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Job done?

Assessing the labour market since 2010 and the challenges for the next government

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Summary

The UK labour market, a key driver of living standards, has transformed almost beyond recognition since the government changed hands in 2010 – from skyrocketing employment during the 2010s, to a pandemic that has arguably had more of a lasting impact on the labour market than any other area of economic policy, and all against the backdrop of a historic wage stagnation. In this briefing note, we assess the labour market legacy the next government stands to inherit, the likely policy challenges over the rest of the 2020s, and what the two main parties are offering in their manifestos.

The 2010s saw rapid growth in employment, which reached a record high working-age employment rate of 76.2 per cent at the start of 2020, up from 70.3 per cent in 2010. (The number of people in work rose even faster thanks to a growing population.) This rise was concentrated among lower-income households and women, in part driven by households increasing their labour supply to make up for income shocks following the financial crisis, and by older workers as the State Pension age went up. But, post-pandemic, progress has been reversed: the UK is one of only six countries of 38 in the OECD whose employment rate has fallen since 2019 – it stood at 74.3 per cent in early 2024 – and there has been a worrying uptick in ill-health among working-age adults.

A greater share of people in work since 2010 – albeit fewer than in 2019 – is good news for living standards, lifting households out of poverty and driving economic growth. But the backdrop to this good news story is a long-standing wage stagnation, driven first

by the post-financial crisis squeeze (and sluggish recovery) and then compounded by the cost of living crisis. The end result is that average wages are now only £16 a week, or 2.5 per cent, higher in real terms than they were at the time of the 2010 election. This is clearly much worse than the pre-2010 record, when wages were growing at 2.2 per cent every year, but it is also significantly worse than some of our international competitors: had our wages grown at the same rate as the US or Germany since 2010, the average British worker would be earning £3,600 more each year.

But while the record on average wage growth since 2010 is poor – the post-2010 stagnation has meant the slowest real wage growth of any party's period in office since the Second World War – successive Conservative governments deserve credit for their achievements in boosting pay for the lowest earners. Thanks to ambitious increases in the minimum wage that have led to it becoming one of the highest in the world, hourly pay has grown fastest for the lowest-paid occupations: between 2011 and 2023, for example, real hourly pay rose by 26 per cent for bar staff, 24 per cent for waiters and 20 per cent for cleaners, compared to just 1.9 per cent at the median. As a result, inequality in the bottom half of the hourly pay distribution (measured as the ratio between the median and the tenth percentile) is the lowest since at least the mid-1970s.

The legacy of the last 14 years is important not only because of how it has shaped living standards today, but also for the challenges the next government will need to address. Whichever party wins the upcoming election will need to contend with stubbornly high levels of economic inactivity – in the latest data, 9.4 million working-age adults were economically inactive, up from 8.6 million on the eve of the pandemic. The Office for Budget Responsibility (OBR) predicts an end to the steady employment growth the UK enjoyed in the 2010s: instead, it expects the employment rate will be essentially unchanged over the next parliament. Both main parties' manifestos contain pledges to reverse this trend and get more people into work, though their approaches differ: the Labour Party proposes a suite of policies covering careers, skills and health support, while the Conservative Party's focus is largely on reforming disability benefits, a subject we cover in a separate paper, as well as reforms to the 'fit note' system and benefit conditionality, alongside cuts in the rate of National Insurance.

There is far more divergence, however, when it comes to wider labour market policies. The first area of disagreement is on the minimum wage – a break from the recent past, where there has tended to be shared support for ambitious rises. The Conservative Party has suggested it would maintain the minimum wage at two-thirds of typical pay, which implies a rise to just under £13 in 2029 given current forecasts for wage growth. The Labour Party, on the other hand, has hinted at greater ambition by pledging to make the minimum wage "a genuine living wage" that "[accounts] for the cost of living" – but what they mean by this remains unclear. One interpretation is that the minimum wage will be increased to match the real Living Wage – an ambitious policy, raising the bite of the minimum wage to 70 per cent if implemented today. But an alternative interpretation, implying virtually no ambition at all, would be a commitment to increase the minimum wage at least in line with inflation, which tends to happen anyway.

The second area where the parties' plans diverge is on wider labour market reform: here, the Conservative Party does not have major proposals for employment rights and institutions, whereas the Labour Party proposes a comprehensive overhaul that would be the biggest since the introduction of the minimum wage. Perhaps the most radical suggestion is the proposal to introduce a 'day one' right to protection against unfair dismissal. The UK's current two-year wait for this right is unusually long compared to other nations (and the UK's past). But Labour's exact policy here is not yet clear. It has said it would maintain probationary periods, for example, which would allow firms to more easily dismiss new hires than if full protections applied from the start of employment – but we do not know what their duration might be or exactly how this would work, making it hard to be definitive about both the benefits and risks of the policy. The overall link between employment regulations and the unemployment rate is very weak, but there is more evidence of a trade-off with hiring rates, highlighting the need for careful implementation and effective use of probationary periods.

Beyond 'day one' rights, Labour has a suite of other proposals that would represent significant change to the labour market. It proposes to extend Statutory Sick Pay (SSP) to all employees, bringing into scope 1.1 million people who currently earn too little to qualify, as well as increasing the level (by an unspecified amount) and getting rid of the three-day waiting period. There will be a right to a contract that reflects the hours that people actually work and a minimum notice period for shifts; these changes would be welcome news for the 7.2 million workers who say they are anxious about last-minute changes to their hours. Again, the policy details around these proposed new rights will need to strike a balance between protecting workers and maintaining flexibility. And the manifesto confirmed Labour's commitments to introduce a 'Fair Pay Agreement' covering the 1.7 million workers in the social care sector, where poor pay and conditions are contributing to a recruitment and retention crisis. Finally, Labour has committed to a new Single Enforcement Body to police labour market rights, building on proposals put forward by the last Conservative government.

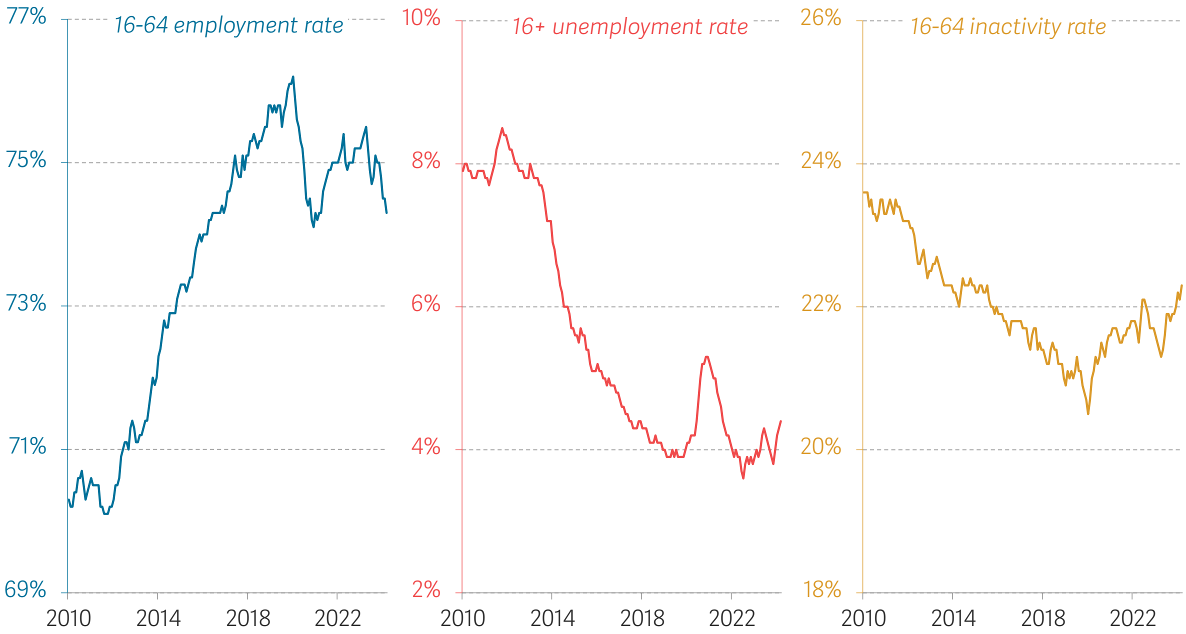
In most cases, the precise details of Labour's proposals still need to be filled in: if elected, it plans to consult on the specifics. But even the outlines included in the manifesto, set against the Conservatives' plans to continue the status quo, make clear that at the upcoming election, voters face a choice between a party pledging business as usual on labour market rights, or one proposing the biggest overhaul in a generation.

The past fourteen years have been a turbulent time for the labour market

The UK labour market has transformed since the government changed hands in 2010. The post-financial crisis recovery led to rapid employment growth, mirrored by falling unemployment and inactivity – but the Covid-19 pandemic put these trends into reverse, having arguably had more of a lasting impact on the labour market than any other area of economic policy (see Figure 1). Moreover, these changes occurred against a backdrop of stagnating productivity and wages, technological change introducing new forms of work, and unprecedented policy action on the minimum wage that tilted pay growth in favour of low earners.

FIGURE 1: **The employment, unemployment and inactivity rates have faced ups and downs since 2010**

Headline employment, unemployment and inactivity rates: UK



NOTES: Latest data point is February-April 2024.
SOURCE: RF analysis of ONS, Labour market statistics.

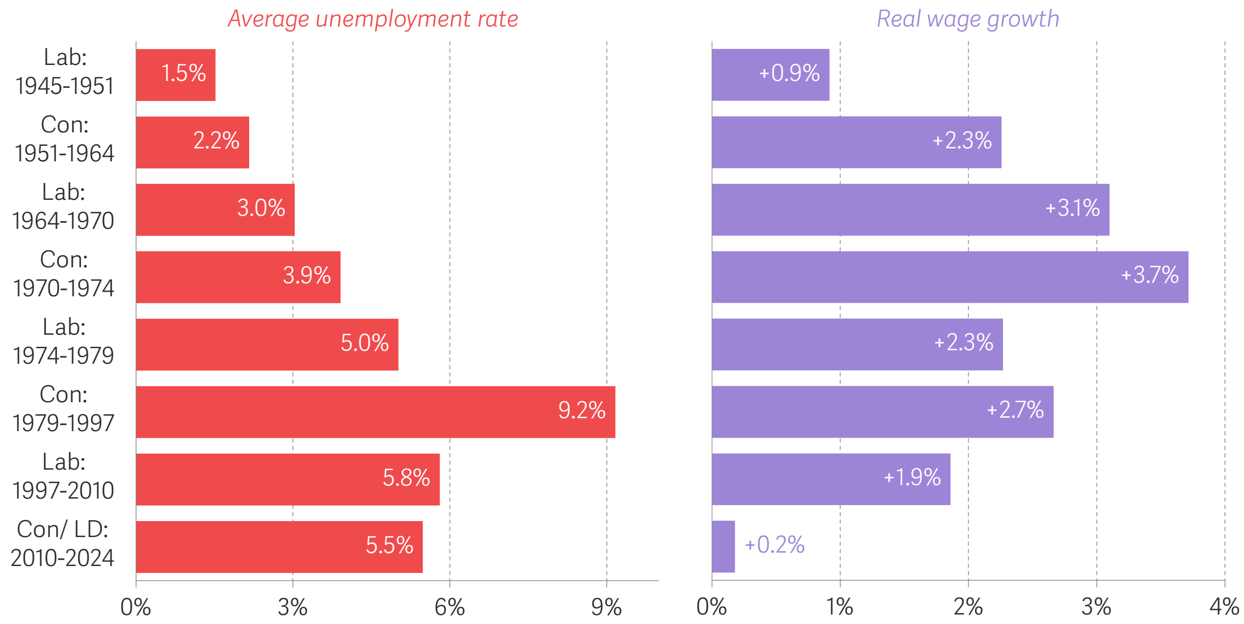
In Figure 2, we show how the period since 2010 stacks up on unemployment and wages compared to previous governments.[1] The Conservative governments' performance on jobs has been strong: in spite of the post-financial crisis recession, Covid-19 pandemic and cost of living crisis, unemployment since the Conservatives came into power has averaged just 5.5 per cent, the lowest of any party's period in office since Labour's 1974-

1 A version of Figure 2 previously appeared in: C Aref-Adib et al., Back for more? Putting the 2024 Spring Budget in context, Resolution Foundation, March 2024.

1979 term. (Data on the employment rate does not cover the whole period since 1945, but the average employment rate of 73.6 per cent is the highest of any party's time in government since at least the 1970s.) But average wages have suffered from the same stagnation as the economy as a whole, growing at just 0.2 per cent per year, by far the slowest growth of any party's period in office since the Second World War.[2]

FIGURE 2: **Since 2010 real wage growth has been historically weak, while unemployment has been moderate**

Average 16+ unemployment rate and annualised change in real wages, from start to end of party's period in office: UK



NOTES: Other than the latest period shown, statistics are based on calendar year data, including the years in which each party entered and left office. 2010-2024 period uses data from May 2010 to the latest outturn date (Feb-Apr 2024 for unemployment and April 2024 for wages).
SOURCE: RF analysis of Bank of England, Millennium of Macroeconomic Data; ONS, Labour market statistics; ONS, Real average weekly earnings using consumer price inflation (seasonally adjusted).

