IES HR Network Paper No. 87

The Recession

Policy and employer responses

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1 Introduction

This paper examines the impact of recession on the labour market through three lenses. Firstly, it presents a summary of the key evidence to date on redundancies and employment decline in the UK, with international comparisons, identifying which labour market groups and geographical areas have been most affected. Secondly, it reviews and assesses the government policy response, focused on initiatives to support employment. Thirdly, it reviews employer responses to recession (action which affects current employees, and their plans for the future), and questions the level of employer engagement with government policy.

2 Recession in the labour market

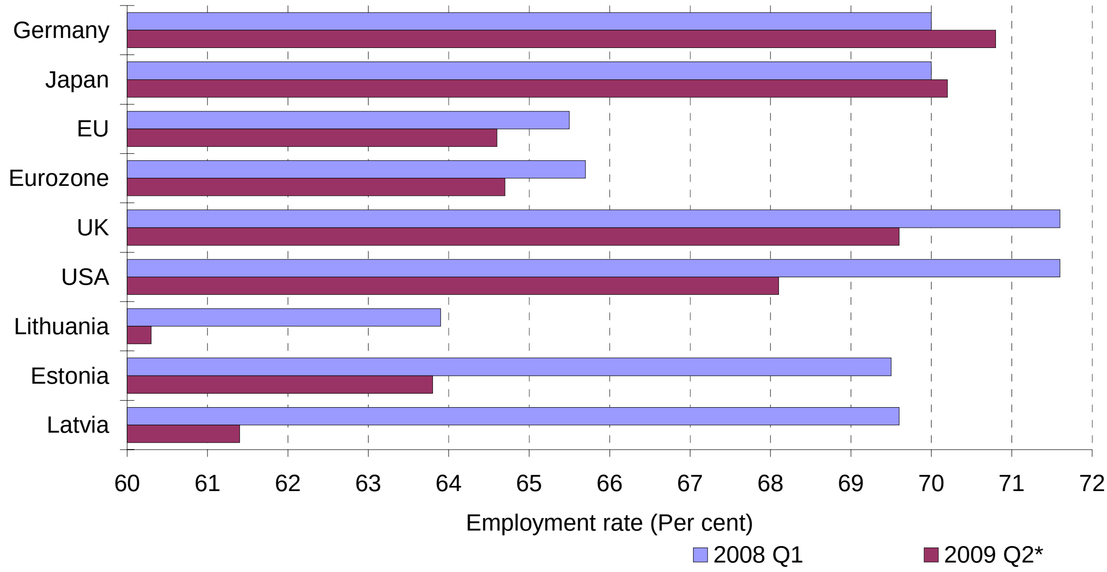
Relevant data show that the employment impacts of the current recession have been particularly severe:

- in those countries most exposed to the credit crunch, including those with largely deregulated labour markets
- in N Ireland, Wales and the West Midlands, though effects have been felt across the UK
- on young people
- on UK nationals
- on men.

2.1 International impacts

The current recession is a global phenomenon with world GDP in decline. Like the USA, but unlike the Eurozone as a whole, the UK entered this recession with a high rate of employment. The labour market impact to date in the UK has been moderate compared with that in the USA, but as is clear from the employment rate statistics in Figure 1, rather severe compared with that in some other major economies.

Figure 1: Employment impacts vary across the industrialised world



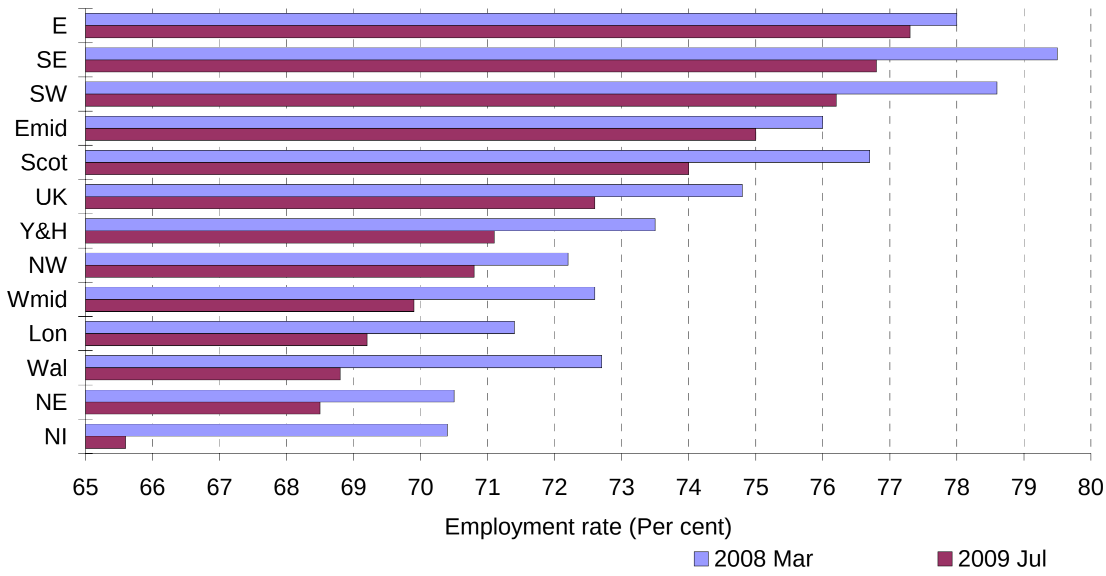
** EU/Eurozone statistics only available to 2009 Q1*
Sources: Eurostat, national statistical agencies

