Precarious Employment Growth in a Declining Economy

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1. The Productivity Conundrum

There are conflicting data emanating from the Office of National Statistics (ONS) on employment, unemployment and Gross Domestic Product (GDP) which have created a dilemma for economists. In the initial stages of the financial crisis in 2008, the fall in employment was much slower than the decline in GDP would have predicted; and in a second phase, from 2011, real GDP fell while employment grew. GDP failed to grow in 2012, growth was negative in three of the four quarters and, at the time of writing, many analysts are anticipating another quarter of decline, taking us into a triple dip recession. Counter-intuitively, as GDP declined or stagnated, employment continued to rise and unemployment fell. As a result, ‘the current level of productivity, measured as output per worker, is around 15 per cent lower than might be expected on the basis of previous experience’\(^1\).

Economists have suggested a number of reasons for this apparent discontinuity between the growth figures and the changes in employment. The data have provoked a debate over whether the GDP figures are wrong, the employment data are faulty, the jobs that have been created are in low-productivity involuntary part-time employment, employers are hoarding skilled labour in anticipation of the upturn, capital intensive sectors that employ little labour are suffering lower levels of output than labour-intensive sectors, and the banks are continuing to direct resources to over-staffed low-productivity firms, rather than investing in new dynamic firms and sectors.

This has led the ONS to set up several work-streams relating to what it refers to as a ‘productivity conundrum’\(^2\). The ONS has examined some of the possible reasons for this puzzle and has concluded that there is no single factor that can account for it.

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They have argued that there are likely to be several broad forces at work, such as the impact of the banking crisis, the reaction of companies, the flexibility of the labour market and the sectoral composition of the economy. They have looked in detail at the structure of the economy, the role of the financial sector, the behaviour of supply, the behaviour of companies, the flexibility of the labour market and the possibility of measurement errors in GDP estimates. The ONS has also investigated micro-data on incorporated businesses in key sectors of the economy up to 2009 to try to shed some light on the matter.

The one possible explanation that the ONS explicitly rejected was that there could be an issue with their GDP data. The ONS found no evidence of bias in the early estimates of GDP growth, for these were consistent with the information provided by other business surveys and with information on tax revenues. In addition, the ONS analysis of the micro-data on incorporated businesses does not support the proposition that there is a problem with the GDP data.

One issue the ONS did not consider was the possibility that there was an error that is consistent across all these sources. One would naturally assume that this is unlikely. The idea that all official and industry sources are making the same mistake is difficult to accept. In most cases, where the data have historically been assumed to be reliable, it would be highly unusual. Nevertheless, we will argue that these sources do indeed suffer from the same bias as the ONS GDP calculations. None of the sources cover the very smallest firms, which have been growing significantly in recent years. Part of the reason for the productivity conundrum is that a growing proportion of the UK economy is falling out of the scope of official and other statistics. The growth of precarious employment, in a number of forms, explains what appears as a conundrum.

There may be elements of truth in most or all of the above explanations for the unexpected outcomes in the growth and employment information. They do not however, either singly or in combination, provide us with a convincing explanation for

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3 Patterson op. cit.
what appears to be a 'job-rich depression'. In particular, the impact of underemployment, which is itself a precarious form of employment, can be shown to be significant but a more powerful explanation that has to be considered is that for some time now we have been seeing the growth of precarious self-employment in the UK, which is not captured by the GDP output figures and other sources. In particular, the rapid growth in part-time self-employment since 2008 has to be contrasted with the large decline in full-time employees over the same period.

In the struggle to solve the riddle of falling growth and rising employment, the basis of the productivity conundrum, there are two interrelated but conflicting drivers that are lurking below the surface: the different methodologies that are used by the ONS to collect the data and the long-term structural changes in the UK economy. The latter involves a remarkable growth in precarious employment, which has consequences for the former. The combined effect of two different ONS survey methods for employment and GDP, along with the increase in insecure part-time employment, which has been taking place over the last 20 years, produce employment figures that capture a new reality and growth figures that do not. At the heart of the economists' dilemma is a massive increase in part-time self-employment, especially in the post-crisis period since 2008. Related to this is growing underemployment amongst the self-employed, measured mainly by the involuntary nature of their part-time status.

In this paper we will look at both the relevance of the growth in part-time self-employment for the GDP data and the increase in two forms of underemployment. We will argue that the growth in part-time self-employment leads to an under-reporting of this precarious type of economic activity in the GDP figures and the growth of underemployment leads to an overstating of this equally precarious employment in the job figures.

