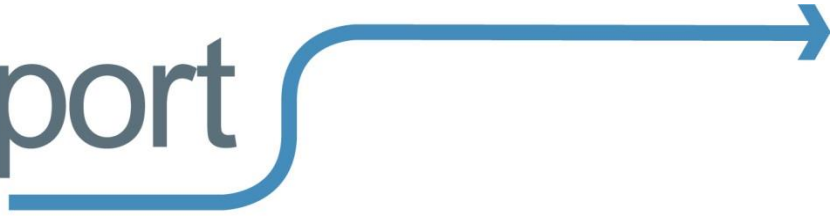


ies Report

Institute for Employment Studies



Employment and Opportunity in the UK

Evidence paper to support the launch of the
Commission on the Future of Employment Support

Tony Wilson and Daniel Muir

10 November 2022
Report 588



abrdn
Financial Fairness Trust

Institute for Employment Studies

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1 Introduction and summary

This paper provides background and evidence on the UK labour market before and since the Covid-19 pandemic and compared to other developed economies. This is to support the launch of a new Commission on the Future of Employment Support, which has been established to develop evidence-led proposals for reform so that employment support can better meet the needs of individuals, employers and our economy now and in the future. The Commission is being hosted by IES and funded by abrdn Financial Fairness Trust.

More information on the work of the Commission is available at this link:

<https://www.employment-studies.co.uk/commission>. This includes the launch report for the Commission, and a link to its Call for Evidence, which is open until 30th January 2023. The Call for Evidence can also be accessed directly here: <https://bit.ly/call-for-evidence>.

This report is in two parts: after this introduction and summary, the second chapter provides more detail on the UK labour market before and since the pandemic; then the third chapter assesses how the UK compares to other developed economies.

Summary of key findings

Chapter two sets out that while the UK entered the pandemic with record levels of employment and low unemployment, this masked significant labour market challenges including:

- **Wide employment (and pay) gaps for different groups and between areas**, with:
 - Disabled people more than two-and-a-half times more likely to be out of work than non-disabled people;
 - Those with the lowest qualifications more than twice as likely to be out of work;
 - The employment rate for ethnic minority groups on average over ten percentage points lower than for white people (with significant differences between different groups); and
 - Employment gaps for lone parents, older people and those in the most deprived areas were all at least five percentage points lower than for those without those disadvantages.

These gaps had been narrowing over recent years as the labour market improved, but remained wide.

- **Falling access to training in work** – around a quarter of the workforce received work-related training in 2019 compared with 30% pre-financial crisis; with training on average shorter and cheaper than in many other developed economies (and often more geared towards induction and health and safety). This is one factor contributing to

weak productivity growth, where the UK has fallen from having nearly the highest productivity growth in the decade before the financial crisis to nearly the lowest in the decade since.

- **Persistent low pay** – with one in six workers low paid in 2019, rising to over half of those working in hospitality, one third of those in social care and over a quarter of those in retail. Furthermore at least a quarter of those in low pay appear to have been ‘stuck’ there for at least a decade (while a further half have cycled in and out).
- **Rising poverty among households where someone works** – up from 5.6 million people two decades ago to 8.8 million in 2020. This is explained in particular by couple households where one adult works (one third of adults in these households are in poverty) but it has also been growing for households where all adults work – with half of this rise among lone parent families. Combinations of part-time work, low pay and cuts to in-work benefits are all likely playing a part.

Since the pandemic, the UK avoided an unemployment crisis but is instead facing significant issues around **labour force participation, labour and skills shortages, pay disparities** and **widening labour market inequalities**.

The analysis in this report mainly focuses on **labour force participation**, where there are **600 thousand more people outside the labour force (economically inactive) than before the pandemic** – a figure that rises to nearly a million if people aged 65 and over are included. This has been driven in particular by higher economic inactivity due to long-term ill health – which has reached its highest ever level – and by more older people out of work (with those aged 50 and over accounting for three quarters of the overall growth).

New analysis for this report shows that economic inactivity is rising most among:

- **Those who last worked at least five years ago** – up by around 200 thousand since 2019;
- **Those who last worked between two and three years ago**, i.e. who left immediately either side of the first lockdown – up by 75 thousand since 2019; and
- **Those who have never worked** (mainly explained by more young people in full-time education) – which is up by around 150 thousand.

Economic inactivity among those who last worked less than two years ago has fallen compared with 2019, and overall the number of people out of work for less than a year is at its lowest ever level. **This suggests that falling participation in the labour force is being driven by fewer people *entering* work – and so moving into longer-term worklessness – more than it is by people *leaving* work.**

More detailed analysis of reasons for economic inactivity finds that:

- **The growth in those out of work for the longest is being driven by long-term ill health** – suggesting that those with long-term health conditions are not coming back into work to the same extent that they were before the pandemic;
- **The growth in those who left work 2-3 years ago is being driven by both long-term and short-term illness.** The growth in short-term illness is particularly stark and

gives the clearest evidence yet of a **direct ‘Long Covid’ effect**, with a rise of 30 thousand in the number of people saying that they cannot work due to a temporary illness and who last worked 2-3 years ago (an increase of 160% compared with 2019 figures);

- **Among those who last worked less than two years ago, there has been a large growth in early retirement** (up 45 thousand), suggesting early retirement is being particularly fuelled by those leaving *after* lockdowns, furlough and redundancy; and
- Unsurprisingly, **those who have never worked is largely explained by students** – but there has also been a growth of 100 thousand in the number who have never worked who have long-term health conditions (mainly but not only accounted for by under-30s).

The analysis also finds that **lower participation is likely to be a permanent change in the labour market**, both as ‘Baby Boomers’ continue to retire over the next decade (alongside fewer younger people joining the labour force) and as migration settles at a lower level than before the EU referendum. On migration in particular, in the decade before the referendum employment growth among those born overseas was on average around 220 thousand a year; while in the six years since the referendum this has slowed to growth of 140 thousand a year.

On the other factors affecting the labour market post-pandemic, the analysis sets out that:

- **Vacancies remain close to their highest on record** – nearly 50% higher than pre-pandemic levels and higher in every single industry. There are signs that vacancy levels have peaked in the private sector, but are continuing to grow in the public sector.
- **Nominal pay growth (not including inflation) is running at its highest in at least 20 years** at around 5½%. This rises to around 6½% in the private sector **but is just 2½% in the public sector** – likely fuelling the continued growth in vacancies there as people leave for better paying work and/ or vacancies go unfilled.
- Nonetheless **very high inflation continues to lead to large falls in real terms pay**, which is down by 3.3% since the start of the year (the steepest fall in at least two decades).
- **Employment ‘gaps’ have widened since the pandemic for a number of the disadvantaged groups set out in earlier analysis**: for disabled people, the lowest qualified, lone parents and older people. This is particularly concerning given the sheer size of many of these gaps in the first place, that this is reversing an improving trend before the pandemic, and that it is happening despite a tight labour market and continued unmet employer demand.

The third chapter then compares the UK with other developed economies. It finds that:

- **The UK performed well on employment overall before the pandemic, but relatively poorly on employment ‘gaps’ for disadvantaged groups** (particularly older people and disabled people).

- **If we could close just half of the gap to the best in Europe on these employment gaps, there would be a million more people in work** (600 thousand more disabled people and 340 thousand more older people).
- **We also perform relatively poorly on measures of (low) pay, poverty and inequality** – with the UK mid table on pay overall and rates of low paid work, and in the bottom third on our gender pay gap; mid-table on income poverty; and among the worst performing on measures of inequality (better only than the United States and Bulgaria on the Gini coefficient).
- This reflects a combination of factors around the UK’s economic and labour market model, but is contributed to by **very low rates of income replacement in our benefits system** (among the lowest in the world for the unemployed), **relatively weak labour market protections**, and **among the strictest sets of requirements for people claiming benefits**.

Finally, the chapter sets out the UK’s employment performance since the pandemic in comparison to other countries. It shows that **the UK has had one of the weakest labour market recoveries of any developed economy**: we are one of only five developed nations to still have an employment rate below where it was at the end of 2019. In many cases, employment in other countries is now significantly higher than pre-pandemic – with **employment across the European Union on average two percentage points higher than pre-pandemic (compared with one percentage point lower here)**.

Furthermore the four other countries with lower employment than pre-pandemic (Iceland, Switzerland, Latvia and the US) have all seen strong employment growth over the last year (by on average two percentage points) while in the UK growth has been flat. **If these trends continue, then by the first quarter of 2023 the UK would be the only developed economy in the world with an employment rate lower than it was before the pandemic.**

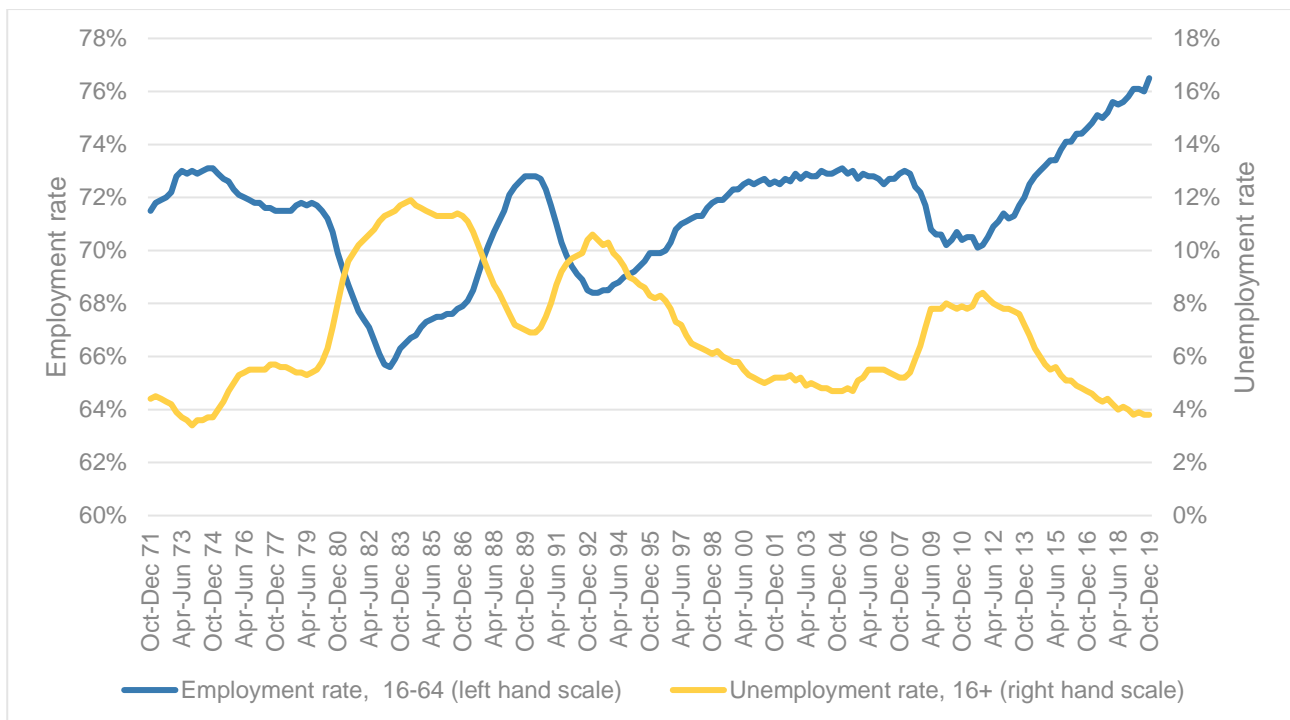
2 The labour market before and since 2020

2.1 The UK labour market before the pandemic

The UK entered the pandemic with record employment and close to its lowest unemployment in fifty years. Since the end of the post-financial crisis recession, employment had grown by six percentage points – or 3.2 million people – with two million more people in work over the prior five years alone.

This strong performance on employment had been aided by population growth and demographic changes: with more older people in work, more women in work and high migration particularly from the European Union. This was also supported by relatively flexible labour markets and active support for the unemployed – with each recession since the mid-1980s seeing unemployment peak lower than the last.

Figure 2.1 Employment and unemployment, 1971-



Source: Labour Force Survey (LFS)

However, this prima facie success story disguised a range of significant challenges – in particular around persistent disadvantage, spatial inequalities, working poverty, skills and progression, which are taken in turn below.

2.1.1 Persistent employment ‘gaps’ for those further from work, driven by economic inactivity

First, while employment overall in the UK was setting new records, those more disadvantaged in the labour market were far less likely to be in work. Figure 2.2 sets this out, showing the employment rate gaps in 2019 and 2014 for different groups – defined as the percentage point difference between the employment rate for people with that disadvantage and people without. The graph shows that employment gaps for most groups had narrowed over the previous five years – reflecting a combination of demographic changes and improvements in the labour market – but in many cases remained very wide.

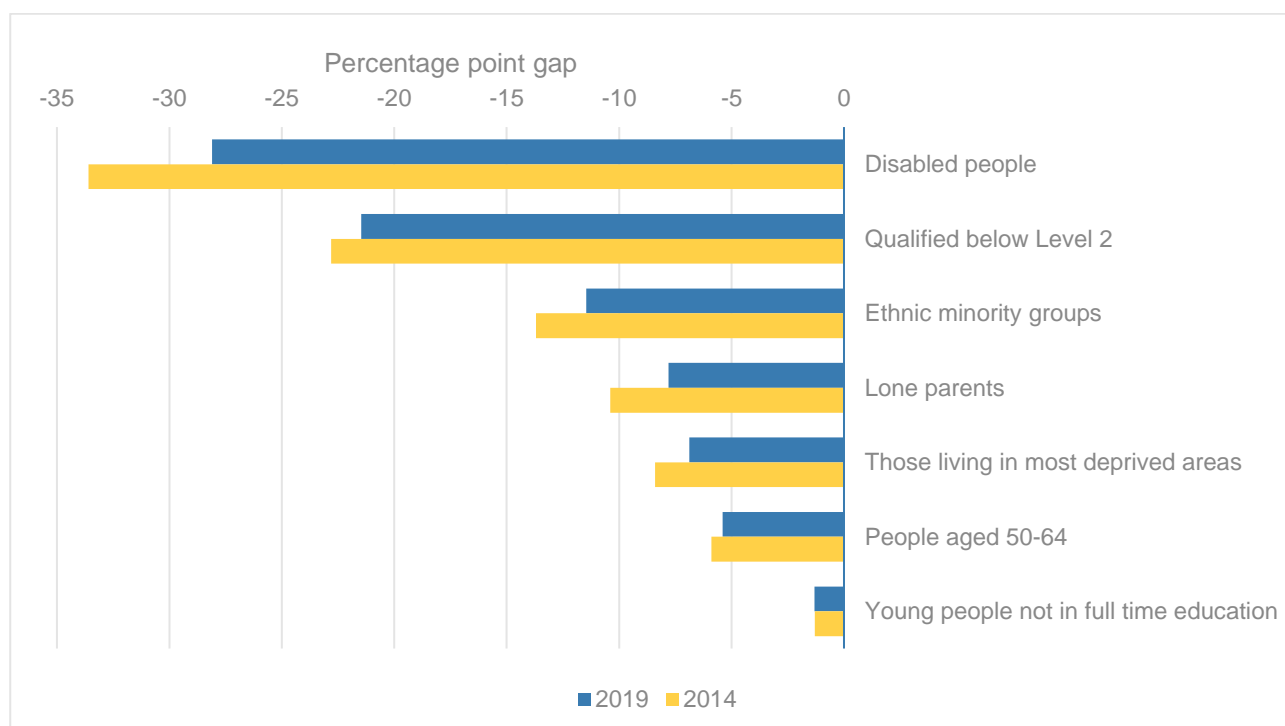
- Most notably, disabled people¹ – which is just over one in five of all people aged between 16 and 64 – were nearly thirty percentage points less likely to be in work than non-disabled people in 2019. The gap had narrowed from close to 35 percentage points in 2014, but nonetheless disabled people remained two and half times more likely to be out of work than non-disabled people (and accounted for nearly two fifths of all of those out of work and aged under 65).
- Those qualified below Level 2 (the equivalent of five good GCSEs – making up around one sixth of the population) were over 20 percentage points less likely to work than those with higher qualifications (58% compared with 80%). This employment gap had narrowed only slightly – by just over one percentage point – over the previous five years.
- Ethnic minority groups were 11.5 percentage points less likely to be in work – a gap that has narrowed particularly as a result of demographic and generational changes and more ethnic minority women in work – but with significant variations around this for different ethnic groups. Pakistani and Bangladeshi people for example faced an employment gap of around 20 percentage points (rising to nearly 40 percentage points for women), for black people the gap was around ten percentage points, while for Indian people the employment gap was on average less than one percentage point.
- There were significant employment gaps for other groups too – single parents, those with lower qualifications, those living in more deprived areas and older people – although again in each case gaps were smaller in 2019 than in 2014 (with the gap for lone parents and older people in particular reflecting longer running changes and improvements). For young people outside of full-time education, the employment gap was very small by 2019, but largely unchanged on five years earlier.