The root of these differing labour market impacts is probably the degree of imbalance within each economy rather than the type of labour market. While the long-term consequences of the recession are still to play out, it would seem at least in the short term that some countries have been able to protect their labour markets more successfully than the less regulated British and Americans. The Baltic states illustrate the point: lauded for their deregulation until recently, their imbalances have nonetheless led to catastrophic collapses in employment.

2.2 Across the UK

Within the UK, there are geographical variations every bit as striking as those seen at international level, with particularly large falls in employment in Northern Ireland, Wales and the West Midlands. Figure 2 shows employment rates falling fast across all areas, with the possible exceptions of the East Midlands and the East of England. Though changes are mostly in the same order of magnitude, some regions (South East) are falling from higher levels than others (North East).

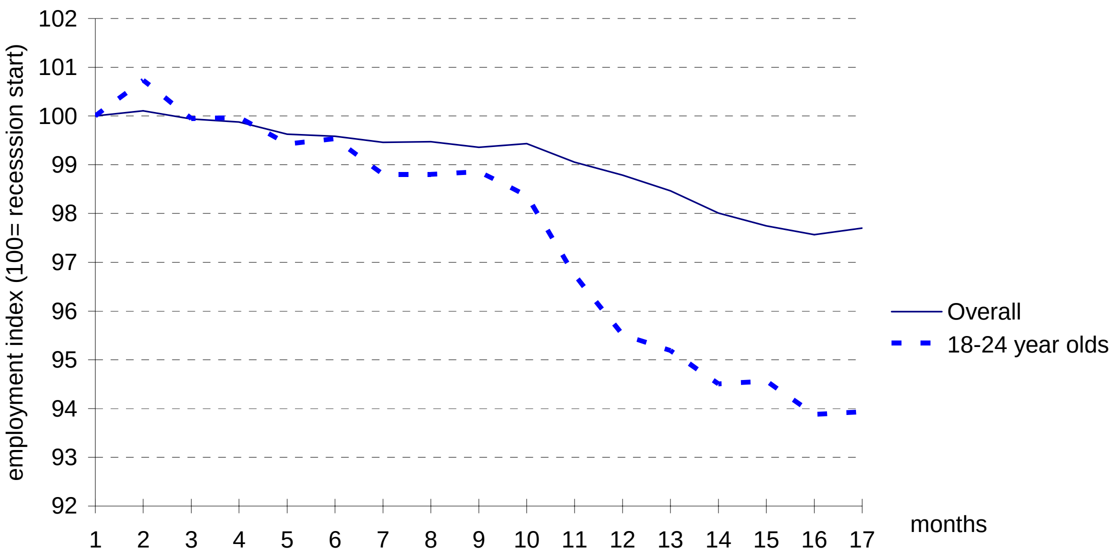
Figure 2: Employment rates (%) in decline across the UK



Source: UK Labour Force Survey

Across the UK, the impact on youth employment has been particularly severe: Figure 3 shows employment of 18-24 year olds down six per cent compared with March 2008 (overall employment is down just over two per cent). Reduced opportunities to access jobs with training, such as apprenticeships, are a particular policy concern due to the potential long-term consequences for individuals, businesses and the economy.

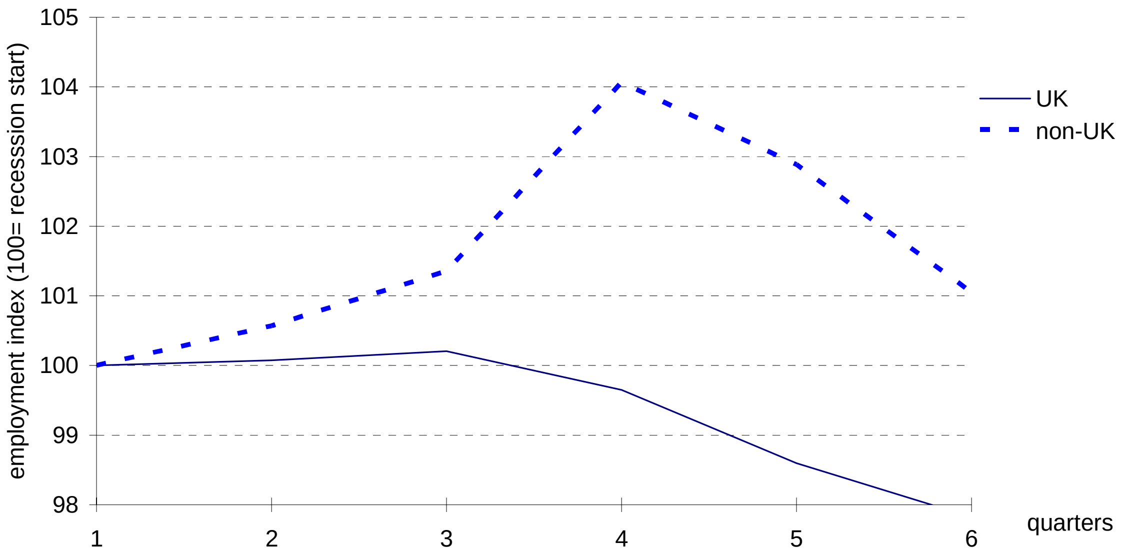
Figure 3: Youth employment falling faster than overall employment



