

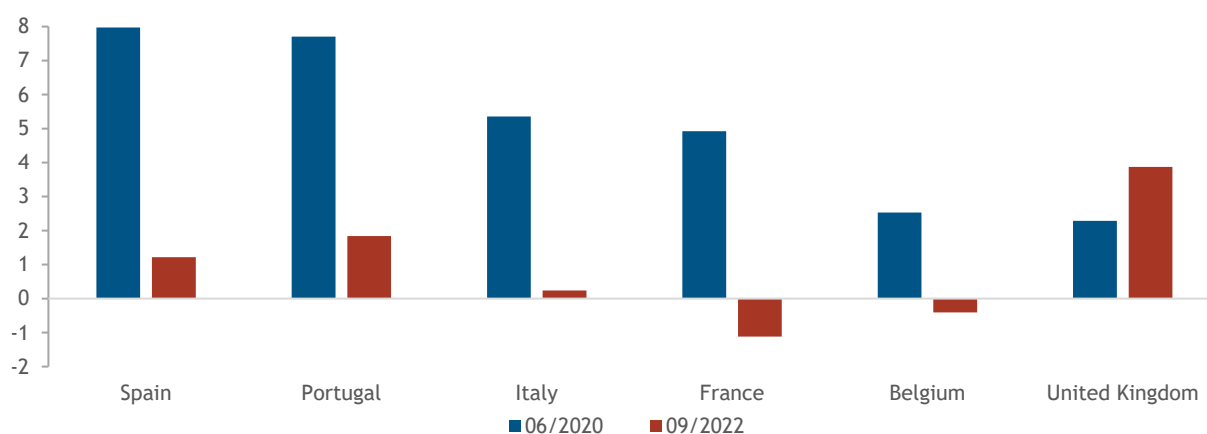
Fixing the UK’s labour market woes will require a focus on health, early retirement and immigration

Blog post by Analyst Joseph Supple, 1 January 2023

The UK has a labour market problem. It is the only developed economy that saw the share of working-age citizens outside the labour market continue to rise after the initial pandemic jolt. Both Labour and the Conservatives appear to understand the importance of tackling the problem, perhaps because the OBR has identified the reduced size of Britain’s workforce as a factor weighing on economic growth. In this vein, the prime minister, Rishi Sunak, is reportedly drawing up plans for a “midlife MoT” to assess citizens’ financial health. He is also considering changing rules around sickness benefits and even removing income tax for a limited number of years for over 50s who return to work. While Labour plan to use job centres to help over-50s find flexible or part-time work and would assure the long-term sick that they would be able to return to the same package of benefits if a new job doesn’t work out. We await more details of these plans but for them to be effective they must address the complex interplay of factors behind the UK’s lagging labour force.

The UK is an outlier in its economic inactivity trend

% change in number of economically inactive people from December 2019 level



Source: OECD

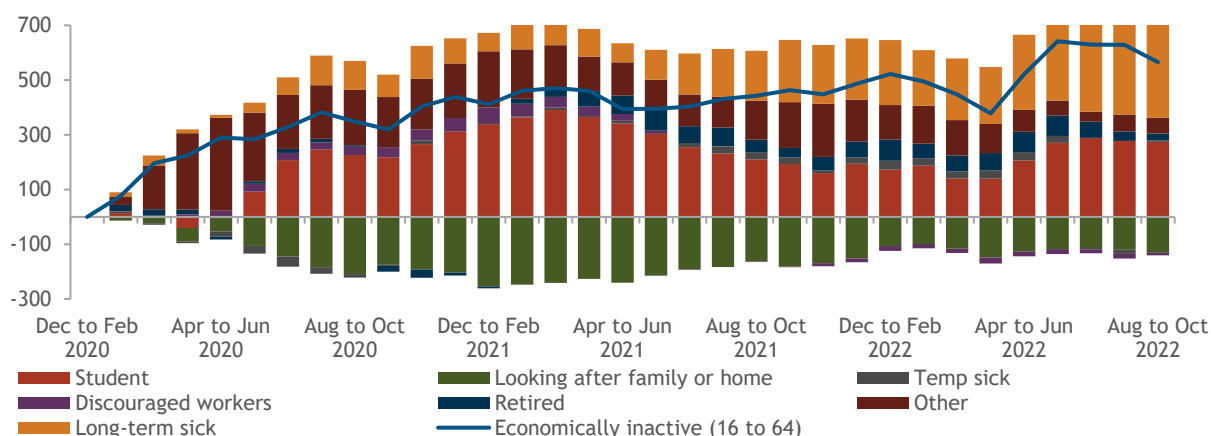
ONS data shows that for 50-64-year-olds - the biggest contributors to the recent uptick - the rate of inactivity due to long-term sickness or disability increased from 9% in Q4 2019 to 10.1% in Q2 2022. That is an increase of 160,000 people. However, this does not explain the whole picture. The Institute for Fiscal Studies found that 73% of the rise in 50-64-year-olds in this bracket came from

