcing.

Of course, other outcomes for more severely impacted businesses are downsizing or worse. Clarke notes that '*Firms in migrant-reliant sectors.....will need to fundamentally re-think their business models or risk closure.*'⁵⁶

Davies suggests that some employers facing shortages of labour in low skilled sectors are now accepting that they had become '*too blinkered in their recruitment strategies in the last decade*'.⁵⁷ Some of these employers are now exploring the recruitment potential from groups currently less well represented in the labour market, such as ex-offenders. They are also preparing to raise pay levels and skills investment to help recruit new workers, but more importantly progress and retain existing members of their workforces.

⁵⁵ Meager, N. (2016). 'UK Employment and Brexit: The Issues'. IES Viewpoint, Issue 24.

⁵⁶ Clarke, S. (2016). 'A Brave New World: How Reduced Migration Could Affect Earnings, Employment and the Labour Market'. Resolution Foundation Briefing.

⁵⁷ Davies, G. (2017). 'The under-represented benefit of Brexit?' CIPD Voice, Issue 8.

Implications for Fulfilling Work

Availability of Work

There are substantial numbers of people in the UK who potentially stand to benefit from an increase in hard to fill vacancies resulting from a reduced number of EU migrants in the workforce. For example:

- For the period June to August 2017, there were over 1.4 million unemployed people, using the Labour Force Survey definition of actively seeking and available to take up work.⁵⁸ Many of these will secure an unfilled vacancy relatively quickly, but the balance will go on to become long-term unemployed. In a tighter labour market, the proportion going on to long-term unemployment will tend to fall.
- Although there is some overlap with the unemployed count, in February 2017 over 3.8 million working age people were in receipt of DWP out of work benefits such as Employment and Support Allowance (ESA).⁵⁹ Many of these are people with health and disability issues, some of whom with the right support packages could find and sustain work.
- While again noting issues with overlapping categories of workless people, for the period April to June 2017 there were nearly 800,000 18 to 24 year olds not in education, employment or training (NEET), around 1 in 10 of all in the age group.⁶⁰
- Finally, as noted earlier, there are groups of the population with employment rates significantly below the average. These include disabled people and those with low or no educational qualifications, who could be supported with well-resourced and intelligently designed employability programmes to secure unfilled vacancies in the labour market.

Gregg and Gardiner argue that around 2 million people from groups with below average employment rates could be added to the active UK workforce with reforms to the current approaches to employment service design and delivery, to bring about genuine full employment by 2020/21.⁶¹ This would amount to an annual addition of around 400,000 to the active workforce over the period to 2021. This could comfortably exceed any reductions in EU migrants entering the UK labour force.

However, it is clear that Brexit also brings threats with regards to the availability of employment in the UK. Although the academic consensus is that EU migrants have not impacted on the earnings and employment prospects of UK born workers, these workers will be employed side by side in the kinds of sectors and occupations shown in Table 1. If employers struggle to retain and recruit sufficient workers due to changes in EU migration rules, some of these jobs may disappear – through the off-shoring of jobs, increased use of technology, or simply reduction in activity or outright closure for some employers - with knock-on negative consequences for UK born labour. These jobs appear to be disproportionately in low skilled occupations and sectors and so a reduction in the volume of these jobs, if it occurs, will impact most on those already disadvantaged in relation to access to employment.

It is important to note that there is a significant policy issue here. The UK has too many poor quality and low paying jobs, as manifested in the polarisation of the UK labour market over the last 25 years or so. Sumption poses some interesting policy choices.⁶²

58 Office for National Statistics (2017e). The UK Labour Market: October 2017. Available online at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2017>

59 DWP (2017). Quarterly Benefits Summary, August.

60 Office for National Statistics (2017f). Young People Not in Education, Employment or Training: August 2017. Available online at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/bulletins/youngpeoplenotineducationemploymentortrainingneet/august2017>

61 Gregg, P., and Gardiner, L. (2016). The Road to Full Employment. Resolution Foundation.

62 Sumption, M. (2017). Labour Immigration after Brexit: Trade-offs and Questions about Policy Design. The Migration Observatory: University of Oxford.

Should the UK government:

- Put a big effort into sustaining current levels of low paying employment in, say, areas of agriculture and horticulture heavily dependent on EU labour, or simply see shrinkages in these sectors with imports making good the shortfall?
- Raise more funding for adult care services to provide a better quality service delivered by better paid workers, as opposed to the existing service largely dependent on low waged labour increasingly drawn from abroad?

Levels of Pay

Much of the evidence base suggests that EU migration has had limited impacts in the labour market in relation to the experiences of UK born members of the labour force. The implication of a number of the studies – although often not clearly stated – is that UK born workers operating at lower skill levels are on average simply not as competitive as EU migrants in terms of productivity and wage demands. This means that EU migrants are often not substituting directly for UK born workers.

Nevertheless, in principle, the reduced flow of migrants to low skilled jobs could lead to improved wages⁶³ and other conditions as employers try to cope with recruitment problems, particularly in sectors and localities with a high dependence on EU migrant labour and operating in tighter labour market areas. However, as Meager has argued, employers may have to:

- Offer longer hours, better contracts and better pay.
- Invest more in skills.⁶⁴

There is, however, no consensus view on this and other analysts are sceptical about the potential beneficial effects on job quality through higher earnings at the lower end of the labour market, based on the historical assessment of the impact of immigration.⁶⁵

Skill Development

The expectation is that there will be push back by the UK government in the form of measures to reduce EU migration going forward, and it is likely that greater weight will be given to reducing migration into low skilled jobs which will be filled more easily by UK born workers. The focus then needs to be forward looking, with an emphasis on raising the employability and skills of UK born workers so that they would be attractive to employers and prove to be effective employees in jobs in businesses and sectors which will be exposed as the EU migrant labour supply shrinks.