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2. ONS data gathering and precarious self-employment

Both sets of ONS data rely on survey methods. The labour force information is based on a household survey and the GDP information is gathered using business surveys. The sampling methods that are used in these surveys are necessarily different - and the differences are significant.

The employment data that derive from the Labour Force Survey includes information on age, gender, disability, unemployment and an array of employment information for every member of a household over the age of 16. It identifies, for example, levels of participation in the labour force, the sector of employment, employees and the self-employed, whether people work part-time or full-time, in permanent or temporary work. It reports on a large sample of the population and it is a comprehensive presentation of the labour force's situation of everyone in the surveyed households who is economically active or inactive. It captures data on everyone who is or could be in the labour force.

A number of different tools and models are used for the GDP data. Overall, there are three approaches, which are theoretically equal, using data on output (or production), expenditure and income. However, the preliminary quarterly estimates, such as those provided by the ONS on 25 January, are based on information on output only. The basic tools for these quarterly growth figures are Monthly Business Surveys on Production & Services, Construction Output and Retail Sales.

Significantly, the selection criteria for the inclusion of businesses in the survey samples are that they should be 'registered for VAT and/or PAYE'. That is, the small firms of the self-employed whose turnover does not meet the VAT threshold (£77,000 per annum) and who do not employ any other staff will be excluded from the surveys.

As the ONS proceeds to the second and third quarterly estimates, expenditure and income data are included with updated output figures. Some commentators expect this to result in a modification of the GDP data to bring them more in line with the experience of the employment statistics, but it is difficult to see how this could
happen. This new data will also be based on the returns of organisations in the formal sector of the economy. The precariously self-employed, registered for neither VAT nor PAYE, will continue to be excluded. While we might expect a small correction, we should not expect a significant change in the growth figures.

While the business surveys fail to capture information on the smallest firms, the LFS includes data on people who work for themselves outside the formal sector of the economy, an area where no surveys can be relied on for accurate information. If the business surveys are exclusionary, household surveys can also fail to pick up information about those who are operating at the margins of the tax and benefit systems. People in this situation do not tell the truth. Respondents will certainly not be reporting on illegal activities. This under-reporting however, is not at the heart of the matter. It is of marginal importance compared to what is reported and what legal activities the GDP data fail to capture.

We should also note at this stage that the increase in part-time self-employment in the UK is not to be confused with the growing informal sector as it exists in the streets and markets of Africa, Asia and Latin America. As we will see later, it is increasingly professional and skilled, even as it slips out of official sight.

Despite the above limitations, the LFS data points to a growth in precarious employment in recent years, particularly amongst the self-employed, where a growing proportion is middle class. The increase in the numbers reporting that they are in part-time self-employment has been spectacular. There is good reason to believe that most of these workers, many of them refugees from the corporate and public sectors and insecure in their self-employment, have dropped out of the GDP statistics.

We have to ask how important the self-employed are to the economy, particularly those working part-time. Have there been changes that are significant enough to create (or at least contribute to) the kind of disparity we have been seeing between the growth and employment data? Are they growing and are they significant? If they are growing, who are they and what is the process?
The numbers of self-employed are certainly growing. It can be pointed out that they still only account for around 14% of the working population and, although this is up from around 8% in the 1970s, it is still a relatively small proportion of people in work. However, if we focus on the recent changes that are taking place in employment and examine the shifting balance between employees and the self-employed, we can see that between August 2008 and August 2012 the self employed increased by 392,000, while the number of employees fell by 294,000\(^6\) (Table 1). The growth in self-employment far outweighs the decline in waged and salaried labour.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Full-time &amp; part-time workers, June-August, 1992-2012</th>
<th>(Thousands, aged 16 and over, seasonally adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All in employment</td>
<td>Full-time and part-time workers(^1)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Employees</td>
</tr>
<tr>
<td>1992-2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>4065</td>
<td>3588</td>
</tr>
<tr>
<td>% Growth</td>
<td>15.9</td>
<td>16.7</td>
</tr>
<tr>
<td>2008-2012</td>
<td>172</td>
<td>-294</td>
</tr>
<tr>
<td>% Growth</td>
<td>0.6</td>
<td>-1.2</td>
</tr>
<tr>
<td>2010-2012</td>
<td>462</td>
<td>203</td>
</tr>
<tr>
<td>% Growth</td>
<td>1.6</td>
<td>0.8</td>
</tr>
</tbody>
</table>

