



International
Longevity Centre UK



Is the UK labour market still working?

Long term changes confirm the need
for a government workforce strategy

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What happens next

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Background

- There are concerns about the size and sufficiency of the UK labour market relative to future demand for workers
- ILC predicts a shortfall of 2.6m workers by 2030, caused in part by an ageing population (see [Plugging the Gap](#)) However,
 - The present state of the UK economy doesn't bode well, with high inflation raising household living costs, and the recent wave of strikes suggesting work is no longer working for many
 - Economic inactivity has been increasing, with more people exiting the labour market due to sickness and early retirement, leading to skills loss and higher welfare costs
 - The state of the UK labour market is worse today than at any time since 1992, including during the period of the 2008 financial crisis
- We analyse UK labour market changes over a 30-year period, from 1992-2022, to identify trends and bottlenecks
- **Conclusion:** The labour market is at a critical juncture. The Government urgently needs a workforce strategy in addition to an industrial strategy to address these issues which look to get worse before they get better

Indications that all is not well

- The working age population (defined as the number of adults aged 16+) increased 20%, from 45m to 54m. Although more people are in work, the ratio of economically active men to women has fallen from 1.3 men per woman to only 1.1, approaching parity
- Economic inactivity increased in most countries during the pandemic, but the UK is one of the few developed economies where it has not rebounded
- Of the 8.9m adults under 65 currently classed as economically inactive, 2.5m are inactive due to long term sickness, almost a 0.5m increase since 2019.
- Spending on working age health and disability benefits is over £45bn a year and accounts for about 1.6% of GDP, higher than the previous peak in 1991, when it was 1.5%
- The trends for people to work beyond state pension age, whilst initially very promising, seem to be running out of steam
- There are significant inequalities in adult health span across the UK. These shorten working lives, are a brake on progress and prevent levelling up

Some definitions

- The economically **active** population are adults in work or seeking work and includes the registered unemployed
- The economically **inactive** population are adults not seeking work e.g. the retired, long-term sick, students and others
- A part-time employee or worker is someone who works fewer hours than a full-time employee or worker in the same organisation.
- The ratio of active to inactive adults is a measure of engagement with the labour market which we call the **Economic Dependency Ratio (EDR)**
- The EDR is similar to the dependency ratio (or DR) used by pension analysts based on the ratio of working age adults to those over pension age
- The key difference is that the EDR is based on employment status and not pension age and so provides a more representative measure of activity and labour potential

Key changes: 1992-2022

There has been a 20% increase in the adult population aged 16+ and a 20% increase in the number of economically active individuals.

However, while the number of economically active women has increased by 30.6%, the number of economically active men has only risen by 11.3%.

Of the economically active, the number of women working full-time has increased by 49.2%, while the number of men working part-time has increased by 130%.

Overall, the ratio of economically active men to women has fallen from 1.3 men per woman to only 1.1, approaching parity.

	Category	1992	2022	% change
People age 16+	Men	21.6	26.5	22.7
	Women	23.3	27.5	18.0
	People	44.9	53.9	20.0

