EMERGING DISPARITIES: EXPLORING THE IMPACTS OF THE FINANCIAL CRISIS ON THE UK CONSTRUCTION LABOUR MARKET

Paul W Chan[1] and Steve McCabe[2]

[1] *School of Mechanical, Aerospace and Civil Engineering, The University of Manchester, P O Box 88, Sackville Street, Manchester, M60 1QD, UK.*
[2] *Birmingham City Business School, Birmingham City University, City North Campus, Birmingham, West Midlands, B42 2SU, UK.*

Economic downturns generally disrupt the employment landscape and lead to economic restructuring. The purpose of this article is to explore how the recent financial crisis has impacted on UK construction employment. The analysis reveals a number of emerging disparities in terms of age, gender, employment status, and employment conditions. Specifically, the disparities point to increasing marginalization of youths in recruitment into the sector, resilience of women in weathering unemployment, proliferation of non-traditional forms of employment relationship and decline of working conditions. Comparisons are made with a number of European countries to illustrate how political differences can contribute to distinctions in labour market trends. Thus, questions are raised on the adequacy of the UK government's response to the financial crisis. Arguably, the perpetuation of neo-liberal policies serves only to further dismantle the traditional employment relationship, replaced by more flexible labour markets that in turn threaten long-term prospects for the construction industry.

Keywords: labour market, disparities, economic downturn, employment trends, recovery strategies.

INTRODUCTION

Over the past 18 months, the global economy has been crippled by a financial crisis on a scale which some commentators claim to be unprecedented since the Great Depression of the 1930s (see e.g. Eichengreen and O'Rourke 2009). The story behind the recession that is currently afflicting the world is by now a well-rehearsed one. The sub-prime mortgage market in the US coupled with imprudent investment behaviour by banks have led to the decay of financial assets, which in turn caused the collapse of major financial institutions like Lehman Brothers in November 2008. Governments on both sides of the Atlantic have responded initially by bailing out the banks and pledging commitments to accelerate capital expenditure in order to prop up the economy. In the UK, such measures have also been bolstered by the central bank's decision to maintain historically low interest rates (at 0.5% since March 2009) and increasing monetary supply that flows through the economy. As a consequence of these efforts, governments across the world now face severe fiscal constraints and

[1] paul.chan@manchester.ac.uk
[2] steve.mccabe@bcu.ac.uk

Chan, P W and McCabe, S (2010) Emerging disparities: exploring the impacts of the financial crisis on the UK construction labour market. *In:* Egbu, C. (Ed) *Procs 26th Annual ARCOM Conference,* 6-8 September 2010, Leeds, UK, Association of Researchers in Construction Management, 523-532.

threatened by the inevitability of future cuts in public sector spending. More recently, fiscal deficits have led to the confidence ratings of Greek and Portuguese bonds being downgraded, thereby prompting fears that the crisis is deepening.

Amidst this backdrop, debates surrounding the nature of the crisis and policy interventions aimed at restructuring economic activity have ensued. At its core, and certainly within the UK, policy discussions have focussed on the governance of the banking and financial services industry, especially in terms of the effectiveness of the government bailouts to stimulate a return to pre-recession levels of liquidity in the economy. Concerns have largely revolved around how a slowdown in bank lending activity might force the wider economy into further decline and bring about knock-on effects of increased unemployment and deteriorating social security. However, policy interventions that merely focus on stimulating capital within an economic system remain partial without fuller examination of developments in the labour market. Yet, relatively less attention has been paid to examine just how the financial crisis has materially impacted upon the nature of the labour markets. Securing this understanding, we argue, would shed more light on the evolving nature of the financial crisis, and contribute to discussions on the adequacy of policy interventions. Therefore, the purpose of this article is to explore the implications of the financial crisis on restructuring employment within the context of the UK construction industry. It is maintained that recessions invariably demand economic restructuring and this in turn would alter the nature of employment in the future. Given that the construction industry is often used as a barometer to gauge the performance of the economy (see Murray and Langford 2003), just how the financial crisis could influence construction employment in the future deserves analytical attention.