1. The split between full-time and part-time employment is based on respondents' self-classification.

Sources:
Office for National Statistics, Labour Market Statistics, October 2012, Table 3

The ONS reports that the self-employed are older than average, that they tend to work longer hours than employees and that there has been little change in the main

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\(^6\) The ONS reports a slightly lower figure of 367,000 self-employed by comparing the April-June quarters for the same years but it is still greater than the decline in the employee count. See Office for National Statistics (2013) 'Self-employed up 367,000 in four years, mostly since 2011', 6\(^{th}\) February, ONS at www.ons.gov.uk.
self-employed occupations over 20 years, these being concentrated in taxi driving, construction and farming. Around 84% of the increase in the self-employed since 2008 was for those aged 50 and over and most of the increase was amongst those aged 65 and over\(^7\). The ONS suggest that it may be easier for some older workers to gain access to initial start-up costs associated with some self-employed jobs through redundancy payments or savings, a view that is consistent with evidence from the World Bank from their analysis of the informal economy across the underdeveloped world\(^8\). People gain experience and accumulate savings as employees when they young and use these human and capital resources to set up businesses when they are older.

By stressing these characteristics of the self-employed, it is possible to present a positive view of them as entrepreneurial small firm owners who have a capacity to grow employment and create the large-scale enterprises of the future. This is part of the narrative of those who promoted small-firm growth in the 1980s and it is the foundation of the Heseltine Review on a future growth strategy for the UK economy\(^9\). However, the statistics point to a reality that is heading in a different direction.

It has always been the case that many of the respondents in the LFS who classify themselves as self-employed are in fact employers. We have seen above that the numbers of employees in general have been in decline since the beginning of the financial crisis. According to the ONS data, some of the decline in the number of employees since 2008 is a result of 'a reduction in the number of employees who work for the self-employed'\(^10\). There are 66,000 fewer people who say they are self-employed but who have employees working for them. In contrast, there has been an increase of 431,000 who are self-employed with no employees. While this trend may change for some as the economy moves back into positive growth territory, we would argue that it is highly unlikely that these older people who are working alone

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\(^10\) ONS (2013) op. cit., p. 7.
are entrepreneurs in the traditional sense. Few of them are likely to be large-scale employers of the future.

The ONS reports that this growth of the truly self-employed was spread over a number of occupations and industries. This is true, but the largest increases were in Professional, scientific & technical activities, Administrative and support services, and Education. These three sectors of the economy account for 76% (346,000 jobs) of the increase in self-employment between 2008 and 2012\textsuperscript{11}. Construction remains the largest section of the self-employed workforce but the change since 2008 indicates the growing importance of certain middle class jobs. This has to be kept in mind when we discuss the growth in importance of part-time self-employment.

Although the self-employed generally work longer hours than employees (35% work more than 44 hours a week) there has been a growth of part-time self-employment that goes back over 20 years, a long-term trend that has accelerated since 2008\textsuperscript{12}. Since 1992, the rate of growth of the part-time self-employed has been greater than that of both the full-time self-employed and part-time employees. The number of part-time self-employed has grown by around 100%, leading to part-time workers now accounting for almost 30% of the self-employed. Part-time work is historically associated with women in the labour market but over two decades male part-time self-employment has risen by 160% and for women the increase was 70%.

The financial crisis has acted as a catalyst for this structural change and further impetus has been provided by the policies of austerity. Since the crash, part-time self-employment has risen by one third and the rate of increase has been even greater since the general election. The proportion of workers in part-time employment is now higher amongst the self-employed than it is amongst employees. Comparing the June-August quarters of 2008 and 2012, 462,000 full-time workers left the labour force and almost 300,000 new part-time self-employed workers were added (Table 1).

\textsuperscript{11} ONS (2013) Labour Market Statistics, January 2013, Table JOBS02 Workforce jobs by industry
\textsuperscript{12} Middleton, A. (2012) Underemployment and the Part-time Entrepreneur, Governance Foundation, Birmingham, October. Available at: www.governancefoundation.org
Comparing the previous quarters (May-Jul 2010 and May-Jul 2012) which did not include the Olympic Games, the figures were slightly lower but the picture they paint is even starker. In the two years following the General Election, of the growth of 440,000 people in employment, only 150,000 were employees. In contrast, 260,000 were self-employed, 13,000 were unpaid family workers and 15,000 were on government training schemes. Of the additional 260,000 self-employed workers, 170,000 (65%) reported that they were part-time self-employed. That is, the additional number of part-time self-employed was greater than the number of all additional employees, both part-time and full-time.

