GDP up 1%, workforce up 2%, population up 4%, unemployment up 48%...

2006 - 2012: Ailing economy, failing solutions

How our national economy has fallen back over 6 years, how the labour market has evolved, and how traditional ‘productivity’ analysis provides flawed measures of performance of a national economy with high-level unemployment

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February 2013
Executive Summary

In this report, PRIME compares the state of the UK labour market and economy in 2012 with that of 2006, and looks at the impacts on national productivity.

We conclude that traditional productivity methodology has a fundamental flaw when it comes to measuring the performance of a national economy with a chronic high level of unemployment.

This is because it ignores the wasted capacity of a nation’s economically active, but unemployed, population.

To improve the economy and national productivity, we need a major labour-intensive investment programme for a sustainable future.

Conclusions

- In 2012, UK GDP was just 1.1% greater than in 2006, whilst the population had grown by over 4%. This means that GDP per head of population has fallen by around 3% between the 6 years

- If GDP had grown by just 1.5% per year since 2006, it would be almost 8%, or £120 billion, greater in 2012 than the actual figure

- In 2012, the number of those in employment was 2% higher than in 2006, while the number of unemployed was 48% (800,000) higher

- Between 2006 and 2012, the UK workforce has undergone enormous changes; in particular, the number of those employed in manufacturing has fallen by 14%, and in construction by almost 12%

- Between 2006 and 2012, the increase in the working population (around 500,000) is almost entirely due to an increase in the number of self-employed; moreover, the number of part-timers (employed or self-employed) has risen by around 700,000

- In 2012, the UK’s national ‘productivity’ as traditionally measured by overall output per hour has risen by around 0.5%, and when measured by output per worker or per job, it has in effect stagnated between 2006 and 2012

- Traditional productivity methodology has a fundamental flaw when it comes to measuring the performance of a national economy with a high level of unemployment. This is because productivity methodology ignores the wasted capacity of a nation’s economically active, but unemployed, population

- In effect, traditional productivity methodology implicitly assumes that there is no unemployment, or that by reducing the volume of labour per unit of output, the displaced employees will quickly be more productively employed elsewhere in the economy – which is not borne out by reality

- We argue that by far the most significant macro measure of productivity for a national economy is the value of output divided by the economically active population, i.e. the sum of those in employment and those unemployed but seeking work
• On this measure, the output value per economically active person in the economy has fallen, between 2006 and 2012 by 3.24%

• Therefore, an economic policy that concentrates on improving productivity as traditionally measured, at the expense of generating employment through productive investment and activity, is fatally flawed

• To reboot the economy and enhance national productivity, the UK needs a major, labour-intensive infrastructure investment programme aimed at future sustainability

Main Findings

GDP and population

• In 2011, UK GDP was just 1.10% higher than in 2006. On the ONS first estimate for 2012, GDP in 2012 is slightly below this, at 1.07% higher than in 2006. This represents an increase of under 0.2% per year.

• Against this, the UK’s population has been growing at an annual rate of around 0.7%. Since 2006, the population has risen by about 2.4 million, or 4.2%. Therefore, GDP per head of population has undoubtedly and substantially declined since 2006, by around 3% in 2012.

The UK workforce compared

PRIME has compared changes in jobs and in the workforce between 2006 and 2012 based on June and September data. Among the main points:

• Total jobs were between 0.72% to 1.10% higher in 2012 than in 2006.

• In 2012, employee jobs had fallen by 0.73% or 0.92%, but self-employed jobs went up by 11.63% to 14.11%. The total increase in jobs in 2012 over 2006 was around 285,000.

• Employee jobs in Q2 and Q3 2012 were lower by around 200,000. However, self-employment jobs rose by about 520,000 (average June/September). This marks a significant structural shift in the UK workforce and labour market.

• The number of ‘economically active’ people, in effect the potential workforce, grew by over 1.4 million, an average of 236,000 per year. Employment has risen by circa 600,000, but unemployment is 800,000 higher in 2012. So while overall employment has in late 2012 reached record levels, it has not kept up with the increase in the potential workforce.

We also compared the profile of the workforce, with data from the Labour Force Survey, between the 2 years. Among the findings:

› The number of self-employed has risen by 430,000-500,000

› The number of those working full-time, whether as employees or self-employed, has fallen by 57,000 – 228,000

› The number of those working part-time has risen by around 700,000 (between 659,000 and 759,000) to around 8.1 million
The number of **full-time employees** fell by between 416,000 and 209,000

The number of **part-time employees** rose by an average of 350,000

The number of **full-time self-employed** rose by an average of 150,000 between 2006 and 2012 to just over 3 million.

The number of **part-time self-employed** rose by an average of 320,000 between 2006 and 2012 to around 1.2 million

- Therefore, to produce approximately the same value of "output" (GDP) in both years, in 2012 over 500,000 more people were involved in work of some kind and duration. In effect the whole increase in the workforce is attributable to the self-employed.

- But the biggest shift we see is that the number of part-timers of all kinds has increased by some 700,000 since 2006, in the context of a concurrent rise in people having second jobs.

### The changing jobs profile

We have also compared changes in the broad profile of jobs between 2006 and 2012 (May-July), looking at each industry, and then at industrial sectors (subsets of industries) over the same period. The detailed results are set out in Annex 2.

We highlight in particular the following key changes by industry:

- **Overall employment (employees and self-employed) in services** grew by 3.83%
- The number of employees in services grew by 429,000, or 1.9%
- The number of self-employed in services grew by 542,000, or 19.79%
- **Overall employment in manufacturing** fell by 14.02%
- The number of employees in manufacturing fell by 397,000 or 14.28%
- **Overall employment in construction** fell by 11.89%
- The number of employees in construction fell by 250,000 or 18.23%

### Productivity

- The number of hours worked in 2012 increased by up to 1.76% compared to 2012. However, *output per hour* increased only by between 0.3 and 0.7% between the years.

- The overall *output per worker* for Q2 shows a slight fall in 2012 compared to 2006 of 0.4%. For Q3, it rose by +0.2%.

- The *output per job* was 101.1 in 2006, and 100.5 and 101.2 respectively in 2012. Again there is virtually no difference between the two years on this.

- While overall productivity was virtually unchanged, that of the manufacturing sector saw a rise, though in 2012 less so than 2011. However, productivity of the ‘market sector’ as a whole fell, meaning that the private service sector productivity saw a fall between the 6 years.
Real wages from employment

- Real earnings have fallen significantly compared to inflation, whether measured as CPI or the normally higher RPI, between 2009 and 2012. Chart 3, from ONS data, graphically shows the respective developments over the period for regular earnings against CPI.