The Chartered Institute of Personnel and Development (CIPD) highlight declining investment in vocational training by UK employers since 2005, compared to increased skills investment by key European competitors such as France and Germany. French employers now invest in skills nearly four times as much as their UK equivalents, and German employers more than twice as much. We noted earlier reports that some CIPD members accepted that they had been too complacent in their recruitment strategies over the last decade due to plentiful supplies of migrant labour and were now urgently re-thinking their position,

63 Bell, T. and Clarke, S. (2017). 'End of an Era.' In Clarke, S. (ed). *Work in Brexit Britain: reshaping the nation's labour market*. Resolution Foundation; Bell, B., and Machin, S. (2016). 'Brexit and Wage Inequality'. In Baldwin, R. (ed). *Brexit Beckons: Thinking Ahead by Leading Economists*. Centre for Economic Policy Research; Petrongolo, B. (2016b). 'Brexit and the UK Labour market.' *CentrePiece*, Autumn; Portes, J. (2016) 'Immigration – the Way Forward' in Baldwin, R. (ed). *Brexit Beckons: Thinking Ahead by Leading Economists*. Centre for Economic Policy Research.

64 Meager, N. (2016). 'UK Employment and Brexit: The Issues'. IES Viewpoint, Issue 24.

65 Clarke, S. (2016). 'A Brave New World: How Reduced Migration Could Affect Earnings, Employment and the Labour Market'. Resolution Foundation Briefing; Petrongolo, B. (2016a). 'Brexit and the UK Labour Market' in Baldwin, R. (ed). *Brexit Beckons: Thinking Ahead by Leading Economists*. Centre for Economic Policy Research.

particularly in relation to lower skilled vacancies. Increasing investment in skills and in pay levels were now being actively considered.

Of course, employers will also be likely to consider the option to introduce more automated processes to reduce the need for lower skilled labour. This raises interesting issues about the returns to employers on investing in capital, relative to the potential need for relatively modest investment in upskilling for jobs that require quite limited skill levels. Meager is concerned that investment in low level technologies to replace unskilled labour will simply contribute to the low skills/low productivity equilibrium already entrenched in some UK regions and sub-regions.⁶⁶

Job Quality

It was argued earlier that when labour markets tighten due to, say, robust economic growth, job quality tends to improve – and vice versa in a recession. If some of the commentary above is well founded, reduced labour supply might have similar effects.

For example, if the lower end of the labour market tightens, employers may need to be more mindful of employee morale and wellbeing if they are to attract and retain them. This may encourage them to consult more with their employees and to try to understand factors within their control as employers that are impacting on the job satisfaction of their employees.

Issue 3: Changes in Employment Protection Laws and Regulations

Overview and Analysis

There are a range of EU regulations which impact on aspects of fulfilling work in the UK. These include regulations around employment protection, health at work, working hours, and discrimination in the workplace.

Pre-EU entry, the UK had its own legislative framework which impacted on fulfilling work in a number of ways – for example, the long tradition of health and safety regulation, driven by campaigning by the trade union movement. It was noted earlier that the UK has good outcomes in relation to workplace health and safety by OECD standards. Kloss notes that employer legal obligations in relation to the health, safety and welfare of employees were embedded before UK's entry to the EU, and that the UK's Health & Safety at Work Act 1974 has been copied in a number of countries.⁶⁷

However, Kloss also argues that the EU added significantly to the battery of protections for health and safety in the workplace, particularly in relation to risk assessment, control of hazards, the monitoring of controls, and information and training. In terms of the broad spectrum of employment protection measures, most analysts and commentators⁶⁸ argue that employment rights for UK workers have improved significantly over the long term due to a wide range of EU treaty provisions and directives. The improvements relate particularly to 'atypical' workers (whose employment relationships lie outside the 'norm' of full-time, regular and 'permanent' employment with a single employer), rights and protections for women and other discriminated against groups and the right to paid holidays. As a result of the

⁶⁶ Meager, N. (2016). 'UK Employment and Brexit: The Issues'. IES Viewpoint, Issue 24.

⁶⁷ Kloss, D. (2016). 'Brexit – What Next for OH Law?' Occupational Health at Work. 13 (2).

⁶⁸ Kloss, D. (2016). 'Brexit – What Next for OH Law?' Occupational Health at Work. 13 (2); Scottish Universities Legal Network in Europe (2016). Employment Law; Suff, R. (2016). 'What Will Brexit Mean for UK Employment Law?' CIPD Public Policy blog.

Working Time Directive, for example, important gains have been made for quite substantial numbers of UK employees who did not formerly enjoy paid holidays. This is clearly an important benefit in terms of enhanced job quality.

A point to consider is that these protections are essentially mitigating a number of the undesirable consequences of ‘atypical’ employment, as opposed to controlling their growth. As noted earlier in this report, the UK has seen a substantial growth in zero hours contracts, and these averaged around 900,000 in 2016. There is also a perception of growth in some forms of so-called ‘bogus self-employment’, but there is no reliable statistical evidence on the extent of this phenomenon. Additionally, as noted earlier, this form of self-employment is not restricted to the lower regions of the labour market.

It is also important to note that international analysis places a strong weight on the role of labour market institutions in mitigating the forces driving polarisation of labour markets and reductions in job quality. This is particularly important for workers in the lower pay end of the labour market. The UK is currently characterised by relatively weak labour market institutions by international standards, which is explored in more detail in Section 4.

In addition, some of the early post-referendum rhetoric from the UK government about making the UK more competitive in terms of corporate taxation has raised fears that this might extend to reducing a wide range of other constraints on corporate behaviour – such as employment protection legislation.

Implications for Fulfilling Work

Likelihood of Change

The current position of the UK Government is to consolidate existing EU regulations in UK law by means of The European Union (Withdrawal) Bill. EU directives are already built into UK law through primary legislation, and consequently changes can only be made after full parliamentary scrutiny.