These figures will need to be updated as we progress through 2013 but they point to a significant change in the economy and labour market. The spike since 2008 could be temporary, but the long-term information suggests a historical change that has been further stimulated by the financial collapse and the decline in both public and private sectors of the formal economy. They imply an underlying growth of the un-enumerated and unregulated parts of the economy that may have peaks and troughs over time, but whose general direction is upwards.

The ONS methodology and the changes in the labour market and the economy are the main reasons for the apparent discrepancy between the two data sets, but the other explanations that have been put forward require further consideration. They cannot be dismissed out of hand, for they point to a particular way of seeing the labour force and the economy. For good historical reasons, most economists only see employer-employee relations when discussing economic change, but underlying this is an assumption that the self-employed are an historical remnant that will disappear with economic growth. For policy-makers they are the future, but for macro-economic analysts they are residual. It is clearly not the case that they are of declining relevance. The growing importance of certain types of self-employment is significant for the way the economy is measured.

The widely accepted proposal that the GDP figures may be wrong is not based on the fundamentals of the methodology, as set out above. Economists in the financial sector in particular have been quick to argue that, since there is no evidence of a double-dip recession in the employment statistics, there must be a problem of under-
reporting in the GDP data. ‘Businesses do not employ more people to do less work’, so the economy must be doing better than the GDP statistics are telling us.

This is a perspective that assumes that the issue is to be explained by reference to the rational behaviour of employers. It is a powerful assumption that is rooted in neo-classical economics. The problem with the GDP statistics, however, cannot be understood by reference to employers’ behaviour. The changes we have referred to above are not dependent on the rational economic choices of businesses that employ workers. These economists are looking for an explanation in the wrong place, using a theoretical framework that is inadequate to deal with the changing nature of employment.

The main problem with the employment statistics is the way they are being interpreted. These economists are not looking closely enough at what has been happening in the UK labour market and thinking about how this might influence the gathering of reliable statistics. The under-reporting of economic activity is not about the activities of employers and employees. It is fundamentally about the changing nature and importance of self-employment.

The ONS argue that while the possibility of measurement error cannot be ruled out, the rigour and complexity of the ONS methodology means that substantial errors are unlikely. Historically, it has been the case that subsequent revisions of the GDP output figures tend to support the original estimates. They think that the revision of the most recent figures is unlikely to explain much of the gap between output and employment\(^\text{13}\). This may be true, but not for the reasons the ONS propose.

The ONS confront the argument of some commentators that GDP estimates do not match other business opinion surveys, such as the purchasing Managers Indices (PMI). They point out that while direct comparisons are not possible for a number of methodological reasons, by standardising both sets of data there is relative coherence across the major business sectors and the economy as a whole.

\(^{13}\) Patterson, *op.cit.*, p.29.
Similarly, against the suggestion that there is a discrepancy between tax revenue data and GDP statistics, with the GDP estimates understating the strength of the economy, the ONS urge caution in such comparisons because of differences in accounting for inflation, changes in tax rates and allowances, the lag in collecting taxes, and the changes in the VAT rates after 2008. They point out, correctly, that it is difficult to draw conclusions about the relationship between VAT receipts and GDP. However, closer attention has to be paid to the concept of ‘receipts’ if a growing sector of the economy does not charge VAT for labour. The methodology currently excludes them and they will not be included in further revisions of the statistics. VAT receipts will permanently understate their economic contribution and if treated uncritically will compound the original weaknesses in the GDP estimates.

The ONS also point out that ‘the pattern of PAYE income tax receipts shows a fairly close relationship with nominal GDP growth’\textsuperscript{14}. But of course the precariously self-employed do not have workers contributing through the PAYE system and some of their income may be cash in hand, particularly in the construction sector. The ONS also confirm that movements in national insurance contributions do not vary considerably from trends in GDP estimates either. However, NIC contributions are not gathered by larger contractors from subcontracted self-employed construction workers, one of the largest groups of the self-employed. Neither will they be paid immediately, if at all, by the part-time self-employed, particularly older workers who may have retired.

The official figures for PAYE and NIC will under-represent the economic activity of those working in part-time, temporary, insecure and precarious self-employment. In the best of cases, where all obligations to the state are eventually met, there will be time lag between receiving income and paying tax and insurance contributions. In most cases, VAT, PAYE and NIC data will suffer from the same methodological weaknesses as GDP output figures, which makes them unreliable for using to support the GDP figures.