The analysis is organized in three main parts. Firstly, macro-level UK employment trends are examined alongside developments in the Eurozone. The intention is to question just how ‘global’ the impacts of the current financial crisis are, and to explore the ramifications of emerging differences found in employment terms across Europe. Secondly, critical trends in UK construction will be scrutinized, with a view to highlight further disparities that are transpiring in the construction labour market. These disparities are manifested in a number of categories, including gender, age, employment status and skills levels. It is argued that such disparities provide further indication of the intensification of a flexible labour market and the dismantling of the traditional notion of the construction employer. It is maintained that these trends, if left unchecked, could threaten the long-term sustainability of the construction industry. In the third section, the discussion turns to key policy interventions that have been observed to emerge in response to the financial crisis. These interventions include the fiscal stimulus package aimed at bringing forward capital expenditure and the policy intent to steer the economy towards greener production. Questions are raised as to whether these interventions are necessarily effective in reality, or whether they represent mere political rhetoric.

MACRO LEVEL TRENDS IN THE UK AND EUROPE

Assessing the impacts of the financial crisis on employment strategies in construction is a challenging task, not least because of the uncertainties surrounding the nature of the financial crisis and more importantly, predictions about recovery trajectories. The lagging nature of official statistics about the labour market also suggests that numerical understanding of the manifestation of the financial crisis could be a futile exercise. Nonetheless, a critical review of available information about the labour market is presented in this section, with a view to discuss how employment trends are dynamically shaped in this crisis. The analysis draws from UK's Office of National Statistics (Office of National Statistics 2009a, 2009b) and Eurostat (2009) sources. Figure 1 below illustrates employment trends across a selection of European countries from 2003-2008, whilst Figure 2 shows the trends of unemployment rates across the selected countries in the first twelve months after the collapse of Lehman Brothers in November 2008. As the financial crisis unfolded, politicians in the UK appeared keen to maintain rhetorical claims about how the recession was brought about by exogenous factors such as the sub-prime mortgage scandal in the US, and that the subsequent weakening of the banking system is a global phenomenon. To a degree, the meltdown in the housing market also contributed significantly to the sharp economic decline in the UK. The overheating of the speculative housing market leading to the onset of the recession resulted in the exposure of dodgy financial assets, which weakened confidence in the banking sector.