Active Inactive	Men	16.0	17.8	11.3
		5.6	8.7	55.4
	Total	21.6	26.5	22.7

Active Inactive	Women	12.4	16.2	30.6
		10.9	11.3	3.7
	Total	23.3	27.5	18.0

Active Inactive	People	28.4	34.0	19.7
		16.5	19.9	20.6
	Total	44.9	53.9	20.0

Full time Part time	Men	13.1	14.9	13.7
		1.0	2.3	130.0
	Total	14.1	17.2	22.0

Full time Part time	Women	6.5	9.7	49.2
		5.0	5.9	18.0
	Total	11.5	15.6	35.7

Full time Part time	People	19.6	24.6	25.5
		6.0	8.2	36.7
	Total	25.6	32.8	28.1

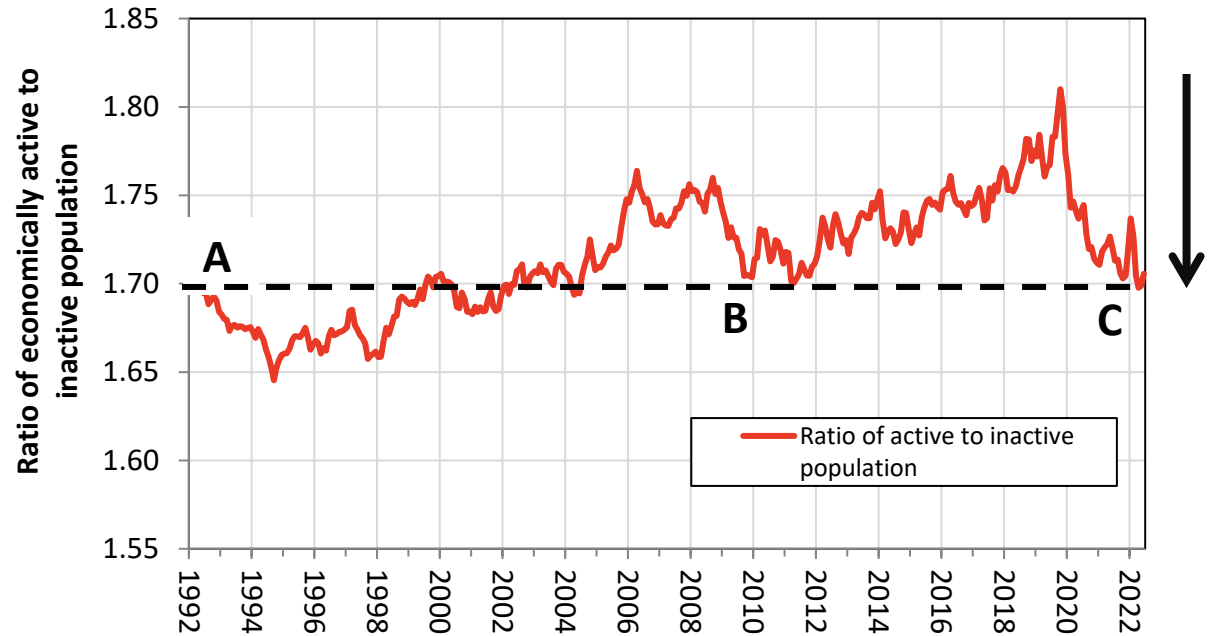
Changes in EDR from 1992 to 2022

The EDR increased most years from 1994 onwards, when it was 1.65.

It dipped in the 2009 recession, before recovering.

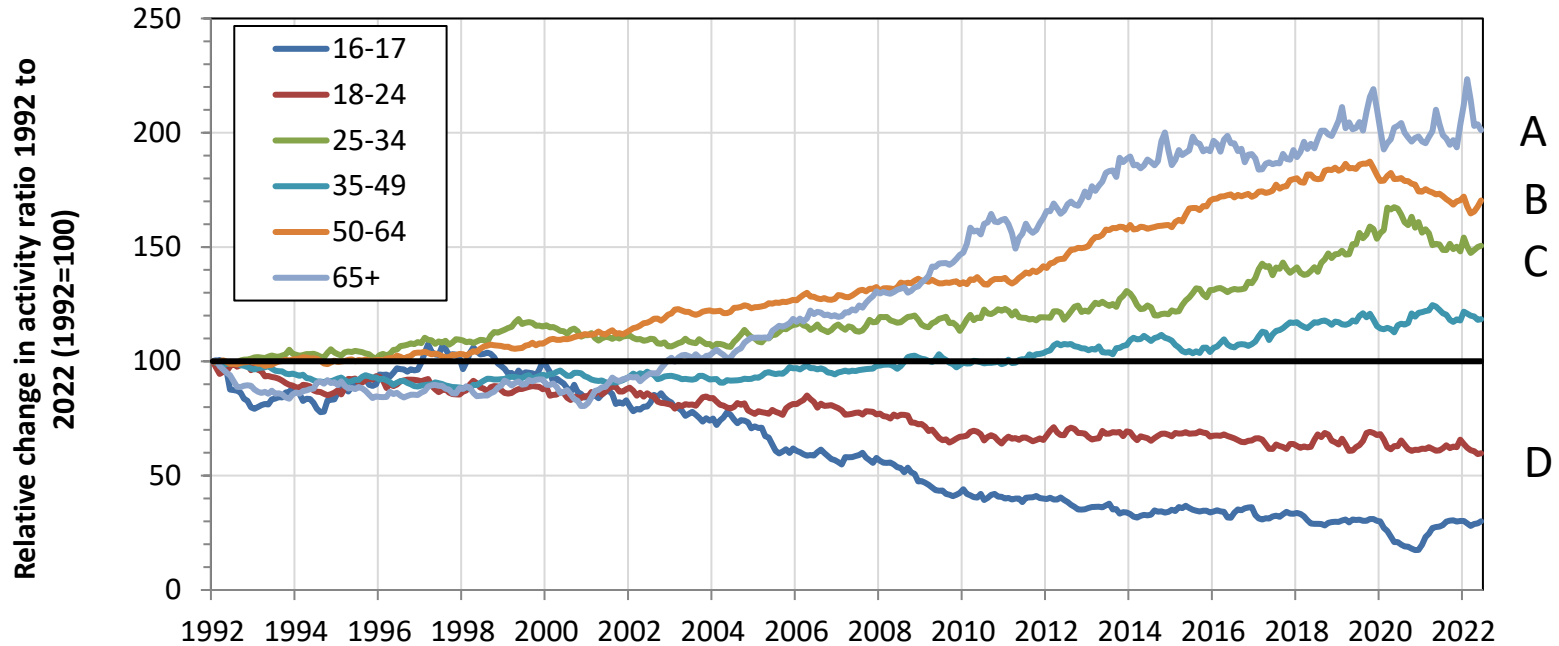
But between 2020 and 2022 there was a fall from 1.8 to 1.7 – back to where the EDR was in 1992.