In the remainder of this briefing note, we explore the details of the labour market the next government stands to inherit, the policy questions the party that wins the election will need to address, and what the two main parties are offering in their manifestos.

The 2010s was a decade of record employment growth

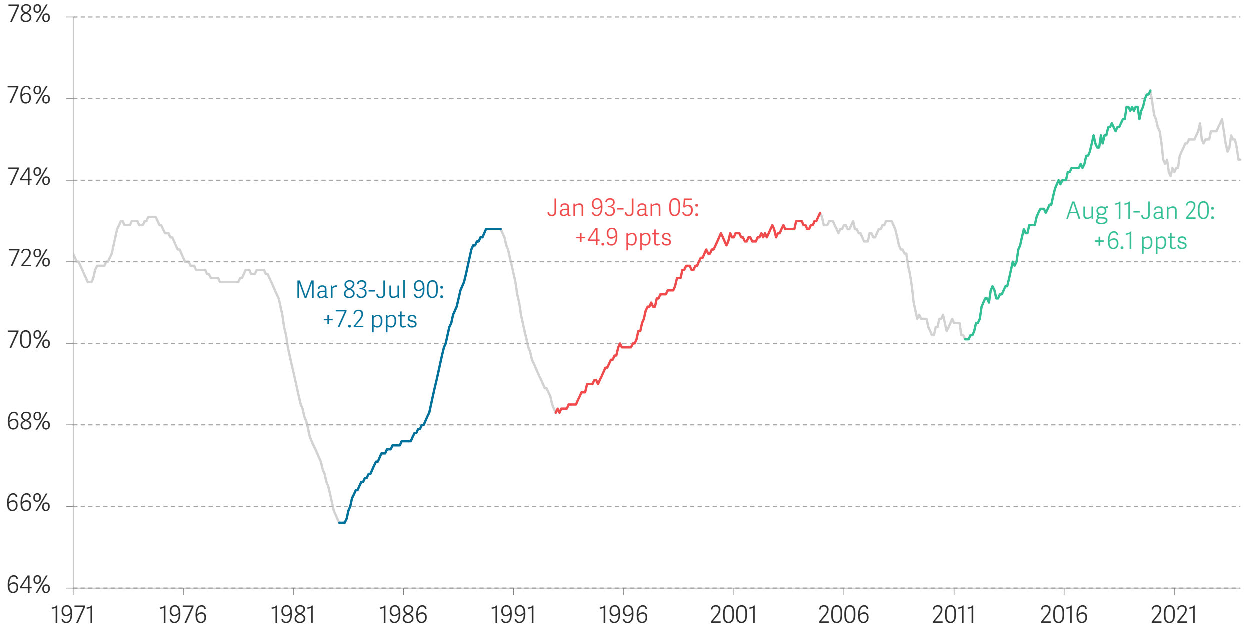
Since 2010, the UK labour market has undergone an unprecedented employment boom followed by a post-pandemic bust. The employment rise of the 2010s was exceptional in historical terms: as Figure 3 shows, the working-age employment rate rose by 6.1

2 For a summary of wider economic performance since 2010, see: E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024.

percentage points between mid-2011 and the eve of the Covid-19 pandemic, the biggest sustained rise since the 1980s, to reach a record 76.2 per cent – up from 70.3 per cent at the start of 2010, and 3.1 percentage points above its pre-financial crisis peak.[3] And the rise was bigger than anticipated, with the employment rate among all adults outperforming the Office for Budget Responsibility's (OBR's) forecasts by 1.4 percentage points in the first half of the 2010s and 1.6 percentage points in the second.[4] (Box 1 looks at trends in the number of people in employment, where data issues make interpretation trickier.)

FIGURE 3: **During the 2010s, the UK had its biggest sustained employment rise since the 1980s**

16-64 employment rate: UK



NOTES: Coloured lines show trough-to-peak employment rises.
SOURCE: RF analysis of ONS, Labour Market Statistics.

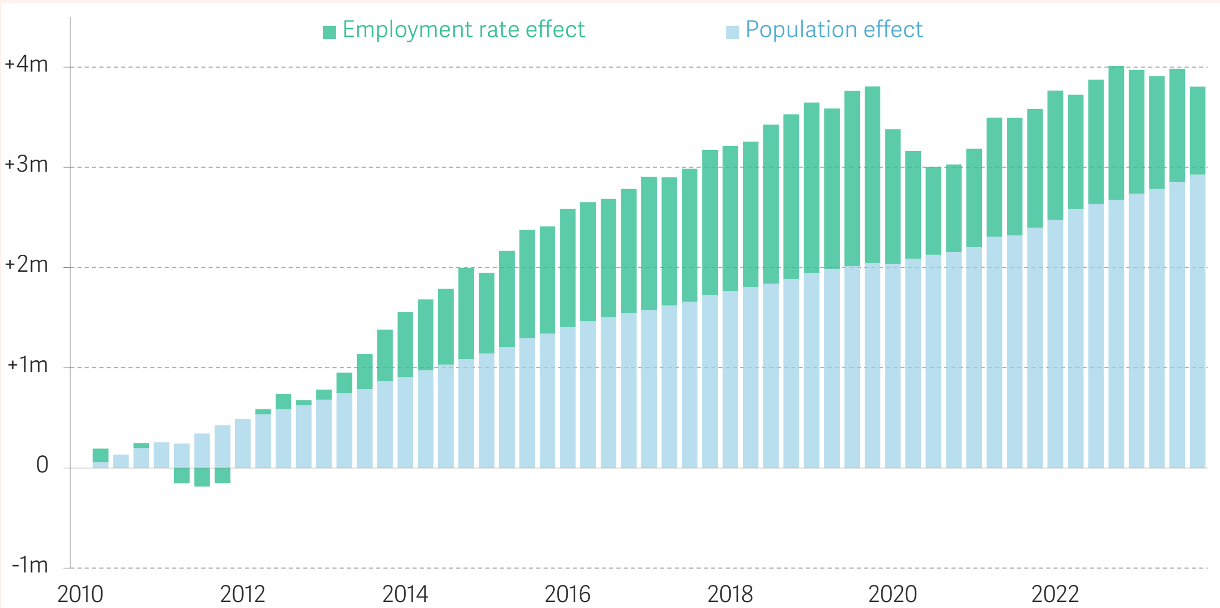
3 N Cominetti, A record-breaking labour market – but not all records are welcome, Resolution Foundation, February 2020.
4 In June 2010, the OBR forecast that the 16+ employment rate would average 58.6 per cent in 2015; the outturn was 60.0 per cent (the OBR does not produce a forecast of the 16-64 employment rate). In March 2015, their forecast was 59.9 per cent for 2019, while the outturn was 61.5 per cent. See: Office for Budget Responsibility, June Budget 2010: Supplementary tables, October 2013; Office for Budget Responsibility, Economic and fiscal outlook supplementary economy tables - March 2015, March 2015; Office for National Statistics, LFS: Employment rate: UK: All: Aged 16 and over: %: SA, June 2024.

BOX 1: The UK's labour market performance is best judged using employment rates, rather than levels

During the election campaign, the Conservative Party has pointed to the fact that there are 4 million more people in work than in 2010. But not all of this rise can be explained by the employment rate rises shown in Figure 3. Indeed, Figure 4 shows that of the headline increase in employment since 2010, three-quarters is accounted for by a growing population.[5] (Three-quarters of this population growth was driven by migrants, who entered employment at roughly the same rates as existing residents.[6])

FIGURE 4: **Population growth has boosted the number of people in employment**

Cumulative change in the number of people in employment since Q2 2010: UK



NOTES: Employment effect calculated as the share of the employment rise accounted for by the rising employment rate (i.e. holding the population constant), and population effect calculated as the share accounted for by population increases (i.e. holding the employment rate constant).
SOURCE: RF analysis of ONS, Labour market statistics.

As well as conflating genuine employment gains with population growth, there is another reason to be sceptical about estimates of employment levels at the moment: the Labour Force Survey (LFS), the main source of UK labour market data, is based on outdated population assumptions that mean it is underestimating the total number of

5 For further discussion of a growing population flattering key economic indicators, see: E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024.
6 E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024.

people in the UK.[7] This means that, while the LFS implies that the number of people in employment remains below pre-pandemic levels, other data sources – such as Workforce Jobs, which is largely based on surveys of businesses, and real-time payroll data – suggest the employment recovery has been far stronger.[8] As we will set out in forthcoming work, reweighting the LFS to account for the latest population projections suggests that more people are now in employment than before the pandemic, but these data issues are having minimal impact on estimates of the employment rate.

The employment gains during the 2010s partly reflected the labour market recovery from the financial crisis: the unemployment rate more than halved over that decade, from 7.9 per cent at the time of the 2010 election (and a peak of 8.4 per cent in late 2011) to just 3.9 per cent at the end of 2019.

But the fact that the employment rate rose so far above its previous peak was down to rising participation in the aftermath of the financial crisis. As previous Resolution Foundation research has set out, one reason for this was an attempt to make up for income shocks: the living standards hit of the financial crisis, driven by both falling real earnings (which we will come back to later in this note) and welfare cuts, led to households increasing their labour supply.[9] This is one reason why, as Figure 5 shows, rising employment over this period was driven by poorer families: by 2019, employment among people in the bottom 30 per cent of household incomes was 6 percentage points higher than before the financial crisis, compared to 0.8 percentage points lower among higher-income households.[10]

7 Specifically, the LFS incorporates the latest population estimates up to mid-2022, but do not account for the most recent population *projections* for 2023 onwards, which revised up the UK's population growth estimates due to higher migration. See Box D of: Bank of England, Monetary Policy Report, May 2024.

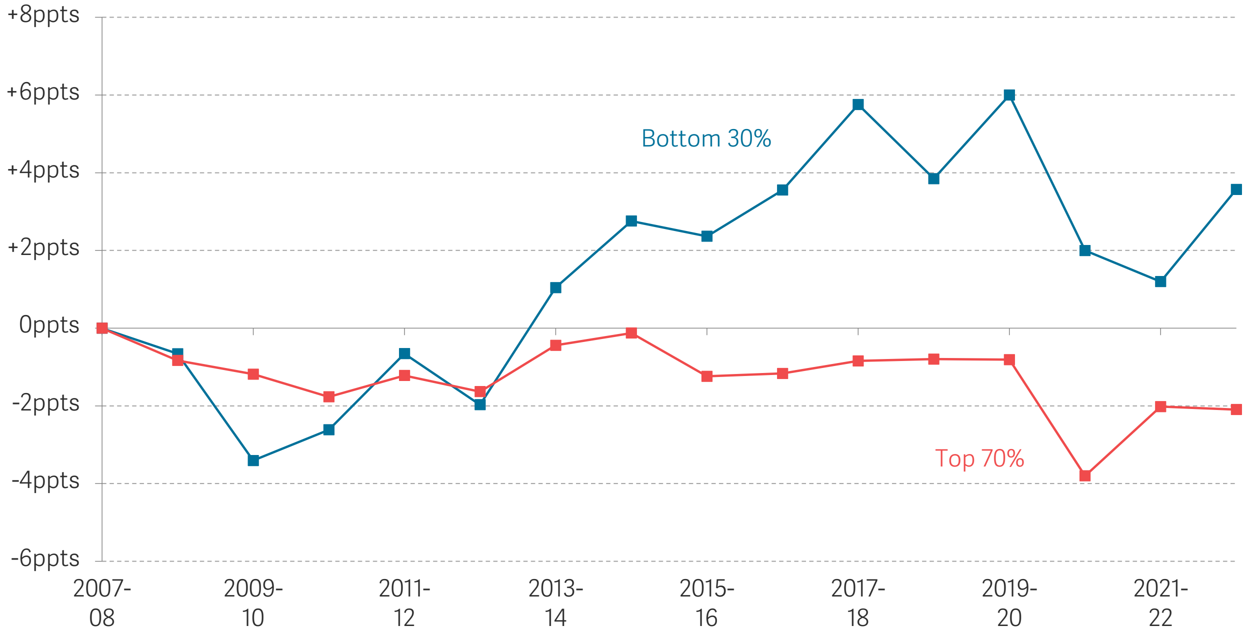
8 Alternative data sources suggest that there are 1.5 million more jobs in the economy and 1.3 million more employees on company payrolls than at the end of 2019. See: Office for National Statistics, JOBS01: Workforce jobs summary, June 2024; Office for National Statistics & HM Revenue & Customs, Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted, June 2024.

9 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019.