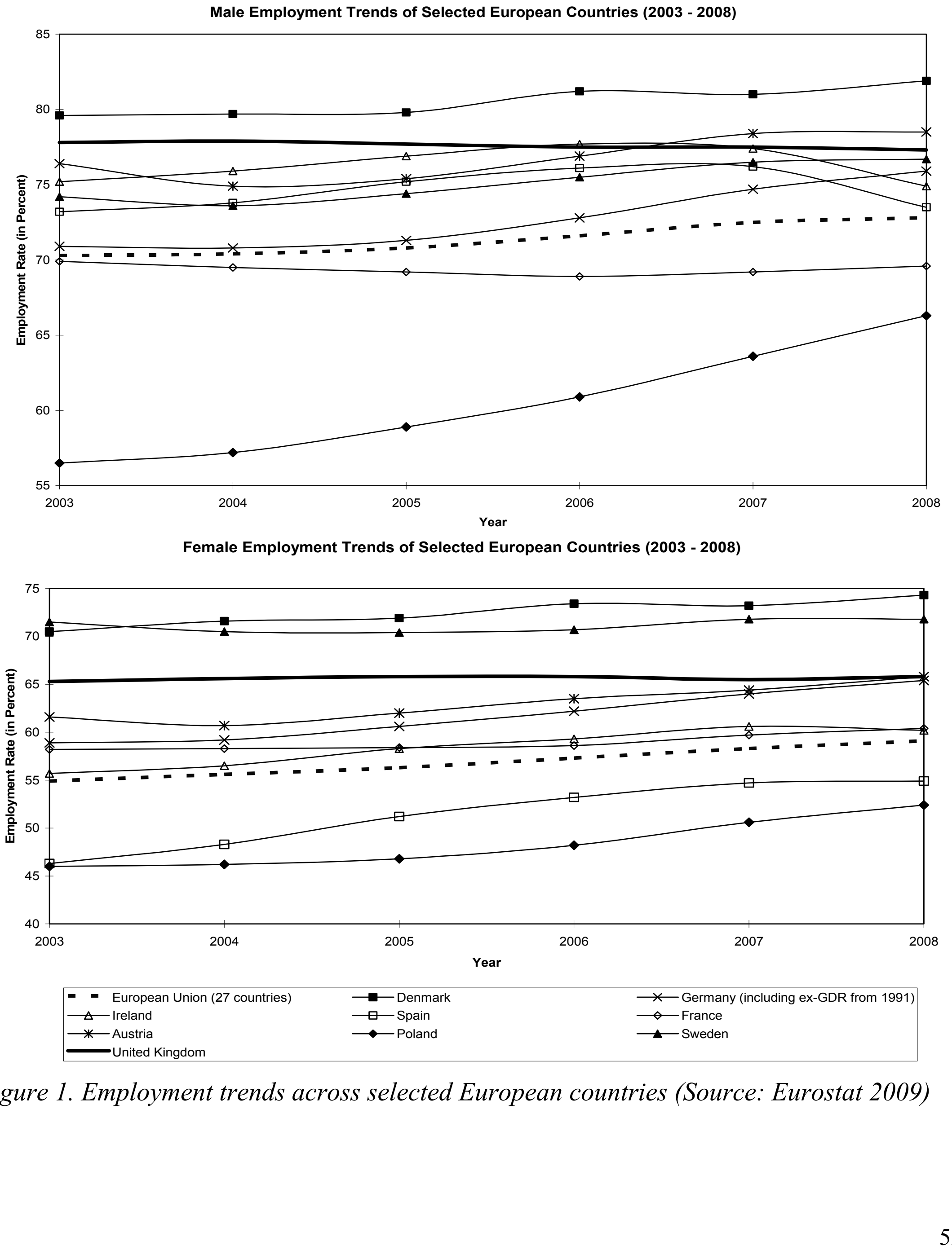

Figure 1. Employment trends across selected European countries (Source: Eurostat 2009)