For a variety of reasons, the threat of an immediate weakening of UK employment protections following the UK’s exit from the EU may be limited due to the following:

- There can be no changes until the UK formally leaves the EU.
- As noted above, much of the employment protection law which has come down from the EU is already embodied in UK primary legislation, and around this sits a substantial body of case law handed down by the UK courts, interpreting EU directives and European Court of Justice rulings.⁶⁹ Both Parliament and the UK courts will be centrally involved in any attempts to weaken the legal basis for these protections.
- The remaining body of EU employment protection regulations and laws will be translated into UK law through The European Union (Withdrawal) Bill. Although there is great disquiet about the potentially limited role of Parliament in debating and scrutinising changes to this body of legislation, the scale and complexity of the task of reviewing and bringing forwards changes dictates a very lengthy time scale for the process.⁷⁰

In the medium to longer term any UK government wishing to reduce employment protection faces a massive and complex task, and may become embroiled in many court cases. It also has to balance the uncertain economic benefits of reduced employment protection against the need to strike trade deals

69 Suff, R. (2016). ‘What Will Brexit Mean for UK Employment Law?’ CIPD Public Policy blog

70 *ibid*

with other countries and grouping of countries – principally the EU – where the maintenance of high levels of employment protection will, for most, be an essential requirement. This may in part explain why the Prime Minister has promised that existing protections for workers will be guaranteed while she remains in post.

What Rights Could be at Risk?

Despite these limiting factors, concern remains that many of the existing principles going into The European Union (Withdrawal) Bill could in due course be abandoned or weakened, essentially at the discretion of the Executive. Underlying this concern is a recognition that any reduction in employment protection laws and regulations would represent a weakening of the suite of institutional controls of the labour market, which have been shown in international studies to benefit those trapped in the lower reaches of the labour market. Concerns also arise from the opposition of previous UK governments to positive developments around employment rights – such as the Working Time Directive.

The TUC is deeply concerned about the potential damage to what are now established workers' rights. Legal opinion they sought identified the following key rights where there is potential vulnerability:

- Collective consultation, including the right for workers' representatives to be consulted where major planned changes can impact on people's jobs or result in redundancies.
- Working time rules, including limits on working hours and minimum entitlements on the amount of paid holidays.
- EU-derived health and safety regulations.
- Transfer of Undertakings (TUPE), which offers protections to the terms and conditions of workers where an organisation or service is transferred or outsourced to a new employer.
- Protections for agency workers and other 'atypical' workers, such as part-time workers. Suff also raises concerns in relation to these groups of workers, as the EU has taken a strong lead in improving their protection.⁷¹
- Compensation levels for discrimination, including equal pay awards and age discrimination.⁷²

As noted earlier, the evidence is that the EU has significantly improved protections around health and safety at work, although the UK has a strong historical track record in legislating for this. There are current threats in the UK, however, with the public sector contribution to the budget of the Health and Safety Executive falling from £231 million in 2009/10 to £123 million in 2019/20.⁷³

Also in terms of agency worker protections, the EU introduced important regulations about their access to key 'collective facilities' such as training and childcare. These were resisted by the UK government and were unpopular with employers, and could be vulnerable when the government comes to review the position.⁷⁴

A more positive note is struck in some other commentaries, particularly from industry bodies:

- In a situation of great uncertainty, businesses and business organisations are looking for stability in terms of employment protection laws and regulations (for example CBI).⁷⁵ This position was re-stated in

⁷¹ Suff, R. (2016). 'What Will Brexit Mean for UK Employment Law?' CIPD Public Policy blog.

⁷² Ford, M. (2016). Workers' rights from Europe: the impact of Brexit. Trades Union Congress

⁷³ Warburton, C. (2016). 'HSE Business Plan Reveals Further Budget Cuts. Health + Safety at Work, April. Available online at: <https://www.healthandsafetyatwork.com/hse/business-plan-reveals-further-budget-cuts>

⁷⁴ Ford, M. (2016). Workers' rights from Europe: the impact of Brexit. Trades Union Congress

⁷⁵ CBI (2016). Making a Success of Brexit.

consultations carried out in the preparation of this report with the CBI, Federation of Small Businesses and British Chambers of Commerce.

- CIPD note that only 13% of SMEs surveyed report employment protection legislation as a barrier to their competitiveness.⁷⁶

Future Improvements to Employment Protection

An additional concern about the impact of Brexit on employment legislation is that future improvements in employment protection emanating from the EU may not be applied in the UK post-Brexit. However, a significant constraint on the UK government's ability to reduce, or indeed fail to improve, employment protections is the need to sign up to the creation and maintenance of 'level playing fields' in the negotiation of agreements on the trade in goods and services. Trade agreements increasingly have a focus on minimising 'social dumping' in addition to the traditional dumping of products at artificially low prices. The International Labour Office (ILO) notes that social and labour provisions feature in bilateral trade agreements, particularly where Canada, the EU and the United States are parties to the agreements.⁷⁷ More specifically, the EU's chief Brexit negotiator, Michel Barnier, has said the EU will refuse to sign a trade deal with the UK which involves 'unfair competition' due to reductions in environmental and social protections, including workers' rights.⁷⁸

Availability of Work

During the EU Referendum campaign, the UK Government Employment Minister argued that scrapping EU employment regulations would boost the economy and create 60,000 new jobs.