10 For a decile-by-decile breakdown of the change during the 2010s, see Figure 43 of: Resolution Foundation & Centre for Economic Performance, LSE, Ending stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

FIGURE 5: **Higher employment in the 2010s came from poorer families**

Cumulative change in 16-64 employment rate since 2007, by income after housing costs: UK



NOTES: Latest data point is 2022-23.
SOURCE: RF analysis of DWP, Households Below Average Income.

The employment rise during the 2010s was also slightly tilted towards women: women's employment rose by 6.7 percentage points between the 2010 and 2019 elections, compared to a rise of 4.7 percentage points rise among men. This was partly due to more women, particularly mothers in couples, increasing their labour supply in response to income shocks affecting a main earner's wages.[11] But it also reflects rises in women's State Pension age (SPA),[12] which contributed to higher employment among older workers: the employment rate for 50-64-year-olds (both men and women) rose by 7.3 percentage points between 2010 and 2019, compared to a 5.4 percentage-point-rise among all working-age adults.

But progress has been reversed post-pandemic

The employment boom of the 2010s, however, was brought to a halt by the Covid-19 pandemic. In the latest data (covering the three months to April 2024), the employment rate stood at 74.3 per cent: down nearly 2 percentage points from its pre-pandemic peak, and reversing a third of the gains experienced during the 2010s. And comparing to a world in which the trend of the 2010s had continued paints an even more dire picture: if

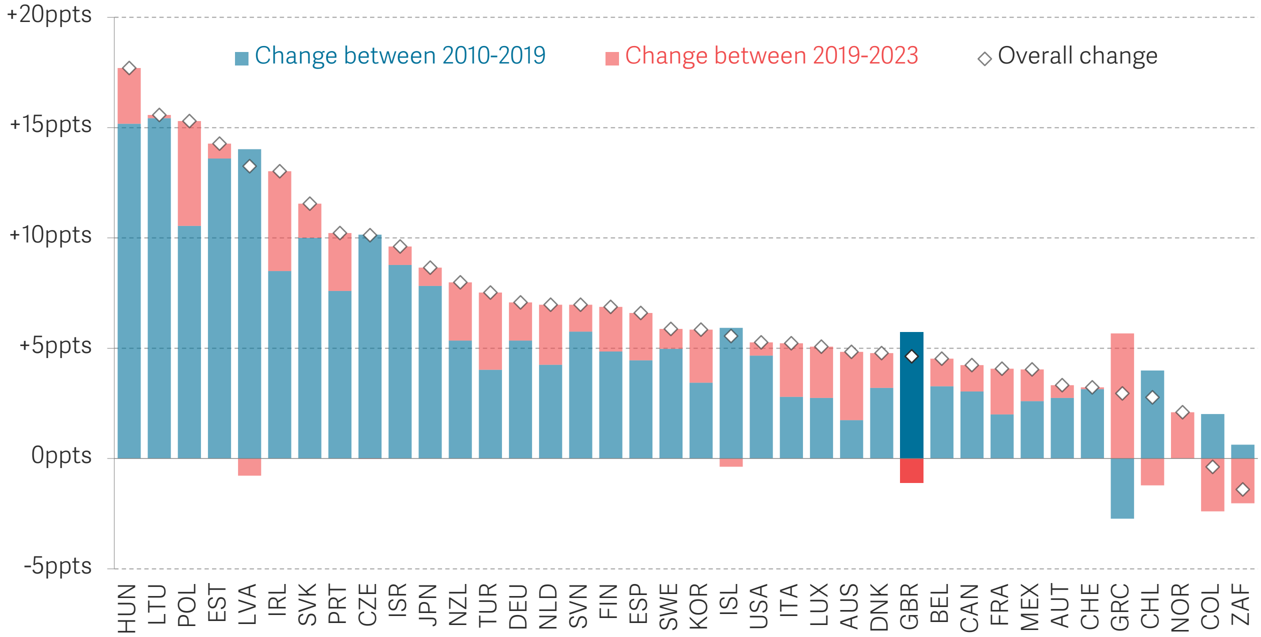
11 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019.
12 Women's SPA rose from 60 to 65 between 2010 and 2018, to match that of men. More recently, the SPA has risen to 67 for both men and women, but these changes do not affect our analysis in this section which focuses on 16-64-year-olds. See: Department for Work and Pensions, State Pension age Review 2023, March 2023.

our employment rate had continued its pre-pandemic growth path, the employment rate would have reached 79 per cent, equivalent to nearly 2 million more people in work.[13]

The UK is an international outlier in this regard. As Figure 6 shows, the increase in the UK's employment rate was relatively strong internationally during the 2010s, ranking 14th out of the 38 OECD countries we have comparable data for. But we are one of only six OECD countries to have experienced an employment fall post-pandemic, pulling our rank down to 27th over the 2010-2023 period as a whole.

FIGURE 6: **The UK is an international outlier in its post-pandemic employment fall**

Change in the 15-64-year-old employment rate, by country and period: OECD countries, 2010-2023



NOTES: Costa Rica and Russia are excluded from the chart as data is not available for all three comparison years.
SOURCE: RF analysis of OECD, Labour market statistics.

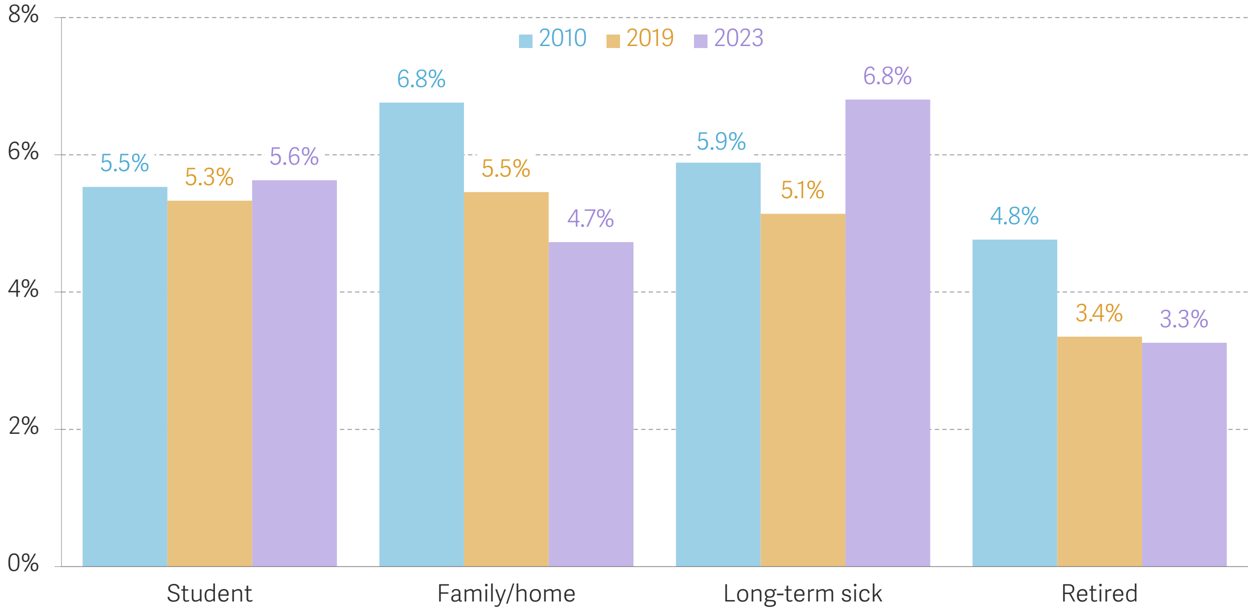
As with the pre-pandemic employment boom, the post-pandemic bust has very little to do with changes in unemployment: despite a recent uptick, unemployment remains close to historic lows at 4.4 per cent. Even during the height of the Covid-19 crisis, fears of high unemployment were largely unfounded: unemployment peaked at only 5.3 per cent, thanks to the Coronavirus Job Retention Scheme.[14] Instead, the post-pandemic legacy has been a lasting rise in economic inactivity: the UK has experienced the second-highest rise in working-age inactivity in the OECD, behind only Colombia.[15]

13 An employment rate of 79.0 per cent applied to the latest 16-64 Labour Force Survey population would imply a working-age employment level of 33.5 million, compared to the outturn of 31.6 million. Source: RF analysis of ONS, Labour market statistics.
14 See, for example: M Brewer & C McCurdy, Post-furlough blues: What happened to furloughed workers after the end of the Job Retention Scheme?, Resolution Foundation, November 2021.
15 Source: RF analysis of OECD, Labour market statistics.

In addition, there have been two substantial shifts since 2019 in the underlying reasons for economic inactivity (see Figure 7).[16] First, the proportion of working-age people who are out of work for caring reasons continued its long-term decline: after falling from 6.8 per cent to 5.5 per cent during the 2010s, this rate dropped to 4.7 per cent by 2023. This likely reflects further increases in employment to make up for income shocks during the Covid-19 pandemic, coupled with hybrid working helping more people to balance paid work and caring responsibilities.[17] Second, and far more concerningly, the share of the population out of the workforce due to long-term sickness rose from 5.1 per cent to 6.8 per cent between 2019 and 2023, after having fallen during the 2010s.[18] At the end of 2023, 2.9 million people said that a long-term health condition was contributing to their being out of the labour force, of whom the vast majority (2.8 million) cited health as the main reason.

FIGURE 7: **The pandemic legacy has been a sicker working-age population**

Proportion of 16-64-year-olds who are economically inactive and cite each reason, by year: UK



NOTES: Chart includes all economically inactive people who cited each reason, whether or not it was the main one, and so the categories are not mutually exclusive.
SOURCE: RF analysis of ONS, Labour Force Survey.

16 Note that Figure 7 shows the proportion of the working-age population who cite each reason for economic inactivity, whether or not it is their main reason. This means that our numbers differ from the published ONS series, but have the benefit of capturing the full set of reasons behind inactivity.

17 M Brewer, C McCurdy & H Slaughter, Begin again? Assessing the permanent implications of Covid-19 for the UK's labour market, Resolution Foundation, November 2021.

18 For further discussion, see: L Murphy & G Thwaites, Post-pandemic participation: Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead, Resolution Foundation, February 2023; L Murphy, A U-shaped legacy: Taking stock of trends in economic inactivity in 2024, Resolution Foundation, March 2024.

Women are working more than in 2010, while men are working less – but the longest hours are still worked by the highest paid

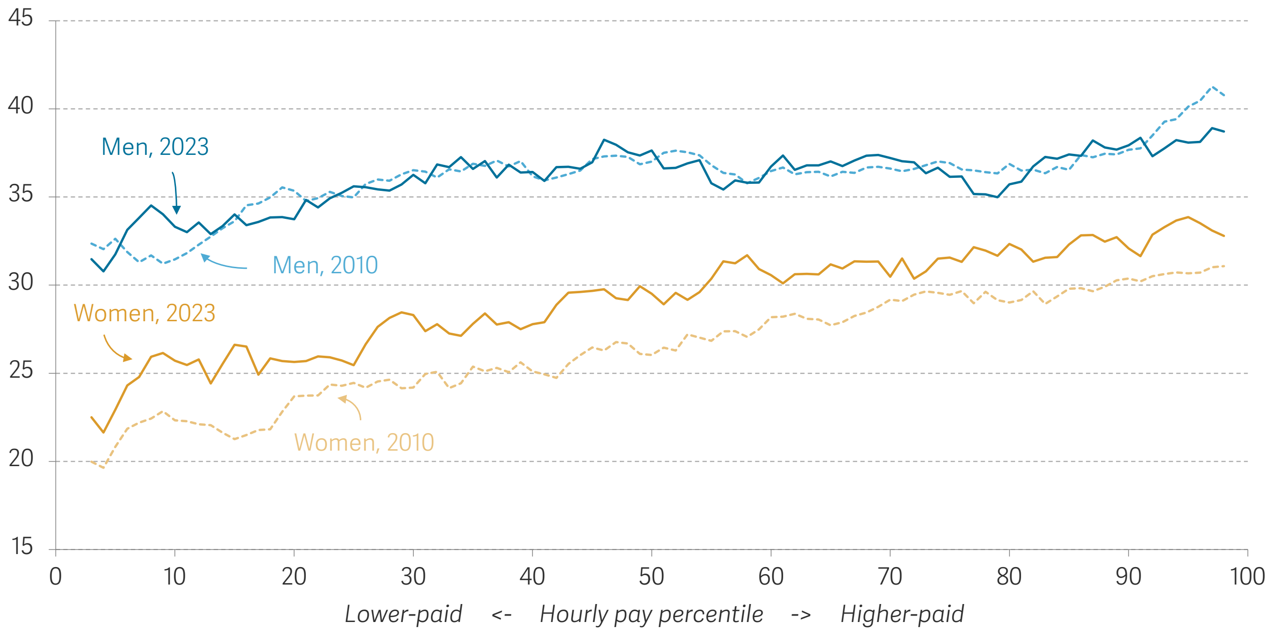
In contrast to the boom and bust in employment since 2010, the average hours done by those in work has been largely flat over this period, hovering consistently between 31.3 and 32.3 hours a week (excluding the Covid-19 pandemic).