\textsuperscript{14} Patterson, op.cit., p.31.
For some, the argument about faulty GDP figures is political in its origins. The application of George Osborne’s neo-liberal economic theory should not lead to a decline in output. On the contrary, as an expression of political faith, it must lead to growth and recovery. In support of this is the economic argument that suggests that early estimates are often revised later and these revisions after a recession tend to be in an upward direction. That is, as more data comes in, the GDP figures will be corrected upwards and all will be well. GDP will be realigned with employment, it will be shown to be more positive, the politics of neo-liberalism will be vindicated, and the ONS methodology will survive, perhaps with some minor tweaks. Unfortunately, neither the political nor the economic version of this argument is based on evidence. As we have seen, there is indeed a problem with the GDP figures, but it is not for the reasons proposed by the Chancellor and the Treasury. It is not just a question of under-reporting economic activity, more a matter of who is being asked to report and who is not.

3. Underemployment: Visible and Invisible

A growing group in the labour force are those who are counted as employed but for various reasons are underemployed. They have a job, which means that they appear in the head count of the employed as a whole number, but their productivity is reduced. Their contribution to production is less than optimal.

Underemployment can be classified as visible and invisible, although measuring techniques in recent years have rendered previously ‘invisible’ underemployment more visible. The ILO has identified\(^\text{15}\):

a. Visible underemployment, which involves persons involuntarily working part-time or for shorter than usual periods of work
b. Invisible underemployment, which exists when a person’s working time is not abnormally reduced but whose employment is inadequate in other aspects, such as:
   i. When the job does not permit full use of the person’s highest existing skill or capacity.
   ii. When earnings from employment are abnormally low.

\(^{15}\) In 1957, the Ninth International Conference of Labour Statisticians adopted the first definition of underemployment, which was revised by the Eleventh International Conference of Labour Statisticians in 1966 and by the Thirteenth International Conference of Labour Statisticians in 1982. There is still considerable disagreement about how it should be measured.
iii. When a person is employed in an organisation whose productivity is abnormally low.

Not all measures of underemployment help explain the productivity conundrum. Productivity would improve if we could make better use of labour force skills but this is a constant preoccupation for which we have no short-term evidence that would allow us to compare recent trends. We will consider the growth in visible underemployment, evidenced in involuntary part-time working, and the increase in people being employed in firms where productivity is low. We will also look briefly at involuntary temporary working. This is a measure of visible underemployment that we should note, because of its implications for the future, even if for reasons we will explain, it does not contribute to the discontinuity between the employment and GDP data. We will also briefly touch on the relevance of the financial sector insofar as it relates to the main issue.

3.1 Involuntary part-time workers

It has been argued that the growth in part-time employment, particularly the increase in part-time workers who are seeking full-time work and are therefore in 'visible underemployment', must be part of the explanation for the disparity in the figures. The number of people working part time has increased by around 40% since 1992\textsuperscript{16}. However, the number saying that the reason they are in part-time work is because they cannot find a full-time job has risen by 104% (Table 2). Almost all the rise in this involuntary part-time working has occurred since the financial crisis of 2008. Since the start of the crisis, the number of people saying the reason for part-time working was that they could not find a full-time job has risen by 101.4%. This contrasts with the fact that the number of people working part-time has risen by only 8.1%. This rise in involuntary part-time working is more than 12 times the increase in part-time working as a whole.

Historically, the underemployment rate for the self-employed has been below the rate for employees but since 2008, the opposite has been true: the

\textsuperscript{16} Counting only those who gave reasons for their part-time status.
underemployment rate for the self-employed has exceeded that of employees\textsuperscript{17}. The ONS reports that between 2008 and 2012, the percentage of self-employed workers who were working fewer hours than they would have liked increased from 6.4\% to 10.8\%. The rate of underemployment amongst the self-employed has been growing since 2008 and it is now higher than the rate for employees (10.8\% against 10.5\%). This is an issue right across the labour force and once again its growth is part of a long-term trend that has been catalysed by the financial crash.

The large rise in part-time self-employment, causing a significant sector of the labour force to drop out of the framework for capturing information on output, along with the substantial growth in underemployment amongst the self-employed, provide us with key elements in the explanation for the productivity conundrum. However, the problem of underemployment goes beyond the self-employed.

