

Social Policies and Distributional Outcomes

in a Changing Britain

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The Conservative Governments' Record on Employment Policy May 2015 to pre-COVID 2020

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The Conservative Party made commitments to increase employment; ensure 'work always pays'; increase wages for the lowest paid; abolish long-term youth unemployment; reduce the disability employment gap, the gender pay gap and the 'race gap' in workplaces; and provide greater protection for workers on zero-hours contracts. Since 2015 there have been a number of policy developments, and some positive trends in outcomes, though with significant ongoing challenges and key vulnerabilities on the eve of the Covid-19 pandemic.

- Key policies include the Work and Health Programme, an element of in-work conditionality in Universal Credit and the White paper 'Improving Lives' set out a ten-year strategy to increase employment for people with disabilities.
- The National Living Wage (NLW), introduced in 2016, increased the wages of the lowest paid. Increases to the personal tax free allowance, improved take-home pay.
- There were also some important legal changes: from 2015 exclusivity clauses in zero-hours contracts were banned; from April 2017 companies with 250+ employees were required to report gender pay gaps annually.
- The Work and Health programme, a scaled down version of the Work Programme more targeted at people with disabilities, put greater emphasis on sustained employment but the vast majority of participants did not achieve this outcome.
- Positive trends included record levels of employment, low unemployment and a decrease in earnings inequality following the introduction of the NLW.
- However, in-work poverty continued to increase, reaching 2 million by 2017/18, labour productivity remained low and there was a lost decade of pay growth with average real wages no higher than pre-financial crisis levels.
- Brexit presents further challenges including the impact on economic growth, lower migration leading to labour supply shortages in certain sectors and a potential erosion of workers' rights.
- On the eve of the Covid-19 pandemic the labour market was subdued and many employment indicators, after a period of progress, had levelled off.

What were the Conservatives' aims and goals?

Three general elections between 2015 and 2020, meant that policy aims and goals are set out in three Conservative Party manifestos by three different Prime Ministers. Whilst there were some shifts in emphasis, a number of goals were common to all three. The first is an aim to increase employment, with ambitious targets in the 2015 manifesto to achieve full employment and the 'highest employment rate of any major economy' by the next parliament. Relatedly, in-line with a pledge to 'make sure work always pays', the party committed to increasing take-home pay, by raising the personal tax allowance and minimum wage rates (although the main motivation for this was to reduce expenditure on in-work benefits). A third goal in all three manifestos was to close employment and pay gaps, focusing on the disability employment gap in particular, but also gender and ethnic pay gaps. A number of other commitments focused on improving workers' rights, particularly in relation to zero-hours contracts.

What did the Conservatives do?

Health and disability

The White Paper *Improving Lives: the Future of Work, Health and Disability*, published in November 2017, outlined a ten-year strategy to get one million more disabled people into employment, setting out policies across the work, welfare and health settings and including commitments to report on progress each year. Policies included the Work and Health Programme (see below) and the Personal Support Package, rolled-out in April 2017, designed to provide tailored support for Employment Support Allowance claimants in the work-related activity group and Universal Credit claimants with limited capability for work. In late 2019 the Intensive Personalised Support Programme was introduced to support people with disabilities or a long term health condition who are at least one year away from moving into employment.

Increasing employment

Two main employment policy changes have been introduced in relation to increasing employment, although neither will have a large impact on employment rates. The first is the introduction of the Work and Health Programme in November 2017. It is the government's flagship active labour market programme (replacing the Work Programme) designed to help some groups of individuals find sustained work. Unemployment benefit claimants are referred to the programme after being out of work for two years (up from one year under the Work Programme). People with disabilities, those in the priority early access groups, including carers, homeless people, refugees, victims of domestic violence and ex-offenders, can access the programme on a voluntary basis. Support includes regular face-to-face mentoring and integrated support networks across health and employment services. Programme delivery is outsourced using a payment-by-results model. The programme is devolved in Scotland, Manchester and London.

The second was the rollout of Universal Credit. Although strictly speaking a social security policy, key features relate to employment policy. A novel feature of Universal Credit is in-work conditionality, whereby claimants are required to secure more work (longer hours of work) or higher paid work in order to reach an earnings threshold. The earnings threshold is calculated for each claimant based

on working a 35 hour week on the relevant minimum wage; adjusted for claimants who are expected to be able to work fewer hours due to, for example, looking after dependent children or having a limiting disability or health condition. In January 2020, 14% of Universal Credit claimants were subject to in-work conditionality (49% of Universal Credit claimants who were in work).

Self-employment and the 'gig economy'

The Taylor Review of Modern Working Practices, published July 2017, focused on new forms of work including the 'gig economy' and implications for employers' and workers' rights and obligations. The government agreed to work towards legislating on clearer definitions of employment status to address the issue of false self-employment but by February 2020 had not responded to a consultation on employment status launched in February 2018 (nor had they by mid-2022). There were also some important legislative changes with exclusivity in zero-hours contracts banned in 2015 and additional protections from unfair dismissal related to this introduced in 2016.