those who have been out of work for at least the last five years. Putting these two findings together, it would suggest that an increase in the number of people inactive due to poor health does not necessarily mean that these have left work as a result of poor health. Instead, we may be seeing increasing numbers leaving the labour force for other reasons, such as early retirement, while citizens already outside of the labour market are getting sicker. Indeed, in a recent study 57% of those in their late 50s who are not looking for work cited early retirement or caring responsibilities as reasons behind their inactivity.

There is undoubtedly some overlap between the different factors. But the evidence indicates that policymakers have two key issues to address: increased inactivity since the pandemic due to non-health related reasons such as early retirement, and worsening health amongst the older non-working population preventing them from a possible return. So, what are the policy options available to them?

Long-term sickness appears to be an important driver of inactivity

Reasons for economic inactivity, thousands



Source: ONS

Firstly, long NHS waiting lists are preventing many citizens from receiving the treatment that they need in order to return to the labour force. Hence, tackling this issue is not just important for the health of UK citizens but also for the economic performance of the country. When adjusting for the number of beds being filled by covid-19 patients, there are fewer available for others than in 2019/20. This is partly because patients are in hospital for longer due to delayed discharge into the social care sector - which itself is suffering from labour shortages, as is the NHS. In addition, over the last decade, the number of NHS managers is estimated to have gone down by around ten thousand - undermining efficiency and performance.

Secondly, a recent report shows that over 50s in the UK are more likely than those in other countries to have chosen retirement since the pandemic simply because they no longer wanted to work. Moreover, they are more likely to have negative attitudes towards work and appear to have

experienced a more negative impact from the pandemic on their attitudes towards work-life balance than their counterparts abroad. Policymakers should therefore work with businesses to ensure that they offer early retirees rewarding flexible work and support to find it. Even if many do not return, it will be beneficial for future generations. This includes boosting access to occupational health services, tackling ageist recruitment practices, accommodating certain caring responsibilities in the design of jobs and re-skilling workers.

Thirdly, immigration will not fix the root of the issue, but as the OBR has highlighted, it will be needed to help to address shortages. One option is to look at relaxing visa rules for those sectors most struggling to find workers. Both Labour and the Conservatives, while not always explicitly, have accepted a role for immigration in targeted areas. There is of course a fear about the political salience of the issue. But public opinion is complex. While voters are generally not very positive about overall increases in immigration, when accompanied by an economic framing with particular emphasis on the need to plug gaps in specific sectors, views are much more positive, suggesting there might be scope to look at it as part of a solution.

Undoubtedly financial security has helped many retire early. This would suggest that financial incentives such as the income tax break being considered by the government are not the route to take. It also suggests that no matter the incentives that policymakers or business offer, some will not return. But efforts must be made - particularly with an ageing population - to create the best possible conditions for the currently inactive and for future generations. It is hard to ignore that according to The Institute for Employment Studies if the UK met the level of the most successful countries within the OECD in the employment of older and disabled people there would be nearly one million more workers. To achieve this, health barriers must be removed, and flexible and rewarding work must be created.