

Analysis of the Impact on the Labour Market after the British Prime Minister and Government Policy Change

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Abstract. Britain's economic situation is facing severe challenges following the failure of Liz Truss's mini-budget policy, and a series of fallouts is affecting the UK. After taking office, the Rishi Sunak government's policy direction should be necessary for workers' lives. This article focuses on the Labour market and analyses the factors contributing to the current state of the UK labour market. Economic development and labour interests should be balanced. The article is mainly based on qualitative analysis and economics theories. Data are sourced from the UK's Office for National Statistics, mainstream press institutions, the Institute for Fiscal Studies, etc. In conclusion, the policies are suggested to ensure the interest and basic living standard of laborer's as it is better for long-term development and future construction.

Keywords: Macroeconomics; Labour market; Politics; British prime minister.

1. Introduction

1.1. Research Background and Significance

The resignation of Elizabeth Truss suggested the failure of her mini-budget policy. She wanted to imitate the relatively more successful case of Mrs Thatcher, who used the tax-cutting method to boost the economy [1]. The UK is looking forward to economic recovery from the hit of the pandemic. However, Truss's policy failed, as the risk of the further rising inflation rate after stimulating consumption through tax abatement was dismissed. After the policy implementation, the deteriorating consequences are extremely high inflation, a more significant government deficit, and a declining economy. Soon, Rishi Sunak, the former Chancellor of the Exchequer, took over the prime minister's office [2]. His previous work experiences gave him more rational thinking in monetary and fiscal policies. Stabilising the economy, especially in figures such as inflation and GDP, is prioritised by Sunak. Nevertheless, Sunak faced questions from the Labour Party in the British Parliament but showed no willingness to pay more for the labourers who suffered from increased living costs [3]. From the angle of ordinary citizens, they just want to survive in the market turmoil. What is related to them most is the disposable income and labour market. Investigating the labour market can help policymakers and average workers better understand the situation and problems from different aspects. When the economy and the workers are both struggling, which one should be saved first should be the question for the policymaker.

1.2. Literature Review

The articles and papers helped me sort out the facts about policy implementation and changes and the impact they have had. The part of the case description mainly relies on some British mainstream media news reports to help me narrate. The news from CNBC, the Guardian, and the Mirror demonstrates the details of the mini-budget issued by Truss after taking office and the feedback of the community, as well as the policy operation of Sunak after Truss's resignation to save the economy. The news content is very objective, but some critical expressions can have a particular impact on this. In the area of pension, the paper 'Expected reasons for leaving the labour market and loss of paid employment among older workers: Prospective Cohort study' (Annette Meng, 2023) profoundly understands pension and the labour market. The National Health System (NHS) is the second area that needs investigation. The paper 'How inflation threatens the NHS and what policy makers can do

about it' associates the inflation problem with the NHS and gives practical policy suggestions. The information about the policy and government's attitude is from the UK parliament's official website and an article, 'Rishi Sunak faces a dilemma over levelling up'. The article describes some general policymaking difficulties, and the Prime Minister's Questions (PMQ) in the British Parliament express Sunak's more apparent policy positions and attitudinal tendencies. There may be some misunderstandings in readers' interpretation of these contents, which may slightly deviate from the facts.

1.3. Research Content and Framework

The second part of the essay presents the current economic conditions in the UK. In the third part, the more detailed analysis lists three factors, the pension crisis, the National Health System, and inflation, to evaluate the impact on the labour market. Finally, some policy suggestions are given.