Key: (A) early 90s recession; (B) the great recession; (C) corona recession



The chart combines men and women. The EDR for women increased from 1.14 to 1.44 over the period, for men it fell from 2.84 to 2.08 and is one the major changes in labour market activity over the period.

Relative change in the EDR by age group



This chart shows the relative change in the EDR split into five age groups (1992=100). Of the huge changes since 1992, we see improvement in three age groups and declines in the two youngest.

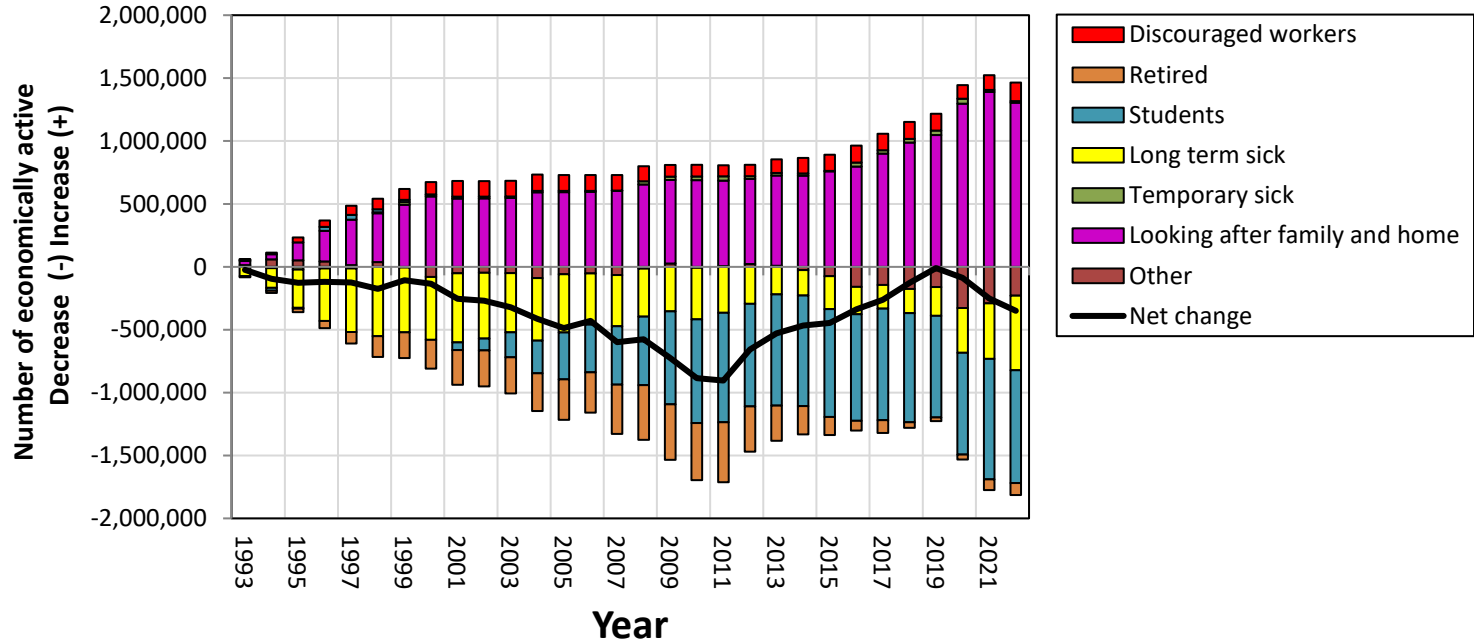
Relative change in the EDR by age group

The previous chart shows:

- More people are working beyond age 65, doubling the EDR for this group, although it is still 14 times lower than the all- adult EDR average and now appears to be plateauing (A)
- The EDR for 50 to 64 years olds peaked in 2020 at 90% higher than in 1992, but has since fallen back to 70% of its peak towards the end of 2019 (B)
- We see a similar pattern in EDR for 25-34 years olds, which peaked at 70% higher in 2020, but since fallen back to 50% of its peak in 2020 (C)
- More young people are staying on at school and entering tertiary education, which has significantly reduced the EDR of the 18-24 age group and 16-17 year olds (D)

Inactivity by reason – changes since 1993

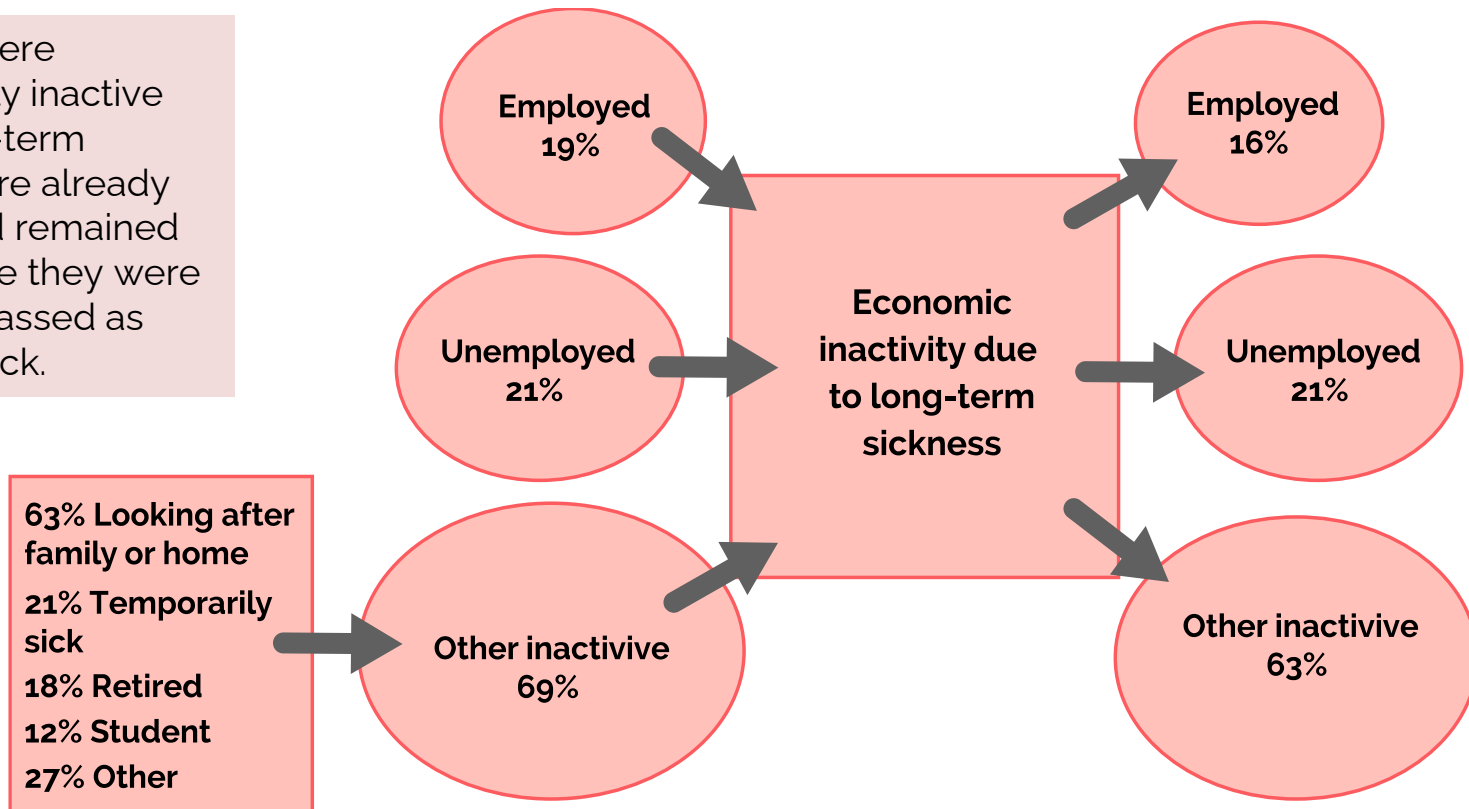
Changes in the number of economically active adults from April 1993 by reason. Units are numbers of people.