There are now twice as many people looking for full-time work as there were in 2008. Involuntary part-time work has increased by 710,000 since the financial crash and there are 210,000 more than at the time of the general election. Clearly, the financial crisis is the major contributor to the creation of the 1,411,000 people now working part-time who are looking for but cannot find a full-time job\textsuperscript{18}. The ONS, who include people who are overqualified for the jobs they are doing, report that there has been an increase of 960,000 in the number of under-employed workers since 2008\textsuperscript{19}.

3.2 Involuntary Temporary Employment

The growth of temporary employment in itself does not help explain the disparity between the employment and growth figures. At the time of any business survey, those in temporary employment will be contributing to output. Only employees are included in the data but we know that many of the temporary employed are also working part time, voluntarily and involuntarily, and in order to avoid national

\textsuperscript{17} ONS (2013) Self-employed up 367,000 in four years, mostly since 2011, p. 7.
\textsuperscript{18} Other categories of part-time workers include those who are ill or disabled or are students. The importance of these categories has fluctuated over time but as a proportion of the part-time workforce both have increased since 1992 and declined in importance since 2008. Together they account for 15.5\% of the part-time workforce in 2012. If we can assume that these categories do not want full-time employment and are working to their full capacity given their other circumstances, we can assume that they are not ‘underemployed’.
\textsuperscript{19} Patterson, op.cit., p. 20.
insurance and other statutory responsibilities, many businesses have been employing the 'self-employed' on a temporary basis. This will have an impact on the disparity for the reasons discussed above and, although it is not possible to quantify the impact of part-time temporary self-employment at this time, it is nevertheless worth saying something about its growth. It is an aspect of visible underemployment that does not immediately affect the difference between the GDP and employment trends but it is an element of precarious employment that contributes to the broader picture of economic decline.

Table 2

(Thousands)

<table>
<thead>
<tr>
<th></th>
<th>Could not find full-time job</th>
<th>Did not want full-time job</th>
<th>Ill or disabled</th>
<th>Student or at school</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>2252</td>
<td>720</td>
<td>953</td>
<td>95</td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Growth</td>
<td>39.6</td>
<td>104.0</td>
<td>22.1</td>
<td>113.8</td>
</tr>
<tr>
<td><strong>2008-2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>596</td>
<td>710</td>
<td>3</td>
<td>-35</td>
</tr>
<tr>
<td>%Growth</td>
<td>8.1</td>
<td>101.4</td>
<td>0.0</td>
<td>-16.5</td>
</tr>
<tr>
<td><strong>2010-2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>163</td>
<td>281</td>
<td>-2</td>
<td>9</td>
</tr>
<tr>
<td>% Growth</td>
<td>2.1</td>
<td>24.9</td>
<td>0.0</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Note: These series cover Employees and Self-employed only. They include some temporary employees.

**Sources:**

There are now 1.621 million people working as temporary employees in the UK, an increase of 346,000 since 1992 (Table 3). However most of this growth has been in recent years, with 236,000 of the increase (70.8%) occurring since 2008 and 101,000 appearing in the last year alone. When asked for the reason they were in
temporary employment, before 2008 there is a historic variation of between 26% and 30% saying that they did not want a permanent job. From 2008 onwards, the proportion saying they could not find a permanent job has been increasing and it now stands at 40%, the highest level since the crisis of the 1990s.

The emerging picture is of an increasing numbers of people taking up temporary work and being trapped in a situation of not being able to get out of this type of employment into permanent jobs. Contrary to the view that temporary workers are mainly composed of women who prefer this type of work for personal or family reasons, they include 650,000 people who are looking for permanent work, an increasing number of whom are women. Many of them are also working part time.

Table 3

<table>
<thead>
<tr>
<th>Reasons for Temporary Working, Jun-Aug, 1992-2012 (1,2) (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Could not find permanent job</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>1992-2012</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>% Growth</td>
</tr>
<tr>
<td>2008-2012</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>%Growth</td>
</tr>
<tr>
<td>2010-2012</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>% Growth</td>
</tr>
</tbody>
</table>

Sources:

Notes:
1. The data are based on respondents' self-classification.
2. These series cover employees only.
3.3 Invisible Underemployment: Employers and hoarding labour

It is argued that at least part of the increase in the labour force can be explained by employers 'hoarding labour', particularly skilled or experienced personnel who, if they were made redundant, would only have to be re-recruited, probably with some difficulty, when business picked up\textsuperscript{20}. They are holding on to them, losing money and foregoing profit, so that they are in place and ready to take advantage of the upturn when it comes. As part of this deal, workers real pay has fallen, helping sustain profits and reducing the pressure on employers to lay people off. Despite the falling wages, however, it is also argued that, because of this practice, productivity has fallen even further.