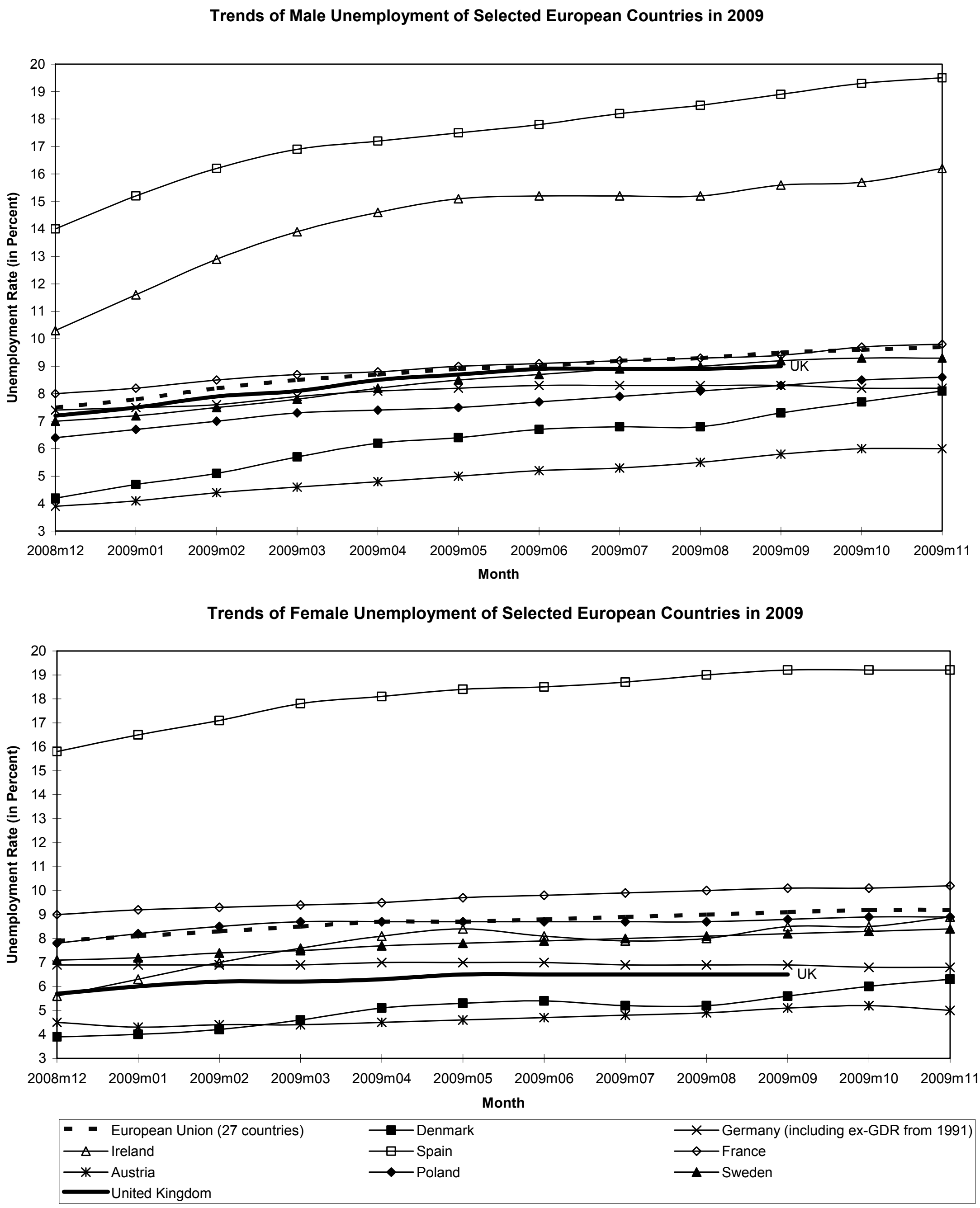

Figure 2. Unemployment trends across selected European countries (Source: Eurostat 2009).

However, the trends depicted in Figures 1 and 2 above suggest that the impacts are far from global. Rather, distinctions between political ideologies across Europe can be observed from these trends. Hall and Soskice (2001) distinguished between coordinated and liberal forms of capitalism, where the former emphasizes a co-deterministic model that favours long-term representation of employees at firm and sectoral levels to secure cooperative employment relations and sustainable industrial development, whereas the latter places more credence on free market principles where the object is to maintain flexible labour markets that promote a shorter-term view. So, on the one hand, countries that are characterized by consensus-based political systems and coordinated market economies (e.g. Scandinavian countries of Denmark and Sweden, as well as Germanic countries such as Germany and Austria) have enjoyed relatively higher employment and a correspondingly lower unemployment trend than countries that have adopted a less coordinated, more flexible and liberal approach to the free-market ideology (e.g. UK and Ireland). Furthermore, it can be seen that coordinated market economies, especially in the case of Denmark, result in greater levels of gender equality in both employment and unemployment trends. In addition, the Spanish experience is quite a significant one to comment on as well; since Spain has made the transition towards a more liberal economy (Chari and Heywood 2009) with intensification of privatization and the real estate boom prior to the recession, unemployment has simply skyrocketed over the last 18 months as a result of the financial crisis. These disparities across Europe could, however, have implications for influencing intra-European migration

Turning the attention to the UK, a word of caution is necessary. Despite the fairly optimistic picture painted in Figures 1 and 2 above, a caveat needs to be placed on the unemployment rates posted here. In the UK, unemployment figures are based on the number of claimants of jobseekers' allowance in the UK. In order to claim jobseekers' allowance, an unemployed individual has to either demonstrate sufficient contributions made to the National Insurance for the two years prior to claiming if they were a regular employee, or to show insufficient savings if they were self-employed. This is certainly a major point of consideration in terms of the construction industry because of its heavy dependence on self-employed workers (Forde and MacKenzie 2007). Therefore, the true extent of unemployment in the UK construction industry remains unclear because it is highly likely that self-employed construction workers would be unable to claim jobseekers' allowance, and hence they potentially remain invisible from official figures.