The black line in the chart shows a negative net change in the number of economically active over 30 years, especially during the financial crisis, due to increases in the number of retirees, those with long term sickness and students. Economic activity was boosted by people who previously looked after family now working and fewer discouraged workers (inactive but would prefer to be in work).

Flows into and out of inactivity due to long-term sickness

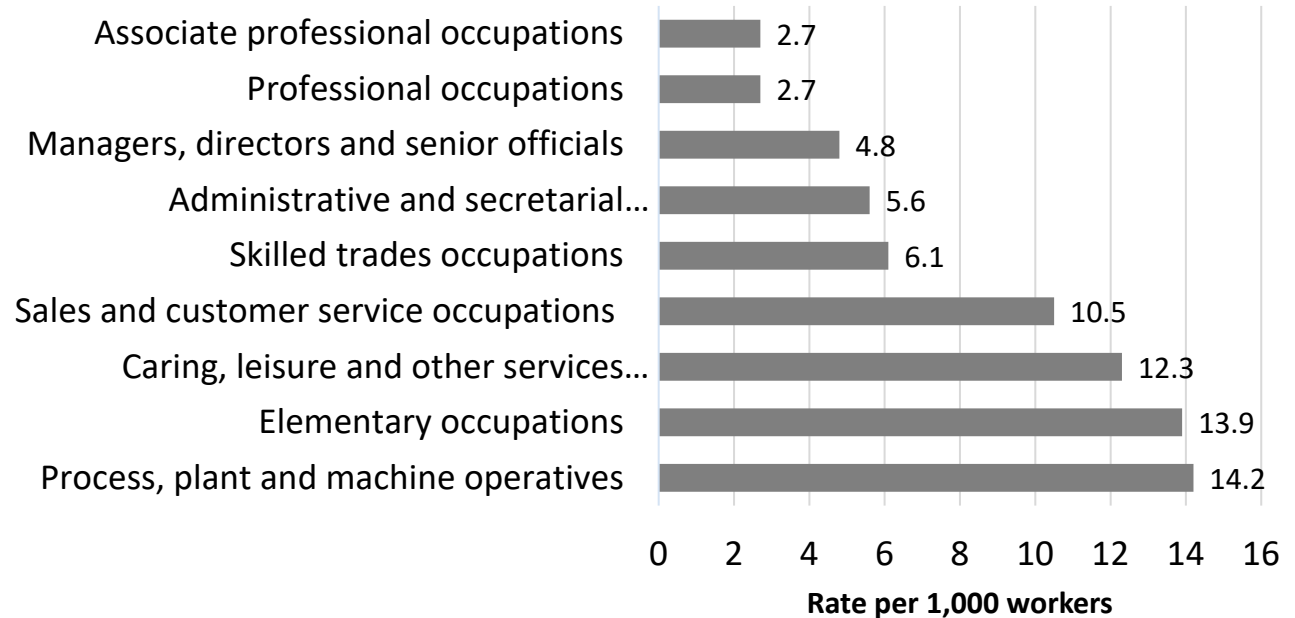
Most who were economically inactive due to long-term sickness were already inactive, and remained inactive once they were no longer classed as long-term sick.



Rates of long-term sickness by occupation

Rates of long-term sickness are higher among occupations where wages tend to be lower and employment is less secure.