Clearly, these headline descriptors only tell part of the story around labour market disadvantage and will not themselves necessarily ‘explain’ why someone is out of work. In particular there is strong evidence that employment gaps widen as disadvantages

¹ Note that we use here the Government Statistical Standards ‘core’ definition of disability, which is defined as people who report a long-term health condition or disability that limits their ability to carry out day-to-day activities. So this includes any physical and mental health conditions, impairments or illnesses where those affect daily activity.

accumulate, and many of those further from work may have a combination of low qualifications, caring responsibilities, ill health and poor access to (the right) jobs in their area. Nonetheless, looking at these relatively high-level descriptors helps to illustrate how the employment boom in the UK had not benefited everyone equally, and had not closed the gaps for those who in the past may have been left behind.

Figure 2.2: Gap between employment rates for selected disadvantaged groups and those without that disadvantage – 2019 and 2014



Source: IES analysis of LFS, Annual Population Survey (APS) and Index of Multiple Deprivation (IMD). All gaps use LFS Oct-Dec quarters (2014 and 2019), except for 'most deprived areas' and 'Qualified below Level 2' which use APS data for Jan-Dec (2014 and 2019). Deprived areas are defined as the bottom quintile of English local authorities on IMD income deprivation measure.

These employment disadvantages are also often compounded by significant pay gaps among those in work – with for example disabled people in work earning around 16% less than non-disabled people²; ethnic minority groups earning on average 2% less than white people (but rising to nearly 20% less for Pakistani and Bangladeshi people³); and women earning around 8% less than men⁴.

Importantly, in each case the wide employment gaps set out above are largely explained by 'economic inactivity' – which describes those who are out work and either not looking for work and/ or not available to start work. As Figure 2.3 shows, around 3% of all of those aged 16-64 were unemployed on the eve of the pandemic, while around 20% were

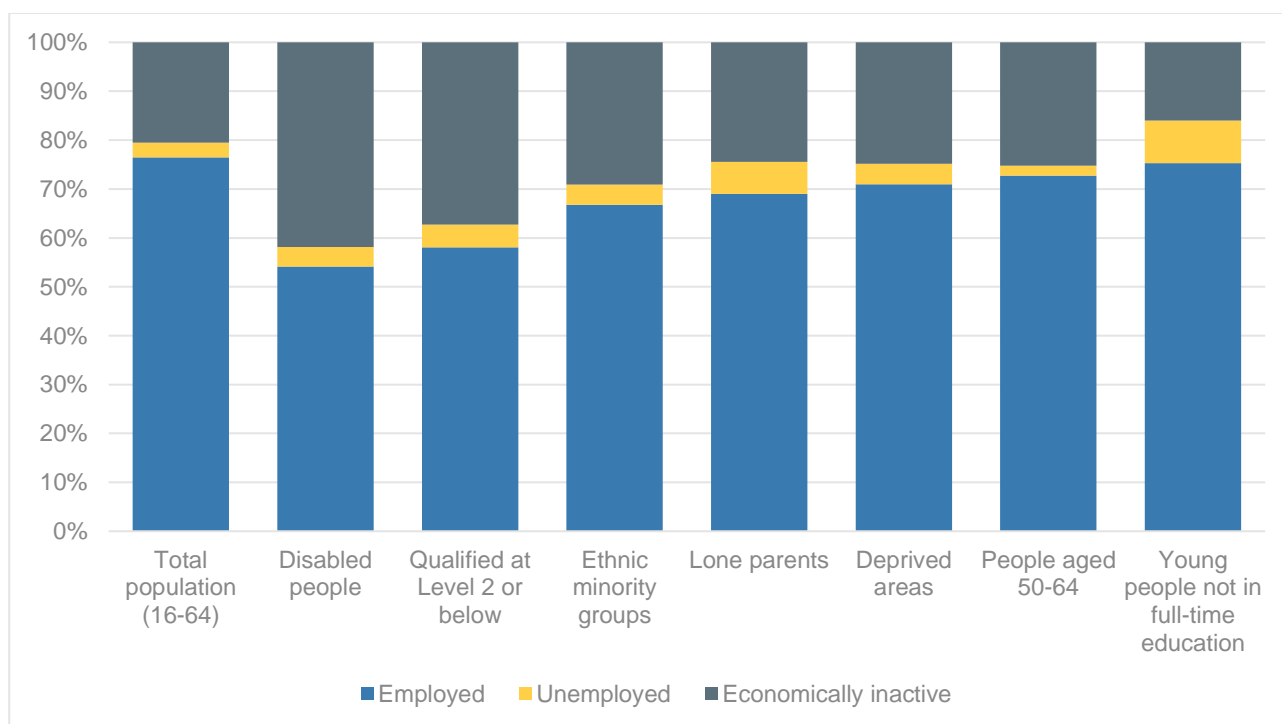
² Source: Jobs and Recovery Monitor – Disabled Workers; Trades Union Congress; November 2021

³ Source: Ethnicity Pay Gaps: 2019; Office for National Statistics; October 2020

⁴ Source: Gender pay gap in the UK: 2022; Office for National Statistics; October 2022

economically inactive. However around 42% of disabled people were economically inactive, 37% of those with the lowest qualifications, 29% of those from ethnic minority groups, and 24% of lone parents. The only group with a lower rate of economic inactivity than the overall population was young people outside of full-time education (although even in this case, 16% of all young people not in education were not looking and/ or not available for work).

Figure 2.3: Employment, unemployment and economic inactivity for selected disadvantaged groups (2019)



Source: IES analysis of LFS, Annual Population Survey (APS) and Index of Multiple Deprivation (IMD). All gaps use LFS Oct-Dec 2019, except for 'most deprived areas' which uses APS data for Jan-Dec 2019. Deprived areas are defined as the bottom quintile of local authorities on IMD income deprivation measure.

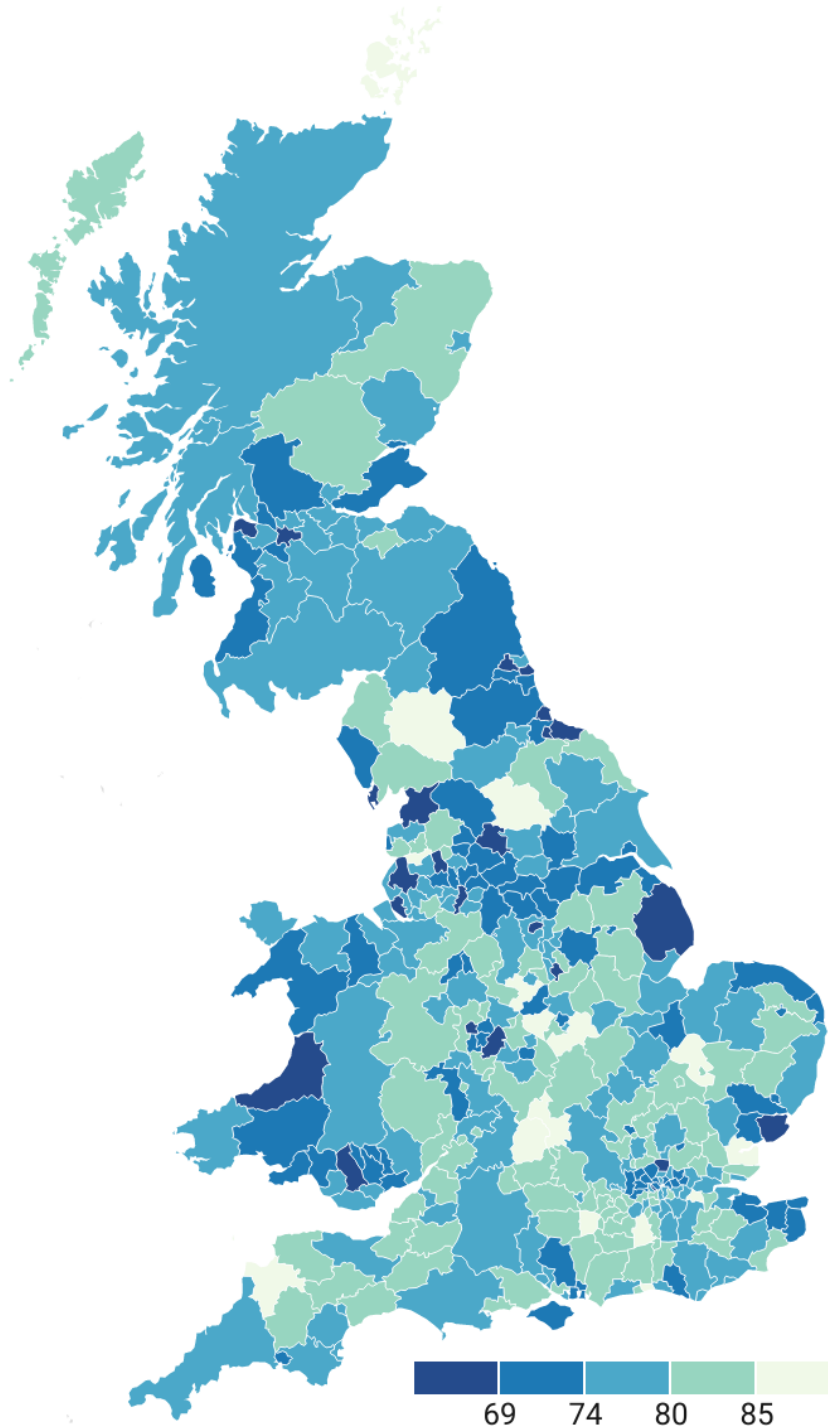
2.1.2 Inequalities between places

As noted, there are significant differences in employment between more and less deprived areas. This is illustrated in Figure 2.4 below, showing employment rates by local authority (council) area. In around one fifth of places – predominantly ex-industrial, coastal and more northern areas – the employment rate was below 70% even before the pandemic hit, while in more affluent areas mainly in southern England, employment was consistently above 80%.

Separate analysis by IES for the Local Government Association has also identified that across a range of indicators, areas with lower employment and weaker vacancy growth – again often ex-industrial and coastal areas – were significantly more disadvantaged than other parts of the country (Wilson and Williams, 2022). These places had seen employment grow at around one fifth the rate of more advantaged areas; had median earnings around £50 per week lower; had fewer people with high qualifications and more

people with no qualifications; and were about one third more likely to have jobs in industries at risk of contracting in future and one third less likely to have jobs in industries that were most likely to grow.

Figure 2.4: Employment rates by local authority district, Great Britain (2019)

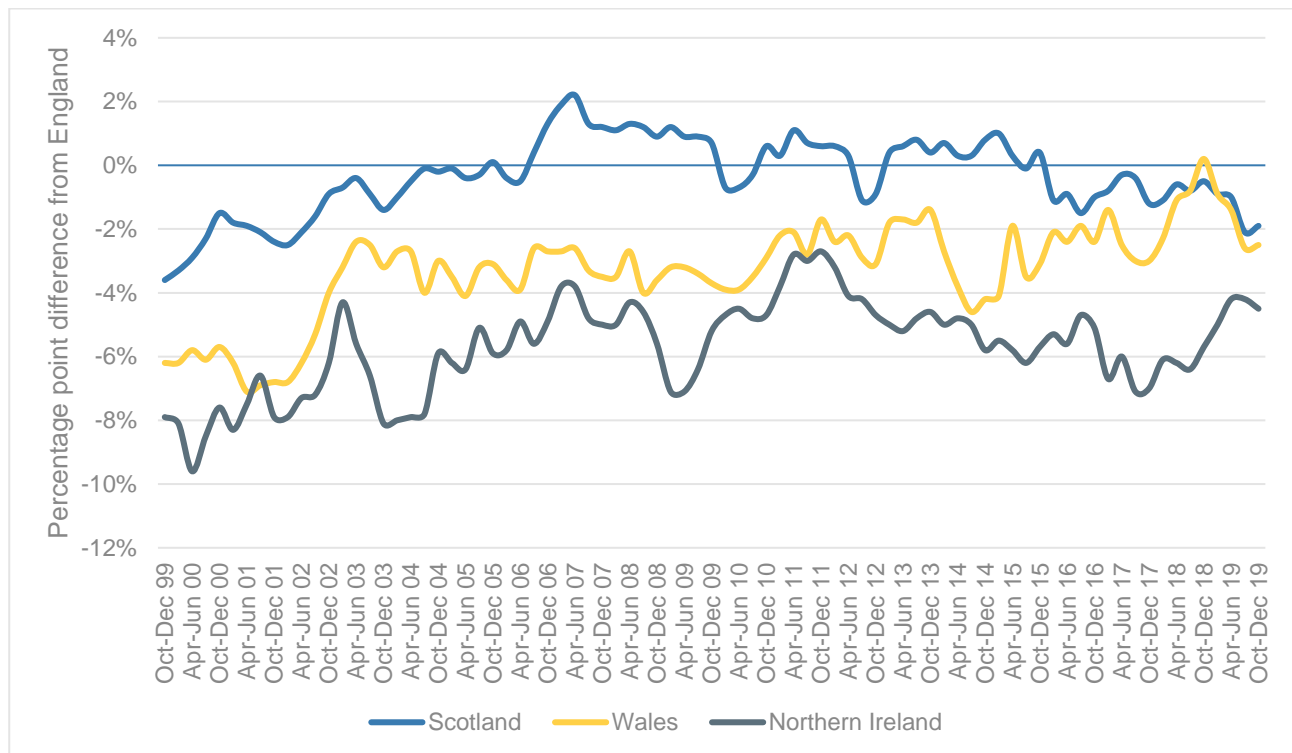


Source: Annual Population Survey. Data for Northern Ireland local authorities not currently available. Map data © Crown copyright and database right 2021. Created with [Datawrapper](#).

Looking by nations, Figure 2.5 shows the difference between the employment rates of Scotland, Wales and Northern Ireland compared with England over the two decades

before the pandemic (where a negative figure means lower employment than in England, and a positive figure means higher). This shows that employment gaps narrowed in the run-up to the great financial crisis, with Scotland seeing higher employment than England for a period. During the 2010s the employment rate gap deteriorated somewhat in Scotland and in Northern Ireland and was broadly stable in Wales.