In terms of the macro picture in the UK, it is not surprising to find that unemployment rates have officially risen in the UK since the onset of the financial crisis. The average rate grew from 5.2% in the first quarter of 2008 to 7.9% in the quarter ending August 2009, with the six local government office regions of London, North East, West Midlands, North West, Wales and Yorkshire and Humberside consistently suffering above-average unemployment rates. A number of interesting trends in terms of growing disparities in employment status can be observed (Office of National Statistics 2009a). Firstly, whilst those in employment have decreased on average by 2.1% over this period, self-employment rose by 1.6%. Moreover, the number of those employed on full-time basis fell by 3.1% over this period, yet those in part-time employment (whether as an employed or self-employed person) increased over the period, with a majority of those employed on a part-time basis being women. Therefore, these trends provide a clear indication of the shift towards non-standard forms of employment. Yet, in a time of economic recession, the traditional employment relationship framed in terms of full-time employment might just be what many people desire. It is thus unsurprising to note that the proportion of those who have resorted to temporary working because they could not find a permanent job increased by 26.6% over the period, whilst the proportion of those who have resorted to part-time working because they could not find a full-time job rose by 39.4%. This compares with a decrease in the number of people who did not want either a permanent job or a full-time job of 7.4% and 2.1%, lending further support that the current financial crisis has led to the disruption of traditional notions of employment status, with the perpetuation of flexible labour markets through part-time and temporary work.

Secondly, there is a growing disparity found between the employment of UK-born and non UK-born workers. In the three months to June 2009, the number of UK born people in employment was down by 625,000 over the same three-month period to June 2008, whilst the number of non-UK born people in employment was up by 22,000 when comparing the same period. Notwithstanding the lack of clarity surrounding the immigrant status of the non-UK people in the official statistics, this trend raises questions regarding the role migrant workers play in the production process. Thirdly, in terms of how the financial crisis has impacted on age groups, almost every age group has reported signs of unemployment with the most vulnerable group being 16-17 year olds (an overall decline of 22% in employment; -26.9% for men and -17.1% for women). At the same time, those who fall within the age-group that is nearing retirement (i.e. those over 50 years old) actually saw a slight increase in employment. This could potentially imply a number of issues: (a) employers are either placing more value on experience in the recruitment process and/or, (b) that older workers are less choosy when it comes to getting a job during a recession (e.g. to accept work for a minimum wage), and (c) that older workers are still willing to seek employment possibly because of diminished confidence in their retirement plans as a result of the financial crisis and drop in pension values.

Fourthly, women seem to perform better than men in weathering the financial crisis. Whilst the number of female employees decreased by 1.1% over the period (compared to -3% of male employees), the number of self-employed women rose by 6.5% (compared to -0.2% of male self-employed). Furthermore, there was an increase of 16.9% of women on Government supported training and employment programmes, as opposed to a -7.9% of male uptake. That said, female participation rate in the working population remains lower. Specifically in construction, official employment fell by 3.6%, which is third hardest-hit after manufacturing industries (-8.1%) and finance and business services (-3.9%). Again, more women gained employment in construction (+3.8%), as opposed to the fall in male employment in construction (-4.5%). It must also be added that since employment agencies are classified as companies within the finance and business services sector, it is possible that the impacts of the financial crisis on total construction employment in the UK are more severe than can be distilled out from official statistics.

CRITICAL TRENDS IN THE UK CONSTRUCTION INDUSTRY

Over the two-year period from June 2007 to June 2009, official employment decreased by over 250,000 in the UK construction industry. Unsurprisingly, housebuilders were the first to be hit with unemployment at the onset of the financial crisis (Whitten 2008a), given the origins of the crisis. The employment trend of the UK construction industry since the late 1980s is depicted in Figure 3 below. This trend curve presents two striking observations. Firstly, the similarities to the last major economic recession of the 1990s signify the severity of the ongoing downturn. Secondly and perhaps more interestingly is the distinction between male and female employment as illustrated in Figure 3 below. Whereas the fluctuations in male employment appear more pronounced over time, female employment remains fairly static. This implies a number of critical issues, including the probability of the supporting (possibly office-based) role that females play in the UK construction industry and more significantly the inadequacy of initiatives in the 1990s to boost female participation rates in terms of construction employment (see e.g. Dainty and Bagilhole 2005).