It is hard to find the evidential underpinning that would predict such a significant increase in employment through a process of deregulation. In any event, it appears that in relation to employment protection legislation, and also product market regulation, that the UK already has the most 'competition friendly' regulatory regime across the OECD.⁷⁹ Crafts also argues that the potential areas for deregulation would not impact significantly on the productivity performance of the UK and subsequently on GDP per capita.⁸⁰

Separately, EU regulations have been particularly important in extending significantly the potential for tackling discrimination in the workplace regarding fundamental issues such as equal pay for equal value of work. These regulations have a significant impact on large numbers of workers in the UK and are particularly important for those groups of workers at risk of the greatest discrimination in accessing employment.

Procurement and Fulfilling Work

From an opportunities perspective, there may be some scope for leverage in relation to legal frameworks outside of employment protection, where the UK's exit from the EU may support positive progress on fulfilling work. Procurement is a good example here.

⁷⁶ CIPD (2015). Employment Regulation and the Labour Market.

⁷⁷ ILO (2017). 'Free Trade Agreements and Labour Rights'. Available from: <http://www.ilo.org/global/standards/information-resources-and-publications/free-trade-agreements-and-labour-rights/lang-en/index.htm>

⁷⁸ The Independent (2017). 'Brexit: EU won't sign trade deal if UK starts deregulation race to the bottom, Brussels warns'. The Independent, 20th July. Available online at: <http://www.independent.co.uk/news/uk/politics/brexit-eu-trade-deal-workers-rights-tax-haven-michel-barnier-environmental-legislation-a7851761.html>

⁷⁹ Barnes, S., Bouis, R., Briard, P., Dougherty, S. and Eris, M. (2013). 'The GDP Impact of Reform: A Simple Simulation Framework'. OECD Economics Department Working Paper, No. 834.

⁸⁰ Crafts, N. (2016). 'Brexit: Lessons from History'. In Baldwin, R. (ed). Brexit Beckons: Thinking Ahead by Leading Economists. Centre for Economic Policy Research.

- EU procurement directives and regulations are heavily based on ensuring an open market across the EU, reducing the scope for member state governments and other authorities to favour domestic contractors.
- There is a strong tradition, most pronounced in Scotland, in trying to develop the contribution of procurement to tackling significant policy objectives in areas such as employability and inequality. Big steps have been made in Scotland in relation to developing the concept of and legislating for Community Benefit in Procurement, and there have already been evaluations of the effectiveness of implementation.⁸¹ However, this legislation had to be extremely carefully drafted so as not to fall foul of EU procurement strictures.
- Conceivably, procurement could be used more proactively across the UK, post Brexit, to favour contractors who provide fulfilling work opportunities, so helping drive improvements in fulfilling work from the demand side. However, a key constraint would be the 'level playing field' restrictions which will need to be accepted to seal foreign trade agreements.

Issue 4: Impacts on European Structural Funds

Overview and Analysis

The EU Structural and Investment Funds are mainly comprised of the European Regional Development Fund (ERDF) and the European Social Fund (ESF), accounting for, in the UK, around 78% of the total funds received. The next largest component at around 20% is the European Agricultural Fund for Rural Development (EAFRD). The value of the structural funds coming to the UK has fallen quite substantially, particularly with the accession of a number of Eastern European member states. For the 2014-2020 programming period, the total value of the funds provided by the EU is £13.9 billion, with UK match funding of £9.2 billion.

ERDF is focussed primarily on innovation and research and support for SMEs, but with priorities also around the digital agenda and low carbon economy. Clearly, support for SMEs could be extremely important in terms of responding to significant changes within key sectors in the face of uncertainty and changes around trading arrangements.

The ESF is focussed more on employment and labour market issues. For many years it has underpinned the delivery of employment services, particularly those targeting people further from the labour market, and those in the more economically depressed regions of the UK. Much of the service delivery comes through third sector organisations which tend to be more expert in enhancing access to work for more disadvantaged groups in the population. The ESF allocation for the UK for the 2014-2020 programming period is £8.7 billion, but £4.0 billion of this is co-funded by UK governments, agencies and other relevant authorities.⁸²

The UK government has undertaken to compensate for any shortfall in EU funding between the point of leaving the EU and 2020.⁸³ This gives time for adjustments to be made and for new approaches to be drawn up. However, organisations in the voluntary sector have voiced their concerns about the potential

⁸¹ Sutherland, V., Glass, A., McTier, A. and McGregor, A. (2015). Analysis of the impact and value of community benefit clauses in procurement. Scottish Government.

⁸² European Commission (2017). ESF Budget by Country: 2014-2020. Available from: <http://ec.europa.eu/esf/main.jsp?catId=443&langId=en>

⁸³ Gov.UK (2017). 'Chancellor Philip Hammond Guarantees EU Funding Beyond Date UK Leaves EU'. Available from: <https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu>

loss from 2020 of the monies which have flowed to them through ESF in particular.⁸⁴ Nevertheless, as almost half of the money going into ESF is funding provided by UK bodies as opposed to EU, there is every opportunity to make a case for the continuation of this funding for some similar type of programme. It is essentially within the gift of the UK government.

Implications for Fulfilling Work

Availability of Work

The threats arising from the loss of European Structural Funds fall primarily in the area of availability of work, and more precisely access to work, for the more disadvantaged groups which have traditionally been supported by specialist employability services funded through ESF. These have sometimes been standalone, and often quite innovative, approaches to helping those further from the labour market back into work.

Additionally, ESF has been used to align with, and add value to, more mainstream employment programmes run by the UK government, and devolved governments in other parts of the UK.

The closure of ESF would have two significant impacts:

- The employability service available to the more disadvantaged job seekers across the UK would be much diminished. This is in a context where the UK government's new Work and Health programme (which applies only to England and Wales) is going to be associated with a significant reduction in specialist employment support for jobseekers with health and disability issues. In 2017, support will be available for only 160,000 clients compared to 300,000 in 2013/14.⁸⁵
- Many of the organisations delivering these services sit in the third sector, and many of these are delivering employability services alongside a range of other support services for some of the UK's most disadvantaged groups and communities. The loss of ESF monies may significantly deplete the capacity of these organisations to deliver services in a sustainable way.