Source: UK Labour Force Survey

The scale and rapid turnover of economic migration is a factor marking out the current recession from those of the 80s and 90s. Despite evidence (Pollard et al. 2008) of many of the so-called 'A8' migrants leaving the UK, Figure 4 shows that employment of non-UK nationals actually rose in the first year of the recession and though now declining, it remains above pre-recession levels.

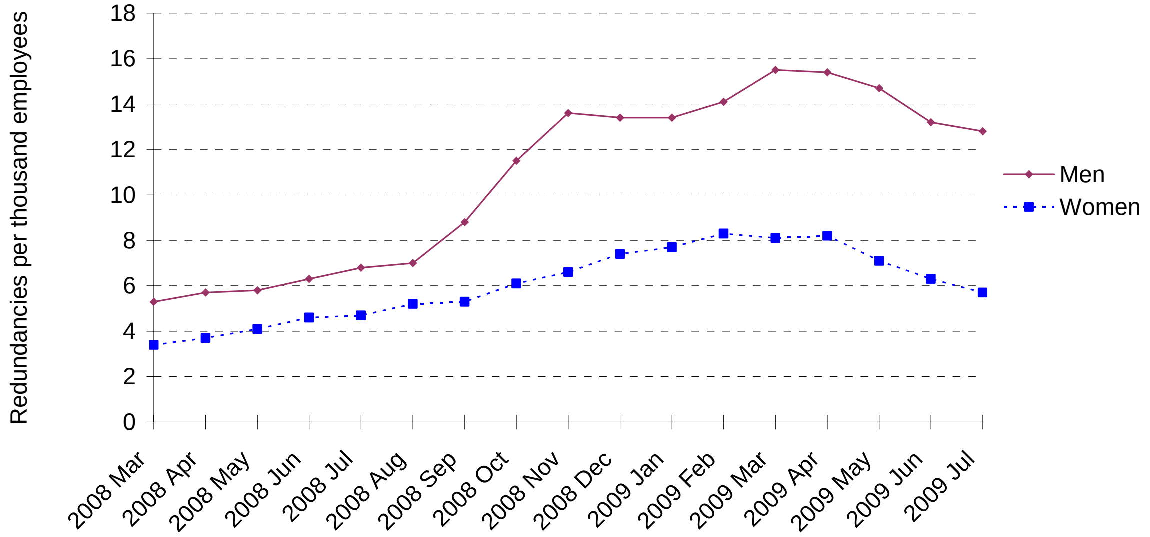
Figure 4: Employment of non-UK nationals rose well in to the downturn



Source: UK Labour Force Survey (not seasonally adjusted)

Men have borne the brunt of job losses so far, as shown in Figure 5. As in previous recessions, the vulnerability of male employment raises questions about whether some men have the skillsets and aptitudes to succeed in a changing economy, in particular those with low levels of skills who have worked in well-paid manual occupations.

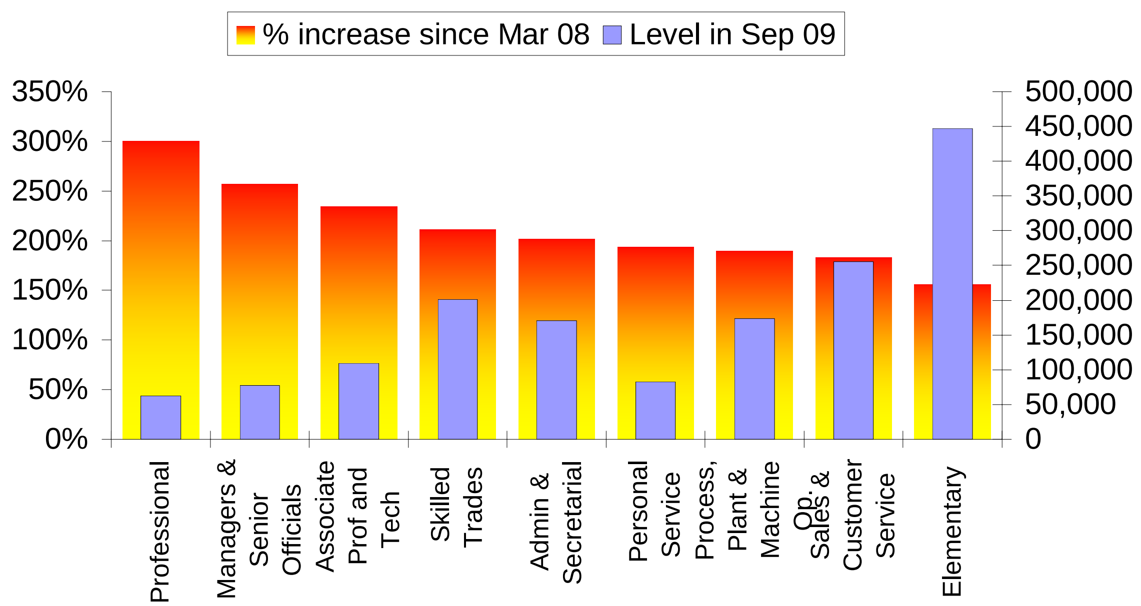
Figure 5: Redundancies hitting men twice as hard as women