Figure 2.5: Percentage point difference in employment rates between Scotland, Wales and Northern Ireland, compared with England – 1999-2019



Source: Annual Population Survey

2.1.3 Declines in access to training, contributing to weak productivity growth

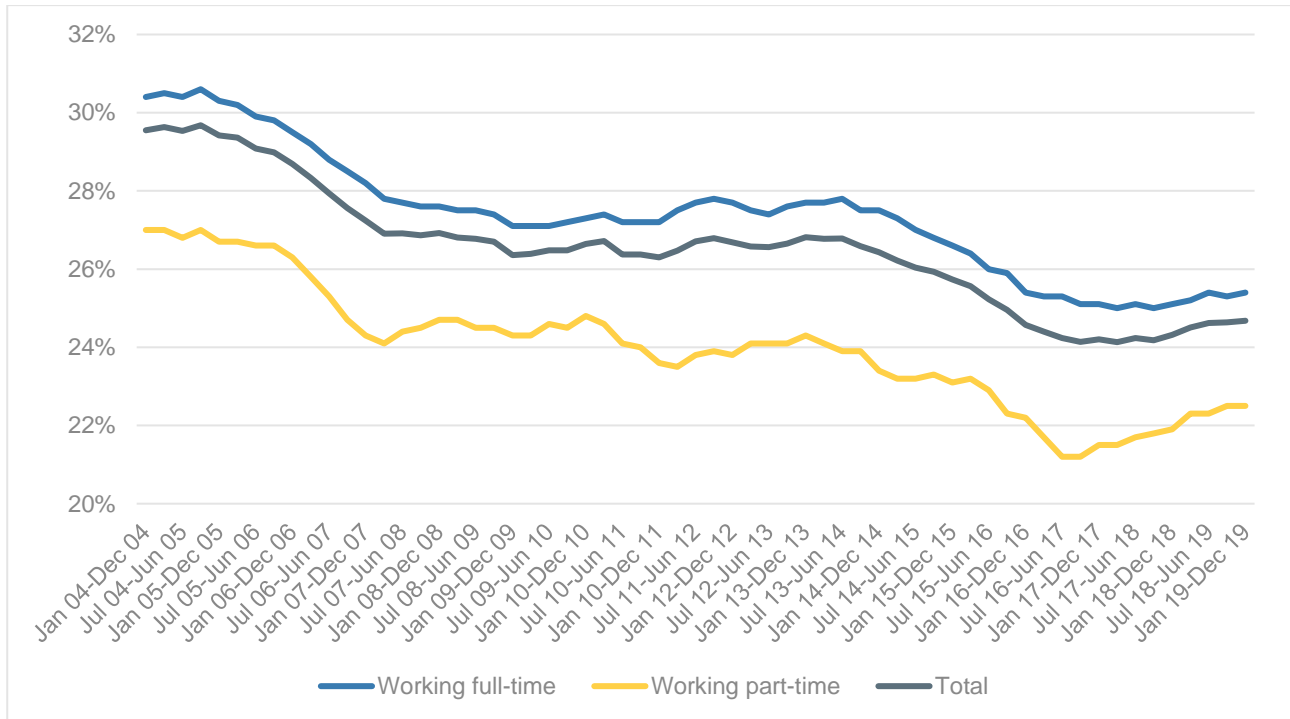
The last fifteen years has also seen a significant fall in work-related training – with around 25% reporting in 2019 that they had received training in the previous three months, compared with around 30% in 2005. As Figure 2.6 shows, training incidence is lower still for those in part-time work – at just over 22% – although there were some signs of improvement in the years leading up to the pandemic.

Participation in work-related training is relatively higher in the UK than in many other developed economies, but it also tends to be shorter and less costly too⁵. It is also often geared towards induction and health and safety. On average, employees in England and

⁵ Source: Eurostat

Wales received 3.6 days of training in 2019; while for around one third (31%) of employers, induction, health and safety accounted for at least half of all training provided⁶.

Figure 2.6: Proportion of those in work receiving on-the-job training in previous 13 weeks



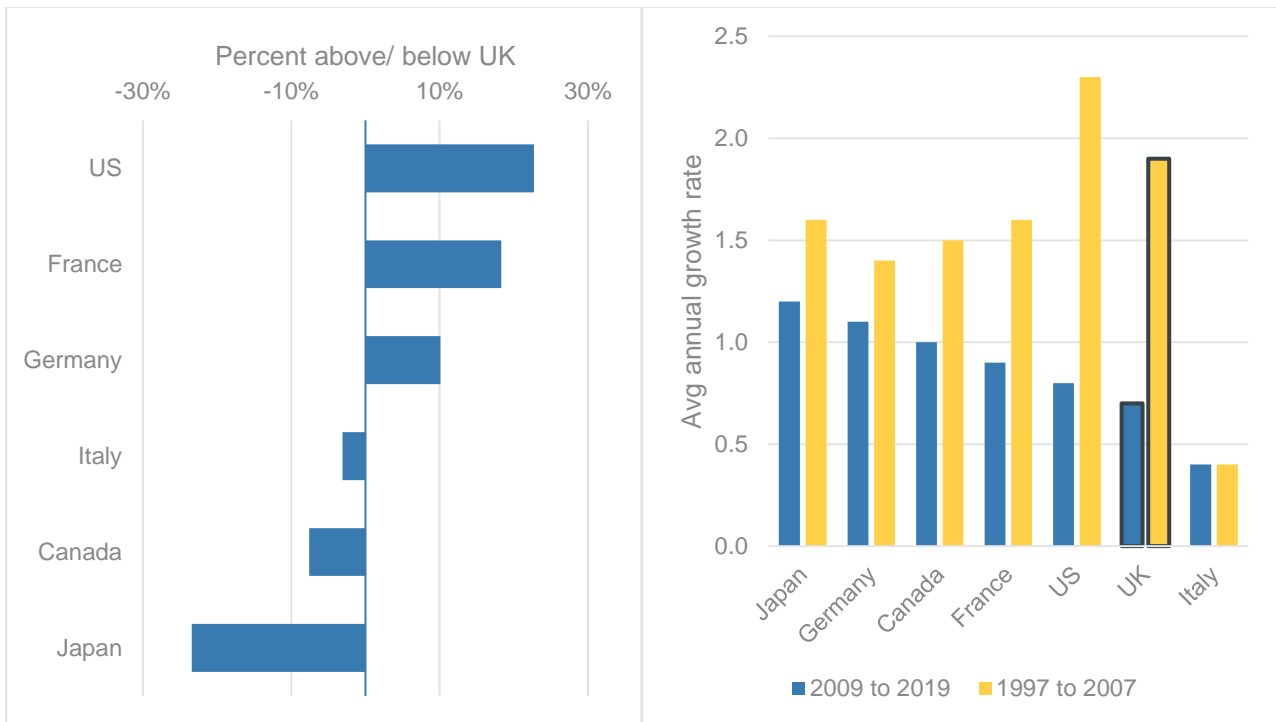
Source: Annual Population Survey

This relatively poor performance on training is one factor that has driven weaker productivity growth in the UK than in many other developed economies. Productivity growth describes the change in economic output per worker or per hour worked. As Figure 2.7 shows, the UK has a significant productivity ‘gap’ to many of our competitors – with output per hour worked nearly a quarter lower than in the US, a sixth lower than in France, and a tenth below Germany (left panel). However of more concern still, the UK has fallen from having among the strongest rates in productivity growth in the decade before the financial crisis to nearly the weakest in the decade since, with average annual growth falling from 1.9% to just 0.7% (right panel).

Labour and skills investment is not the only factor driving this relatively weak performance in the UK; with analysis by the Office for National Statistics suggesting that a key difference between the UK and other advanced economies in the last decade has been particularly weak capital investment over the last decade (by both government and employers) (ONS 2022a).

⁶ Source: Employer Skills Survey 2019

Figure 2.7 Output per hour worked in 2019 (left pane) and average annual growth in output per hour worked, 1997-2019 (right pane) for UK compared with other G7 nations

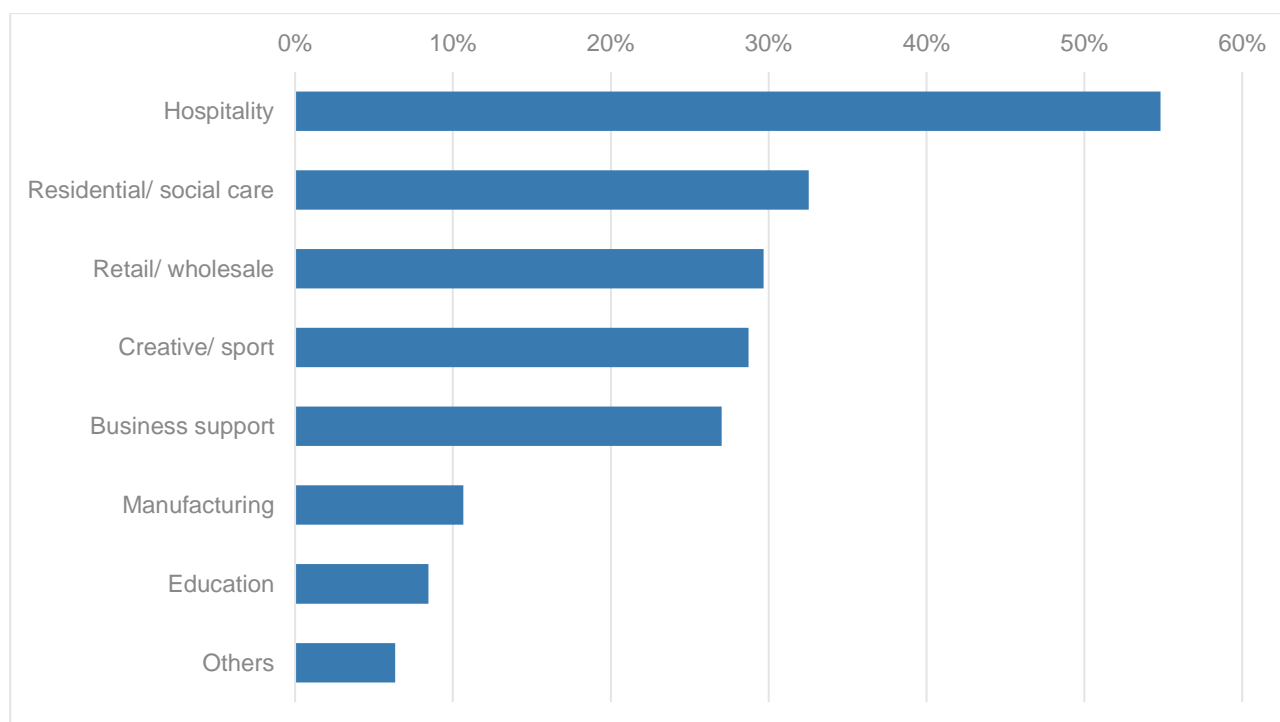


Source: ONS International comparisons of UK productivity (ICP), final estimates

2.1.4 Persistent low pay, especially in parts of the service economy

Alongside this, around one in six workers in 2019 were in low pay – defined as earning less than two thirds of median hourly earnings (Cominetti and Slaughter, 2020). Low pay on this measure has fallen markedly since 2013, driven in part by rises in the minimum wage and adoption of the voluntary Living Wage by employers; but there remained significant differences by industry and persistence of low pay in a number of sectors. Figure 2.8 below illustrates this, showing that just over half of all of those working in hospitality in 2019 were low paid, and around one third of those in social care or in retail. Creative industries, sport and business services also had relatively high rates of low pay.

There were also significant differences by age, with just under one third of those in low pay aged under 25 (despite only accounting for around one in nine workers). However, there are again differences by industry: with younger people making up a much larger share of the low paid in hospitality, creative industries and sport, and those aged over 50 making up a larger share in social care and retail.

Figure 2.8: Proportion of employees that are low paid (below two thirds median hourly pay)

Source: *Supporting progression out of low pay: a call to action*, DWP, 2021

However while low pay has been in decline in recent years, analysis tracking the earnings of low paid workers over time suggests that relatively few of those who are low paid manage to progress out of low pay for a sustained period of time. Work for the Social Mobility Commission suggests that around a quarter of those in low pay in 2006 were still low paid in 2016, while just under half cycled in and out of low pay over the decade (D'Arcy and Finch, 2017).

2.1.5 Nearly nine million people in poverty in working households

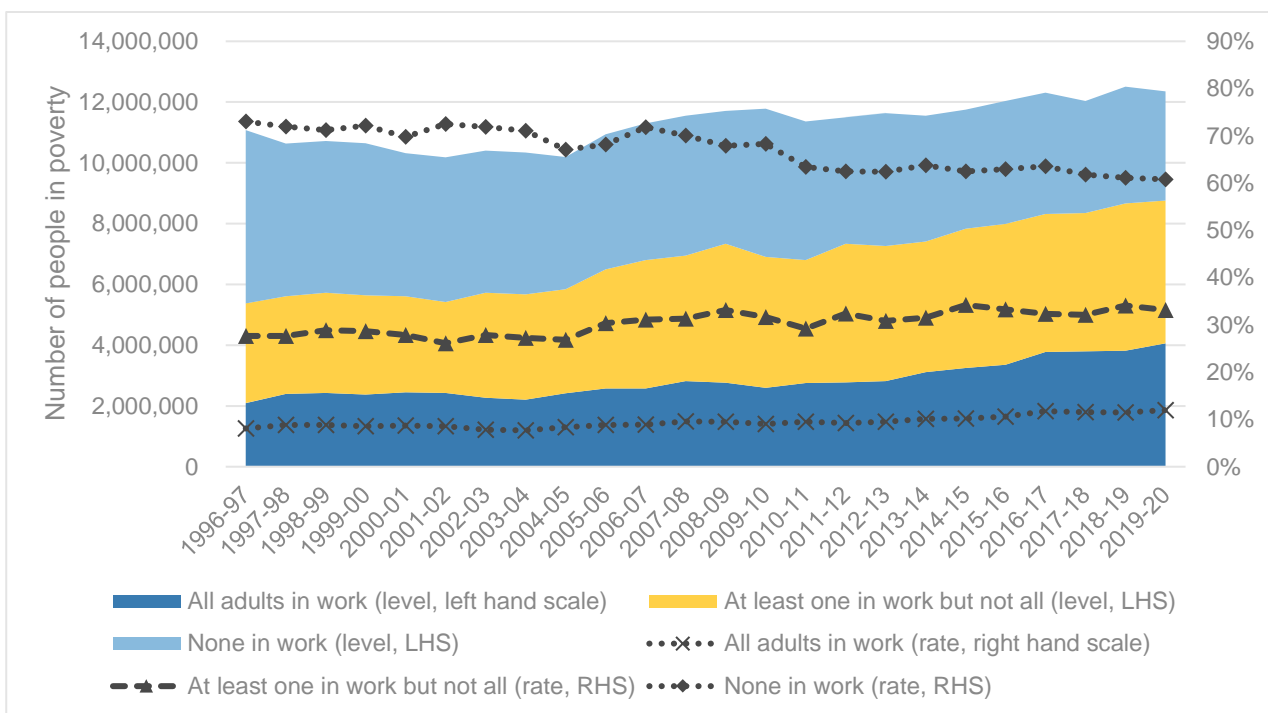
Finally, higher employment in the UK has also been accompanied by significant growth in the number of people in working poverty (defined as having a household income below 60% of the median, after housing costs). This has been a long run trend: excluding pensioners, the number of people in poverty in a household where someone works has risen from 5.6 million in 1999/00 to 8.8 million in 2019/20. By comparison, 3.6 million people in poverty lived in households where no-one worked, a figure that has fallen from 5.0 million two decades previously.

Many of the issues set out above have driven this rise – inequalities between groups and between places, underinvestment in workforces, persistent low pay and poor progression – as well as in more recent years, reduced financial support through the benefits system for low paid working families.

As Figure 2.9 below sets out, just over half of those in working poverty live in households where one but not both adults are in work (the yellow area). The middle dotted line also indicates that one third (33%) of all people in households with one but not both adults in

work are in poverty. This falls to just 12% of people living in households where all adults work. Worryingly though, the number of people in this latter group has grown significantly in recent years, rising by a quarter since 2015. More detailed analysis suggests that this is particularly explained by higher poverty among households with children (couples and single parents), with single parent households in particular accounting for half of the rise in recent years. It seems likely that a combination of part-time work and cuts to social security – particularly through the benefit cap, two child limit and cuts to housing support – will have pushed many of these working families into poverty.

Figure 2.9: Number of people (excluding pensioners) in poverty and likelihood of being in poverty by household employment



Source: IES analysis of Households Below Average Incomes (HBAI). Excludes pensioners.