However, evaluations of ESF and Structural Funds more generally do not suggest that the funding has made a significant impact. Bell concludes that there is limited empirical support for the idea that the Structural Funds have impacted positively on regional economic activity, for example.⁸⁶ Additionally, some of the evaluation evidence highlights feedback from delivery organisations in receipt of funding which suggests the ESF is highly bureaucratic and onerous to administer.⁸⁷ Finally, there are concerns that the methods for assessing the effectiveness and value for money of ESF are not sufficiently robust.⁸⁸

Opportunities for Improvement

If the UK government – as well as devolved administrations – can be persuaded to maintain a fund such as ESF, making good the loss of the EU contribution, there is potential to use this money much more cost effectively than was possible under the management by the European Commission.

- As ERSA point out, it is critically important for the UK to ensure that the funding available to the UK

⁸⁴ NCVO (2016). 'Four Months on – Potential Implications of Brexit for the Voluntary Sector'. NCVO Blog.

⁸⁵ ERSA (2016). 'Work and Health top of the agenda? But where's the cash?' ERSA Blog

⁸⁶ Bell, D. (2017). Regional aid policies after Brexit. Oxford Review of Economic Policy. 33(S1).

⁸⁷ House of Lords (2010). Making it Work: The European Social Fund. European Union Committee; ERSA (2017). Evidence on Brexit and the Labour Market. House of Commons Work and Pensions Committee.

⁸⁸ McGregor, A., and Sutherland, V. (2012). Final Synthesis Report on Access to Employment. ESF Expert Evaluation Network. European Commission, Brussels.

through ESF for the 2014-2020 programming period is fully allocated to specific employment service delivery prior to leaving the EU.⁸⁹

- There is a big opportunity to achieve a much more effective use of the funds than is currently the case with ESF. Significant changes could be made to reduce the very heavy burden of administration and auditing requirements. These prove extremely onerous for, in particular, smaller third sector organisations, and it is these types of organisation which are particularly adept at helping more disadvantaged groups and people from more disadvantaged communities into work.⁹⁰
- There is also scope to bring about a much better integration of employability and employability-related services (such as health services), as well as to pool different sources of funding, to provide a much more effective service and greater value for money for harder to help individuals and groups in the labour market. This is already beginning to happen driven by the devolution of many relevant powers to city regions and other regional partnerships.⁹¹

89 ERSA (2017). Evidence on Brexit and the Labour Market. House of Commons Work and Pensions Committee.

90 ERSA (2016). Work and Health top of the agenda? But where's the cash? ERSA Blog; ERSA (2017). Evidence on Brexit and the Labour Market. House of Commons Work and Pensions Committee; McHugh, K. (2017). If Brexit means Brexit, what does it mean for the labour market? ERSA Blog.

91 Waite, D., McGregor, A. and McNulty, D. (2017). Inclusive Growth and City Deals Briefing. Joseph Rowntree Foundation.

5. Mitigating threats and exploiting opportunities

The discussion in this final section of the report is conducted under two headings:

- Actions that could be taken to promote fulfilling work irrespective of whether Brexit goes ahead and independently of the type of Brexit, for example ‘hard’ versus ‘soft’.
- Actions which can be taken in response to specific threats or opportunities as a result of Brexit.

General Actions to Promote Fulfilling Work

There is an extensive literature in the broad area of job quality, and some of the major experts in the field have brought forward proposals for improving the UK’s position.⁹² It is beyond the scope of this report to describe and assess these. The key point is that the [many potential risks to fulfilling work arising from Brexit](#) set out in earlier sections of this report [increase the urgency for action](#). Any systematic plan of action to promote fulfilling work must address both the demand and supply side of the labour market.

Actions on the Demand Side of the Labour Market

A prominent feature of the UK labour market over the last decade has been the rise of insecure working conditions, including zero hours contracts and ‘bogus self-employment’.

The Taylor Review made a wide range of recommendations on how best to respond to the growth of poor work. The more important recommendations called for:

- Clarification of the legal definitions of ‘employee’, ‘worker’ and ‘self-employed.’
- Greater equality of treatment between the employed and the self-employed in terms of tax treatment, but also access to state-based entitlements.
- Holiday and sick pay to be available to all low paid workers in the ‘gig economy.’
- Equal pay for agency workers.
- The creation of a national strategy to make good work available to all.⁹³

The TUC felt that the Taylor Review’s recommendations were insufficiently radical in the light of the significant growth over time in poor work, and the many costs associated with this.⁹⁴

More generally, government and its agencies need to develop a robust and strategic response to those employers pursuing a business model which entails relatively low skilled and poorly rewarded work, coupled with other unacceptably poor working conditions, sometimes with a strong dependency on migrant labour to sustain it. Many of these businesses are potentially being unintentionally supported in terms of the supply of labour to poor quality jobs through government welfare programmes such as tax credits⁹⁵ and ‘work first’ employment programmes backed up by increased conditionality and sanctions around welfare

92 Felstead, A., Gallie, D., and Green, F. (2015). ‘Policies for Intrinsic Job Quality’, in Felstead, A., Gallie, D. and Green, F. (eds). *Unequal Britain at Work*. Oxford: Oxford University Press; Sisson, K. (2016). ‘Shaping the world of work – time for a UK jobs strategy’. *Warwick Papers in Industrial Relations*, No. 105; Findlay, P., Warhurst, C., Keep, E. and Lloyd, C. (2017). ‘Opportunity Knocks? The Possibilities and Levers for improving Job Quality’. *Work and Occupations*. 44 (1).