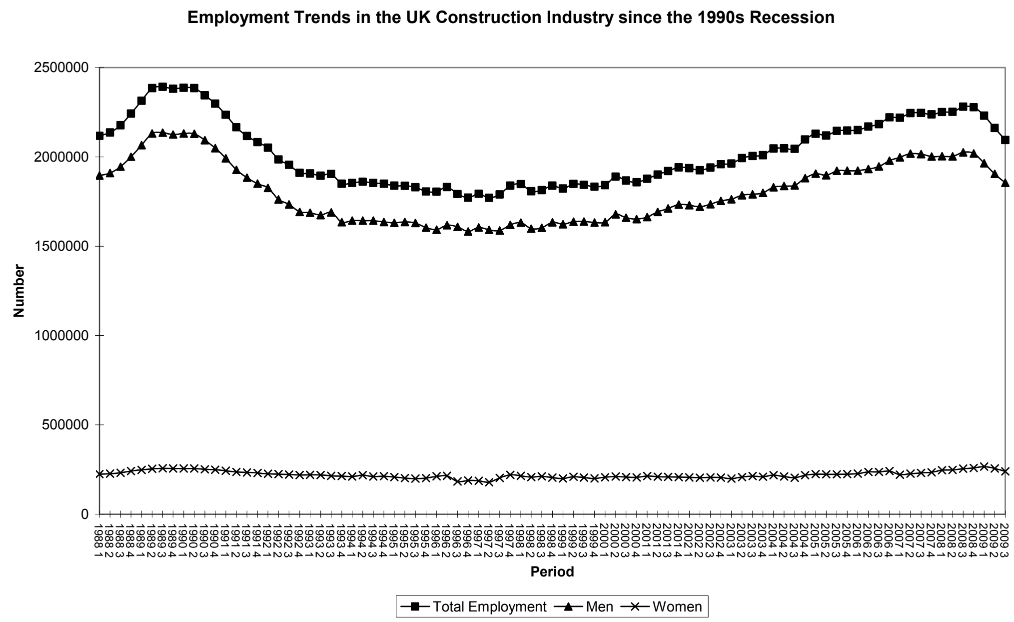

Figure 3. Employment trends in the UK construction industry since the recession of the 1990s (Source: Office of National Statistics 2009b)

It is also worthy to note that at the onset of the financial crisis, commentators from the UK construction industry were concerned about the implications of a deep recession on future skills capacity of the sector. For instance, Whitten (2008a, b) considered that a severe downturn could jeopardize the industry's sustainable development, including the danger of losing the skilled workforce for good as a result of waves of redundancies. Eyre (2009) also echoed this with the perspectives derived from the Civil Engineering Contractors' Association training survey 2009, which suggested that civil engineering companies in the UK were still committed to investing in training, although the levels of apprenticeship remained low. At the same time, calls were made for the government to intervene fairly early on to maintain, even bring forward, capital spending on infrastructure projects (e.g. schools, transport etc.) (see also RICS 2008). As it will be discussed in the next section, it is not entirely clear what is practically being achieved in terms of either committing to infrastructure investment or ensuring retention of apprenticeship places.

Of course, a recession does not only result in jobs losses, but also in corporate insolvencies, and it is this trend that indicates the seriousness of the current crisis. Recent research by Pricewaterhousecoopers (Howbrook 2010) have established that nearly one in five corporate insolvencies were found in the construction and real estate sectors in the UK (815 companies out of 4,251 reported insolvencies) in the first three months of 2010. Yet, this represented a 17% improvement over the same period in 2009. Nevertheless, the prospects of a post-recession recovery remain patchy since the number of insolvencies on a rolling twelve-month basis is still on an increase.

In terms of earnings, the latest statistics (Office of National Statistics 2009b) indicate that earnings for skilled and semi-/unskilled manual workers have increased from 2001 to 2008, although data is not yet available for the last twelve months, nor for professional workers, for any meaningful interpretation to be discussed of the impacts of the ongoing recession on wage levels. What is striking, nonetheless, is the rising gap in earnings between skilled and semi-/unskilled manual workers (see Table 1 below). So, labourers earn on average 21.52% less per week (24.64% less per hour) when compared to bricklayers, and 17.60% less per week (17.72% less per hour) when compared to joiners and carpenters in 2006.