But the flat overall trend masks big differences between men and women: women's working hours have risen by more than 2 hours a week since 2010 (from 26.3 to 28.4), while men's have fallen by nearly an hour (from 36.3 to 35.4). At the time of the 2010 election, men's average (paid) working hours were more than one-third (37 per cent) longer than women's; by the start of 2024, the gap had narrowed to just one-quarter (25 per cent).

Even as trends in men and women's working hours have diverged, however, one pattern remains the same: among both groups, the longest hours are still worked by the highest paid, though the gap has narrowed slightly (Figure 8).[19]

FIGURE 8: **The longest hours are still worked by the highest earners**

Average actual weekly working hours among employees aged 18-64, by hourly pay percentile and sex: UK, 2010 and 2023



NOTES: Percentiles are calculated separately in the men's and women's hourly pay distributions in each year. Data is smoothed by calculating five-percentile moving averages.

SOURCE: RF analysis of ONS, Labour Force Survey.

19 A version of Figure 8 previously appeared in: G Bangham, The times they aren't a-changin': Why working hours have stopped falling in London and the UK, Resolution Foundation, January 2020. The average working hours across all pay percentiles in Figure 8 does not match the average in published data because of different age breakdowns, because the chart includes only people who reported a pay figure, and because this analysis uses income weights (which have not yet been fully updated for Census 2021).

In 2023, men in the top hourly pay decile worked an average 38.1 hours a week, 5.1 more than those in the bottom hourly pay decile (who worked 33.0 hours); this gap has fallen from 7.8 hours in 2010. Likewise, women in the top decile worked 33.0 hours a week on average, 8.6 more than those in the bottom decile (24.2 hours), down from a 9.5-hour gap in 2010. For men, this relative lack of change contrasts with the previous two decades, when falling hours among low-paid men led to a widening gap between lower and higher earners.[20]Beyond the average level of hours worked, variability in hours can have an important impact on workers' take-home pay. We discuss this, and wider precarity, in Box 2.

BOX 2: **Precarity in the labour market has fallen on some measures, but remains high**

The quality of work, and particularly 'precarious', 'insecure' and 'atypical' employment, has risen up the agenda of policy debates since 2010. This is partly because of media focus on forms of alternative working arrangements, such as zero-hours contracts; in addition, with unemployment close to historic lows, focus has shifted from increasing the quantity of jobs available to improving their quality.

There is no one definition of precarious work, and how it is defined matters a lot for interpreting what has happened since 2010. Under some definitions, particularly those that include self-employment, precarious work accounts for the majority of employment growth since the financial crisis, remaining stubbornly high even as labour market conditions have improved.[21] But on other measures, precarious work has been falling, driven particularly by long-term falls in variable-hours contracts and short-term temporary contracts.[22] The level is still high, however: we estimate that one-in-eight (13 per cent) employees are on some form of flexible contract (although beneficial for some workers, these can lead to precarity for others), and there have been increases over time in some specific contract types, such as zero-hours contracts, which stand close to a record high at 1.03 million.[23]

20 See, for example, Figure 41 of: P Bourquin, M Brewer & T Wernham, Trends in income and wealth inequalities, IFS Deaton Review of Inequalities, November 2022.
21 See, for example: S Clarke & N Cominetti, Setting the record straight: How record employment has changed the UK, Resolution Foundation, January 2019; TUC, TUC – number of people in insecure work reaches record 4.1 million, June 2024.
22 See, for example: R Florisson, The UK Insecure Work Index: two decades of insecurity, Work Foundation, May 2022; H Slaughter, Firm foundations: Understanding why employers use flexible contracts, Resolution Foundation, April 2024.
23 H Slaughter, Firm foundations: Understanding why employers use flexible contracts, Resolution Foundation, April 2024; Office for National Statistics, EMP17: People in employment on zero hours contracts, May 2024.

In addition, new forms of work have emerged since the financial crisis, with the gig economy in particular becoming a hot topic of debate. Estimates from large household surveys suggest that fears about the rise of the gig economy may be overblown, finding that this form of working accounts for less than 2 per cent of the workforce, or in the region of half a million workers.[24] But on the other hand, the broader category of solo self-employment – which is associated with a high prevalence of low pay and precarity – has been on an upwards trajectory since 2000.[25] Between 2010 and 2020, the proportion of UK workers who were solo self-employed rose from 10 per cent to 12 per cent, even as solo self-employment was flat or falling in most other countries.[26]

Real wages have been on a rollercoaster, but the big picture is one of stagnation

A greater share of people in work since 2010 (albeit fewer than in 2019) is good news for living standards: for individuals, entering work is the most effective way of exiting poverty,[27] while rising employment has helped drive the little economic growth we have had since the financial crisis.[28] But the bad news is that real wage growth has stalled over the same period.

As Figure 9 shows, the path of real weekly wages over the last decade-and-a-half can be broken into four key phases. First, the start of the 2010s saw a continuation of the wage squeeze that began in the aftermath of the financial crisis, as firms allowed nominal wages to lag inflation as an alternative to job losses (part of the reason why unemployment remained low). Second, from mid-2014 to the end of the decade, real wages began to recover, but progress was slow – held back by sluggish productivity growth, a subject we cover in a separate paper,[29] as well as a spike in inflation after the Brexit referendum and associated sterling depreciation – and the 2010s marked the first time since the 1920s where wages were lower at the end of the decade than they were at the start.[30]

During the Covid-19 pandemic, weekly wages initially fell sharply when many furloughed

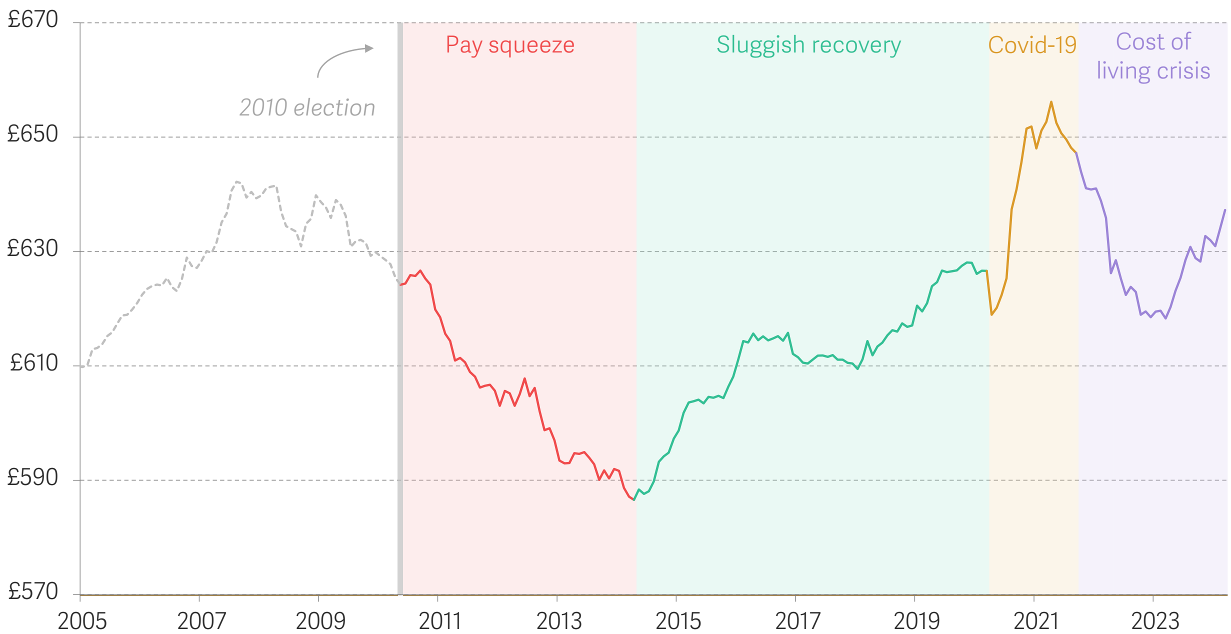
24 See, for example, Box 2 of: N Cominetti et al., Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022; J Cockett & B Willmott, The gig economy: What does it really look like?, CIPD, September 2023.
25 G Giupponi & X Xu, What does the rise of self-employment tell us about the UK labour market?, Institute for Fiscal Studies, November 2020.
26 N Cominetti et al., Low Pay Britain 2022: Low pay and insecurity in the UK labour market, Resolution Foundation, May 2022. There is a data break in 2020 that means we cannot compare more-recent trends.
27 L Judge & H Slaughter, Working hard(ship): An exploration of poverty, work and tenure, Resolution Foundation, February 2020.
28 E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024.
29 E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024.
30 For further exploration of these two phases, see: S Clarke & P Gregg, Count the pennies: Explaining a decade of lost pay growth, Resolution Foundation, October 2018.

workers received only 80 per cent of their usual pay. Later in the crisis, average wages rose quickly as job losses were concentrated among low earners, mechanically increasing the average wage of those people still in work.[31] This compositional effect began to unwind as the economy reopened and unemployment fell over the course of 2021, and explains some of the fall back in real wages. But this fall was turbocharged by the cost of living crisis. Prices (according to CPI inflation) have risen by 22 per cent since the start of the inflation shock, meaning that, although wages have begun to grow in real terms, they remain 1.2 per cent lower than at the start of 2021.[32]

All told, real wages are now only £16 a week, or 2.5 per cent, higher than they were at the time of the 2010 election. By comparison, in the fourteen years before 2010, weekly wages grew by £145. Indeed, growth of 2.5 per cent was not far off the what workers could expect in a single year pre-financial crisis, when annual growth averaged 2.2 per cent.

FIGURE 9: **Real wages were lower than their 2010 level as recently as May last year**

Real average weekly earnings (regular pay): GB



NOTES: Adjusted to April 2024 prices using CPI inflation.
SOURCE: RF analysis of ONS, Real average weekly earnings using consumer price inflation (seasonally adjusted).

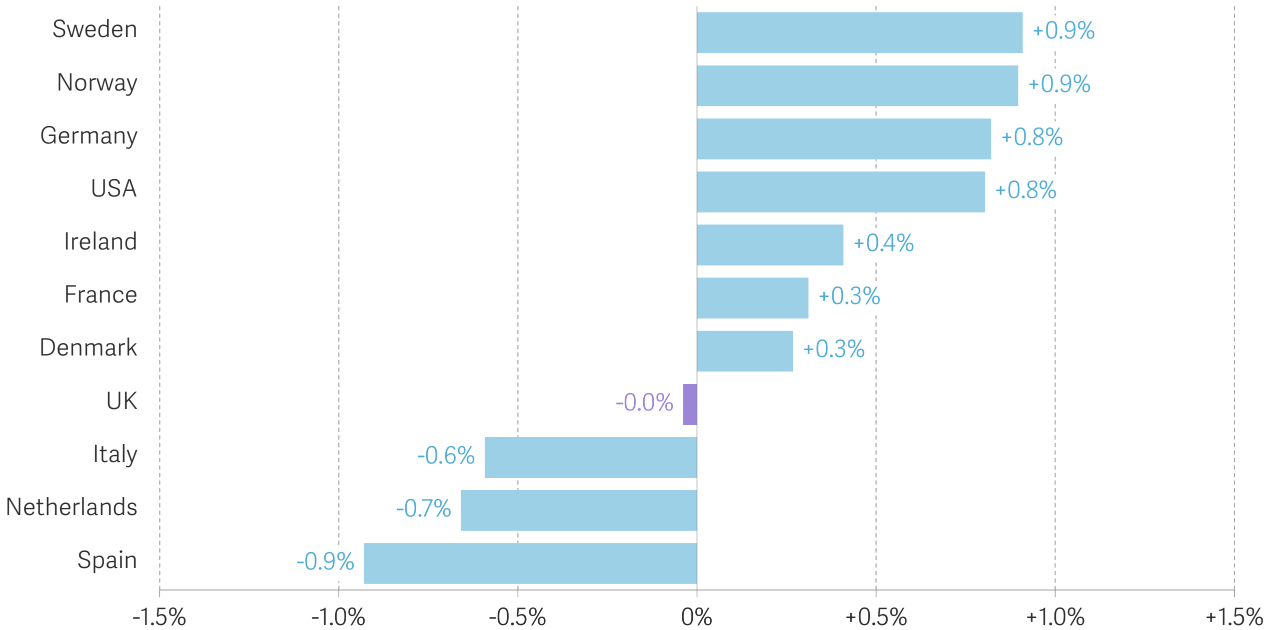
This is an appalling record, that is not only poor by historic standards but also relative to many other countries. Between 2010 and 2022, our wages stagnated while those in other countries grew: wages in the US and Germany, for example, each grew by 0.8 per cent a

31 N Cominetti et al., Labour Market Outlook Q1 2022: How should we interpret strong nominal earnings growth?, Resolution Foundation, April 2022.
32 Updated analysis from: N Cominetti et al., Paying the price: How the inflation surge has reshaped the British economy, Resolution Foundation, May 2024.

year, those in Ireland by 0.4 per cent, and those in France and Denmark by 0.3 per cent (see Figure 10).[33] Had our wages grown in line with the US or Germany since 2010, the average British worker would each be earning £3,600 more a year; even wage growth in line with Ireland would mean UK workers were £1,600 better off a year on average.