2.2 Labour market trends since 2020

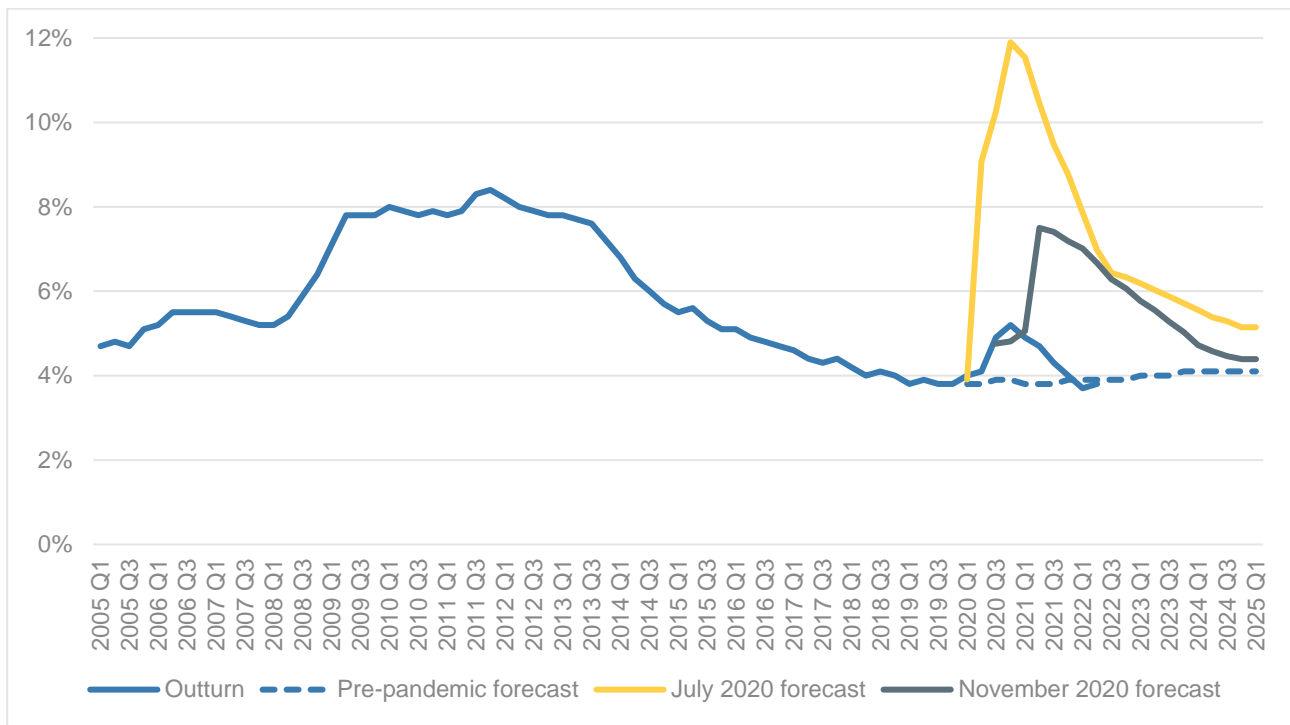
2.2.1 The UK avoided an unemployment crisis

While the UK entered the first Covid-19 lockdown with record high employment and low unemployment, the consensus two years ago was that we would leave the first lockdown with unemployment at its highest since the Great Depression. In July 2020 – after the introduction of the Coronavirus Job Retention Scheme (CJRS), but while the government still planned to withdraw the scheme in the autumn of that year – the Office for Budget Responsibility was forecasting that unemployment would peak in 2020 at 12%, or around four million unemployed.

It was in this context that the government extended the CJRS and announced nearly £10 billion of investment in employment and training support for the unemployed – first

through the Plan for Jobs in summer 2020 and then the Spending Review in the autumn (when unemployment was still forecast to rise sharply in 2021, but to peak lower at around 7.5%). In the event however, partly due to these measures and partly due to a strong rebound as lockdowns ended, this crisis never came – with unemployment falling through 2021 and now reaching its lowest since winter 1973.

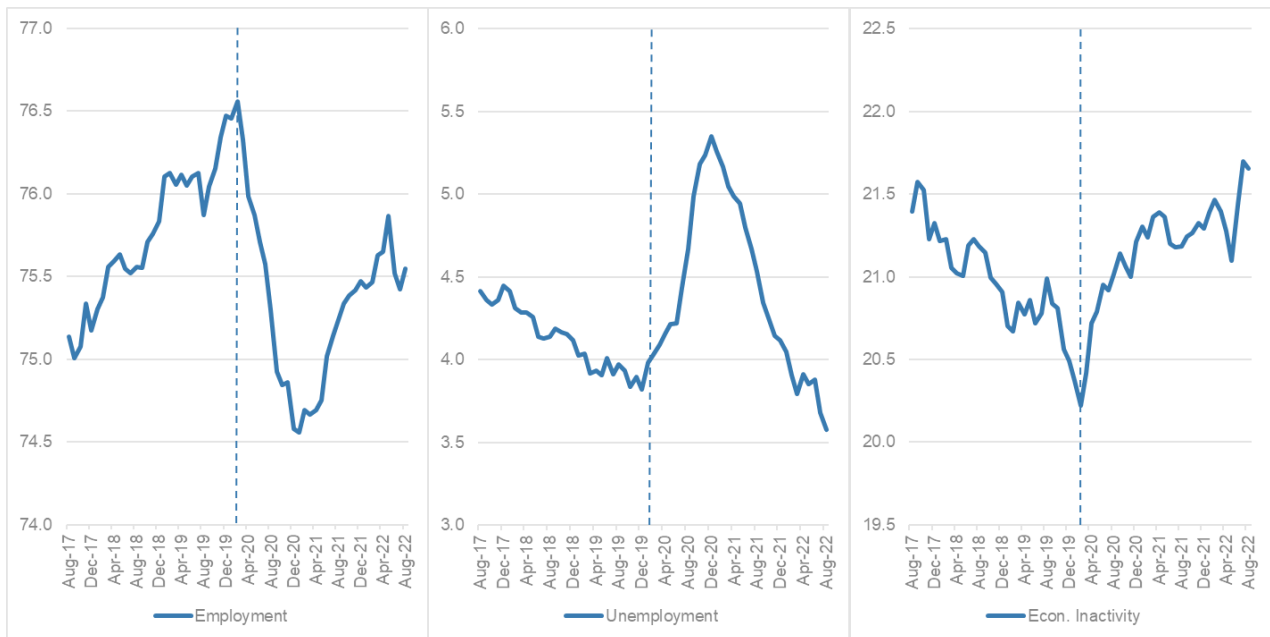
Figure 2.10: Unemployment rate – 2020 forecasts and outturn



Source: Labour Force Survey and Office for Budget Responsibility

2.2.2 But we are facing higher worklessness and lower employment

These falls in unemployment however have not been matched by a recovery in employment. As Figure 2.11 shows, the employment rate remains around one percentage point below its pre-pandemic peak while economic inactivity is around 1.5 percentage points higher. Overall, this means that the total labour force (the number of people employed or unemployed) is still half a million smaller than it was before the pandemic began, while the number of people outside the labour force has risen by over 600 thousand (and by nearly a million if people aged 65 and over are included).

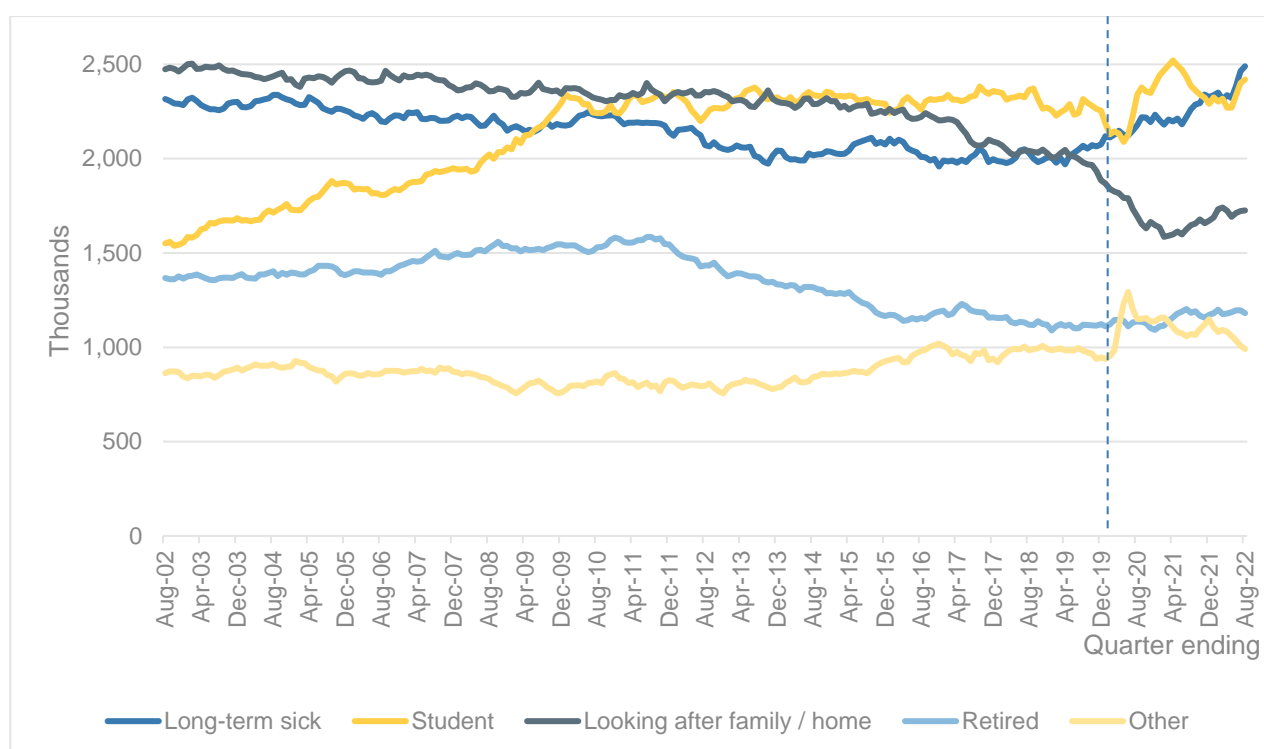
Figure 2.11: Employment, unemployment and economic inactivity rates (16-64)

Source: Labour Force Survey. Quarterly estimates, month indicates last month of reference quarter.

This fall in participation and growth in worklessness has been driven in particular by older people leaving work and by more people out of work due to long term health conditions.

Economic inactivity due to long-term ill health, in particular, is rising fast – with the most recent data (published on 12 October) reporting the largest quarterly rise in at least thirty years, to the highest level on record (2.49 million). This is shown in Figure 2.12 below (the blue line), alongside the other main reasons given. There are likely to be a number of reasons for this increase, including people waiting longer for health treatments; a deterioration of general health during the pandemic; the impacts of long Covid; a lack of access to appropriate employment support; and changes in workplace practice or employer attitudes around health and disability. At the same time though, nearly 600 thousand of those out of work due to long-term ill health say that they want to work.

The graph below also shows that economic inactivity for other reasons is rising too, albeit often less starkly. The pandemic saw significant growth in the number of non-working students, which fell back in 2021 but is now rising again; while the number of people out of work mainly due to early retirement or to look after family and home are both around one hundred thousand higher than in late 2020. The rise in the number of people out of work and caring is a particular concern, as this had been falling consistently for thirty years (due to people having smaller families, having children later and staying in work longer), trends which had particularly benefited women. The reversal of this downward trend may suggest that more women are now finding it harder to combine work and childcare.

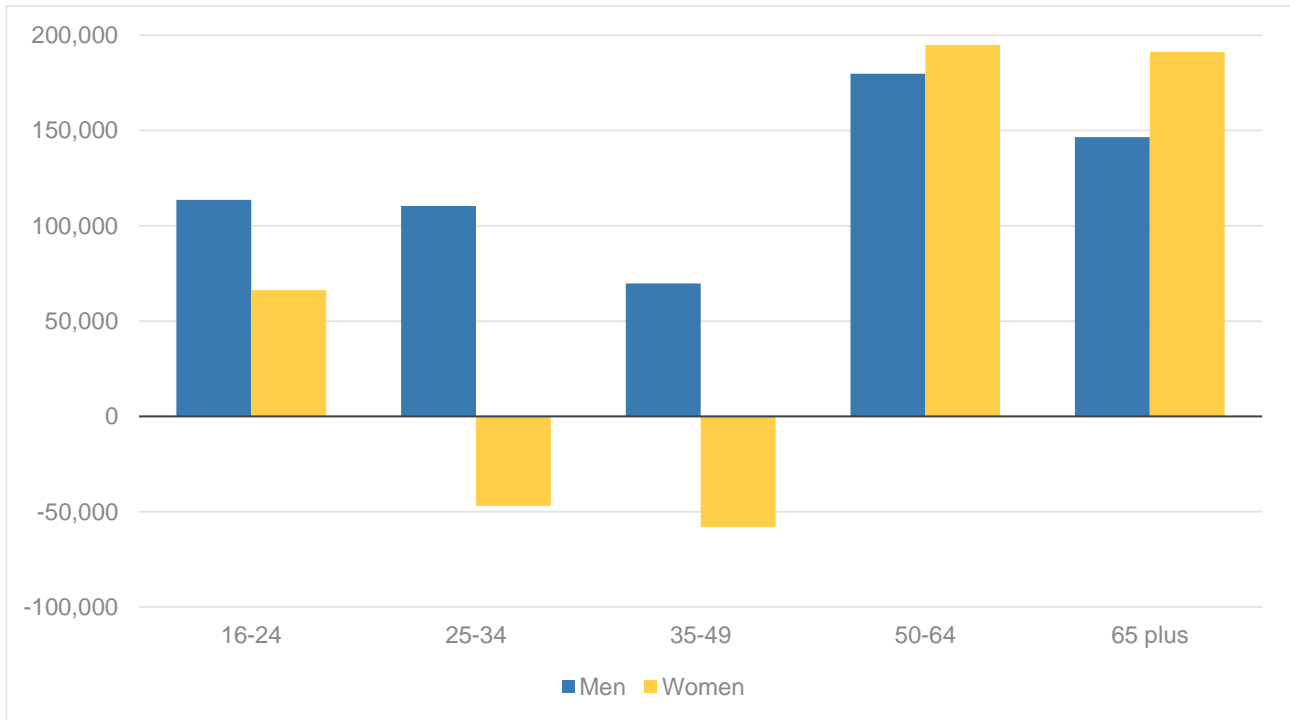
Figure 2.12: Levels of economic inactivity for the five main reasons given, 2002-present

Source: Labour Force Survey

Looking by age, around three quarters of the total growth in economic inactivity has been among those aged 50 or older. Figure 2.13 below shows that this has been fairly evenly split between men and women, although it appears to have increased faster among women than men in the over 65 group (which may be linked to the rise in the State Pension Age to 66).⁷ The reasons for older people leaving work are varied. Analysis by the ONS (for those aged 50-64) suggests that early retirement is the most common reason but is cited by fewer than half of this group. Other reasons given include redundancy, stress and illness, lifestyle choices, caring responsibilities and not wanting to work. Nonetheless around three fifths of those who have left would consider returning to work – for a job that was more flexible, secure, and/ or had better pay (ONS 2022b).

For those aged under 50, Figure 2.13 brings out more clearly how different reasons for economic inactivity may be interacting. In particular, for those aged 25-49 economic inactivity has risen for men but fallen for women – which reflects rising economic inactivity due to long-term ill health for both men and women, but that for women this has been more than offset by the overall fall in economic inactivity due to caring. Among young people, economic inactivity is up for men and women primarily due to more young people in full-time education (which has risen more strongly, from a slightly lower base, for men than women).

⁷ State Pension is 66 for both men and women, but if a couple retired at the point that the first person reached State Pension Age then this would lead to more men than women working to age 66 as men are on average 2-3 years older than their partners.