Source: UK Labour Force Survey

We also know that professional people and graduates are experiencing relatively higher levels of unemployment than before. Indeed, while unemployment, as in previous recessions, remains dominated by those from less skilled occupations, the fastest growing groups are composed of much higher skilled jobless people, as shown in Figure 6.

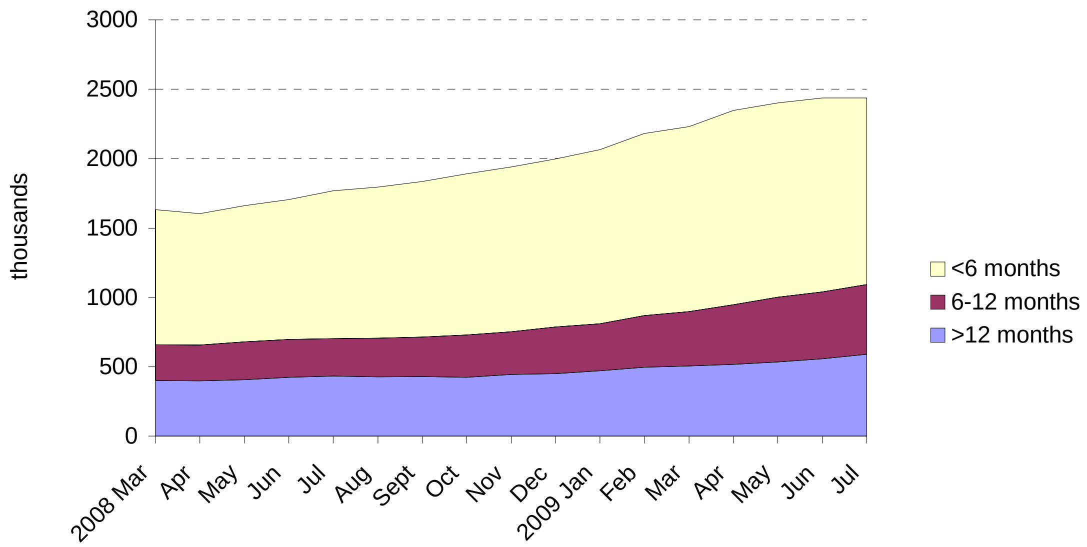
Figure 6: Rapid rises in managerial and professional jobseekers



Source: Jobcentre plus administrative system

While the impacts described so far characterise the key developments in the first 18 months of the recession, the important, unanswered questions are about what happens next. Evidence from previous downturns shows that employment levels can take many years to recover to pre-recession levels. Additionally, because employers have cut jobs less severely than in previous recessions, economic recovery is likely to involve more 'jobless growth', as they will not need to recruit staff to cope with any resumption in demand. In the meantime many individuals' skills become less valuable, they become disaffected with the job search process and – as happened in the 1990s – some people may leave the labour market altogether. The beginnings of these processes can be glimpsed in Figure 7: unemployment may no longer be rising so fast, but long-term unemployment makes up an increasing share of the total. Mitigating this trend presents some of the most intractable challenges for policy makers and employers in the years ahead, in particular because changes in benefits regimes have moved some 'economically inactive' individuals onto schemes under which they are required to seek work (see discussion in next section).

Figure 7: While unemployment stabilises, long term unemployment becomes entrenched



Source: UK Labour Force Survey

3 Government responses to the recession

We turn now to look at how the government has responded to the recession and, in particular, what the policy response has been to rising unemployment. The figures above demonstrate that unemployment is beginning to have a greater effect on certain labour market groups such as young people and men. Moreover, as the recession continues well into its second year the numbers of people experiencing long-term unemployment are now growing. Some regions within the UK have also been worse affected by the recession than others and smaller (often inner-city) areas where worklessness is already well entrenched are likely to experience worsening decline. At the same time as unemployment is rising among these groups, the government is continuing its roll-out of planned welfare-to-work policies. These include the introduction of the *Employment Support Allowance*, which replaces *Incapacity Benefit* for people who are sick and unable to work, and obligations on lone parents, particularly mothers, to seek work actively when their youngest child reaches the age of 11. These policies (by moving people from 'economic inactivity' to jobsearch) are swelling the already considerable ranks of the unemployed, arguably with people who are harder to help and those who are furthest away from the labour market.[1]

Against this policy context, some key questions to consider are: how adequate has the policy response been in getting these people back into work, into self-employment or at the very least maintaining or improving their skills ready for an upturn in the economy? How is the government helping people who already face the greatest labour market disadvantage to get back into work? How effective are these policies? How different is the policy response from that of earlier recessions?