FIGURE 10: **Had our wages grown in line with the US and Germany since 2010, British workers would each be earning £3,600 more a year**

Annual growth in real average weekly earnings (full-time equivalent) between 2010 and 2022, by country: selected OECD countries



NOTES: Earnings are deflated using CPI inflation in the respective country.
SOURCE: RF analysis of OECD, Average annual wages; OECD, Consumer price indices.

In the public sector, pay growth has fared still worse. During the first half of the 2010s, a two-year pay freeze followed by a 1 per cent pay cap on average pay awards led to wages in the public sector falling at a similar pace to those in the private sector – but the subsequent rebound was far slower, meaning that average earnings in the public sector fell by 3.1 per cent during the 2010s compared to a (very modest) rise of 0.5 per cent in the private sector.[34]

Since the start of the 2020s, public sector pay has fallen in real terms (by 1.6 per cent), while private sector pay grew (by 2.6 per cent), in part because the last government has favoured one-off bonus payments to help with cost of living challenges, rather than locking in permanent pay rises.[35] This is an issue the next government will need to

33 Because international data only goes up to 2022, the UK facts in this paragraph differ from the full picture through to early 2024 shown in Figure 9.
34 P Brione & B Francis-Devine, Public sector pay, House of Commons Library, January 2024.
35 Source: RF analysis of ONS, Labour market statistics.

confront: a growing pay gap between the public and private sector is not sustainable over the long term if our public services are to recruit and retain the staff they need.[36]

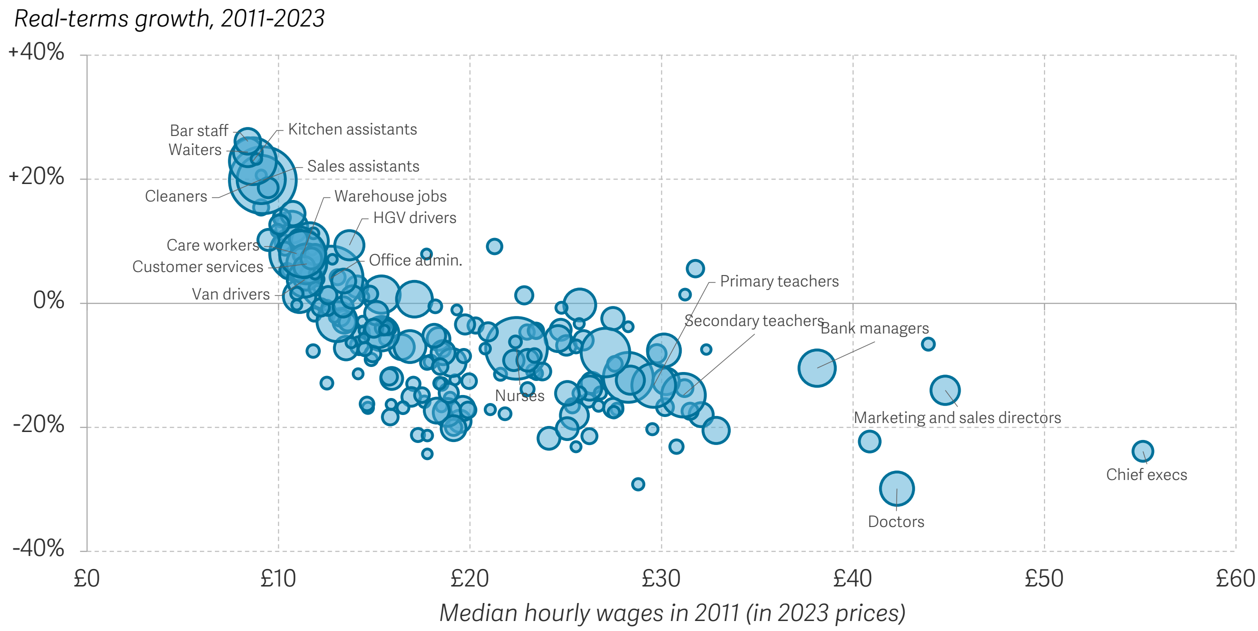
But a fast-rising minimum wage has boosted low earners' pay

Although average weekly pay has been stagnant in real terms since 2010, the picture has been very different for low earners. Governments since 2016 have pursued ambitious minimum wage increases, setting (and meeting) targets to raise the minimum wage faster than typical wages. The UK's minimum wage is now one of the highest, relative to typical wages, among advanced economies.[37]

This has meant that, since 2010, hourly pay has grown fastest for those in the lowest-paid occupations. Between 2011 and 2023, median hourly wages in real terms rose 26 per cent for bar staff, 24 per cent for waiters, 20 per cent for cleaners, 20 per cent for shop assistants, and 15 per cent for hairdressers (see Figure 11).

FIGURE 11: **Ambitious increases in the minimum wage have led to faster hourly pay growth in low-paying occupations**

Real-terms growth in median hourly pay, and starting median hourly pay level, by occupation: UK, 2011-2023



NOTES: Starting in 2011 to be able to use data coded with SOC 2010 (2010 is based on previous classification). 2023 data is coded in SOC 2020, these have been mapped to SOC2010 codes using proportional tables based on Census data published by ONS.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

36 N Cominetti, N Hamdan & H Slaughter, Labour Market Outlook Q2 2023: Public sector pay, Resolution Foundation, August 2023. For a case study of teachers – where real pay fell by over 6 per cent between 2010-2024, and teacher recruitment is significantly behind targets – see: L Sibieta, School spending in England: a guide to the debate during the 2024 general election, Institute for Fiscal Studies, June 2024.

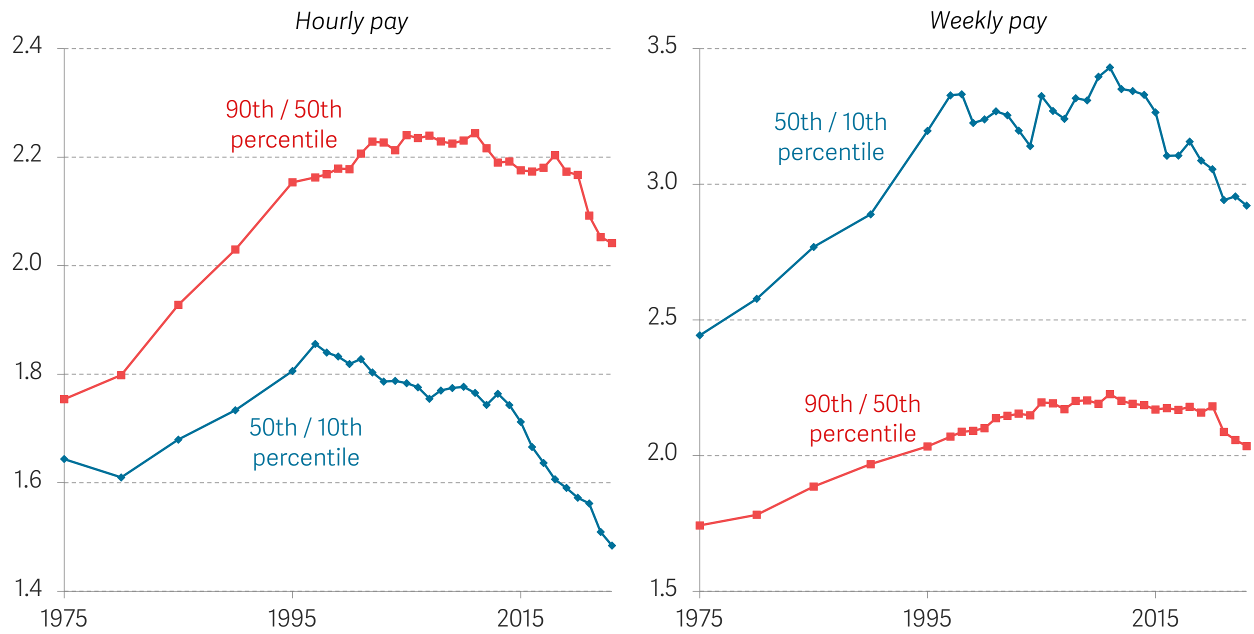
37 N Cominetti & H Slaughter, Labour Market Outlook Q2 2024: Happy 25th birthday to the minimum wage, Resolution Foundation, March 2024.

This compares to growth of 1.9 per cent at the median, and compares to large real-terms falls in hourly pay in many higher paying occupations, including doctors (whose median hourly pay is down 30 per cent in real terms between 2011 and 2023), and secondary and primary school teachers (down 15 per cent and 13 per cent). Overall, seven-in-ten occupations had lower hourly pay in real terms in 2023 than 2011.[38]

A policy of increasing the minimum wage faster than typical wages automatically shrinks the gap between hourly wages at the bottom and the middle. This is visible in the ratio of hourly pay at the median and the 10th percentile (see the left panel in Figure 12) which, at 1.5 in 2023, was at its lowest level since comparable data began in 1975.

FIGURE 12: **Bottom-half hourly pay inequality is the lowest on record, and other forms of pay inequality are currently falling**

Ratio of hourly and weekly pay at the 10th, 50th and 90th percentiles: UK



NOTES: Latest data point is 2023.
SOURCE: RF analysis of ONS, New Earnings Survey Panel Dataset; ONS, Annual Survey of Hours and Earnings.

As Figure 12 also shows, other forms of pay inequality have also been falling in recent years.[39] Top-half hourly pay inequality has been falling since 2019: the ratio between hourly wages at the 90th percentile and the median is back to levels not seen since the 1990s. The level of weekly pay inequality (shown on the right-hand panel) is higher than for hourly pay because it is also a function of hours worked, not just hourly rates of pay. But this too has been falling recently. Bottom-half weekly pay inequality (the ratio of the median to the

38 This is consistent with hourly pay at the median rising in real terms because the composition of employment has shifted towards higher-paying occupations over this period. See: R Davies, N Hamdan & G Thwaites, Ready for change: How and why to make the UK economy more dynamic, Resolution Foundation, September 2023.

39 For a detailed exploration of these trends, see for example: G Giupponi & S Machin, Labour market inequality, IFS Deaton Review of Inequalities, March 2022; P Bourquin, M Brewer & T Wernham, Trends in income and wealth inequalities, IFS Deaton Review of Inequalities, November 2022.

10th percentile) has been falling since 2011 (after rising for the four decades before) and is now back to pre-minimum wage levels, while top-half weekly pay inequality has been falling since 2019, and is now back at 1995 levels.

Recent governments' ambitions on wider labour market policy have not come to fruition

Unlike the large changes to the minimum wage since 2010, much less has changed elsewhere in the rules and regulations governing our labour market. Successive Conservative governments since 2010 have had different views on whether the labour market should be more or less heavily regulated, and overall there has been little change in either direction.[40]

Between 2010 and 2015, the coalition government led by David Cameron had a stated aim to "cut red tape" and reduce regulation across different policy areas.[41] In 2012, the job tenure employees require to qualify for protection against unfair dismissal was extended from one year to two years,[42] and in 2013, the Government introduced employment tribunal fees to "maximise flexibility … and [provide] a competitive business environment".[43] But despite having commissioned an external review to identify areas of employment law that could be relaxed, no further substantive policy changes were made to deregulate the labour market.[44]

Under Theresa May, the approach reversed. As Prime Minister, May put labour market enforcement squarely on the agenda, including by creating the post of Director of Labour Market Enforcement,[45] and commissioned the Taylor review of modern working practices, accepting in principle many of its recommendations to improve job quality.[46] This review led to some modest reforms (including scrapping the 'Swedish derogation' that allowed firms to pay agency workers less than permanent staff in some cases), but again no major changes were made.[47]

Finally, the Queen's Speech following Boris Johnson's 2019 election win promised an Employment Bill that would have introduced entitlements such as the right to request

40 In the OECD's measures of employment regulation – which we come back to later in this note – the UK's score has remained between 1.3 and 1.5 on a scale of 0 to 4 since 2010.
41 10 Downing Street, Red Tape Challenge, April 2011.
42 UK Parliament, The Unfair Dismissal and Statement of Reasons for Dismissal (Variation of Qualifying Period) Order 2012, March 2012.
43 Ministry of Justice, Employment tribunal fees set to encourage mediation and arbitration, July 2012. These fees were subsequently ruled to be unlawful and scrapped in 2017: D Pyper, F McGuinness & J Brown, Employment tribunal fees, House of Commons Library, December 2017.
44 A Beecroft, Report on employment law, Department for Business, Innovation and Skills, October 2011. The Institute for Government has argued that the review's ineffectiveness stemmed in part from its lack of evidence and unclear commissioning process: J Rutter, Bad reviews? Lessons from the Beecroft report, Institute for Government, May 2012.
45 Department for Business, Energy & Industrial Strategy & Home Office, Sir David Metcalf named as the first Director of Labour Market Enforcement, January 2017.
46 M Taylor, Good work: the Taylor review of modern working practices, Department for Business, Energy & Industrial Strategy, July 2017; Department for Business, Energy & Industrial Strategy, Government response to the Taylor review of modern working practices, February 2018.
47 HM Government, Largest upgrade in a generation to workplace rights - getting work right for British workers and businesses, December 2018.

a more predictable contract and leave for unpaid carers.[48] But, having been delayed by the Covid-19 pandemic, the Employment Bill was shelved for the rest of the parliament. Although most planned changes were subsequently implemented through separate legislation[49] – for example, the right to request more-predictable hours was granted last year through a government-backed private members' bill[50] – the commitment to create a new single enforcement body still remains unfulfilled.[51]

Whichever party wins the election will need to contend with high economic inactivity

The legacy of the last fourteen years is important not only because of how it has shaped living standards today, but also for the challenges the next government will need to address.