93 Taylor Review (2017). *Good Work. The Taylor Review of Modern Working Practices*.

94 TUC (2017b). TUC Comment on Taylor Review. Available online at: <https://www.tuc.org.uk/news/tuc-comment-taylor-review>

95 Citizens UK (2015). *Public Subsidies to Low Wage Employers: Methods Briefing*; Neumark, D. (2015). ‘Reducing Poverty via Minimum Wages, Alternatives’. *Federal Reserve Bank of San Francisco Economic Letter*, December; Schmitt, J. (2012). *Low Wage Lessons*. Centre for Economic and Policy Research.

benefits.⁹⁶ The government and other public sector organisations should consider how they might **secure greater leverage from their purchasing power** in relation to both goods and services to require all their suppliers to support fulfilling work in its various dimensions within their workplaces. As noted earlier in the report, there may be greater scope post-Brexit to adopt an approach to public sector procurement which is more proactive in pursuit of inclusive growth objectives.

However, the irony is that in some sectors – such as adult care – it is the low level of public funding that constrains the ability for employers to offer fulfilling work across its many facets. Again in the case of social care, the consequences of low pay and poor conditions for staff recruitment and retention ultimately impact upon the quality of care provided to service recipients.⁹⁷ More generally, one of the major weaknesses in the literature on job quality is the limited analysis of the role of consumers (households, businesses and public sector organisations) who, through an increased demand for ‘cheap’ over ‘good’ in relation to products and services, exert a significant impact on the nature of labour demand. Since the onset of the 2008 recession these cost pressures have been intensified for many purchasers of goods and services – in particular hard pressed consumers experiencing significant reductions in real earnings and state benefits, and a wide range of public bodies having to respond to significant cuts in funding.⁹⁸

The need for government action is reinforced by the decline in the membership, collective bargaining coverage, power and influence of the trade unions in the UK, which historically significantly improved and effectively protected the quality of work and conditions at the workplace. Trade unions still carry out this function very effectively in some other EU member states, particularly in the Nordic economies where trade union coverage remains high.

Bringing About Step Change in the UK Supply Side Infrastructure

Crafts argues that the UK’s main economic policy problems are more to do with the policy shortcomings of successive UK governments than any impact of EU membership. He highlights in particular serious problems with education, infrastructure, innovation and the tax system – all of which act as a drag on productivity growth, which in turn inhibits the growth in earnings.⁹⁹

Focussing specifically on education and skills as areas of public policy which can impact significantly on the UK post-Brexit, effective action is now required to improve basic education and educational outcomes, reducing the UK’s unacceptably long tail of people with no or low educational qualifications. In 2016, there were nearly 3.4 million working age people with no qualifications and a further 4.5 million with a qualification no higher than NVQ Level 1. Employment rates for those with no or low qualifications are only 63%, compared to 80% with those with ‘upper secondary’ qualifications and 86% of those with ‘tertiary’ qualifications.¹⁰⁰

It is essential to reduce the supply of people whose only or main options are work in the lowest tiers of the labour market, and who face little prospect of progression once locked into the ‘secondary’ labour market. At the same time, action is required to tackle the problem of skills underutilisation, sitting side

96 Etherington, D. and Daguere, A. (2015). Welfare Reform, Work First Policies and Benefit Conditionality: Reinforcing Poverty and Social Exclusion? Centre for Enterprise and Economic Development Research, Middlesex University; Watts, B., Fitzpatrick, S., Bramley, G. and Watkins, D. (2014). Welfare Sanctions and Conditionality in the UK. Joseph Rowntree Foundation

97 House of Commons (2017). Adult Social Care. Communities and Local Government Committee.

98 Gould, C. (2010). Cycles of poverty, unemployment and low pay. Joseph Rowntree Foundation.

99 Crafts, N. (2016). ‘Brexit: Lessons from History’. In Baldwin, R. (ed). Brexit Beckons: Thinking Ahead by Leading Economists. Centre for Economic Policy Research.

100 NOMIS (2017). Data extract from Annual Population Survey, 2016.

by side with persistent skill shortages in areas such as digital. This necessitates an overarching review of the socio-economic rate of return to public investment in different segments of the education and skills infrastructure, including work-based learning such as apprenticeships, to ensure we are investing wisely. At the same time, by using the public sector's leverage on private businesses through procurement, private sector investment in skilling and upskilling their workforces could be incentivised.

In association with action on the demand side of the labour market, effective supply-side reform makes it more likely that the UK post-Brexit can compete effectively in the global economy. This would help to create a labour market that is sufficiently buoyant to sustain an environment where providing fulfilling work is a requirement, if employers are to be able to recruit and retain the volume and quality of employees they need to make their products and deliver their services in an efficient and competitive manner.

Specific Actions Required in Response to Brexit

In this section, we consider required actions more specific to the threats and opportunities associated with Brexit discussed earlier in the report.

Issue 1: Declining Employment Levels in a Slacker Labour Market

In the short term, it is clear that a major risk stemming from Brexit could be a significant reduction in exporting, and in foreign and domestic investment, which in turn would dent the UK's growth rate and potentially lead to rising unemployment. There are also potential challenges if tariffs are placed on imports from the EU. The impacts will vary across sectors in line with their dependence on EU imports.

However, employment and investment in car manufacturing would be seriously at risk due to a high dependency on the importing of parts and complex supply chains for parts crossing the borders of many EU countries. This is also an industry which offers good earnings and conditions in that middle part of the employment structure which has been hollowed out over time. It is clear that these possible trade developments could impact negatively and significantly on fulfilling work. The quality of jobs has been adversely effected by UK recessions, and this has been well documented since the collapse of UK manufacturing in the 1980s. There are no one-off measures or specific interventions to deal with this. It will all be down to the skill with which the UK economy is managed at the macro level.