Table 1. Gap in weekly/hourly earnings between skilled and semi/unskilled workers (Source: Office of National Statistics 2009b)

	2001	2002	2003	2004	2005	2006	2007	2008
Difference in weekly earnings between labourers and bricklayers	-8.39%	-8.94%	-17.53%	-16.53%	-15.94%	-21.76%	-15.26%	-21.52%
Difference in weekly earnings between labourers and carpenters	-11.29%	-9.56%	-19.61%	-16.12%	-19.05%	-16.27%	-14.76%	-17.60%
Difference in hourly earnings between labourers and bricklayers	-12.27%	-15.78%	-16.93%	-18.43%	-17.09%	-24.34%	-21.64%	-24.64%
Difference in hourly earnings between labourers and carpenters	-12.70%	-12.63%	-17.67%	-15.20%	-19.37%	-16.88%	-16.04%	-17.72%

It was mentioned earlier that one of the initial responses of the UK government to the onset of the financial crisis was to pledge commitment to sustain, and even bring forward, public sector spending plans. Therefore, this would mean that the construction industry would be an early beneficiary of the fiscal stimulus package. Indeed, official statistics (Office of National Statistics 2009b) indicate that the value of new commissions analysed by architectural professionals – i.e. potential new projects coming on stream – have increased by 312% for public-sector non-housing projects (e.g. schools and healthcare) over the period 2003 – 2008, although there is an 86% decline in public-sector housing projects over the same period. However, a closer scrutiny of the figures reveals a somewhat different reality. In the fourth quarter of 2008 (the latest available data), the value of new commissions analysed for public-sector non-housing projects saw a quarter-on-quarter decrease of 12.2% (from £7.6bn in the third quarter to £6.7bn in the fourth quarter). When analysing the value of production drawings (i.e. ongoing construction projects) being undertaken by architectural professionals between 2003 and 2008, the figures show that public-sector non-housing projects had already increased by 160% compared to an increase of 332% in private-sector non-housing projects over the period. In terms of public-sector housing, the value of production drawings being undertaken has declined by 97% over the same period. This is critical because it raises questions as to whether the UK government, with ever tightening fiscal budgets, have the ability sustain levels of investment needed to keep the construction industry afloat. Together with a presently weaker private sector, this poses a significant threat to future prospects of the UK construction industry.

DISCUSSION OF KEY TRENDS AND POLICY INTERVENTIONS

Statistical analyses about the construction industry have been known to be fraught with problems of accuracy. This is especially the case here given the level of uncertainty regarding the effects of the financial crisis and the dynamic and ever-changing nature of the recession. Nevertheless, the analysis outlined thus far was drawn from multiple sources of secondary data and an attempt was made to make sense of the implications of the crisis on construction employment matters. At a macro level, disparities continue to be reinforced across Europe, and specifically between countries that tend to adopt a more coordinated approach to markets and those that abide with a more liberal ideology such as the UK. Of course, it is difficult to assess the reliability of such comparisons given the basis upon which employment and unemployment figures, particularly for the UK, are derived. That said, there is some evidence of disparities surfacing in terms of gender, age and employment status and their corresponding experience with unemployment in the current recession.

Evaluating policy interventions amidst a backdrop of messy evidence is therefore challenging. In voluntarist UK, where there is an absence of a strongly coordinated tripartite framework that involves the social partners of the state, employers and employees in the formulation of education and training policy, interventions can be seen to be ad hoc and populist rather than focussed on long-term industrial development. For example, at the onset of the recession, grants have been set up to ensure participation in higher level skills. Employers who were considering redundancies were encouraged by these grants to consider part-time employment whilst employees were enrolled on a Masters Degree programme. In chasing the green economy, the government has also announced grants in relation to sustainable technologies and courses associated with achieving the aspirations of a low-carbon economy, see e.g. recent announcements on the formation of a Green Skills Academy for Building Services Engineers (SummitSkills 2010). Yet, how these coping strategies can materially benefit the current crafts skills base is unclear. Besides, there remains the question as to how quickly the shifting focus on the green economy can be translated into real productive capacity in the form of skills capacity and new markets (see Chan and Dainty 2007). Thus, it seems that policy intervention in this area is more tactical than strategic. Moreover, with current constraints on fiscal budgets and a weaker private sector, it is unclear how policy interventions can transcend beyond political rhetoric.

In much analysis of the labour market, the experiences of the subcontractors and agencies are often left out. It is unclear how the financial crisis has impacted on organizations that operate further down the supply chain. Even the experience of self-employed workers in the industry remains fairly invisible from official data sources. However, a number of government regulations provide some indication of the severity of the recession on some of these actors. For example, the postponement of implementation of EU Agency Workers Directive aimed at equalizing pay and working conditions of agency workers to the fourth quarter of 2011 illustrates the government's recognition of the financial burden faced by employment agencies across the economy. In another example, the government has also undertaken a consultation into regularizing false self-employment in the construction sector. This again seems like a rather tactical, if plausible, approach to raise tax revenues.