Welfare-to-work policy over the last decade has hinged much more on active labour market policies and programmes (ALMPs) to get people back into work. The New Deals of the late 1990s and the next generation Flexible New Deal have aimed to provide one-to-one personalised packages of training and motivational support to get unemployed and inactive people back into work, particularly those with low or no skills. The emphasis of these policies, conceived in an era of tight labour markets and aimed at moving disadvantaged people closer to jobs that already existed, has been almost entirely on the supply side. The widespread introduction of tax credits and the benefit reforms of the last decade or so have been designed to make work more attractive to individuals (by using both carrot and stick approaches). A mixed economy of welfare provision has also emerged over time and the private and third sectors now play a much greater role in the delivery of active labour market policies in partnership with the public employment service, Jobcentre Plus. It is within this context that the government has responded to the current economic crisis, seemingly acting swiftly to extend and intensify these supply-side policy interventions to get people back into work. Two of the supply-side policy interventions are being evaluated by IES.

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1 They also, however, make unemployment figures look worse than they would otherwise, because they now include people who in previous recessions were counted as 'inactive'. When we allow for this difference, given the fall in GDP, the growth in worklessness is rather **less** severe than experienced in the last two recessions.

Local Employment Partnerships (LEPs) were announced in 2007 as a way for Jobcentre Plus to work more responsively and closely with employers to meet their recruitment needs, and importantly to encourage them to recruit from the pool of disadvantaged unemployed jobseekers. Introduced at a time of high employment, LEPs were intended to change employers' minds about disadvantaged jobseekers and give them a better chance of job success. To this end, Jobcentre Plus was charged with getting 250,000 long-term unemployed people (ie those out of work for six months or more) into work by April 2010, a target which they (easily) achieved by the summer of 2009. The government has extended the reach of LEPs in response to the recession, and employers are now encouraged to consider all unemployed jobseekers for vacant positions, regardless of how long they have been out of work. Early findings from our research suggest that while Jobcentre Plus continues to have targets to move a certain number of long-term unemployed claimants into work via LEPs, there is concern that employers will (quite rationally) recruit the best candidates (and those with shorter durations of unemployment) to the ever deepening disadvantage of those furthest from the labour market. This begs the question of whether LEPs are really helping the client group that they were designed to help? There is also no clear indication of how sustainable LEP jobs are or whether they can meet basic income needs: some can last as little as a few weeks, or a few hours per week.

More positively, employers have responded fairly favourably to LEPs, and especially to the provision of pre-employment training, which prepares unemployed candidates for specific vacancies, so many employers have reported an improved level of service from Jobcentre Plus. The evidence suggests, however, that Jobcentre Plus continues to work with its existing employer client group: LEPs are not attracting new employers to use Jobcentre Plus services. Because Jobcentre Plus has not forged partnerships with new employers, it is arguable that it may therefore have done little to change employers' minds about recruiting disadvantaged jobseekers. A key issue for Jobcentre Plus is how to engage new employers and get them to participate in LEPs.

The **Integrated Employment and Skills (IES) Trials** also predate the start of the recession, and were intended to assess and improve the skills of unemployed jobseekers, particularly those whose skills are out of date, or those with poor employment histories. This policy has now been extended to include people who are newly redundant in order to update their skills to meet the demands of the labour market. At the time this particular policy was designed, largely in response to the Leitch Review, the labour market was much tighter and the economy was still growing. Arguably, those people who were on the unemployment register at that time required some form of upskilling to enable them to compete in a more buoyant labour market. A skills and employment policy such as that envisaged by Leitch was also attempting to prepare people for sustainable employment rather than sporadic engagement with the labour market (to help break the 'revolving door' cycle of short-term work and periods of inactivity and unemployment). In the current economic climate, jobs are in shorter supply and it is not clear that those people who are flowing into (or indeed form a large part of the stock of) unemployment have poor or outdated skills. What remains the key barrier for many jobseekers is a lack of employment opportunities not a lack of talent.

Nevertheless, within the IES Trials programme, Jobcentre Plus and the nextsteps agency (which provides careers advice and support) are charged with working in partnership to provide a seamless service to jobseekers to improve their skills and meet the needs of the labour market. Although it is very early days, there is little evidence to suggest that jobseekers are moving into employment as a direct result of the Trials in any great number and it remains to be seen whether they move any closer to (re)joining the labour market as a result of the policy intervention (a concept known as distance travelled). Our research is looking at how jobseekers' skills have improved as a result of IES (or not), and whether these skills translate into better employment prospects. International research shows fairly limited evidence of impact of training provision on job outcomes, unless it is intensive and tailored to the needs of specific groups, such as young people, which makes it very costly to provide (Martin, 2000). Furthermore, some also question the utility of training during difficult economic periods:

> *'One should also expect training programmes to be ineffective in a situation with very low demand, when unemployment duration is long under all circumstances, and when it is difficult to know where future labour shortages in the economy will appear. The upshot is that training programmes should be kept rather small in a deep recession.'*
>
> Calmfors et al., 2002:58

Interestingly, in the current UK circumstances, there have been no significant changes to the training opportunities that jobseekers can access and no additional funding is likely to be made available to do so in the future. In many ways what is available under IES remains the same; it is the systematic signposting of training provision and the offer of guidance to help people to take up training opportunities that is new. We will be asking whether the policy can achieve its aims, and if not, why not? It is not clear that the nextsteps agency understands (the needs of) local labour markets sufficiently to bring about a better fit between labour supply and labour demand. It is also not clear that the skills training that is offered as part of IES will sufficiently prepare jobseekers for employment.