The first challenge that an incoming government will need to address is high economic inactivity. As set out earlier in this note, the share of working-age people who are economically inactive has risen since the pandemic, turning the tide on trends during the 2010s. The latest data suggests that 9.4 million 16-64-year-olds are inactive, up from 8.6 million on the eve of the pandemic. And absent policy action, this number could increase further over the course of the next parliament: demographic headwinds are set to push down on labour force participation for the rest of the decade, all else equal.[52] This is bad news for employment prospects: as things stand, the OBR expects the employment rate to flatline over the next parliament, rather than returning to the steady rise of the 2010s (Figure 13).

In this context, it is unsurprising that both main parties have said they want to boost employment. This will be a challenging task: in addition to unfavourable demographic headwinds, the majority (58 per cent) of the 16-64 inactivity rise since 2019 is accounted for by people who don't expect to ever return to paid work, so raising the employment rate is not a case of bringing those people back into the workforce.[53] Policy makers will instead need to focus on boosting participation among those groups who have historically had lower participation rates, but among whom there is scope to boost

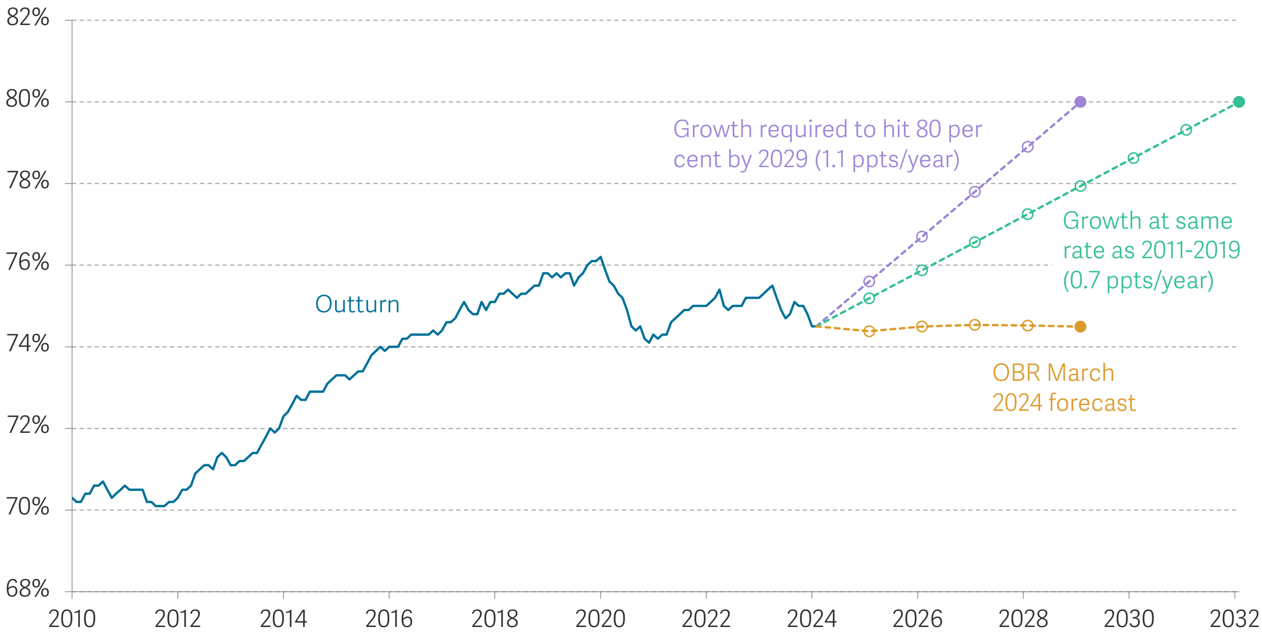
48 10 Downing Street, Queen's Speech December 2019: background briefing notes, December 2019.
49 Of the six detailed commitments included in the 2019 Queen's Speech briefing, five have been passed through legislation, including the Workers (Predictable Terms and Conditions) Act 2023, Protection from Redundancy (Pregnancy and Family Leave) Act 2023, Neonatal Care (Leave and Pay) Act 2023, Carer's Leave Regulations 2024 and Employment Relations (Flexible Working) Act 2023.
50 Department for Business and Trade, Millions get more power over working hours thanks to new law, September 2023.
51 The Government doubled down on its commitment to setting up a single enforcement body in a 2021 consultation response, but did not take it forward. See: Department for Business, Energy & Industrial Strategy, Establishing a new single enforcement body for employment rights: government response, June 2021.
52 L Murphy & G Thwaites, Post-pandemic participation: Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead, Resolution Foundation, February 2023.
53 Source: RF analysis of ONS, Labour Force Survey.

employment: in particular, older workers, women with children, and those affected by ill-health and disability.[54]

The specific policies of both Labour and the Conservatives have a particular focus on the latter.[55] The Conservatives' focus has been largely in the sphere of disability benefits, which we cover in a separate report.[56] In addition, they would like to make tweaks to the 'fit note' system to reduce the number of people being signed off sick (and, outside the health domain, have said they would toughen up sanctions for people claiming unemployment benefits). Their manifesto also pledges to cut National Insurance contributions further, which should have small positive impacts on employment by increasing labour supply.

FIGURE 13: **An employment rate of 80 per cent within the next parliament would require faster growth than during the 2010s**

16-64 employment rate, outturn and scenarios: UK



NOTES: Target of 80 per cent employment referenced in: Labour Party, Labour's plan to get Britain working: How we'll boost employment, deliver better training and secure higher wages, June 2024. As the OBR does not produce a 16-64-year-old employment forecast, we apply their year-on-year changes in the forecast of the 16+ employment rate to the 16-64 rate outturn.
SOURCE: RF analysis of ONS, Labour market statistics; OBR, Economic and Fiscal Outlook, March 2024.

54 L Murphy & G Thwaites, Post-pandemic participation: Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead, Resolution Foundation, February 2023.
55 The parties' manifestos can be found at: Conservative Party, Conservative Manifesto 2024, June 2024; Labour Party, Change: Labour Party Manifesto 2024, June 2024. The Labour Party's manifesto included a commitment to implement their 'New Deal for Working People', which can be found at: Labour Party, Labour's Plan to Make Work Pay: Delivering A New Deal for Working People, May 2024.
56 L Judge & L Murphy, Under strain: Investigating trends in working-age disability and incapacity benefits, Resolution Foundation, June 2024.

Alongside broad-based careers support for young people, Labour's proposals include local employment and skills support focused on those with health conditions, as well as careers and mental health support for young people.[57] The Labour Party have also set a specific employment rate target of 80 per cent – although, as Figure 13 shows, this is extremely ambitious. Even restarting employment growth at the scale of the 2010s (0.7 percentage points a year, enough to get the employment rate to 80 per cent by 2032) would be a huge divergence from current projections – and getting to an employment rate of 80 per cent by the end of the next parliament would require faster growth still, of 1.1 percentage points a year.[58]

The parties' positions on labour market regulation diverge far more than in the recent past

But, while both parties are united in their goal of boosting employment – albeit with differing approaches to achieving it – there are two areas where their policy positions diverge far more: on the future of the minimum wage, and on wider labour market reform (see Table 1 for a list of the main policies).

As shown in Table 1, on the minimum wage, the Conservatives' policy is cautious and a break with their own approach of the last decade, while the Labour Party has hinted at greater ambition, although the specifics of their proposals remain unclear. And on employment regulation, Labour has ambitious plans for reform on multiple fronts, while the Conservatives want to stick with the status quo.

57 Recent Resolution Foundation research has highlighted the importance of this kind of support for young people, among whom rising mental ill-health has had a particularly large impact on worklessness. See: C McCurdy & L Murphy, We've only just begun: Action to improve young people's mental health, education and employment, Resolution Foundation, February 2024.

58 Labour Party, Labour's plan to get Britain working: How we'll boost employment, deliver better training and secure higher wages, June 2024.

TABLE 1: **Comparing the main parties' labour market proposals**

The main labour market policies included in the Labour and Conservative 2024 general election manifestos

Policy area	**Labour Party proposals**	**Conservative Party proposals**
Minimum wage	Ensure the minimum wage accounts for the cost of living, and extend the adult rate to all age groups	Hold the 'bite' constant at two-thirds of typical hourly pay
Statutory sick pay	Strengthen the level, remove the lower earnings limit to make it available to all workers and remove the waiting period	No change (i.e. maintain at £116.75 a week for employees earning at least £123 a week, with a three-day waiting period)
Flexible contracts	Introduce a right to a contract that reflects regular hours; notice of shift changes and compensation for cancellations	No change (i.e. workers have a right ***to request*** a contract that reflects their regular hours)
Employment protections	Introduce a day-one right to protection against unfair dismissal	No change (i.e. maintain threshold to qualify for unfair dismissal protections at two years)
Employment status	Transition towards a two-status system	No change (i.e. maintain current system of three employment statuses: 'employee', 'worker' and 'self-employed')
Labour market institutions	New rights for unions including access to workplaces and e-balloting; new Fair Pay Agreement for the social care sector	No change
Enforcement	Create a new single enforcement body and increase the time limit for employment tribunal claims from three to six months	No change (i.e. keep multiple enforcement bodies coordinated by the Director of Labour Market Enforcement)

NOTES: This is not an exhaustive list, but aims to summarise the main policies that are likely to impact the labour market. The Labour Party proposals are set out in the 'New Deal for Working People' and the manifesto.
SOURCE: Labour Party, Labour's Plan to Make Work Pay: Delivering A New Deal for Working People, May 2024; Conservative Party, Conservative Manifesto 2024, June 2024; Labour Party, Labour Party Manifesto 2024: Our plan to change Britain, June 2024.

This divergence marks a change to the recent past, where there has been common ground between the main parties. Since former Chancellor George Osborne announced the National Living Wage in 2015, both parties have supported ambitious minimum wage increases, and since the Theresa May government, both parties have at least said that they want to tackle forms of work insecurity (even if, as set out earlier, there has been little in the way of actual policy change).

In this way, the 2024 election has some echoes of the 1992 and 1997 elections, when labour market policy was an area of real contention. Labour's proposals for a minimum wage in 1992 were met with warnings of dire job losses from the Conservatives and business groups, with the parties disagreeing on the economics of how far regulation could push up pay and conditions without harming employment. It is now clear, following 25 years of minimum wage increases without significant employment effects, that substantial progress was indeed possible – but the question of how much more progress is possible before trade-offs bite (and when they do, whether those trade-offs are worth it) remains the same. The Labour Party presumably thinks that, just as a generation ago, there is more room to raise pay and conditions for low earners without there being major unintended consequences. The Conservative Party's proposal to stop pursuing fast minimum wage increases (and to stick with the status quo on employment regulation) implies they disagree.

Policy divergence 1: Minimum wage

On the minimum wage first, the Conservative Party has proposed that the 'bite' of the minimum wage (its level compared to the median among workers aged 21 and above) should remain at two-thirds of typical wages throughout the next parliament, as shown in Figure 14. Based on current OBR wage growth forecasts, this would lead to a minimum wage of £12.84 by 2029, compared to £14.14 if the bite continued rising at the rate it has under recent government policy.[59]

The Labour Party, on the other hand, has hinted at greater ambition by pledging to make the minimum wage "a genuine living wage" that "[accounts] for the cost of living". But what they mean by this is left unclear.