Figure 2.13: Change in economic inactivity by age, since start of Covid-19 pandemic

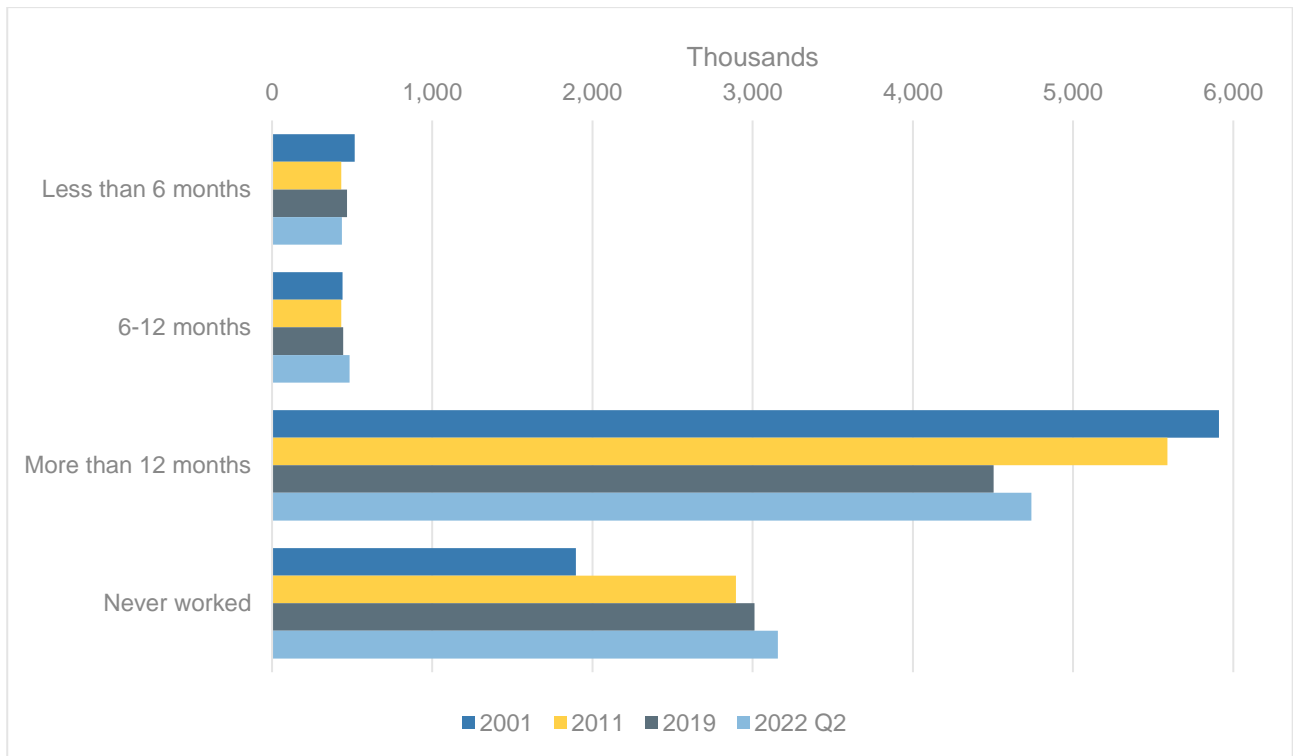
Source: Labour Force Survey

2.2.3 Long-term worklessness is rising

Of particular concern, new analysis for this report finds that the number of people who have been economically inactive for more than a year is rising, while those out of work for shorter durations is broadly flat. This is set out in Figure 2.14 below. Long-term economic inactivity fell by more than 1.4 million between 2001 and 2019, but since the pandemic it has risen by nearly a quarter of a million. Fewer than a million people have been economically inactive for less than a year – a figure that is broadly unchanged over the last two decades (and which combined with lower short-term unemployment means that the number of people who have been out of work for less than a year is now the lowest that it has ever been).

The graph also shows that around three million people who are economically inactive have ‘never worked’. The vast majority of this figure is accounted for by young people (over half are under 21, while four fifths are under 30), with this figure growing after both the Great Financial Crisis and the Covid-19 pandemic (as more young people stayed in full-time education).

Figure 2.14: Economic inactivity by duration of worklessness (aged 16-64)

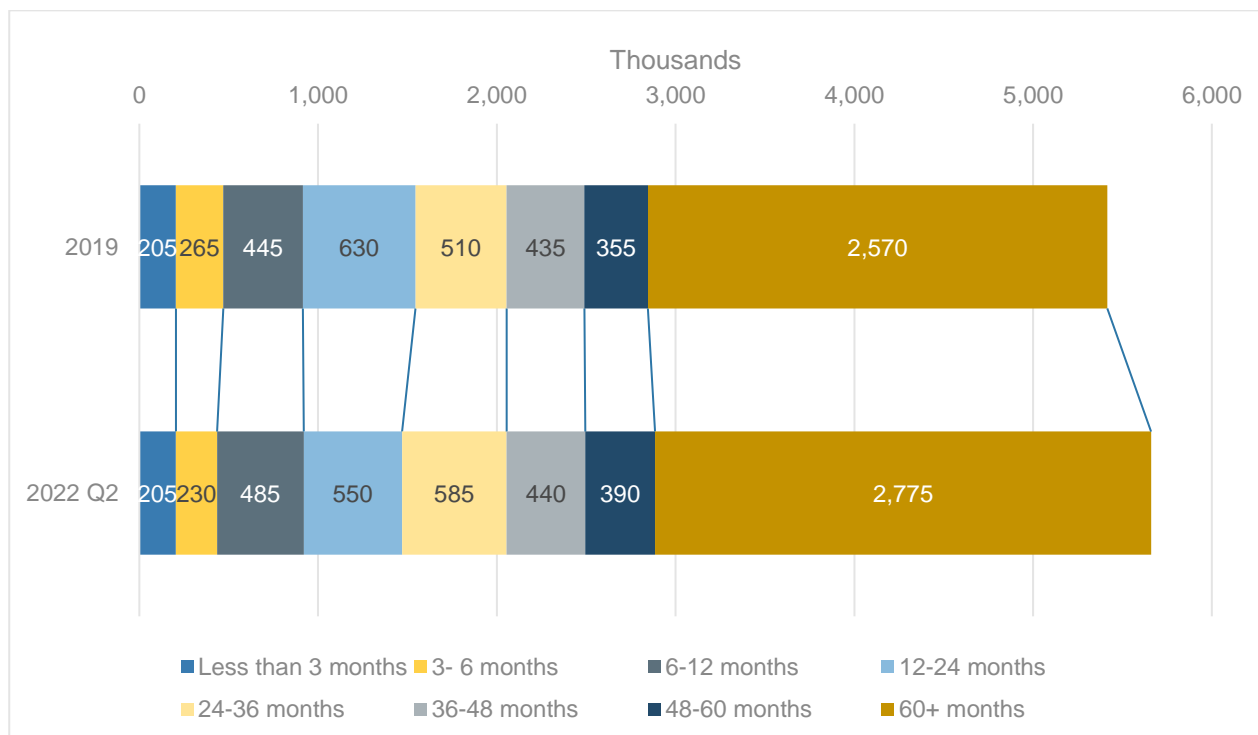


Source: IES analysis of Labour Force Survey

Looking in more detail at the change between 2019 and the most recent data (for the second quarter of 2022) – Figure 2.15 below – shows two worrying trends:

- First, a very clear impact from those who left work around the first lockdown moving into longer and longer term worklessness – with the number of people economically inactive for 2-3 years rising by 75 thousand from 510 to 585 thousand (an increase of 15%). Many of these people will have left work straight to economic inactivity and will have very little or no access to employment related support.
- Secondly, an even larger increase among those who have been out of work for more than five years, which is up by just over 200 thousand. These are likely to be those who are most disadvantaged in the labour market, and again very unlikely to have access to specialist employment support.

Figure 2.15: Economic inactivity by detailed duration (excluding those that have never worked), 2019 and 2022



Source: IES analysis of Labour Force Survey

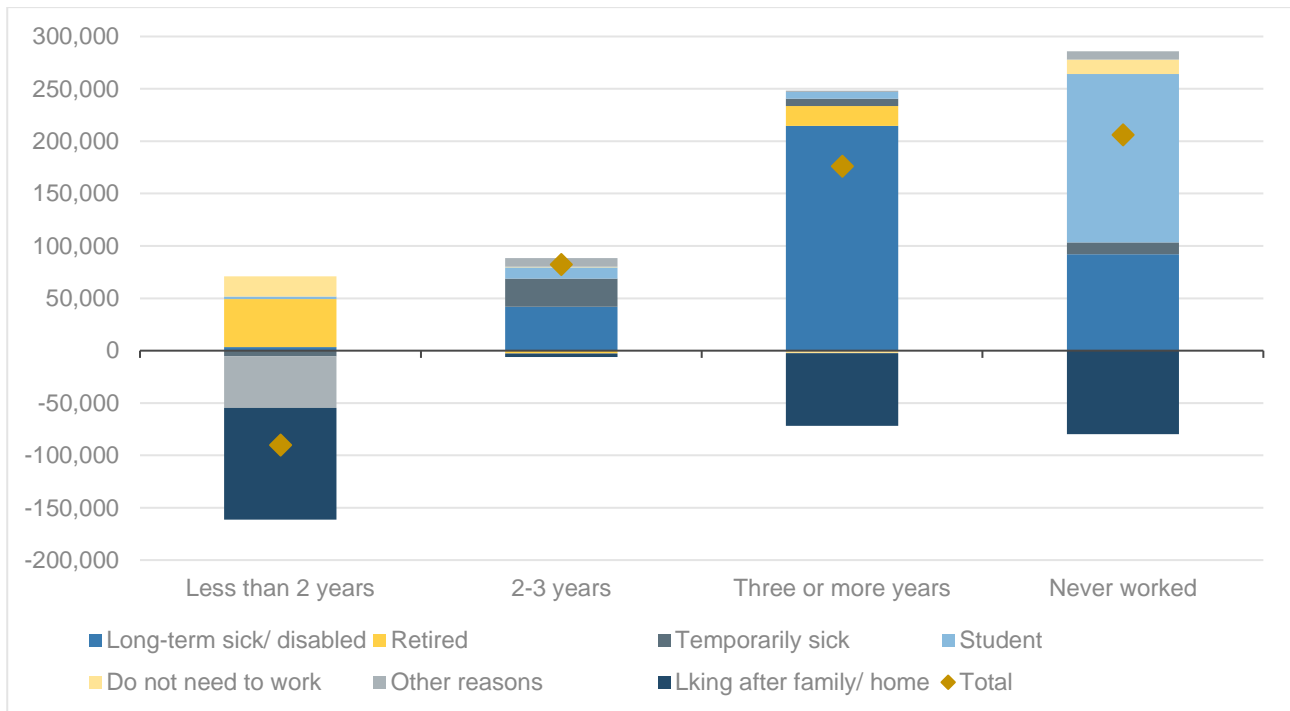
2.2.4 Different trends are driving durations of economic inactivity

Figure 2.16 below sets out these changes in duration of economic inactivity between 2019 and 2022 by the reason(s) that they give for not looking for work. In this analysis, we have used a variable that records any reason given for not looking for work rather than just the main reason, in order to draw out more clearly how reasons for economic inactivity overall are changing (in some cases people give more than one reason, so the total change in reasons given will be higher than the change in numbers of people).

This suggests that there are: more people moving into long-term economic inactivity due to ill health; clear health-related impacts also evident in the early pandemic (with Long Covid a plausible driver); retirement impacts in the last two years; more students who have never worked; and both fewer people with caring responsibilities leaving the labour market *and* more coming back in.

These five points are discussed in more detail overleaf.

Figure 2.16: Change in economic inactivity by duration and reason given, 2019 to Q2 2022



Source: IES analysis of Labour Force Survey. Data is for any reason given by respondents, not just the main reason, so total changes in reasons will be greater than changes in number of people.

- First, the single biggest change compared with 2019 is the growth in those with long-term health conditions who last worked at least three years ago (i.e. before the pandemic). This is up by 215 thousand (a rise of 16% compared with the number in this category in 2019) and echoes recent analysis from the Institute for Fiscal Studies which focused specifically on those aged 50-64 (Boileau and Cribb, 2022).

The IFS suggests that this may reflect worsening health among those already out of work. An alternative or additional explanation though could be that people out of work and with long-term health conditions are less likely to return to work since the pandemic – and so are moving into longer- and longer-term worklessness.

- Secondly, there has been significant growth in early retirement among those who have left work in the last two years, rising by 45 thousand (13% compared with the 2019 figure). This would be consistent with more older people retiring *after* the end of lockdowns and furloughs, potentially aided by CJRS money, redundancy pay and Self-Employed Income Support payments. (This may also be reflected by the rise over the same period in those who say that they do not need to work, which is 20 thousand higher than 2019 (a 10% rise) – although this will also include some students.)
- Thirdly, the growth in people who last worked either side of the emergence of Covid-19 (i.e. 2-3 years ago) is being driven by ill health – which is up by around 70 thousand compared with 2019. Underneath this, the number reporting temporary illness is up by nearly 30 thousand while long-term ill health is up by just over 40 thousand.

Long Covid is almost certainly a driver of this rise, and in particular in the growth in the number of people with temporary illness who last worked 2-3 years ago. The growth in

this group of nearly 30 thousand is equivalent to an increase of 160% and Covid-19 is the only plausible factor that could have caused such a large growth among people who last worked around the time that the pandemic hit. The proportionate increase for those reporting long-term ill health is also large (over 40%), so this could also plausibly reflect Long Covid (as well as other physical or mental health conditions).

- Fourthly, as would be expected, the growth in people who have never worked is largely explained by more students. However, there is also a sizeable increase in those reporting ill long-term ill health (up by 90 thousand, or 19%). Half of this growth is among people aged under 30, and a quarter among people aged 30-45.
- Finally, the falls in people looking after family or home are among those out of work for shorter periods, longer periods or who have never worked. This group is mainly women caring for children, and the changes suggest that falls are being driven *both* by more people staying in work *and* more returning to work. The absence of any fall in the 2-3 year group is interesting as it suggests that relatively more of those who left work either side of the pandemic itself say that they are not working due to caring responsibilities.

2.2.5 Lower participation is likely to be a permanent feature

The recent falls in labour force participation have been driven by the pandemic and are unlikely to resolve themselves in the short term, if at all. In particular, it will take time for people currently out of work with long-term health conditions to return, and many older people may not return at all. However, these temporary factors will be exacerbated by two longer running changes that will likely lead to a permanently smaller labour force.

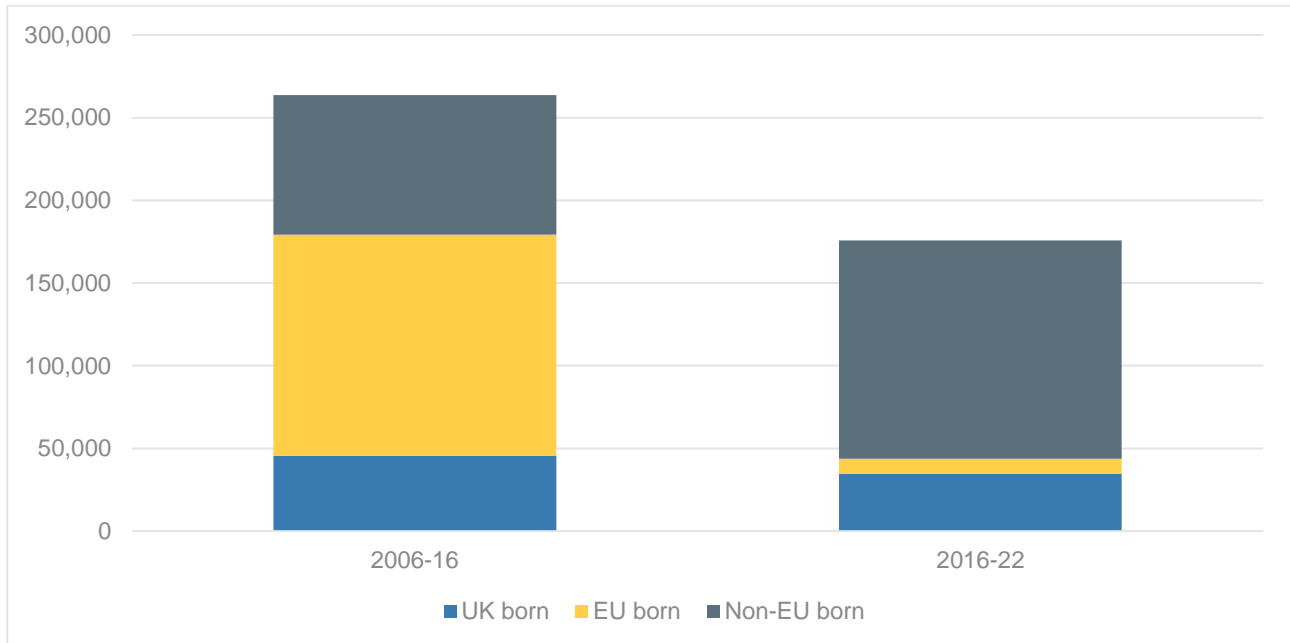
First, the next decade will see increasing numbers of people reaching State Pension Age as the 'Baby boomer' generation continues to retire – and lower birth rates mean that fewer young people will be joining the labour market in their place. And secondly, we will almost certainly see permanently lower migration as a result of the UK's decision to leave the European Union.