It is very unlikely that current policy responses to the recession, and the supply-side measures discussed above, are sufficient **on their own** to reduce unemployment in a slack labour market characterised by a lack of jobs. What of government policy to influence the demand side? The spectre of high youth unemployment and a lost generation looms large, with comparisons being made to the recession of the early 1980s. To this end, the government has responded relatively quickly to establish the £1 billion Future Jobs Fund, a job creation scheme, which offers all young people who have been out of work for 12 months or more the chance of a job, work focused training or participation in a community task force. This policy is predicated on the idea of partnership, and local authorities and the third sector are likely to be big players in its delivery. The policy is in its infancy (delivery contracts are only just being let), and so no research evidence on its success is yet available, however, some commentators are already drawing comparisons with the old YTS schemes and Community Programmes, and have raised doubts about the quality and sustainability of job outcomes from it. Indeed, international research suggests that demand-side job creation schemes make very little difference to the employment chances of participants, and in some cases may actually disadvantage them and decrease their chances of engaging in employment even further (due for example, to the lock-in effect whereby participants have no time to engage in active job search in the open market, or because job creation schemes are stigmatising and offer few opportunities to gain real skills that are valued by employers – Hujer et al. 2004, Caliendo et al. 2008). The Future Jobs Fund is intended to create 150,000 new (additional) jobs for disadvantaged young people; it remains to be seen if this will be the case.

4 Employer responses to recession

Analysing the impact of recession on the labour market must involve a consideration of employer responses as well as those of government, since their activities and strategies will shape how they respond to, and engage with, government policies aimed at supporting individuals within the labour market. We turn now to three related questions. First, how are employers facing tough business conditions seeking to reduce costs? Are they using the same techniques as in previous recessions and with what consequences? Second, to what extent are employers planning for recovery in terms of long-term investment in their staff and what does this involve? Third, to what extent are employers engaging with support provided by the government?

4.1 Coping with the present

Innovations in ways of reducing labour costs

Evidence shows that unemployment and inactivity have not grown as fast as in previous recessions (although the fall in GDP has been greater), so this raises questions about whether this is due to any changes in employer behaviour with regard to managing decline in demand. Low or negative inflation coupled with a changed and generally less militant employment relations climate outside the public sector may have enhanced management discretion to take cost-saving action which affects terms and conditions of employment. This is supported by research which indicates that employers are being innovative in the approaches they are taking to reduce staff costs. The CIPD, for example, reports widespread use of flexibility in working time and pay as a means of depressing costs.

Table 1: Employers' use of main alternatives to redundancy, 2009 (%)

Recruitment freeze	50
Terminated temporary contracts	44
Flexible working	19
Cutting bonuses	17
Short-term working	15
Cutting pay	7
n = 900 employers, multiple responses possible	

(Source: CIPD/KPMG Labour Market Outlook Survey, 2009)

So why are employers taking actions which they have not pursued in the past? CIPD analysis shows that this is not necessarily due to greater short-term savings from alternatives to redundancy, since only recruitment freezes and the use of unpaid leave approach the levels of cost savings that redundancies can achieve (2009). Instead, there appears to be a number of contributing factors.

First, ongoing IES research with members of our HR network shows that employers appear rightly reluctant to lose talent. This is especially important if poor business performance is due to cyclical economic problems rather than underlying problems with a business model or structure, since employers will need to try to recruit staff in the future. Some employers (and younger managers) may also have never experienced slack labour markets and are used to a constant 'war for talent'. This may make them cautious in shedding staff, due to fears about future difficulties in recruitment, and they may also be less conditioned to the use of redundancy as a cost saving device than employers with experience of previous economic downturns. Employers also report becoming more aware of the impact of 'survivor syndrome' on employees who survive redundancy rounds, which can mean that savings in payroll costs are offset by lower morale and a longer-term dip in productivity and employee engagement.

Second, the continuing decline in unionisation across the economy may make employers rather more ambitious in broaching the subject of pay cuts with their staff, whereas in the past they may have feared union opposition.

Third, the growing discourse around work-life balance, long working hours and the rise in non-standard working patterns may have raised awareness of these options as alternatives to job loss. Employers may have greater experience of operating forms of flexible working than they did in the recession of the early 1990s.

Fourth, the financial crisis and concerns about senior manager and executive bonuses, coupled with the development of codes of practice and proposed regulation to cap or place tighter criteria on the award of bonuses has created a greater climate of scrutiny around pay schemes and pay levels. It is uncertain, however, how far down organisational hierarchies such restrictions may reach.