2. Case Description

2022, the energy crisis took place, and fossil energy prices remained high. Since June 2022, the UK has started to suffer from high inflation by around 10%, reaching its peak at 11.1% in October, the highest point in 40 years [4]. The Bank of England kept increasing the interest rate seven times to curb inflation [5]. On September 6, 2022, Elizabeth Truss succeeded Boris Johnson as Prime Minister of the United Kingdom. With the objective of economic growth, Truss implemented a quite radical tax-cutting policy, the "mini-budget". Two main substances in the budget are the energy bills support package and income tax reduction. The former is to help resident's better cope with the energy problem; the latter is to boost the economy through stimulating consumption. As a result, higher government expenditure with lower tax revenue increases the fiscal deficit. The problem with the tax-cutting policy is that it cuts the most tax to the high-income people, which leads to a more significant gap between the rich and poor [6]. Another consequence brought by the policy is the collapse in the pension market in the UK, which is attributed to the increase in the interest rate. When the pension company had to give the deposit to the liability-driven investment (LDI) funds providers, they sold the government bonds, further causing a drop in the bonds' interest rate and higher interest rate. Forty-five days later, Truss announced her resignation. On October 24, 2022, former British Finance Minister Rishi Sunak won the Conservative Party leadership contest and became the party's new leader. To tackle the "severe economic crisis," Sunak had to control inflation, reduce the deficit, improve the people's quality of life, rebuild investors' confidence, and achieve economic growth. From December 2022 to February 2023, Britain was hit by the biggest strike in over a decade. As inflation remained high and the price level for groceries reached 16.7%, workers' cost of living went up while there was at least a 23% cut in disposable income [7]. Hundreds of thousands participated in the strike, from the nurses and doctors in the National Health System (NHS) to the teachers, civil servants, and train drivers. They wanted a pay raise for better living standards. It further deteriorated the economy via traffic stops and patient queues. Though low-income and lower-middle-income workers suffer from high living costs and find it hard to meet their basic physical needs, Sunak still believes the higher income would worsen the current economic condition as more money would be injected into the market and the consumption stimulation.

When the prime minister, government, and the central bank think about stabilising the long-term economic situation, they increase the interest rate, cut the government expenditure, and try hard to control the inflation and exchange rate. What should be focused more on is the labour market. Workers are the components that contribute to production and GDP; their situation is worth analysing as it is closely related to people's careers and quality of life.

3. Analysis on the Problems

Various factors contributed to the turmoil in the labour market. The factors include the failure in the financial market and the monetary policy, etc. Those affect the labour market both directly and indirectly, leading to a fall in social well-being.

3.1. Pension Crisis

The first factor is the pension crisis. The pension market is crucial in the UK as it has a substantial scale of six thousand billion pounds. Pension companies buy highly leveraged financial derivatives such as Interest Rate Swap (IRS) to hedge risk as interest rates move. However, the monetary policy of raising interest rates rapidly in a short time caused a crisis in the pension market due to the vicious cycle of increasing deposits and rising interest rates [8]. There are two types of pensions: Defined Benefit (DB) plan and the Defined contribution (DC) plan. DB and DC plans have advantages and disadvantages based on the productivity theories of pensions [9]. The future pension is fixed for the DB plan, which is calculated by the input. This mode encourages early retirement, using pension as a reward, partially due to the potentially lower motivation in the work. For the DC plan, it is more flexible and attractive for the workers with a low discounted rate. DC plan also promotes favourable labour market outcomes, such as reduced quits. In the UK's case, the pension crisis caused companies not to have enough cash to give to the pensioners, which damaged the trust and caused terror among the low-income workers. According to the report result from the Institute for Fiscal Studies (IFS), almost 3.5 million people (one-fifth) of working-age private sector employees do not do any pension savings in a given year, and more people in the private sector choose the DC plan which made them bear more risks [10]. This pension crisis may have a more profound negative impact on the labour market because the DC plan's incentives could be dissolved when people see the situation, and the saving problem could worsen when they get old.

3.2. National Health System

The second factor is the inefficient NHS and pressure on the NHS staff. The NHS was set up in the UK in 1948, aiming to give patients standard healthcare for free. NHS indeed increased the well-being of the residents, but it is also a massive burden for the government as it needs considerable investment and would raise the expenditure. The NHS itself has suffered from Covid-19. Since the start of the pandemic, the NHS has treated more than half a million of the COVID-19 related illness. The impact is prolonged. Until August 2023, 7.6 million people were on the waiting list for treatment [11]. This number should put enormous pressure on the NHS staff.

Accompanied by the low disposable income due to inflation, the Royal College of Nursing (RCN) decided to trike based on the vote results from 300,000 Trade Union members [12]. Unfortunately, the strike was not as effective as the nurses had expected. This would further reduce the motivation for strikers to work because the union could not help them protect their interests. Workers might lose trust in their unions, leading to labour market disorder. The impact of the inefficient NHS may aggravate the proportion of the ill-health labour force. The people on the waiting list may be unemployed people due to long-term health problems or disabilities—2.7 million people are facing barriers to labour market participation [13]. The less labour supply contributes to the lower total output, a higher unemployment rate, and economic inactivity. The living cost has been relatively higher; the price of food and non-alcoholic beverages rose by 14.9% by July 2023 [14]. The ill people do not have a basic salary to maintain a living and face the increased cost of necessities. For the economy, the pace of economic development would slow down due to the labour shortage in some crucial industries.