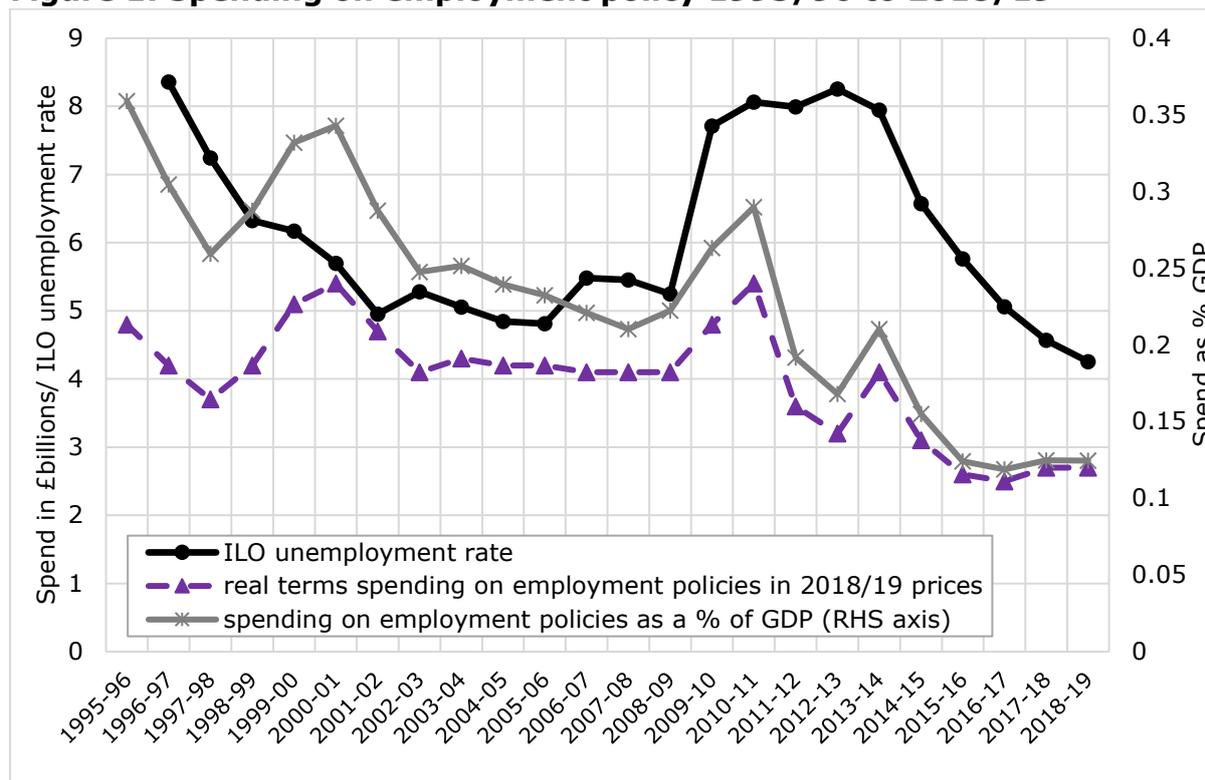
Pay and pay gaps

The National Living Wage was introduced in April 2016 for employees aged 25+ with a target that it should reach 60% of the median wage by 2020. The annual tax-free personal allowance for income was increased to £12,500 in 2019/20 (up from £11,850 in 2018/19). Amendments to the Equality Act came into effect in April 2017 making it compulsory for employers with 250+ employees to report their gender pay gap at the end of each financial year. In February 2017, the McGregor-Smith review on 'Race in the workplace' was published, highlighting issues of bias and discrimination that prevent minority ethnic groups from progressing in the labour market, and a review published one year on found there had been little progress in this area. The government launched a consultation on mandatory reporting of ethnic pay gaps in December 2018, but this is still not a requirement.

How much did the Conservatives spend?

Spending on employment policy is low and the level of spending is sensitive to the unemployment rate, with higher spending required to support active labour market programmes when unemployment increases and lower spending when it falls. As can be seen in Figure 1, unemployment and expenditure rose following the 2007/08 financial crisis, then fell sharply between 2010/11 and 2012/13 although unemployment increased; this is explained by a shift to a deferred payment model under the Work Programme introducing a lag between when services are provided and when expenditure is incurred. Since 2015/16 spending has been stable at around 0.12% of GDP (£2.7 billion) despite falling unemployment.

Figure 1: Spending on employment policy 1995/96 to 2018/19



Source: Public Expenditure Statistical Analyses (PESA) (2019), Tables 4.3 and 4.4. Unemployment data from ONS UNEM01 SA: Unemployment by age and duration (seasonally adjusted) (21 January 2020), Series LF2Q.