4.2 Planning for the future

Employer approaches to workforce strategies: oxen, ostriches and sheep[2]

In addition to coping with current cost pressures, employers need to develop strategies to ensure they are best placed to take advantage of improvements in economic conditions, when these arrive. Well known studies of previous recessions show that under-investment in training can slow economic growth during subsequent recovery, so to what extent are employers managing to confront this challenge? A combination of IES research and our review of other sources of evidence shows that employers fall into three main types in their approaches.

'Oxen' are sticking to their long-term plans

A core of employers in industries with high-level skills requirements which require investment over a long period of time are doing everything they can to preserve long-term training plans, especially for younger recent recruits such as graduates and apprentices. Often long-established businesses, they have seen recessions come and go, and are determined to 'weather the storm' as they cannot afford to lose money they have already ploughed into staff development. They are maintaining training for priority groups of staff but may cut back in some areas and make efforts to reduce training costs, as well as making full use of existing government subsidies where possible. These employers are among nearly half those surveyed by the CIPD who stated that they anticipated the amount of investment in workforce development this year to be the same as in 2008 (CIPD, 2009). As one employer put it to IES:

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[2] Oxen and sheep categories named after Chinese astrological types, ostriches after the universal stereotype.

'If we don't continue apprenticeship training now, we'll have no supply of qualified engineers in five years' time.'

These employers are also likely to be committed to existing recruitment strategies which feed into relatively coherent, long-term workforce planning processes. However, there is evidence of short-term behaviours to accommodate the immediate effects of the downturn, for example, in deferred graduate recruitment among large employers (and a few notable exceptions like BT who suspended graduate recruitment for a year). These are likely to be large sophisticated organisations, who may also be more likely to use working-time flexibility as a means of reducing labour costs through decreasing the wage bill. One interesting issue arising is the extent to which any reductions in working time change will be sustained in the future, and whether it will contribute to job creation. This in part depends on how individuals adjust to lower income and reduced working hours and how they evaluate the trade-off between the two. A key consideration will be whether reduced income levels adequately cover housing costs and meet individuals' expectations of standards of living. For employers, the relative costs of part- versus full-time employees and the extent to which economic recovery creates unmet labour demand will be major determinants of their decisions in this area.

'Ostriches' do nothing until it is too late

Some organisations may not gain the opportunity plan for the future, because inadequate planning to date will lead to their closure as a result of recession. Staff at government support agencies interviewed by IES for a number of recession-related projects report seeing a number of bankruptcies because managers did not address problems early enough (eg Cox et al., 2009). These are typically owner-managed SMEs, where managers took a 'head in the sand' attitude and ignored financial problems until they were insuperable. Those struggling on and making redundancies do so either due to a lack of awareness of alternative cost-saving measures or lack of management capability to implement them.

Business support agencies claim that early intervention could have saved a number of these kinds of organisation from closure. Often set up during the past ten years of economic boom, many such firms have never experienced tough times and their managers have no expertise in managing cash flow and undertaking financial forecasts and planning. Through the Business Link service, the government is attempting to encourage small employers to make full use of sources of support and advice as early as possible to protect their long-term future. IES is evaluating the Small Business Health Check service but results from this research are not yet available.

‘Sheep’ are uncertain with varying behaviours

‘Sheep’ employers are nervous, not in a critical state, but uncertain about the future, and finding making decisions about long-term plans difficult. They are among the 40% of employers who anticipate cutting back on training costs (CIPD, 2009) by reducing spending on external provision. IES research found that more creative employers in this category are bringing training in-house and using alternatives to formal external courses by training up internal assessors, coaches and mentors (Cox et al., 2009). They may also convert some training which they previously funded into a form which will attract public subsidies, but are nervous about engaging with any form of business support that carries additional bureaucracy and burdens on management time. Many ‘sheep’ employers are heavily focused on maintaining their existing business and not using opportunities to continue networking with other employers and sources of labour market and economic intelligence, which makes supporting them a challenge for government advice services and training providers. Their levels of engagement with other means of reducing labour costs such as reducing working time or pay are likely to depend on awareness, capability and capacity to implement these rather more sophisticated HR policies, and selection of these is likely to be varied and driven by convenience and circumstance rather than carefully deliberated.

Ongoing IES research for the Learning and Skills Improvement Service has found that a number of FE colleges are managing to foster links with employers to reduce the chances of redundancy through workforce development. This may involve putting workers through training in business improvement techniques during lay-off periods to improve production efficiency. Other colleges have trained workers for redeployment either in their current organisation or for the open labour market prior to redundancy. This depends on a high level of trust between employers and training providers, as in many cases job losses are not public knowledge at the time of training programmes.

5 Conclusions and key questions

Evidence on the long-term impact of programmes to help unemployed people get back into work is remarkably consistent across international evaluations and across time, including during previous recessions, for both **supply and demand side measures**. In our conclusions, we place the IES research projects discussed above in a wider context of the broad package of policy levers available to governments, and raise some questions about future priorities to invite discussion and debate.