CONCLUDING REMARKS

The fortune of the construction industry is heavily dependent on the economic cycle; a downturn generally creates turbulence in the employment landscape and invariably leads to a restructuring of the construction labour market. An assessment was made of how the financial crisis has impacted on construction employment in the UK. Emerging trends based on interpretation of data provided by the Office of National Statistics in the UK and Eurostat sources have been outlined. An interpretive analysis of the data reveals shifting disparities across a number of areas, including age, gender, employment status, and employment conditions. Specifically, the trends highlight increasing marginalization of youths in recruitment into the sector, the resilience of women in weathering unemployment, the perpetuation of non-traditional forms of employment relationship and widening distinctions of working conditions for skilled and semi-/unskilled labour. Comparisons made between the UK and a selection of other European countries have illustrated that the manifestation of the crisis in employment terms is far from uniform. Instead, differences in political ideologies can contribute to distinctions in the consequences for the labour market. In particular, countries that have strong institutional arrangements across the social partners of the state, corporations and trade unions appear to maintain relatively higher levels of employment and lower levels of unemployment. Arguably, liberal economic policies in the absence of coordinated markets, favoured in the UK, could result in tactical policy interventions that lack a coherent, long-term view on industry development. This has potentially dangerous ramifications for the UK construction industry.

REFERENCES

Chan, P. W. and Dainty, A R J (2007) Resolving the UK construction skills crisis: a critical perspective on the research and policy agenda. *Construction Management and Economics*, **25**(4), 375-386.

Chari, R. and Heywood, P. M. (2009) Analysing the policy process in democratic Spain. *West European Politics*, **32**(1) 26-54.

Dainty, A R J and Bagilhole, B. M. (2005) Equality and diversity in construction: guest editorial. *Construction Management and Economics*, **23**(10), 995-1000.

Department of Business Enterprise and Regulatory Reform (2007) *Construction statistics 2007*. London: BERR.

Eichengreen, B. And O'Rourke, K. H. (2009) *A table of two depressions*. June. Accessed through http://www.voxeu.org on 30 April 2010.

Eurostat (2009) *Key figures on Europe: 2009 edition*. Luxembourg: European Communities. See also http://www.ec.europa.eu/eurostat accessed on 21 January 2010.

Eyre, E. (2009) *CECA survey reveals continuing commitment to training*. Training journal online. Accessed through http://www.trainingjournal.com on 26 October 2009.

Forde, C. and MacKenzie, R. (2007) Getting the mix right? The use of labour contract alternatives in UK construction. *Personnel Review*, **36**(4), 549-63.

Hall, P. and Soskice, D. (Eds.) (2001) *Varieties of capitalism: the institutional foundations of comparative advantage*. Oxford: Oxford University Press.

Howbrook, K. (2010) *PwC research shows UK insolvencies continue to fall: businesses are acting before it is too late*. Accessed through http://www.pwc.co.uk on 30 April 2010.

Murray, M. and Langford, D. (Eds.) (2003) *Construction reports: 1944-98*. Oxford: Blackwells.

Office of National Statistics (2009a) *Labour market statistics*. 14 October. Newport: ONS. Accessed through http://www.statistics.gov.uk/pdfdir/lmsuk1009.pdf on 26 October 2009.

Office of National Statistics (2009b) *Construction statistics annual 2009*. 23 October. Newport: ONS. Accessed through http://www.statistics.gov.uk/downloads/theme_commerce/CSA-2009/Opening-page.pdf on 21 January 2010.

Royal Institution of Chartered Surveyors (2008) *Pre-budget report 2008: main issues for RICS members*. London: RICS.

SummitSkills (2010) *New green skills academy for building services engineering*. 6 April. Accessed through http://www.summitskills.org.uk on 17 April 2010.

Whitten, N. (2008a) Construction industry facing a skills shortage. *Construction News*, 26 November.

Whitten, N. (2008b) Pre-budget report: 300,000 jobs at risk unless Govt fast tracks projects, says RICS. *Construction News*, 21 November.