Issue 2: Declining EU Migration to UK

It was argued earlier that declining EU migration into lower skilled jobs poses threats for business in some specific sub-sectors, but also opens up opportunities to promote fulfilling work. In order to take on the threats and exploit the opportunities a number of potential mitigating actions could be undertaken.

Develop Brexit-Driven Targeted Employability and Skills Interventions

Earlier in the report, some analysis was presented on sectors and occupations which feature high levels of dependence on EU migrant workers. Analysing geographical variations would help to identify further areas of employee recruitment and retention pressure likely to emerge post-Brexit. When the UK government is in a position to put into effect a new policy on EU migration, this kind of occupational, sectoral or regional analysis can be easily and quickly deployed to locate the Brexit-induced pinch points from the perspective

of employers, but also the opportunities to prepare currently unemployed or underemployed UK based workers for the vacancies created. Additionally, some employers with very high levels of EU migrant dependency may relocate or close. Support for the resulting redundant workers is needed through this same process, at the same time redeploying them to fill the posts that would otherwise been held by EU workers.

It will be important to generate additional resource, as well as re-tasking existing resource deployed through colleges and other training providers, to develop the relevant skills in the domestic workforce, which also includes EU nationals and non-UK nationals from outside the EU who are currently not employed or under-employed. Over the years and across the UK, many short life partnerships have been established to deal with larger scale redundancies, but also major employment expansions. The best practice from these interventions should be pulled together to feed into the design of Brexit-driven targeted employability and skills interventions.

Introduce More Effective Employment Programmes

In advance of a reduced number of EU migrants coming to the UK to work in lower skilled jobs, government funded employment programmes have a key role to play in helping more unemployed people, particularly those further from the labour market, increase their attractiveness to employers. The UK has not performed well in terms of its programmes to improve the employability of the unemployed, and more specifically has been weak in relation to people with health conditions and disability issues.¹⁰¹ This is at the heart of promoting inclusive growth in the UK. Employers – and governments – have had less impetus to address these challenges as the growing labour demands in the years before the recession, and in the period of recovery, have been easily met by increasing numbers of migrant workers. Much more investment is now needed in upskilling existing employees and those who are unemployed, and more effective interventions need to be brought to bear.

Gregg and Gardiner argue that the design principles required to drive towards full employment by increasing the employment rates of disabled people, those with health conditions and others under-represented in the workforce are as follows:

- Shift the objective from reducing unemployment (which can be achieved in part by people coming off benefits and/or declaring themselves economically inactive) towards [increasing participation in employment](#).
- Reduce the strong focus on job entry and divert more effort towards [reducing or delaying job exits](#), particularly for the 50 plus age group and disabled people.
- Tackle more directly and effectively [discriminatory employer recruitment practices](#).
- Design [bottom up employability interventions](#) that focus on the specific issues faced by local unemployed people and tune into local labour market opportunities, moving away from the top-down models that have delivered such poor performance over the past 30 years or more.¹⁰²

Moving quickly to such an approach would help prepare people for entry to the more targeted skills interventions discussed above

Support Employers to Improve Job Quality

We have discussed earlier in this report the potential impact of Brexit on employers whose business

¹⁰¹ Dudley, C., McEnhill, L. and Steadman, K. (2016). Is welfare to work, working well? Work Foundation.

¹⁰² Gregg, P., and Gardiner, L. (2016). The Road to Full Employment. Resolution Foundation.

model is currently highly dependent on EU migrant labour. The two broad approaches set out above focus on domestic UK workers as a substitute source of labour supply. A further, complementary approach would involve encouraging employers to explore potential improvements to the quality of their job offer (broadly defined) which would help them attract and retain more employees. A well designed business development intervention could incentivise employers who may wish to move towards a new business model which prioritised fulfilling work, but are unsure how to commence and embed this shift.

This type of intervention is not easy to design. There have been many attempts over the years to encourage employers to invest more in developing the skills of their workforce, but evaluations tend to find very limited positive and sustainable benefits relative to the scale of support from the public purse. Attempts to build up the capacity of the intermediaries – such as sector skills councils – who work with employers on skills issues also have had limited success as exemplified by the evaluation of the UK Commission for Employment and Skills (UKCES) co-investment funds to promote employer investment in skills, innovation and growth.¹⁰³ However, we know that businesses are more likely to alter their behaviour when there is, for example, a significant threat to their profitability or indeed continued existence – and for some companies Brexit poses these threats.

Design Geographical and Sectoral Pilots

Focusing on some of the parts of the UK where there are sectors with a high dependency on EU migrants, there is the potential to develop pilot activity that draws on each of the three sets of actions outlined above. The difficulty is that before the details of Brexit are agreed, it is difficult to carry out the planning required. However:

- It would be relatively easy to carry out a statistical exercise that identifies the sub-regions likely to be most at risk, and the sectors and sub-sectors in play.
- A start can be made by re-designing and enhancing national employment programmes along the lines recommend by Gregg and Gardiner.
- Development work could be carried out with a small number of sectors where the job profile tends to score poorly on a range of fulfilling work measures and who are currently heavily dependent on EU workers. The task would be to test their preparedness to embrace a new business model involving a significant shift towards more fulfilling work and test the kind of business development support needed to facilitate this.

The final element – the delivery of targeted employability and skilled interventions – could be assembled relatively quickly once the specifics of Brexit become known and the implications for specific sectors are clearer.

Issue 3: Threats to Employment Protection

There are clear concerns amongst a range of stakeholders that there are potential threats to the rights to employment protection in the UK after Brexit. This is in the context of the OECD's judgment that the UK has one of the most lightly regulated labour markets among the group of the largest and most advanced economies.