Figure 2.17 illustrates the role that migration has played in employment growth in the recent past – showing the average annual contribution to employment growth of UK- and overseas-born workers in the decade before the EU referendum and in the six years since. Prior to the referendum, employment grew by on average 260 thousand a year, with growth of around 220 thousand a year from those born outside of the UK (primarily citizens of the European Union). Since the referendum, employment has continued to grow but at a much lower rate – by just under 180 thousand a year and with virtually all of the slowdown due to lower growth among those born overseas. Underneath this, there has been virtually no growth at all in those born in the European Union, while the growth in employment for those born outside of the EU has been around three fifths higher.

The cumulative effect of this slowdown in growth over the last six years is equivalent to around half a million fewer people in the labour force. Of course, employment for overseas-born workers may well have fallen during the pandemic in any case – as people born overseas returned home, or fewer people migrated due to lockdowns – and falls in

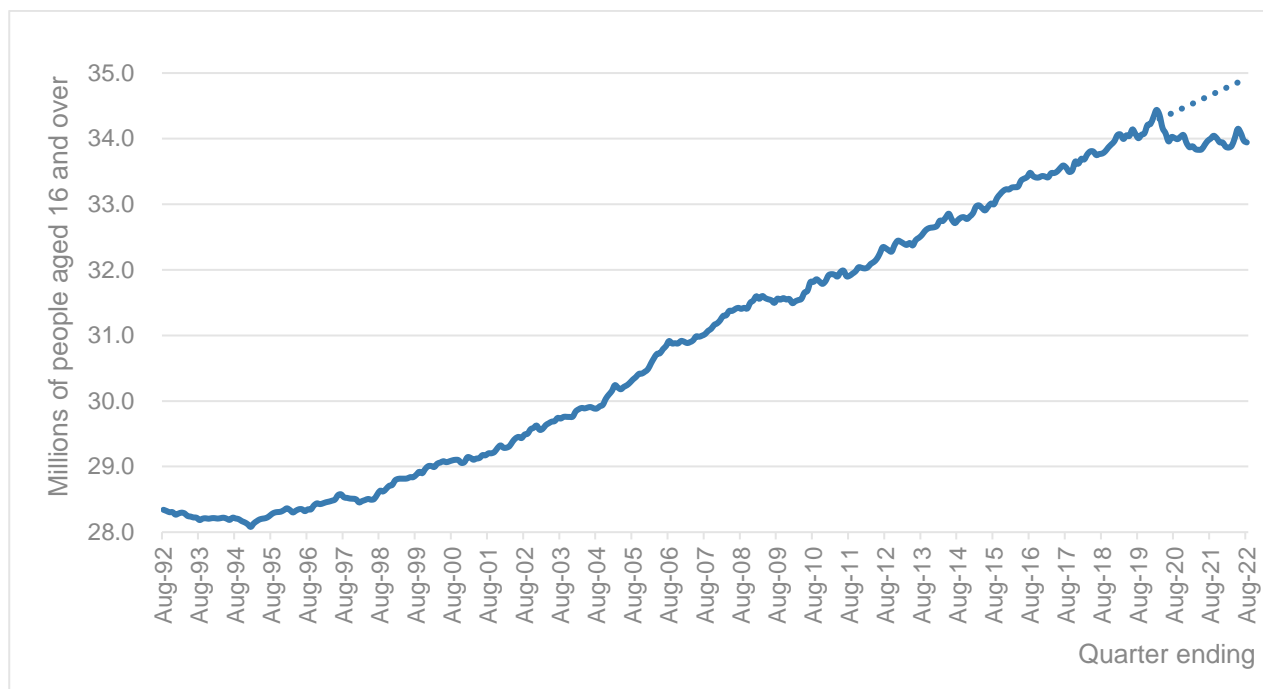
the level of migration would not significantly affect the employment rate. But it nonetheless illustrates how far economic and labour market growth has been aided in the UK by migration (as it has in many other liberal, developed economies).

Figure 2.17: Average annual growth in employment by place of birth, 2006-22



Source: Labour Force Survey

More broadly, as Figure 2.18 shows, the three decades before the pandemic saw strong and near-continuous growth in the size of the total labour force (employed plus unemployed), through recessions and recoveries. This was driven by demographic and economic factors, but has gone into sharp reverse in the last three years. Had the labour force continued to grow at its pre-pandemic rate, there would be around one million more people in the labour force than there are now.

Figure 2.18: Size of labour force (employed plus unemployed): pre-crisis trend and outturn

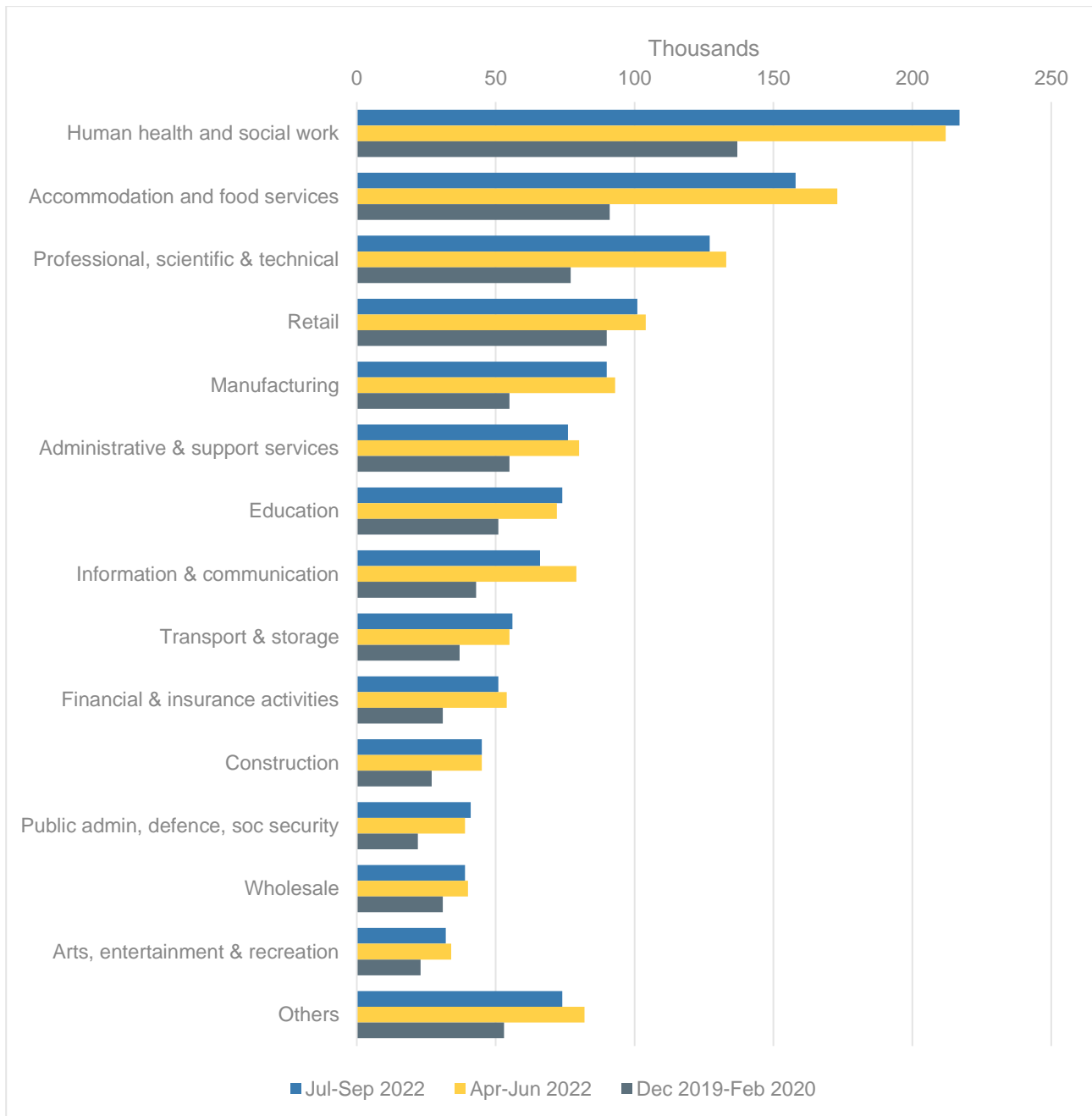
Source: Labour Force Survey and IES estimates

2.2.6 Vacancies are close to record levels

These falls in the size of the labour market came despite a very strong recovery in vacancies through 2021, and are now contributing to shortages both in labour and in skills. There are currently around 1.2 million vacancies in the economy – close to the record levels set earlier in the year, and more than 50% higher than the (then-record) levels before the pandemic began.

Figure 2.19 shows that in every industry, vacancies are higher now than they were before the pandemic (with blue bars indicating the most recent data, and black bars the pre-pandemic figures). Compared with the previous quarter however (the yellow bars), there are some signs that vacancies may now have peaked in some private sector services – most notably in hospitality (the ‘Accommodation and food services’ category) and for professional, scientific and technical jobs (which includes industries like accountancy, management consulting, legal, architecture and engineering). At the same time however, vacancies in the main public sector industries continue to rise – health and social care, education and public administration.

Figure 2.19: Vacancies by industry, pre-pandemic, latest data and previous quarter



Source: ONS Vacancy Survey

2.2.7 High nominal pay growth in the private sector, but the public sector is falling behind

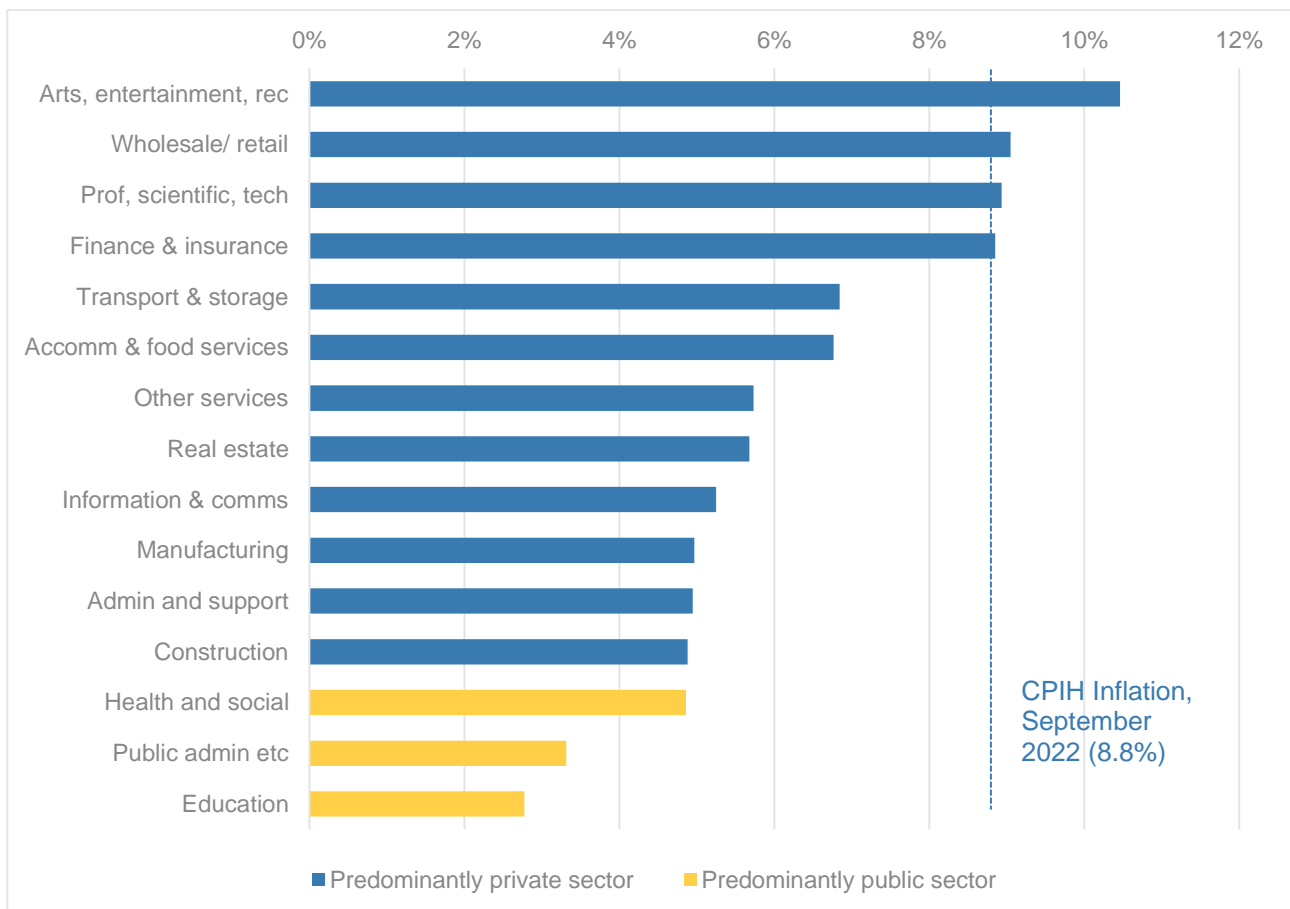
The combination of low unemployment and high vacancies means that nominal pay growth (the year-on-year change in pay without accounting for inflation) is very strong – with pay rising by 5.6% for regular pay and 5.8% for total pay (including bonuses and arrears) between August 2021 and August 2022. By comparison, pay grew by on average less than 3% a year in nominal terms for the two decades before the pandemic. This pay growth has also led to further falls in the proportion of workers that are low paid (below

two thirds of median hourly earnings), aided too by continued rises in the National Living Wage. Overall, one in ten workers were low paid in 2022 – the lowest figure since comparable records began in 1997 (ONS 2022c).

However, pay growth is being entirely driven by private sector pay, which is now rising by 6.4% a year compared with just 2.4% for the public sector. The differences by industry are even more stark, as Figure 2.20 below shows – with pay growth at or above 9% in a range of private sector service industries. At the other end of the scale, however, the three main public sector industries are seeing the smallest increases. These large and growing differences are likely an important driver in the continued growth in vacancies set out above, and in the staff shortages and retention problems across many public services.

High private sector pay growth may be contributing to higher inflation in some parts of the economy, with for example the latest inflation figures showing that services inflation and ‘core’ inflation (which strips out energy and food costs) are both around 6% year-on-year. However the evidence on this is far from conclusive. Nonetheless despite this strong nominal pay growth, very high inflation means that pay in real terms is falling significantly (down by 3.3% since the turn of the year – the steepest falls in at least twenty years).

Figure 2.20: Year-on-year change in total pay by industry, nominal terms



Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in total pay including bonuses and arrears for June-August 2022 (not seasonally adjusted).

2.2.8 Inequalities in the labour market are widening for many groups

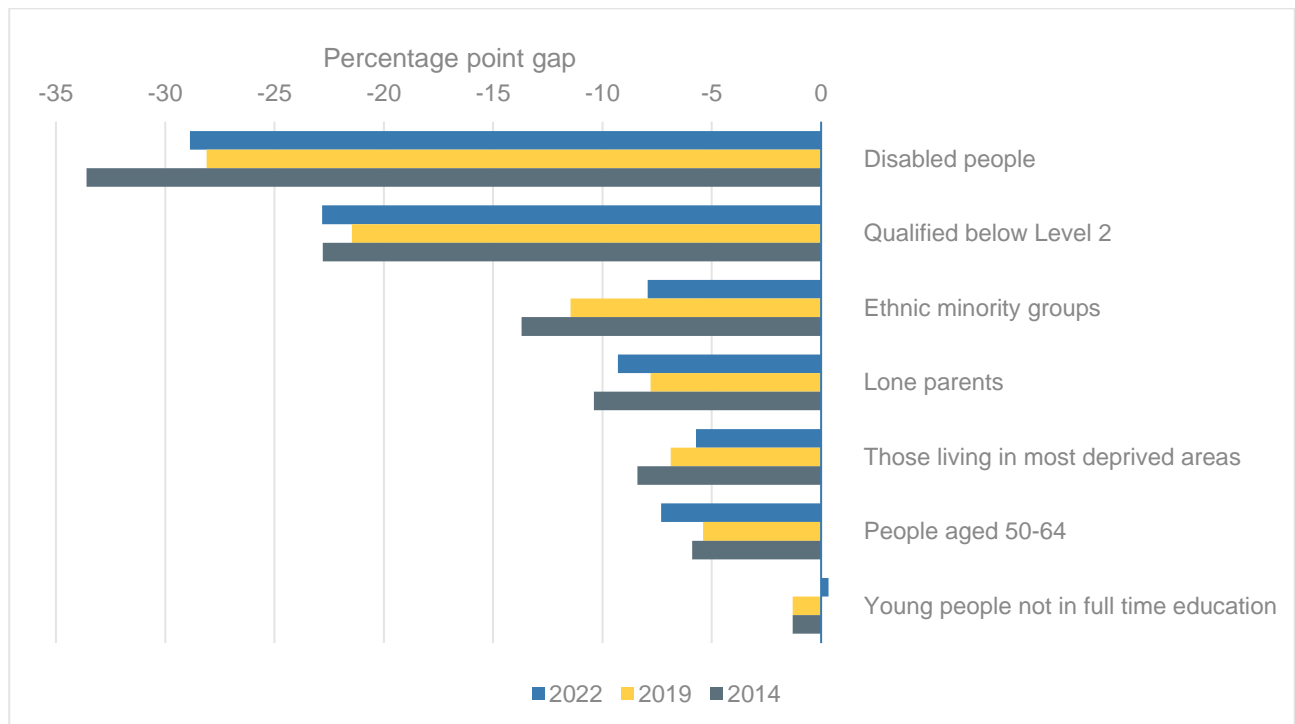
Finally, lower employment and higher worklessness has also led to employment ‘gaps’ widening for many disadvantaged groups. Figure 2.21 sets this out, showing employment rate gaps for 2022, 2019 and 2014. Comparing the blue and yellow bars (2022 with 2019), the gap has widened the most for people aged 50-64 – from 5.4 to 7.3 percentage points in a little over two years. This is unsurprising, given that older people have made up the large majority of those leaving work since the pandemic.