A survey conducted by the Chartered Institute of Personnel and Development (CIPD) showed that 30% of private sector firms had maintained staff levels higher than was required by their level of output in the 12 months to June 2012\textsuperscript{21}. This is a form of underemployment that may offer a partial explanation for the GDP/employment puzzle, as the productivity of some workers in these firms will be abnormally low. However, it is not possible to measure the extent of the practice within those firms where it is reported to exist. In any firm that reports labour hoarding, we do not know whether it applies to one worker or one thousand. The CIPD survey makes invisible underemployment more visible, but its importance within firms remains hidden.

This is also precarious employment, which is confirmed by the fact that 71% of these employers reported that they would be forced to make redundancies if demand did not pick up by the first half of 2013. This type of underemployment is sometimes referred to as potential unemployment. When the economy starts to grow again, it will lead to gains in productivity without a further increase in employment. In the absence of an upturn, it can only be a temporary phenomenon that will result in an increase in part-time employees or job losses that will further contribute to either unemployment or part-time self-employment.

\textsuperscript{20} Patterson, \textit{op.cit.}, p.16.
\textsuperscript{21} CIPD (2012) Labour Market Outlook, winter 2012-13. Available at: cipd.co.uk/labourmarketoutlook
As we can see in Table 1, between 2008 and 2012, employees working full-time declined as employees working part-time increased. It has been said that ‘when business has picked up employers have been wary of recruiting too many full-time staff, in case the economy slows again’\textsuperscript{22}. This argument proposes that there is not only hoarding of key staff but also little commitment to employing new full-time staff. Instead, part-time workers are being taken on until the future of business becomes clearer. However, a closer look at the 2010-2012 data shows that in this period of declining output the numbers of full-time employees were increasing and part-time employees were falling. There is no evidence of an increase in part-time employees.

Once again, the assumption is that the employers’ behaviour in relation to their employees holds the key to understanding the employment statistics. After 2008, there was a slight increase in part-time employees but the evidence suggests in fact that, contrary to this view of recession-hit employers employing more part-time staff, in the 2010-2012 period, the number of part-time employees actually fell very slightly. The recent growth in part-time employment has little to do with employer-employee relations. It may have more to do with an increasing number of companies contracting temporary self-employed workers who, because of low demand for their services, are only working part-time.

If the increase in part-time working is not by choice, it is an expression of underemployment. There have been a growing number of part-time workers since 2010 and each one counts as a new job for the official job growth figures. Underlying the gross figures is a world of underemployed workers whose productivity is much less than optimal. In addition, a growing number of unpaid interns and others contribute little to productive output but count as people in work. This means the positive figures on employment and unemployment do have to be treated with some scepticism. It is certainly the case that the ONS employment data point to a rapid increase in underemployment, no matter how this is measured\textsuperscript{23}.

\textsuperscript{22} King, I. \textit{The Times}, 18.10.2012.
\textsuperscript{23} Middleton, 2012, op. cit.
This is consistent with a decline in labour productivity, which has been deteriorating since the financial crisis of 2008\textsuperscript{24}. There are three main measures of labour productivity used by the ONS: Output per worker, output per job and output per hour. From 1997, there was a steady growth in output per worker until 2008, when it began to fall. Output per worker has fallen by 1.2% since 2010 and it is still below the 2006 level. If this is taken as a measure of invisible underemployment and potential unemployment, it is consistent with the GDP figures, which economists have been suggesting are over-pessimistic.

Similarly, output per job in the second quarter of 2012 was lower than in the same quarter in the previous two years and lower than in the same quarter of 2006. Output per hour was also lower than in the previous two years and about the same as in 2006. On all three measures, this type of underemployment increased after 2009. If low productivity is a measure of potential unemployment, the most recent figures suggest that we should expect a rise in unemployment in the future. This is confirmed by the CIPD estimates for the first quarter of 2013. More importantly for present purposes, these data on underemployment support the GDP data that point to declining output. They are also consistent with the change in the nature of employment we have pointed to above: a growth in part-time underemployed, self-employed professional workers who are slipping out of the GDP data collection process.