Our review shows that some **supply side** policy measures including information, advice, guidance on job search and efforts to match job seekers with vacancies are cost-effective interventions. However, these can generate a considerable degree of 'churn' as people cycle in and out of employment and from one programme to another, and are less effective in conditions of low labour demand.

In relation to the impact of training and skills development, exposure to real employment or work experience in situations which are as close to real jobs as possible is most beneficial (Meager, 2009; Cox et al., forthcoming). This is partly because any skills and knowledge acquired are most likely to be in a form which is valued by employers, and partly because quality of work experience may be regarded by employers as a signalling device about applicant quality.

A final supply-side policy option is that of benefit reforms to drive unemployed workers into more aggressive job search behaviour, provide greater incentives to work and remove risks of in-work benefit traps. Again, the lessons of previous policies show that these can meet with some success as in the case of the Restart Programme in the 1980s (Gregg, 1990), but again are more likely to be effective in a tight labour market.

Demand-side measures to provide work for redundant individuals (or to retain those at threat of redundancy) can be effective in the short-term, especially during the recession. The Community Programme of the 1980s is one such example of job creation programmes which are currently receiving attention among policy makers. Job creation programmes can be subjected to two different kinds of evaluation however. The first concerns their *primary* effectiveness in delivering sustained job outcomes, while the second concerns their *secondary* function in providing purposeful activity which may prevent adverse secondary long-term consequences of unemployment such as poorer mental and physical health, decreased life expectancy and increased propensity to criminal activity.

Evaluation according to the former criterion rates suggests that such programmes are relatively ineffective. Although they keep people engaged in useful activity, in the long-term they may not deliver the skills that people require to compete in a changed labour market, may reduce contact with employers and can create stigma from participation in programmes with poor reputations. For example, the Youth Training Scheme of the 1980s had an adverse reputational impact which inhibited employers from recruiting individuals who had participated in these schemes. There is limited evidence on the function of such programmes according to the second criterion, though Gregg and Layard (2009) have recently made a case that such interventions have a useful function in 'preventing despair' among the unemployed.

Recruitment and/or retention subsidies targeted at particular labour market groups such as young people can be particularly attractive to employers during recession due to the financial incentive involved. Assessment in comparative international perspective of the Young Workers' Programme of the 1980s which subsidised recruitment of people aged under 18 is broadly positive (Auspos et al., 1999). However, these subsidies are expensive for governments to implement, may have high levels of 'deadweight', and can lead to recipients displacing other workers. The government's current intervention in this area is the 'Golden Hello' scheme, offering employers £1,000 for each person they recruit who has been claiming Jobseeker's Allowance for at least six months, but it is too early to speculate on its impact. In addition, informal discussion with individuals from some public sector organisations has indicated that they are under great pressure to take on apprentices under the government's expanded scheme, but simultaneously receiving warnings of large reductions in funding and therefore anticipate that they will lack the resources to do sustain apprenticeship placements.

Although it is not within the scope of this paper to review in detail, it is important to note evidence on the impact of support for individuals to enter self-employment. The attrition rate is high with up to 90% of new businesses ceasing to trade within the first year. This can be reduced to around 50% with careful selection of individuals for intensive training programmes (Cowling and Hayward, 2000), but it is questionable whether public funds (as well as individuals' redundancy settlements) should be invested in supporting highly risky entrepreneurial activity on a mass market basis during unpropitious economic circumstances. In contrast to the United States for example, having run one's own (failed) business does not appear to make UK job seekers any more attractive to employers (Meager at al. 2003).

The analysis of this paper gives rise to three sets of questions to consider and debate:

1. **How should government best engage employers to meet both their needs and those of individual citizens to support economic recovery?** Many of the government's policies to avoid or mitigate job loss are dependent on engaging employers in some way to take on interns or offer work experience. Which employers should be targeted and using what kind of policy levers, ranging exhortation to coercion? Many of the current schemes are targeted at public sector employers, who may have little slack and fewer managers to support these programmes in the medium-term. How and to what extent should (government expect) private and voluntary sector employers to be involved?

2. **How should government investment in welfare-to-work schemes be prioritised for individuals?** Is it best to target those closest to the labour market for 'quick wins' and take people quickly off benefits to reduce public expenditure? Alternatively, are the people who are most likely to get jobs therefore least deserving of public support, which should instead be targeted at

the hardest to help groups (arguably with greatest need but least chance of success?) Answering this question depends upon our fundamental societal beliefs about what the welfare state is for.

3. **What kinds of organisations should be prioritised to receive investment, given the scale of government debt which must be repaid?** The government has already recognised a need to prioritise investment in particular sectors through its commitment to a new policy of 'industrial activism' (BIS, 2009). Although not intending to pick winners, the policy recognises that to compete effectively in lucrative high-value-added international markets will require considerable investment and that, as a nation, we cannot expect to be good at everything. This goal must be balanced against the priority of job creation, where evidence might lead us to conclude that there is potential for considerable expansion of relatively low-value-added occupations (for example in the care and retail sectors) and a recognition that pressures on public sector spending may limit its capacity to provide work for the superfluity of job seekers among from vulnerable labour groups, as it has done in more prosperous times.

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