3.3. Inflation

The third factor is inflation. This factor also put Sunak's government into a dilemma when dealing with the trouble in the labour market. After the high inflation hit the UK in July 2022, the high price

level but low disposable income made people less able to consume necessities, even basic foods. The government saw people's struggle and provided financial support at an average of 3300 pounds per household [15]. From the monetary policy perspective, the Chancellor of the Exchequer and the governor of the Bank of England aim to control inflation, though the cost is the economic recession. The hidden logic is that the wage should not be raised, as it could result in a greater demand to consume and further deteriorate inflation. Additionally, the salary increase could raise the company's cost, and then the price would be adjusted to maintain the profit margin. So, the higher cost of labour would be reflected in the higher price. If this occurred in the whole industry, the inflation would be worse. Not improving wages is for long-term macroeconomic benefits, lowering inflation and controlling the deficit.

Eventually, the pressure of living costs fell on the ordinary workers. They must sacrifice themselves to build the nation's path to economic growth, which is somewhat inhuman. To protect laborer's interests, the Trade Union supported, and strikes took place. The large-scale trike did frighten the government, but Sunak's government was taking a hard line. The country only agreed to raise the wage by around 5%, about 14.2% lower than the workers' expectations in the RCN [16]. When the two sides are deadlocked, labour would be put to a halt as they have to go back to their positions to earn money for a living, which is quite realistic. Until August 2023, there are no exact solutions for the problem between low disposable income and high inflation.

To sum up, the pension crisis, the disordered NHS, and the hard-to-control high inflation all resulted in turmoil in the labour market. Though politicians and bankers are trying to make policies that could save the economic and financial condition, which are technically feasible, they ignore the real situations of the labourers. They want to sacrifice labourers' living standards to maintain long-term economic stability. However, labourers are a big part of a country's economy, and enhancing their welfare is essential but complicated to balance under the current situation.

4. Suggestion

When the country is suffering from adverse economic conditions, exceptionally high inflation and significant government deficits, there should be a conflict between the objectives of the central bank and the government. The central bank has to take the monetary policy of increasing interest rates to control inflation, which is opposite to the government's economic growth target. The Sunak government is now on the strait of reducing government expenditure, controlling inflation and the pressure of raising wages from trade unions. Though the Sunak government want to recover the country conservatively, they put ordinary families into poorer conditions. It is better for the government to cut the expenditures on supporting Ukraine. The UK is the second largest donor that has committed 4.6 billion pounds in military assistance to Ukraine [17]. This investment does not have an obvious and compelling return on the UK, and the foreign investors' confidence is hard to rebuild through this.

5. Conclusion

As a country in the Group of Seven, the UK should be an advanced economy. The black swan events, pandemic, and improper policies have recently endangered the UK. The labour market is used to peer into the country's economic changes and policy impact because it is an important market to display and evaluate the national economy and can resonate with the broader public from a more livelihood perspective. Strikes can reflect the problems of the labour market, which should remind the government to pay more attention to the interests and lives of the people. However, in the face of more severe macroeconomic problems, maintaining the country's sustainable development will become the first option. Among the three factors analysed in this paper, the pension crisis and NHS have a less direct impact on the labour market than inflation, so the analysis is arranged in the order of the degree of direct impact on the market. In short, the national policy decision must be evaluated

with pros and cons, and the government will focus more on long-term development. Therefore, people in an unstable economic environment should clearly understand their situation, understand the facts that cannot be changed and the difficulties of the government, and strive to find ways to improve the quality of life to tide over the difficulties and wait for the economic recovery under the intervention of the government. The factors analysed in this article are limited, and only three main factors are involved. In fact, the factors affecting the economic environment and the market are very complex, and it is difficult to do the most comprehensive analysis. The article may need a more comprehensive understanding of the policies and information released by the government, and there will be a one-sided analysis. In the future, research on how individuals survive in such economic circumstances can be carried out. When further British policies are published, it can be reviewed how the policies have improved the issues raised in the paper.

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