4. The Role of the Financial Sector

It has been suggested that the problems of the financial sector during the crisis have interfered with its efficient allocation of resources, in particular with its capacity to switch investment between troubled over-staffed firms and new dynamic firms and sectors of the economy\textsuperscript{25}. Faced with uncertainty and difficult-to-quantify risk, banks continue to invest in the traditional large-scale low-productivity firms that may have low returns but which are well known and are relatively safe. This is not new behaviour for banks, for small firms have always complained about the difficulty in

\textsuperscript{24} Middleton, 2012, \textit{op.cit.}, Table 6.
\textsuperscript{25} The Economist (2013) A Dive into Britain’s productivity puzzle uncovers a serious risk to the economy, 26 January. Available at: \url{http://www.economist.com/news/britain}.
obtaining loans\textsuperscript{26}. Retreating further into this type of behaviour, however, means that small firms, some of them with potential for growth in the relatively more prosperous sectors of the economy, have even more difficulty in raising new finance than normal.

Following the high-risk misadventure that led to the crisis in the first place and in the face of future uncertainty, the banks retreat into investment in low growth, rather than the high-risk growth potential of the self-employed, where precarious employment continues to expand. However, this does not explain how it is that the numbers in self-employment, particularly part-time self-employment, do manage to grow. Keeping in mind the fact that 71\% of the new firms are in professional sectors of the economy, a possible explanation is that much of it is self-financed, using redundancy money and savings that may inevitably be depleted over time. Without growth in demand, these funds will be a dwindling capital resource, producing little or no profit.

If banks are less efficient at allocating resources during a recession this can contribute to a slow pace or a decline of growth, but it does not explain the type of employment expansion we are seeing. If we are looking for explanations for the employment growth in sectors they are not supporting, we ought to thinking about the banks' behaviour in terms of their contribution to the exclusion of certain types of precarious employment from the formal economy. In the current circumstances, their failure to lend may be rational behaviour from the perspective of the financial sector, but a retreat into safety that may be good for banking, the formal economy and the taxpayer in the short-to-medium term may also be contributing to the unexpected discrepancy between the GDP and employment figures as precarious self-employment grows.

5. Conclusions

To point out the methodological reasons for the discrepancies between the GDP data and the employment statistics is not to simply say that the trends in the growth figures are wrong or that the employment data are faulty. The GDP data continue to

\textsuperscript{26} Middleton, A. (1984) The Structural and Cultural Constraints on the Development of Small-scale Manufacturing in Scotland and Northern Ireland, University of Glasgow, Report to the ESRC.
be gathered in the same way as they have been, they permit international comparisons, and any minor change in the methodology is normally reflected in a new configuration of the historic data. The sampling procedure has not changed and today’s growth figures are comparable with the historic data – for a certain size of firm. The difficulty is that during the crisis an increasing sector of the economy is excluded from the statistics by the traditional methodology.

Historical comparison of the ONS information on the structure of employment is also valid. The problem arises when analysts attempt to link employment with GDP. Historical comparisons and related trend analyses are invalidated by the structural changes taking place in the UK economy. The key issue is the growth in part-time self-employment in recent years and the explosion of this type of work since the financial crisis of 2008. The vast majority of these firms are not captured by the business surveys used to compile the GDP figures.

The productivity conundrum exists mainly because the methodologies used to gather the information have been overtaken by the growth of insecure and precarious employment in the UK, which lies outside the sampling frame used to gather the GDP figures. This is a long-term process with a recent acceleration that may represent a temporary rapid growth phenomenon as a result of the financial crisis, but a growing proportion of the UK economy is currently slipping below the radar of the state. In important ways it is becoming invisible and unregulated, with possible implications for health and safety, tax gathering, future pensions provision and therefore the welfare state.

This under-recording combines with under-employment in both the formal sector of the economy and the precariously self-employed. Visible underemployment through involuntary part-time working and invisible underemployment in firms with unusually low productivity will be on different trajectories. The former is part of a long-term trend that was catalysed by the crisis, whilst the latter may be more short-term and is unsustainable. Without an upturn in the economy, we are likely to see part-time self-employment continue to grow, albeit at a slower rate, and see the under-employed in the formal sector become unemployed, involuntary part-time employees, or precariously self-employed. Precarious self-employment provides a circuitous route
to either unemployment or, given the age profile of the newly self-employed, retirement.

What we are seeing in the UK is not the same as the growth of the informal sector in developing countries. We are not referring to an increase in the urban poor selling shoe laces, chewing gum or single cigarettes from a tray on the street corner, nor small-scale artisanal production of clothes and shoes. There are however, some similarities between the precariously self-employed in the UK and the un-enumerated, unregulated and underemployed urban poor of Africa, Asia and Latin America. In particular, they are slipping out of the measurement of the formal economy and they are not being picked up in official economic statistics.