One interpretation is that they would like to raise the minimum wage to the level of the real Living Wage (see Figure 14) – an ambitious policy, raising the bite of the minimum wage to 70 per cent if implemented overnight. (It seems unlikely that this is the intention, however, as this would be a significant one-off jump, more than double the largest annual increase in the minimum wage's history, measured in terms of the bite, aside from the

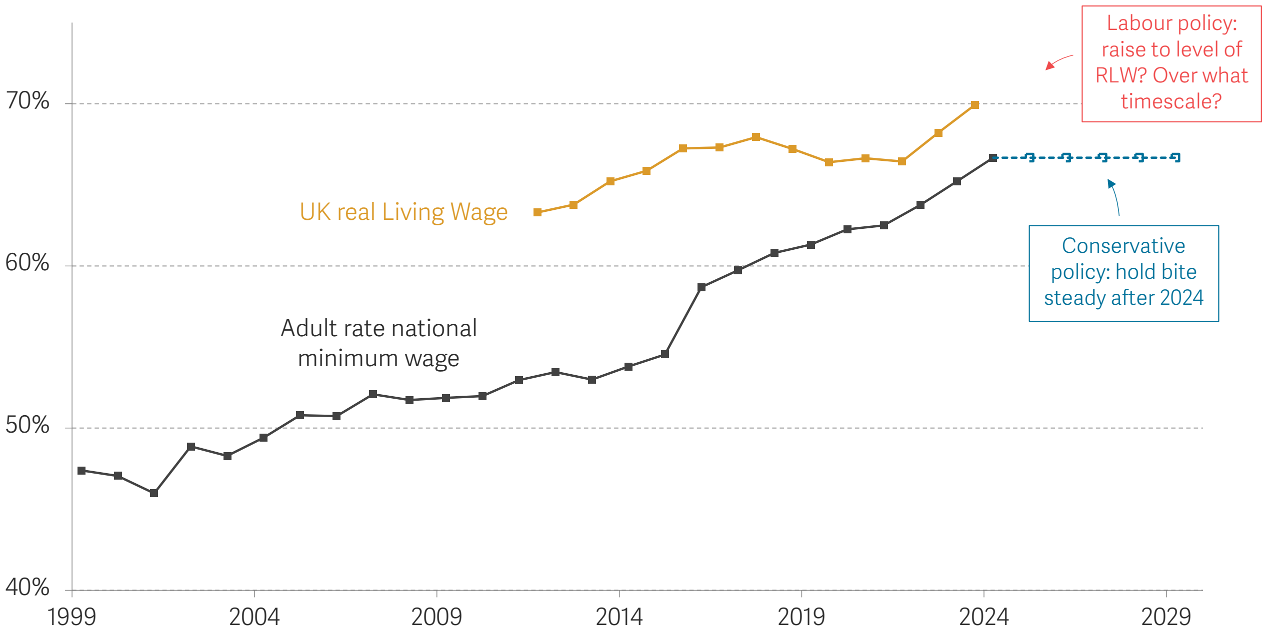
59 G Kelly, N Cominetti & H Slaughter, How to weigh up minimum wage manifesto promises: Money talks but the bite is what matters, Resolution Foundation, May 2024. These figures are in cash terms.

year the NLW was first introduced.[60]) Over a longer timeframe, the level of ambition involved in convergence between the two rates is uncertain: the level of the real Living Wage depends on a range of unpredictable factors, from price rises to public opinions on what families need to get by.[61]

But an alternative interpretation would be that "[accounting] for the cost of living" means simply ensuring the minimum wage rises at least in line with inflation. This wouldn't be ambitious at all: it is what tends to happen anyway – the adult rate minimum wage has fallen in real terms on only six occasions in its 25-year history, and on some of those occasions this was because inflation surprised on the upside, rather than through deliberate policy.[62]

FIGURE 14: **The Conservative Party would hold the bite of the minimum wage steady; Labour has hinted at more ambition but their policy is not spelled out**

'Bite' of the adult rate minimum wage (level compared to median hourly wages among workers aged 21 and above) and the UK real Living Wage: UK



SOURCE: RF analysis of LPC data on minimum wage bite; OBR, Economic and fiscal outlook, March 2024.

The specifics of how a future Labour government (if they are elected in July) would set the Low Pay Commission's (LPC's) remit remains to be seen. But, stepping back, there are good reasons why over recent years minimum wage targets have been set relative

60 An overnight move from the current NLW to the LW would mean a bite increase of 3.3 percentage points. The bite jumped by 4.2 percentage points when the NLW was introduced in 2016, but otherwise the highest increase was 1.5 percentage points in 2023 and 2024. Source: RF analysis of Low Pay Commission reports, various.

61 N Cominetti & L Murphy, Calculating the Real Living Wage for London and the rest of the UK: 2023, Resolution Foundation, October 2023.

62 N Cominetti & H Slaughter, Labour Market Outlook Q2 2024: Happy 25th birthday to the minimum wage, Resolution Foundation, March 2024.

to typical earnings rather than cash values or other benchmarks: this provides a clear, transparent steer to the LPC that links what happens to the minimum wage to wider conditions in the labour market. As one example of an ambitious concrete target, continuing to increase the minimum wage at the same pace as rises since 2015 would bring the 'bite' to 73 per cent by 2029, or more than £14 on current wage forecasts.[63]

The Labour Party has also committed to eliminating youth rates, extending the headline adult minimum wage rate to under-21s. Although small numbers of workers are currently paid at the youth rates compared to the headline rate, this still would boost pay for 730,000 workers: in 2023, 10.2 per cent of 16-17-year-olds and 8.4 per cent of 18-20-year-olds were paid at the minimum wage for their age group, with a further 64 per cent and 30 per cent respectively paid somewhere between that rate and the NLW.[64]

Extending the NLW to all workers is not without trade-offs, however. There are concerns that minimum wage rises for young people could have larger employment effects than for older workers. And eliminating the youth rates could also affect the level of ambition policy makers have for the NLW: including younger workers could cause the LPC to act a bit more cautiously – for example to avoid potential employment effects for young workers or reflecting their lower productivity – potentially acting as a drag on its rate of increase.[65]

Policy divergence 2: Employment regulation

The two main parties diverge on the level of ambition in their plans for the minimum wage. But on employment regulation, the divergence is that the Labour Party has plans for an overhaul that could mark the biggest change since the introduction of the minimum wage, while the Conservatives intend to stick with the status quo, with their manifesto committing instead to "retain[ing] the [UK's] flexible and dynamic labour market". Below we discuss the key aspects of the Labour Party's proposals.

Unfair dismissal

At first glance, the most radical suggestion in the Labour Party's 'New Deal for Working People' appears to be eliminating the qualifying period for unfair dismissal (currently two years). But here too, as with the minimum wage, the specifics are unclear. Taken

63 G Kelly, N Cominetti & H Slaughter, How to weigh up minimum wage manifesto promises: Money talks but the bite is what matters, Resolution Foundation, May 2024.

64 Coverage rates come from: Low Pay Commission, Low Pay Commission Report 2023, March 2024. The number of workers in scope comes from multiplying the shares of 16-17-year-olds and 18-20-year-olds paid between less than the NLW by the overall number of workers in these age groups in Q4 2023 from the Labour Force Survey.

65 This point was made by Alan Manning in discussion at an event: Resolution Foundation, Setting a high bar: Celebrating 25 years of the minimum wage and plotting its next path, March 2024. Additionally, mechanically, bringing younger workers into scope could lead to a lower cash value of the NLW even if the bite remains constant: given that younger workers tend to be paid less, the typical earnings threshold relative to which the rate is set would be lower. But under-21s represent a small share of the workforce (4.6 per cent in Q4 2023), so this effect is likely to be small. Source: RF analysis of ONS, Labour Force Survey.

at face value, making unfair dismissal protections a 'day one' right would be a very significant change. But the implementation would probably be more nuanced: Labour has committed to "ensur[ing] employers can operate probationary periods", for example, during which employers could more easily let new hires go if they did not work out, though they would still need to have "fair and transparent rules and processes".[66]

Currently, the UK's labour market is one of the least-heavily regulated among advanced economies. Among OECD countries, in 2019 the UK ranked fifth-least-regulated out of 38 countries in terms of dismissing individual workers, tenth-least-regulated in terms of making collective dismissals, and third-least-regulated on the ease of hiring workers on temporary contracts.[67] And our two-year qualifying period for unfair dismissal is also long compared to our own recent past: until 2012, the qualifying period was one year.[68] This suggests that some change to the unfair dismissal threshold would not be unreasonable.

But the uncertainty around the detail of the Labour Party's proposal means it is difficult to come to a firm view on the balance of benefits and risks. For example, 9 million workers would stand to benefit if protection against unfair dismissal were truly a 'day one' right; lowering the qualifying period to one year (as was the case in the UK until 2012) would benefit fewer people, but still extend protections to a further 4 million people.

Similarly, the risks would depend on the policy specifics. But there are, nonetheless, potential trade-offs to consider. One concerns hiring: employers might feel that the need to demonstrate fairness if they decide to let staff go (in a world where all employees had protection against unfair dismissal) would mean that recruiting carries more risk, which in turn might inhibit some hiring. There is some cross-country evidence in support of this, plotted in the left panel of Figure 15. In countries where dismissing workers is harder – including where qualifying periods for unfair dismissal are lower – employers tend to hire workers at lower rates.[69] This should serve to highlight the importance of getting any probationary framework right.

Another potential trade-off that gets discussed is in relation to unemployment. Here the cross-country relationship is very weak: moving all the way from a score of 1 on the OECD's regulation index (lower than any country except the US) to a score of 3 (a similar level to Latvia and Portugal, and higher than France) is only associated with only a 0.6 percentage point rise in the unemployment rate.

66 Quotes come from Labour's New Deal for Working People. For further discussion of what the legal framework could look like under this system, see: C Leckey et al., UK election 2024: employment law reforms, Lewis Silkin, June 2024. Under this system, it would still be possible for employers to make 'fair' dismissals from day one, which includes for reasons of conduct, capability, and redundancy, so employers would not be forced to hang on to poorly performing workers.

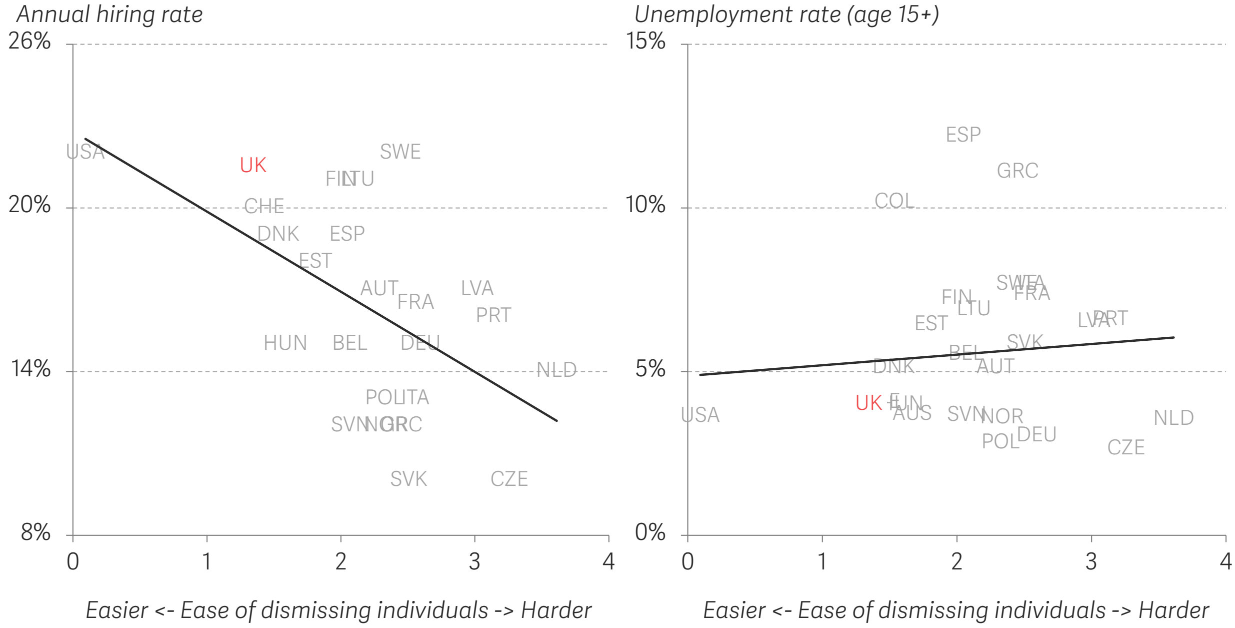
67 OECD, OECD Indicators of Employment Protection, accessed 19 June 2024.

68 For a useful summary of the history of unfair dismissal thresholds, see: J Davies & L Turner, Labour party's proposals to reform workplace rights - spotlight on unfair dismissal, Lewis Silkin, May 2023.

69 For full details of the methodology behind this score, see Annex 3.A. of: OECD, OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis, July 2020.