The loss of any key employment protections could impact adversely on the incidence of 'atypical' forms of work in the UK labour market, but also workplace wellbeing as it is broadly defined. Even with its current

¹⁰³ UKCES (2016). Employer Investment Fund and Growth and Innovation Fund Programme Level Evaluation.

employment protections, the UK has experienced a growth in poor quality jobs during the past decade. If key protections are removed, it is difficult to see how this growth could be reversed. What can be done to protect the gains that have been made through the EU, at a time when participation in and the power of trade unions is possibly at a secular low point? This places the weight on broader based campaigning, where of course the trade union movement has a pivotal role to play.

Two suggestions for supporting campaigning against the weakening of employment protection are sketched out below.

Build an Evidence Base for Campaigning for Existing Protections.

There are many different forms of employment protection, impacting on different groups of the workforce in different ways. Using fulfilling work as the organising concept, there is the need for a simple ‘manifesto’ which sets out in a concise way:

- The link between specific employment protections and key elements of fulfilling work.
- Estimates for the numbers benefiting from these protections.
- The characteristics of the workers benefitting, and in particular the various demographics to which they belong.
- Estimates for the extent of the benefits in terms of fulfilling work flowing from specific employment protections.
- Case studies of individual workers benefiting from specific employment protections to illustrate their value.

This evidence base can then be used in a range of campaigns, and by different campaigning groups. The evidence must of course be robust and up to date.

Create a Fulfilling Work Impact Assessment

Over a number of years, impact assessments have been carried out to assess the consequences for age, gender, disability and ethnicity equalities of changes to key processes – such as recruitment, wage setting and dismissal. In advance of any review of the body of employment protection laws and regulations which have emanated from the EU, a tool should be developed to help carry out assessments of the impacts on fulfilling work that would result from the weakening or loss of specific employment protections. Key questions would include:

- Implications for the volume of low quality jobs.
- Implications for the people holding low quality jobs
- Which groups of the workforce are at risk?
- What mitigations are planned, and to what extent are these likely to work?

This could build upon and complement the campaigning evidence base discussed above.

Issue 4: Loss of EU Structural Funds

The most important Structural Fund in terms of supporting fulfilling work is ESF, and over 46% of the funding is from the UK government and other UK bodies. This makes it a matter of UK government priority as to whether this type of fund is retained, reduced - or indeed increased. The evidence is that those organisations currently benefitting from ESF nevertheless accept that it is a far from perfect vehicle. Potential actions include the following:

Re-design and Enhance ESF- Economy and Labour Market Adjustment Fund

A redesigned ESF could be used to fund the targeted skills interventions to help domestic UK labour fill vacancies that would otherwise have been taken by migrants. However, it could also be used to help redeploy workers made redundant because of business downsizing, closure or relocation beyond the UK because of Brexit. Of course, much more profound impacts on localities could result if there are severe disruptions to trade, which would lead to a requirement for a much larger Economy and Labour Market Adjustment Fund.

This new fund should avoid the problems associated with ESF.

- As a labour market adjustment fund, it needs to be **strongly focused on job outcomes**.
- A **'job' should meet the criteria associated with fulfilling work**, and should be sustainable.
- The resources should be devoted to services which **plug gaps in rather than duplicate** existing provision.
- There should be a **greater responsiveness to local employment and skills needs**.
- The **ongoing monitoring of the effectiveness** of the services delivered through the fund needs to be significantly enhanced.
- The **resources required to administer the fund need to be minimised**, allowing the maximum investment in the services delivered to the client to raise their skills and employability, while also tackling other issues that restrict their employability.

This supports the argument of Baldwin, Collier and Venables that the Brexit focus should be on workers and communities.¹⁰⁴ However, with a similar approach to the re-purposing of 'ERDF' funding, development support for businesses needing to move away from the 'poor work' business model could be taken forward.

Conclusion

This report argues that there are many threats posed by Brexit in relation to fulfilling work. However, there are also opportunities, not least because employers and governments may need to focus more on maximising the potential of the existing workforce, including those in less than fulfilling work, but also members of groups of the population generally under-represented in employment.

- As a consequence of Brexit, the number of poor quality, low paid jobs may decline, and so raise the overall quality of the employment offer across the UK.
- There is a requirement to enhance the effectiveness of employment and skills services, so boosting the quality of the UK's labour supply.
- Both of the above combined can, if sustained over a number of years, begin to push the UK towards higher earnings and higher productivity and a more inclusive economy, where fulfilling work is the norm and much more evenly distributed across different groups in society.

The final section of the report makes a number of practical suggestions on how to reduce some of the negative consequences for fulfilling work that might emerge from Brexit. It also sketches out how potential opportunities can be exploited to promote aspects of fulfilling work. There is no denying that this is challenging.

However, the starkness of the challenge that many businesses – and ultimately the government and its agencies – will confront could be the catalyst for the development and implementation of more radical policies to make fulfilling work the norm in the UK labour market.

¹⁰⁴ Baldwin, R., Collier, P. and Venables, A. (2017). 'Post-Brexit Trade and Development Policy'. Policy Insight No. 88, Centre for Economic Policy Research.

Annex: Approach to study

Broad Approach

Three main methods were deployed to take the study forward:

- An extensive literature review.
- Statistical analysis for the UK, the EU and OECD.
- Consultations with key organisations.

Literature Review

A significant volume of reports and statistical material was sourced from the following:

- CBI.
- CIPD.
- European Commission.
- Eurofoundation.
- House of Commons.
- House of Lords.
- Institute for Employment Research, University of Warwick.
- Institute for Employment Studies, University of Sussex.
- NESTA.
- Office for National Statistics.
- OECD.
- Resolution Foundation.
- Scottish Enterprise.
- The Migration Observatory, University of Oxford
- TUC.

Statistical Analysis

Statistics were collected from standard UK data sources through ONS, but also from OECD databases.

Consultations

A mix of face to face, telephone and email consultations were carried out with a range of academics and independent commentators with analytical expertise, as well as representatives from public and voluntary sectors, and of employers and trade unions.

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