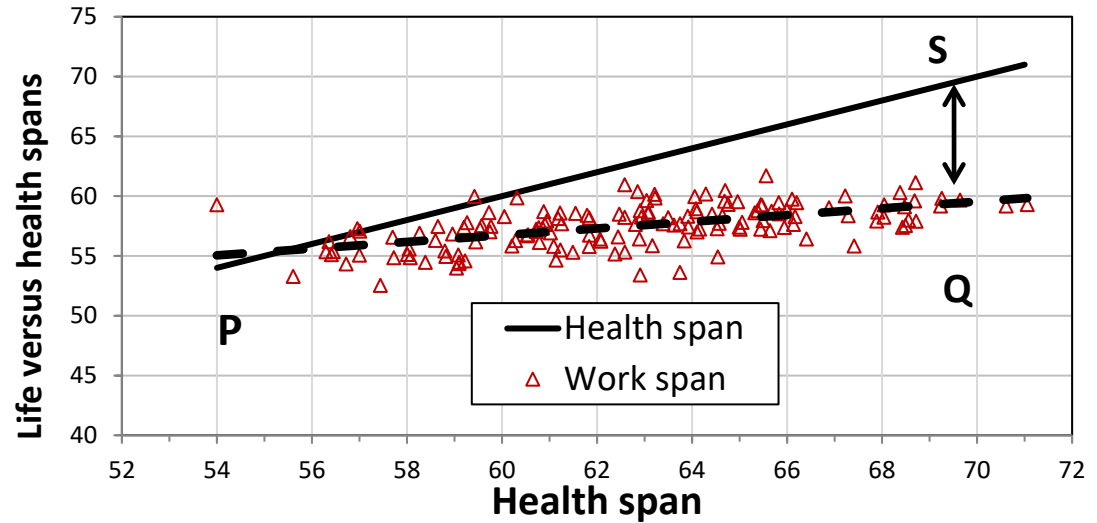
These are jobs which are more physically demanding and where managing a long-term condition is likely to be more challenging.



Impact of health inequalities on working lives

This chart uses local authority data to show how work span is influenced by the years spent in good health.

Health span ranges from 55 years (point P) to 70 years in the healthiest areas (point Q) and can exceed work span by up to ten years (SQ).



Whilst good health does not translate directly into work, good health is a spur to longer working but not by as much as you'd expect. We calculate that a one-year improvement in health leads to a 3.4 month increase in work and a 8.6 month increase in disability free inactivity – including retirement.

Questions

- Is the current dip in the EDR a blip due to economic downturn or is it being driven by long-term changes, such as an ageing population?
- How is job quality and increasing job insecurity affecting economic activity rates?
- Is the health of the workforce getting worse and has it become more of a barrier to work? (The 2.5m long term sick is almost exactly the expected shortfall in labour in 2030 (1))
- What is driving the fall in male labour force participation rates and the rise in male part-time work? What role do inequalities play in this?
- Why is the EDR of older workers levelling off and why are they choosing retirement? Are there administrative barriers to working longer, especially for those in good health?
- Are there enough opportunities for workers to retrain and develop new skills later in life? Given the rise in the student population, are we providing students with the right skills and training to meet future needs?

(1) 'Plugging the gap: estimating the supply and demand for jobs by sector in 2030' (ILCuk.org.uk/plugging-the-gap)

Changing labour markets

- Throughout this period there have also been significant changes on the demand side – in the types of jobs available, wages, and the education and skills sought by employers
- Since 1992, jobs in manufacturing and co-related predominantly male occupations have declined 37%, while jobs in sectors including health, education, and administrative support are up by 74%
- Earnings inequality has increased dramatically during the period, and wage progression has been poor, particularly for individuals with low levels of education
- Changes in the structure of work have helped exacerbate inequalities and are partly to blame for the stalled productivity and sluggish economic growth and decline in previously male dominated occupations

What can be done?

- Our analysis points to a transformation in the labour market and signs that long standing problems are deepening and affecting the UK's future prosperity.
- The problems are multi-dimensional and affect all levels of the labour market. Some may be temporary and others such as the ageing population are structural
- The Government urgently needs a UK-wide workforce strategy to address these issues in the short and long term e.g. to address the increasing shortages in labour in many sectors
- This needs to be divided into two parts – one addressing short term issues such as changes to work incentives to encourage people back to work and making work pay
- With a new election looming we urge all political manifestos to include measures to tackle the deep-seated problems highlighted by our research

Priorities

- Reversing the decline in high value-added jobs and industries by promoting investment in innovation and skills and helping to combat the decline in male labour force participation
- Support a healthy workforce and tackle health inequalities between people and localities which shorten working lives and add to the tax burden
- Reviewing the role and purpose of tertiary education, re-focusing on vocational qualifications and STEM subjects
- Making it easier for older people to remain economically active by removing financial and other barriers
- Invest in opportunities for lifelong learning, to make it easier for people to retrain or switch careers during their lives
- Investing in skills and training so that people can enjoy second careers when the alternative is 'do nothing'