FIGURE 15: **There can be trade-offs associated with stronger employment regulation, but the extent of the risks depends on the policy specifics**

Strictness of employment regulation relating to dismissing individual workers (2019), annual hiring rate (2019), and unemployment rate (2023): European countries and USA (left panel), OECD countries (right panel)



SOURCE: RF analysis of OECD, Employment Protection Legislation Database, 2020 edition; OECD, Labour Market Statistics; OECD, Labour market transitions across OECD countries: Stylised facts, December 2021.

Sick pay

Under the current system of sick pay, employees who are too ill to work receive £116.75 a week in Statutory Sick Pay (SSP), excluding the first three days they are off sick, as long as they earn at least £123 a week.[70] Labour has promised to not only raise the level of SSP (although they have not proposed a specific rate, saying only that they would "strengthen" it), but also eliminate both the three-day waiting period and the lower earnings limit, meaning all employees would get SSP from their first day off sick. The Conservative manifesto has not proposed any changes here.

Without knowing what the new rate might be, it is not possible to say what in practice this package would mean for workers going off sick, but simply removing the three-day waiting period would more than double the amount a worker relying on SSP gets for a five-day week off sick (an increase of 150 per cent).[71] And the suggested reforms would apply to all employees, but would have a particular benefit to low earners: 1.1 million of the very lowest earners would become newly eligible if the lower earnings limit were

70 GOV.UK, Statutory Sick Pay (SSP), accessed 15 June 2024.
71 Getting SSP at a rate of £116.75 for five days, rather than two (with a three-day waiting period), would mean an increase from £46.70 to £116.75 for a week off sick.

removed,[72] and high earners are more likely to already have occupational sick pay schemes through their employer.[73]

Making SSP more generous would have trade-offs – though these may be relatively modest. (The UK's statutory sick pay system is one of the least generous in the OECD, and so any reform would be likely to leave us with a system that was still modest relative to other countries.[74]) First, it would likely lead to some workers taking some more sick days – although it is worth bearing in mind that UK workers already take fewer days off sick than those in most other countries,[75] and a reformed SSP system would still incentivise absenteeism to a far smaller degree than most occupational sick pay schemes that provide full earnings replacement.[76]

Second, as things stand under current policy, the extra costs would fall on employers, so would need to be absorbed by them. Alternatively, a future government could choose to compensate employers – or a subset of them, such as smaller businesses – in which case some or all of the cost would accrue to the public finances.[77] (This approach has been taken in the past: until as recently as 2014, the Government reimbursed employers facing high SSP costs relative to their overall wage bill, and SSP rebates for small and medium-sized businesses returned temporarily during the Covid-19 pandemic.[78])

Other labour market rights

Labour has proposed strengthening protections against one-sided flexibility, a problem put firmly on the policy agenda by the Taylor review commissioned by Theresa May's government. Labour promised to ban entirely zero-hours contracts back in 2022;[79] the proposals in the final manifesto are more nuanced but would still represent a major reform: giving workers a right to a contract that reflects the hours they work (building on the last Government's introduction of a right to request a contract with more predictable hours), and mandating a minimum notice period for shifts, with compensation when shifts are cancelled at the last minute.[80]

72 Calculated as the number of employees earning less than £123 a week in Q4 2023. Source: RF analysis of ONS, Labour Force Survey.
73 N Cominetti et al., Low Pay Britain 2023: Improving low-paid work through higher minimum standards, Resolution Foundation, April 2023.
74 Only Korea and the US, which have no statutory sick pay at all, offer less relative to income for a four-week period off sick. See Figure 16 of: N Cominetti et al., Low Pay Britain 2023: Improving low-paid work through higher minimum standards, Resolution Foundation, April 2023.
75 N Cominetti et al., Low Pay Britain 2023: Improving low-paid work through higher minimum standards, Resolution Foundation, April 2023.
76 M Carty, How do your organisation's sick pay arrangements compare?, Brightmine, accessed 19 June 2024.
77 We discuss these trade-offs further in: N Cominetti et al., Low Pay Britain 2023: Improving low-paid work through higher minimum standards, Resolution Foundation, April 2023.
78 Work and Pensions Committee, Statutory Sick Pay, March 2024.
79 Labour Party, Employment Rights Green Paper: A new deal for working people, July 2022.
80 For further details on the right to request a contract with more predictable hours, see: Department for Business and Trade, Millions get more power over working hours thanks to new law, September 2023.

Policy measures to address one-sided flexibility would certainly be welcome: in 2017, for example, 7.2 million workers reported being anxious about unexpected changes to their working hours.[81] It is crucial to strike a balance between protecting workers and ensuring flexibility remains where it benefits both employers and workers, not least given that one-in-three firms using flexible contracts say they do so because their workers want them.[82]

Institutions

On top of these substantial reforms to employment law, the Labour manifesto contains commitments regarding labour market institutions.

Their proposals on unions were relatively small. Introducing e-balloting for union votes would modernise the system and bring unions in line with other democratic voting procedures, not least those used by the main political parties to elect their own leaders. And allowing unions access to workplaces to raise awareness among workers would help level the playing field for unions who often struggle to get a foot in the door in newly-established workplaces.[83] But neither is likely to have an economically important impact on union activity.

The far more radical commitment on institutions was to introduce a 'Fair Pay Agreement' (FPA) for the 1.7 million workers in the social care sector.[84] The details are yet to be decided – the Labour Party has said it plans to consult on the design and learn from other countries that already have similar systems – but would involve workers and their representatives "[negotiating] fair pay and conditions, including staff benefits, terms and training".[85] The social care sector is one where reform is sorely needed: it is well-documented that care workers face poor pay and working conditions, contributing to a crisis in recruitment and retention.[86]

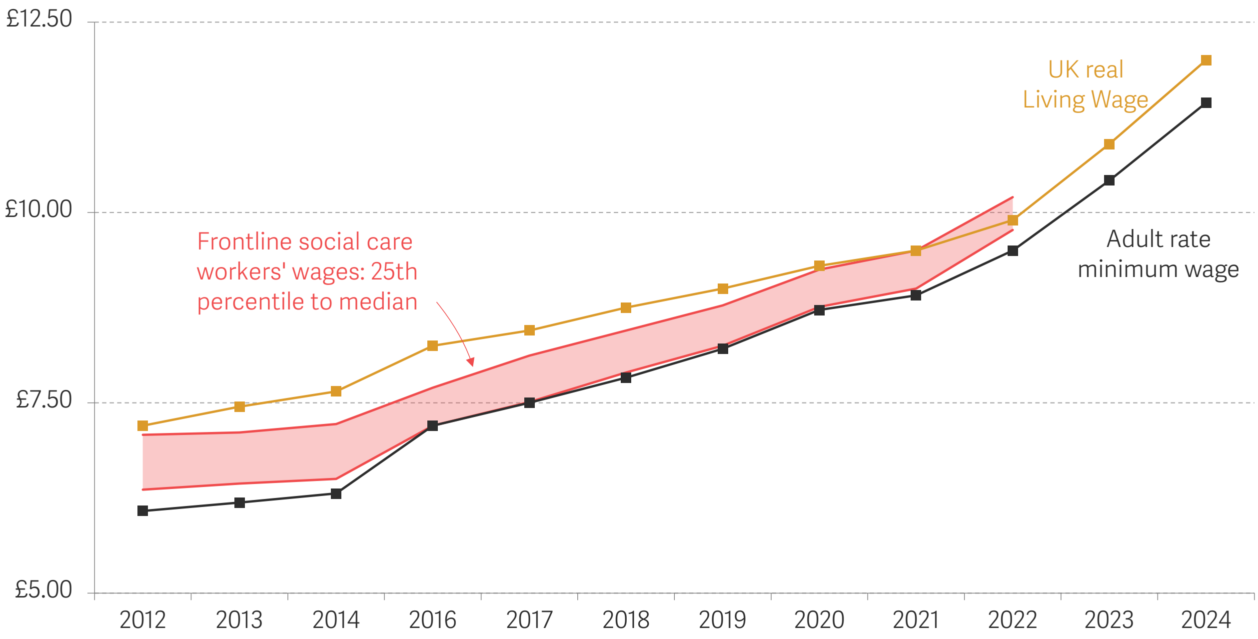
The manifesto itself contained few specifics on what would be in the FPA – but there has been speculation that it could agree to boost care workers' wages to the real Living Wage (LW, currently £12 per hour).[87] As Figure 16 shows, in 2022, the median care worker was paid £10.20, just above the LW at the time of £9.90 – but raising care workers' wages

81 N Cominetti et al., Low Pay Britain 2023: Improving low-paid work through higher minimum standards, Resolution Foundation, April 2023.
82 H Slaughter, Firm foundations: Understanding why employers use flexible contracts, Resolution Foundation, April 2024.
83 C McCurdy, H Slaughter & G Kelly, Putting good work on the table: Reforming labour market institutions to improve pay and conditions, Resolution Foundation, September 2023.
84 C McCurdy, H Slaughter & G Kelly, Putting good work on the table: Reforming labour market institutions to improve pay and conditions, Resolution Foundation, September 2023.
85 For examples of similar systems that exist in other countries, as well as some of the design principles a new Labour government would need to consider, see: C McCurdy, H Slaughter & G Kelly, Putting good work on the table: Reforming labour market institutions to improve pay and conditions, Resolution Foundation, September 2023.
86 See, for example: N Cominetti, Who cares?: The experience of social care workers, and the enforcement of employment rights in the sector, Resolution Foundation, January 2023.
87 J Merrick, Labour to promise new £12-per-hour minimum wage for carers, i, June 2024.

to the LW would still represent a pay rise for two-in-five frontline care workers.[88]

FIGURE 16: **Raising care workers' wages to the real Living Wage would mean a pay rise for two-fifths of frontline care workers**

Adult rate minimum wage, the UK real Living Wage, and frontline social care workers' wages: GB



NOTES: 'Frontline care workers' includes workers who are either in a frontline caring occupation (regardless of sector), or nurses and nursing assistants who work in the social care sector. For full details see Annex in N Cominetti, Who cares?: The experience of social care workers, and the enforcement of employment rights in the sector, Resolution Foundation, January 2023. Frontline care workers' hourly wages based only on those workers who have a stated hourly rate. ASHE analysis includes GB only.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Enforcement

Finally, Labour has proposed strengthening the state enforcement of workers' rights by creating a new single enforcement body (SEB). As mentioned earlier in this note, successive Conservative governments have previously backed a SEB, but did not get round to introducing one, and the issue did not feature in the Conservatives' 2024 manifesto.

Introducing a SEB would simplify the fragmented system that means a lack of coordination between enforcement bodies, a struggle to share intelligence between different agencies, and no clear point of contact for workers who need to make a complaint.[89] If one were introduced, the UK would be following in the footsteps of many

88 M Broome et al., Growing for gold?: Analysing the tax and spend package of the 2024 Labour Manifesto, Resolution Foundation, June 2024.
89 L Judge & H Slaughter, Enforce for good: Effectively enforcing labour market rights in the 2020s and beyond, Resolution Foundation, April 2023.

other countries, including Australia, Ireland and the Netherlands. And it would be a step towards tackling too-high levels of non-compliance with labour market rules: in 2023, 365,000 workers were underpaid the minimum wage (equivalent to 23 per cent of workers at the wage floor),[90] and 935,000 workers were denied holiday pay, collectively missing out on £2.7 billion a year.[91] But it is important to note that fixing the problems with our enforcement system requires more than just an institutional overhaul. The Labour manifesto said nothing about resourcing the new SEB – the UK is currently less than a third of the way to meeting the international benchmark of one inspector per 10,000 workers, for example – or increasing the fines for non-compliance that are currently too low to provide a meaningful deterrent.[92]

Stronger enforcement would put money back in workers' pockets and ensure that the rules we set for our labour market are meaningfully upheld. And it would also benefit the many businesses that already play by the rules: indeed many business groups support improving the enforcement system to prevent their members being undercut by non-compliant competitors.[93] Stronger enforcement would, of course, come at a cost to firms that are currently failing to meet the rules (with at least some risk of employment loss in these employers) but that is always a feature of systems that exist to ensure compliance with legal standards.

Conclusion

Whichever party wins the upcoming general election will face common challenges: getting employment growth back on track, tackling rising economic inactivity and reversing a long-term wage stagnation. But labour market policy under the next government is set to look very different depending on whether that government is a Labour or Conservative one: the election's outcome will determine whether we see a continuation of the current system, or the biggest overhaul of labour market rights in a generation.

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90 Low Pay Commission, Low Pay Commission Report 2023, March 2024.
91 Source: RF analysis of ONS, Labour Force Survey.
92 L Judge & H Slaughter, Enforce for good: Effectively enforcing labour market rights in the 2020s and beyond, Resolution Foundation, April 2023.
93 See, for example: CBI, CBI response to the Director for Labour Market Enforcement's 2020/2021 call for evidence, January 2020; FSB, Federation of Small Businesses Response to BEIS Committee Inquiry on the UK Labour Market, July 2022.

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