Worryingly though, the employment gap has risen significantly for lone parents after decades of narrowing (going from 7.8 to 9.3 points). This likely reflects growing issues for many parents around childcare access and costs, but also that lone parents were more likely to be in jobs affected by lockdowns and are more likely to be in poor health (Clery, Dewar and Papoutsaki, 2021). Gaps have widened too for disabled people and the lowest qualified, the two groups with the greatest employment disadvantage before the pandemic began. This is concerning, but again not entirely surprising given the impacts of the pandemic on disabled people and on lower paid workers and those in lower skilled jobs (Wilson and Buzzeo, 2021).

At the other end, employment gaps have narrowed for other groups:

- For those living in the most deprived areas, the relatively broad based impacts of the pandemic (affecting the entire country, and with relatively more jobs lost in the private than public sector) have seen employment fall by less on average in these areas than elsewhere.
- Young people outside full-time education are now slightly more likely to be in work than the rest of the population, reflecting the tightness of the labour market and wide availability for jobs (as noted in section 2.1, this group were relatively more likely to be actively seeking work).
- For ethnic minority groups, on average the employment gap has continued to narrow (to 7.9 percentage points). This has been driven by continued progress in narrowing gaps for Pakistani and Bangladeshi people, with smaller improvements for other ethnic groups (and indeed in the last year progress has slowed overall and the employment gap has started to widen again for black, Indian and Chinese people).

Figure 2.21: Gap between employment rates for selected disadvantaged groups and those without that disadvantage – 2022, 2019 and 2014



Source: IES analysis of LFS, Annual Population Survey (APS) and Index of Multiple Deprivation (IMD). Changes compare LFS Oct-Dec quarters for 2014 and 2019 with Apr-Jun 2022, except for 'most deprived areas' and 'Qualified below Level 2' which compare APS data for Jan-Dec 2014 and 2019 with most recent available data. Deprived areas are defined as the bottom quintile of English local authorities on IMD income deprivation measure.

3 The UK in an international context

3.1 The UK has strengths and weaknesses compared with other developed economies

Prior to the pandemic, the UK had among the highest rates of employment in the developed world, with the sixth highest employment rate in the OECD at the end of 2019. This relatively strong performance on employment has often been attributed to the UK's flexible labour market, strong financial incentives to work and (historically at least) a stable macroeconomy. However for many of the issues set out in chapter 2 above, the UK also performs relatively poorly compared with other countries.

To try to draw out some of these differences, Tables 3.1 and 3.2 set out the performance of the UK compared to selected developed economies across a range of indicators on the eve of the pandemic⁸. Inevitably, there are very different economic, social and institutional factors at play across nations that affect their relative performance so direct comparisons need to be treated with caution. Nonetheless, in our view it is useful to draw out some of these differences both to put the UK in an international context and to identify where there may be lessons that the UK could learn from other countries.

3.1.1 Employment, activation and support

The first table looks at employment and employment support. As noted, it shows that the UK performed well on employment overall – ranking sixth in the OECD – and on unemployment (with the eleventh lowest unemployment rate).

However, on employment 'gaps' performance is more mixed. The UK was firmly mid-table on its employment gap for disabled people and for older people – ranking far lower than many other northern European economies on both. Our position on employment for older people is particularly notable as we have tended to consider the growth in employment of older people a policy success. In reality, this has been a feature across the developed world and the UK's performance is poorer than many of our competitors. The UK is in the top half on its employment gap for women, but performs far worse than many countries with stronger childcare systems and parental policies.

To further illustrate the impact of these gaps, if the UK employment gaps for disabled people and older people were at the bottom of the top quartile of countries rather than in the middle of the pack (i.e. if we improved from around 16th to 8th) then there would be

⁸ These are predominantly OECD nations, excluding Chile, Colombia, Costa Rica, Mexico and Turkey. In addition data for EU members not in the OECD is included (Bulgaria, Croatia, Cyprus, Malta and Romania) where this was available. All data is from OECD Statistics database.

nearly a million more people in work than there are now and an employment rate just above 80% overall, with:

- An employment rate for disabled people of around 65%, which on the current population estimates would mean nearly **600 thousand** more disabled people in work; and
- An employment rate for those aged 50-64 of 73% (compared with 70.5% now), which would be equivalent to **340 thousand** more older people in work.

The UK's flexible labour market is more clearly evident in the employment gap for young people and in the proportion of all employment that is temporary work – with the UK near the top on both of these measures (the UK also has a relatively high proportion of 'involuntary' part time work, although this mainly reflects high rates of part time work overall). The flipside of this however is shown on the right of Table 3.2 – with the UK having among the least strict protections against dismissal (27th out of 33 countries) and protections for temporary workers (32nd). It is more easy to hire workers in the UK than in many other countries, but also to fire them too.

The final sections of Table 3.1 look at 'activation' requirements for the unemployed – so the stringency of the requirements to be actively seeking and available for work, requirements to attend appointments, and sanctions for not doing so – and then the spending on 'active labour market policies' to support those out of work to find jobs. Overall, the UK has among the strictest requirements for those out of work and on benefit (8th out of 37 countries) and spends amongst the lowest on support overall (26th out of 31).

Figures on employment spending do need to be treated with some caution however, as this includes a range of measures that simply are not a feature of the UK system and some of which can be relatively costly – like job creation schemes, wage or hiring subsidies and long-term training while out of work. Focusing in specifically on spending on employment services and administration (i.e. the equivalent of Jobcentre Plus and the Restart Scheme in the UK), the UK performed relatively stronger – ranking 6th out of 31 nations. A final important point to note, however, is that the UK stopped providing this data to the OECD in 2011 – so it is possible that our spending relative to other countries will have fallen through the subsequent decade of budget cuts.

3.1.2 Wages, replacement rates, poverty and inequality

Table 3.2 then focuses primarily on areas related to earnings and incomes. It shows that while the UK is a relatively high employment economy, we are more middling on pay – lower than most other northern and western European economies, but higher than those in southern and eastern Europe. We are in a similar position on low pay – ranking 12th out of 30 nations – and perform relatively poorly on our gender pay gap (in the bottom third of countries listed, likely reflecting similar issues set out for the gender employment gap above, as well as the UK's relatively high rates of part-time employment where hourly pay tends to be lower). Where the UK performs relatively well however (and has improved

significantly in recent years) is on our minimum wage, which even in 2019 was among the highest in Europe.

The second section of the table then sets out 'replacement rates' for unemployed people on benefits. The replacement rate describes how much a household's income would be where a person is out of work as a percentage of their income if that person were in work. The figures given here are OECD estimates including both income replacement and housing benefits, and assume that the individual was previously on average earnings and was subsequently unemployed for four months.

The two illustrative examples shown here – a single person without children, or a couple household where both work and have two children – show that the UK has among the lowest replacement rates in the developed world (ranking last overall for the couple household, and 34th out of 38 for the single household). In other words, the UK has incredibly low unemployment benefits for the newly unemployed. The UK fares slightly better for longer durations of unemployment, as in many other countries benefits are initially high (usually for those who have a contribution record) and are then replaced by lower, means-tested support in long-term unemployment. For example for those unemployed for a year or more the UK's replacement rate is roughly mid-table – with (again) many northern and western European countries higher, and southern and eastern European countries lower.

These very low replacement rates for benefits (combined with a relatively high minimum wage) mean that the financial incentive to work in the UK is fairly strong, but also that poverty rates are pretty high – with overall the 15th highest rate of working age poverty in 2019 (out of 33 countries), and the seventh highest in Europe.

Finally, a combination of low rates of benefit, above average incidence of low pay and wide gaps for disadvantaged groups all contribute to the UK being among the least equal countries in the developed world (which is exacerbated in the UK by having a relatively large and highly paid financial services sector). On the Gini index, which measures the distribution of incomes across populations, only the United States and Bulgaria were less equal than the UK among the developed economies set out here. Similarly, the UK has among the widest gaps between the earnings of those in the 90th percentile and those in the 10th.

Table 3.1: Employment, activation and support – comparisons between selected OECD and EU nations, 2019

| | Employment rate (15-64) | Unemployment rate | Employment gaps (percentage point) | | | | | Invol part-time (% of employed) | Temporary (% of employed) | Strictness of activation reqts (OECD index) | Spending (% of GDP) | |
|-----------------------|-------------------------|-------------------|------------------------------------|-----------------|----------------------|----------------------|------------|---------------------------------|---------------------------|---|---------------------------|----------------------------|
| | | | Women | Disabled people | Older people (55-64) | Young people (15-24) | | | | | Active labour market prog | Employment services/ admin |
| Iceland | 83.6% | 3.9% | -7.0 | -19.8 | -2.9 | -12.4 | 3.4 | 12.0 | 3.1 | | | |
| Switzerland | 80.7% | 4.4% | -10.6 | -13.3 | -7.5 | -19.3 | 3.1 | 13.1 | 3.5 | 0.6% | 0.1% | |
| Netherlands | 79.8% | 3.4% | -9.7 | -22.4 | -8.5 | -12.9 | 2.5 | 18.5 | 3.1 | 0.6% | 0.2% | |
| Japan | 78.0% | 2.4% | -17.5 | | | | 4.0 | 13.8 | 3.1 | 0.2% | 0.1% | |
| New Zealand | 77.4% | 4.1% | -9.7 | | | | 4.5 | | 3.3 | 4.1% | 0.1% | |
| United Kingdom | 76.5% | 3.9% | -9.1 | -26.2 | -8.9 | -24.9 | 2.9 | 6.1 | 3.6 | 0.2% | 0.2% | |
| Sweden | 76.3% | 6.8% | -4.4 | -30.1 | 0.6 | -33.2 | 4.7 | 16.4 | 3.4 | 1.0% | 0.3% | |
| Estonia | 76.1% | 4.4% | -13.0 | -18.3 | -2.9 | -36.4 | 0.8 | 3.7 | 4.1 | 0.5% | 0.2% | |
| Germany | 75.8% | 3.1% | -10.0 | -29.5 | -4.0 | -28.2 | 2.4 | 14.5 | 3.1 | 0.6% | 0.3% | |
| Norway | 75.4% | 3.7% | -3.5 | -35.5 | -2.5 | -25.3 | 3.6 | 8.4 | 3.4 | 0.4% | 0.1% | |
| Denmark | 75.2% | 4.7% | -8.7 | -18.2 | -3.7 | -20.0 | 2.5 | 8.4 | 3.1 | 1.9% | 0.4% | |
| Czech Republic | 75.1% | 2.0% | -16.0 | -28.4 | -8.4 | -47.1 | 0.4 | 8.9 | 2.7 | 0.3% | 0.1% | |
| Australia | 74.3% | 5.2% | -9.6 | | | | | 5.2 | 3.1 | 1.9% | 0.2% | |
| Canada | 74.1% | 5.7% | -7.8 | | | | 3.7 | 13.4 | 2.7 | 0.4% | 0.1% | |
| Austria | 73.6% | 4.5% | -10.4 | -20.1 | -19.1 | -22.0 | 2.4 | 9.4 | 2.9 | 0.7% | 0.2% | |
| Lithuania | 73.0% | 6.3% | -9.0 | -30.7 | -4.6 | -40.1 | 1.5 | 2.4 | 3.0 | 0.2% | 0.1% | |
| Latvia | 72.6% | 6.3% | -10.5 | -19.3 | -5.0 | -40.5 | 1.7 | 7.1 | 3.4 | 0.2% | 0.1% | |
| Finland | 72.3% | 6.7% | -6.6 | -17.8 | -6.1 | -28.3 | 4.8 | 15.6 | 2.8 | 0.9% | 0.2% | |
| Hungary | 72.2% | 3.4% | -17.2 | -28.5 | -13.4 | -41.6 | 0.9 | 9.8 | 2.5 | 0.6% | 0.1% | |
| United States | 71.7% | 3.7% | -11.2 | | | | 0.8 | | 2.6 | 2.6% | 0.0% | |
| Slovenia | 70.9% | 4.4% | -9.8 | -17.3 | -23.2 | -38.5 | 0.4 | 17.3 | 4.0 | 0.2% | 0.1% | |
| Slovak Republic | 70.2% | 5.8% | -14.6 | -23.1 | -11.4 | -43.5 | 1.2 | 5.8 | 3.3 | 0.2% | 0.0% | |
| Portugal | 69.9% | 6.6% | -9.0 | -18.3 | -10.1 | -42.5 | 3.4 | 22.8 | 3.8 | 0.4% | 0.1% | |
| Ireland | 69.5% | 4.4% | -11.4 | -40.0 | -7.7 | -28.3 | 2.5 | 9.6 | 2.7 | 0.3% | 0.1% | |
| Israel | 68.6% | 3.8% | -7.9 | | | | 1.4 | | | 0.2% | 0.0% | |
| Luxembourg | 67.9% | 5.6% | -9.0 | -18.3 | -24.8 | -39.2 | 2.1 | 7.1 | 4.2 | 0.8% | 0.1% | |
| Poland | 67.7% | 3.3% | -16.6 | -33.5 | -18.7 | -36.5 | 0.9 | 27.3 | 3.1 | 0.3% | 0.1% | |
| Korea | 67.0% | 3.8% | -19.1 | | | | | 22.9 | 2.9 | 0.4% | 0.0% | |
| France | 66.5% | 8.4% | -7.6 | -15.7 | -12.5 | -36.0 | 6.4 | 15.1 | 3.3 | 0.7% | 0.2% | |
| Belgium | 65.1% | 5.4% | -8.4 | -32.0 | -13.2 | -38.7 | 1.5 | 8.1 | 2.9 | 0.9% | 0.3% | |
| Spain | 63.3% | 14.1% | -11.5 | -26.5 | -9.5 | -41.0 | 8.0 | 24.7 | 2.7 | 0.7% | 0.1% | |
| Italy | 59.0% | 10.0% | -17.1 | -14.9 | -4.7 | -40.5 | 12.2 | 12.7 | 3.3 | 0.3% | 0.1% | |
| Greece | 56.2% | 17.3% | -16.8 | -29.8 | -13.3 | -41.9 | 5.8 | 12.6 | 3.0 | | | |
| Bulgaria | | | | -38.0 | -5.7 | -48.3 | | | 2.9 | | | |
| Croatia | | | | -32.7 | -18.2 | -34.4 | | | 4.2 | | | |
| Cyprus | | | | -23.5 | -9.4 | -38.1 | | | 1.8 | | | |
| Malta | | | | -31.2 | -22.0 | -22.4 | | | 4.3 | | | |
| Romania | | | | -30.4 | -18.0 | -41.1 | | | 3.8 | | | |

Source: OECD database; except employment gaps for disabled people, older people and young people (source Eurostat). All data 2019, except for strictness of activation requirements (2017). UK data on employment programme and PES spending is 2011.

Table 3.2: Wages, benefits, poverty, inequality and employment protection – comparisons between selected OECD and EU nations, 2019

| | Wages | | | | Replacement rates (% of median) | | Poverty and inequality | | | Strictness of employment protection | |
|-----------------------|-----------------|------------------|---------------------------|-----------------------------|---------------------------------|---|------------------------|---------------|------------------|---|----------------------------------|
| | Median (annual) | Minimum (hourly) | Gender wage gap at median | Low paid (below 2/3 median) | Single, no children | Couple, 2 children, partner on avg wage | Gini coefficient | P90/P10 ratio | Below 60% median | Individual and collective dismissals (OECD index) | Temporary contracts (OECD index) |
| Luxembourg | \$71,251 | \$13.06 | | | 86% | 93% | 0.31 | 3.9 | 18% | 2.54 | 3.56 |
| Iceland | \$71,003 | | | | 67% | 83% | | | 11% | 2.20 | 1.44 |
| United States | \$68,842 | \$7.68 | -18.5% | 23.4% | 40% | 72% | 0.39 | 6.1 | 22% | 1.31 | 0.27 |
| Switzerland | \$68,122 | | | | 72% | 90% | 0.30 | 3.6 | 12% | 1.61 | 1.16 |
| Denmark | \$60,265 | | -5.1% | | 59% | 81% | | | 12% | 1.94 | 1.60 |
| Netherlands | \$60,140 | \$11.62 | -13.4% | 6.5% | 70% | 80% | 0.30 | 3.5 | 15% | 2.88 | 1.48 |
| Belgium | \$58,842 | \$11.54 | -3.8% | 11.5% | 69% | 79% | 0.26 | 3.2 | 13% | 2.71 | 1.89 |
| Austria | \$57,182 | | -14.0% | 14.7% | 55% | 78% | 0.27 | 3.6 | 14% | 1.80 | 1.47 |
| Norway | \$56,705 | | -4.4% | | 63% | 83% | 0.27 | 3.4 | 15% | 2.37 | 2.47 |
| Germany | \$56,332 | \$12.21 | -14.0% | 17.6% | 59% | 90% | | | 15% | 2.33 | 1.67 |
| Australia | \$55,170 | \$12.68 | -15.3% | 15.5% | 27% | 59% | | | 15% | 1.70 | 0.94 |
| Canada | \$54,607 | \$10.47 | -17.6% | 19.4% | 50% | 77% | 0.30 | 4.2 | 17% | 1.68 | 0.44 |
| Ireland | \$50,448 | \$9.88 | | 18.0% | 45% | 67% | | | 12% | 2.13 | 0.86 |
| France | \$49,403 | \$12.59 | | 7.3% | 68% | 84% | 0.30 | 3.6 | 14% | 2.68 | 2.58 |
| United Kingdom | \$48,616 | \$10.72 | -16.1% | 18.1% | 34% | 58% | 0.36 | 4.5 | 16% | 1.90 | 0.41 |
| Sweden | \$47,835 | | -7.6% | | 49% | 76% | 0.27 | 3.4 | 13% | 2.54 | 1.55 |
| Finland | \$47,731 | | -17.2% | 8.6% | 54% | 80% | | | 13% | 2.48 | 1.61 |
| New Zealand | \$45,233 | \$11.10 | -6.5% | 7.0% | 34% | 59% | 0.32 | 4.4 | 16% | 2.09 | 1.02 |
| Korea | \$43,200 | \$8.64 | -32.5% | 17.0% | 59% | 81% | 0.32 | 4.5 | 17% | 2.35 | 2.19 |
| Slovenia | \$41,860 | \$8.15 | | | 62% | 83% | 0.25 | 3.0 | 12% | 2.32 | 1.83 |
| Italy | \$41,625 | | -7.6% | 4.9% | 65% | 85% | | | 20% | 2.86 | 2.82 |
| Israel | \$39,960 | \$6.83 | -24.3% | 21.3% | 64% | 80% | 0.33 | 5.1 | 20% | 2.83 | 1.48 |
| Spain | \$39,877 | \$10.32 | | 10.2% | 55% | 84% | 0.32 | 4.9 | 19% | 2.43 | 2.47 |
| Japan | \$39,077 | \$7.85 | -23.5% | 11.8% | 64% | 84% | | | 17% | 2.08 | 1.35 |
| Lithuania | \$37,305 | \$6.91 | | 20.7% | 77% | 89% | 0.35 | 5.0 | 17% | 2.24 | 1.72 |
| Poland | \$32,695 | \$7.13 | | | 43% | 66% | | | 15% | 2.39 | 1.80 |
| Czech Republic | \$31,236 | \$5.88 | -14.7% | 18.4% | 59% | 83% | 0.24 | 3.0 | 8% | 3.03 | 2.01 |
| Estonia | \$30,213 | \$5.35 | | 20.3% | 57% | 80% | 0.29 | 4.3 | 16% | 1.93 | 2.49 |
| Portugal | \$28,790 | \$6.31 | -11.4% | 2.7% | 75% | 92% | 0.30 | 4.0 | 15% | 2.87 | 2.29 |
| Latvia | \$28,547 | \$4.47 | -19.8% | 22.2% | 84% | 93% | 0.33 | 4.8 | 18% | 2.71 | 1.70 |
| Greece | \$25,630 | \$5.70 | -5.9% | 15.4% | 29% | 70% | 0.32 | 4.3 | 18% | 2.54 | 2.33 |
| Hungary | \$24,853 | \$5.07 | -12.8% | 20.3% | 44% | 75% | 0.28 | 3.3 | 13% | 1.89 | 1.62 |
| Slovak Republic | \$24,096 | \$2.90 | -13.9% | 16.0% | 65% | 87% | 0.22 | 2.8 | 11% | 2.33 | 2.24 |
| Bulgaria | | | -3.4% | 25.0% | 77% | 89% | 0.39 | 5.6 | 18% | | |
| Croatia | | | -7.6% | 23.0% | 74% | 85% | | | | | |
| Cyprus | | | -16.8% | 16.2% | 60% | 85% | | | | | |
| Malta | | | | 15.2% | 44% | 59% | | | | | |
| Romania | | | | 30.5% | 29% | 65% | 0.34 | 5.9 | 21% | | |

Source: OECD database. All data 2019 (for poverty measure, 2017 or 2018 data has been used for countries where 2019 data was not available). Wage data in 2021 prices, US Dollar Purchasing Power Parity.

3.2 The UK recovery post-Covid has been unusually weak

Chapter 1 set out that the UK's labour market recovery from the pandemic has been weak and that these issues are likely to endure. However, this has not been the case in the large majority of developed economies, which have seen employment not just recovery strongly but exceed their pre-crisis rates.

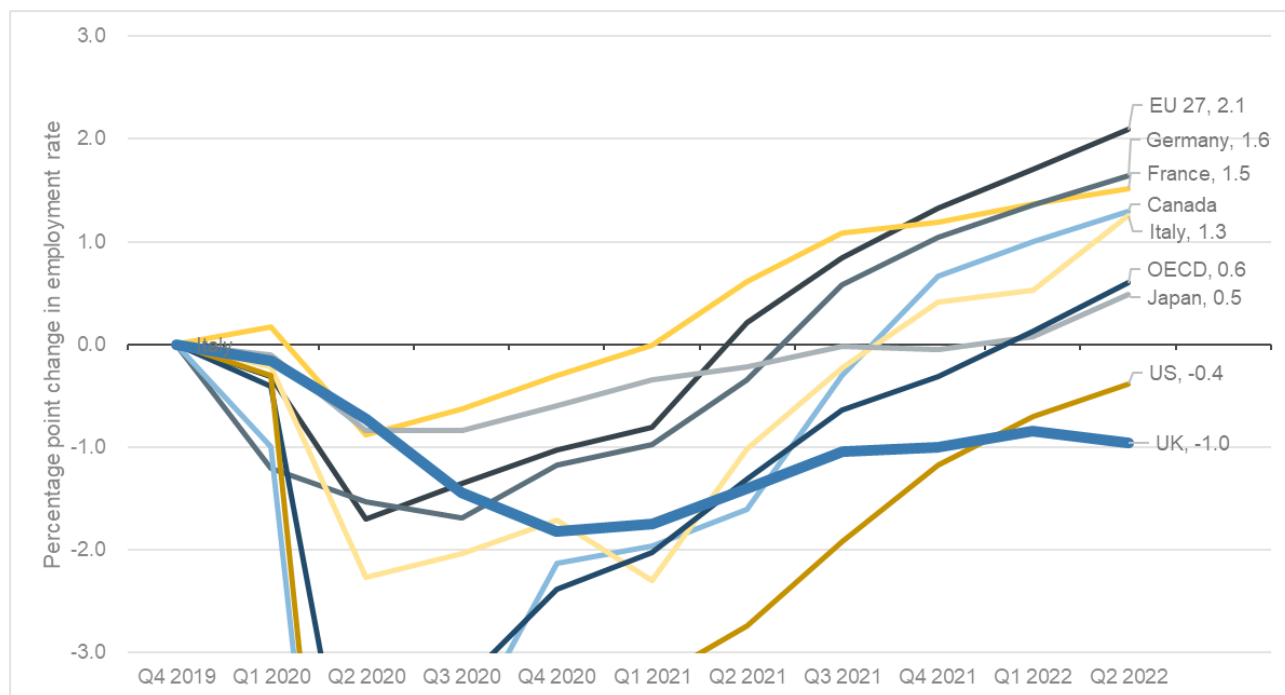
Figure 3.1 illustrates this for the UK compared with other G7 nations and the averages for the OECD and European Union. The UK has lost ground against each of these major economies or groups, and often significantly. Compared with the European Union average, the UK has fallen from having an employment rate 8.5 percentage points higher before the pandemic to around 5.5 percentage points higher now. This weak employment recovery will be partly explained by a weaker economic recovery overall compared with other major economies, but it is likely to be a cause as much as a consequence of this (and there is no clear correlation between economic and labour market growth since the end of 2019 – with for example the US seeing the strongest economic recovery and the UK and Germany the weakest)⁹.

Looking at the trends over time in Figure 3.1 may also give some indication of how different countries handled the crisis and have fared since. Germany and France were active in protecting jobs in the early crisis, and in how they managed those job protection measures and then phased them out in 2021. Italy was also active in protecting jobs, but had a deep and protracted pandemic with a noticeable second dip in employment in early 2021. The United States and Canada did very little to directly protect jobs and instead supported households through transfer payments – seeing employment fall strongly and then rebound.

In the UK, extensive employment protection through 2020 minimised the early impacts on the labour market, but significant job losses and weak hiring in late 2020 saw a more delayed recovery. It is unclear why the UK has then almost uniquely struggled to raise participation through 2021 and 2022, but it is possible that a combination of a lack of re-employment support for those on furlough, more liberal rules around accessing pensions, limited access to employment support for those out of work, and lower migration may have each played a part. Whatever the reasons, there are no signs of improvement for the UK even as employment rates continue to grow strongly among our competitors.

⁹ Source: OECD.

Figure 3.1 Change in working age employment rate since Covid-19 – G7 plus OECD and EU averages



Source: OECD.Stat; working age is defined as people aged 15-64

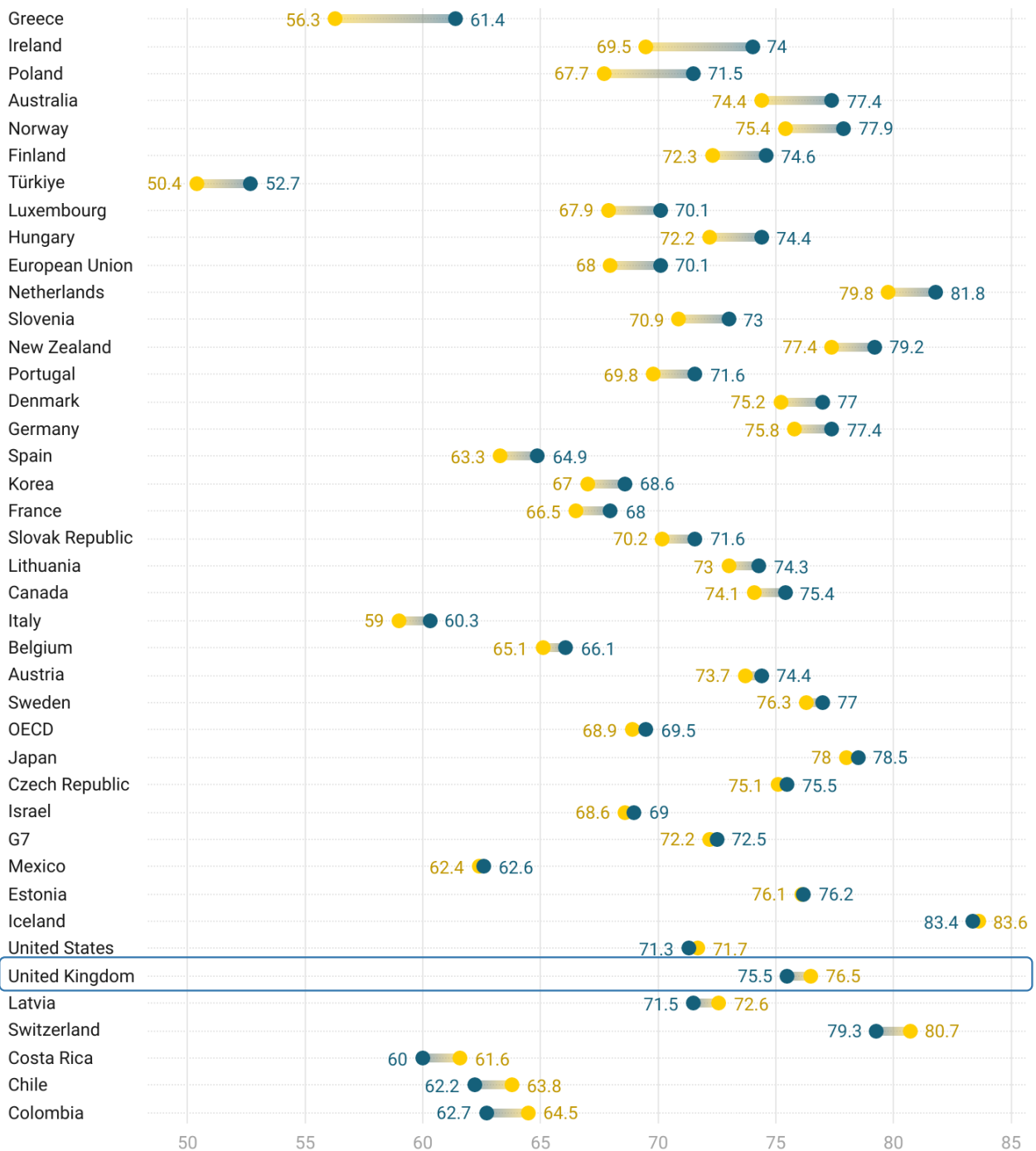
Looking in more detail, Figure 3.2 shows the pre-covid (blue) and most recent (yellow) employment rates for every OECD nation. This illustrates two important points:

- First, that the UK had a very high employment rate before the pandemic, and it still has a relatively high employment rate after it.
- Secondly, however, countries with higher employment have been no less likely to see employment rise than countries with low employment.

As a consequence, in the space of barely two years the UK has fallen from having the 6th highest employment rate in the OECD to having the 12th highest – being overtaken by Sweden, Estonia, Germany, Norway, Denmark and Australia.

Outside of Latin America, only the UK, Iceland, Switzerland, Latvia and the US have seen employment fall since 2019. Across these other four countries however, employment rates have grown by on average just over two percentage points over the last year, while in the UK employment continues to be broadly flat. If these trends were to continue, then by the first quarter of 2023 (and possibly by the end of 2022) the UK would be the only developed economy in the world whose employment rate is lower than it was before the pandemic began.

Figure 3.2: Change in employment rates by OECD nation, 15-64 year olds – Q4 2019 (blue) to Q2 2022 (yellow)



Created with Datawrapper

Source: OECD.Stat. Created with Datawrapper.

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