How has the Work and Health Programme performed?

The aim of the Work and Health Programme is to secure sustained work for programme participants. No official evaluation of the national programme is currently available to assess effectiveness but from published descriptive statistics it is possible to ascertain that the vast majority of participants do not secure sustained work before completing the programme. In addition, evaluation evidence from Manchester and London shows that job starts and earnings outcomes have been lower than expected with considerable variation between providers.

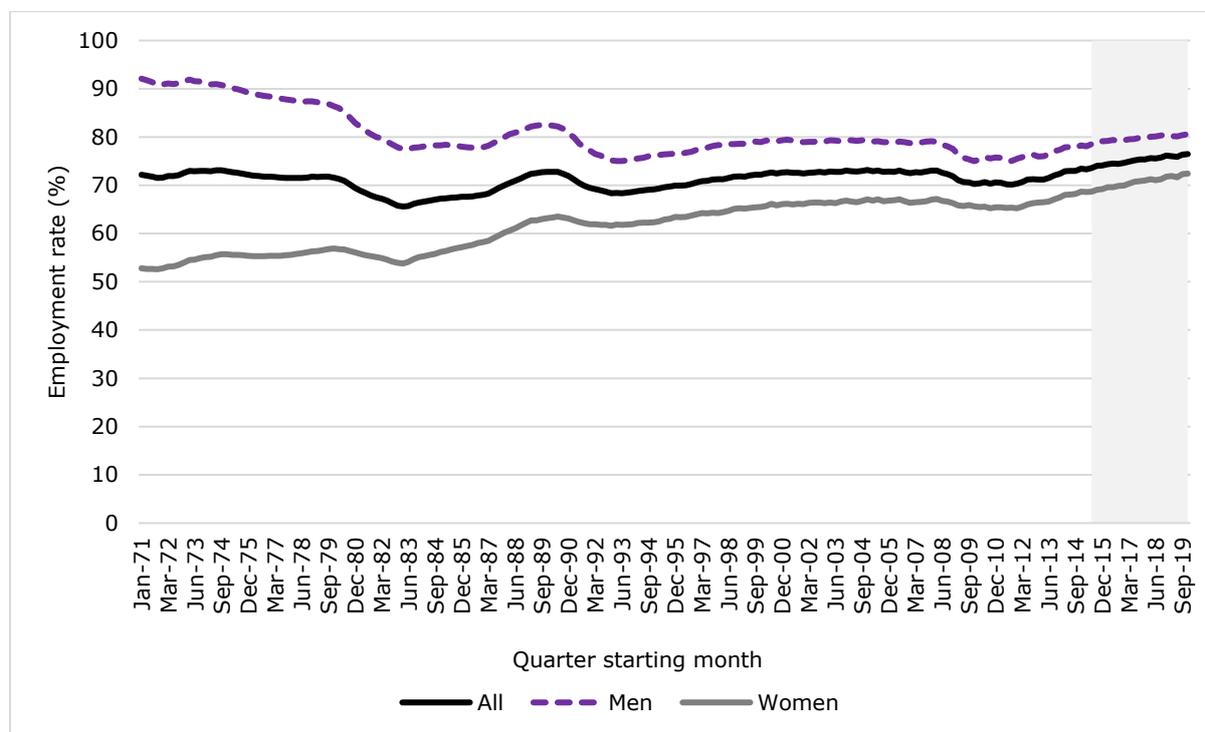
What has happened to wider labour market outcomes and how have different groups fared?

Employment, unemployment and inactivity

Employment rates have increased and unemployment decreased since the recovery from the 2007/08 financial crisis. Employment reached a record high; with historically high female employment rates, although male employment rates had been higher in the 1970s (Figure 2). From an international perspective, employment rates compared favourably to other European countries and the US even if the 2015 manifesto target of 'the highest employment rate of any major economy' was not met. However, by the end of 2019 there were signs that progress on employment and unemployment was stalling. In addition, rates of young people not in employment, education or training (NEET) had stopped falling

by 2017, the number of vacancies fell in 2019 and job-to-job mobility was flat from the middle of 2015 and even fell in 2019.

Figure 2: UK Employment Rates, 16 to 64 years, seasonally adjusted



Source: Labour Force Survey, ONS Labour market overview, UK: February 2020.

Self-employment and zero-hours contracts

The use of zero-hours contracts increased, although interpreting estimated levels and trends is difficult due to general underreporting and increases in recognition leading to greater reporting. We can be more confident about an increase after 2018, but it is important to highlight that the share of people employed on these contracts is low; only 3% in December 2019. The growth in self-employment following the financial crisis slowed and there was little change in the number of self-employed after 2018. However, historically high levels of self-employment and employees on zero-hours contracts on the eve of the Covid-19 pandemic left many workers exposed.

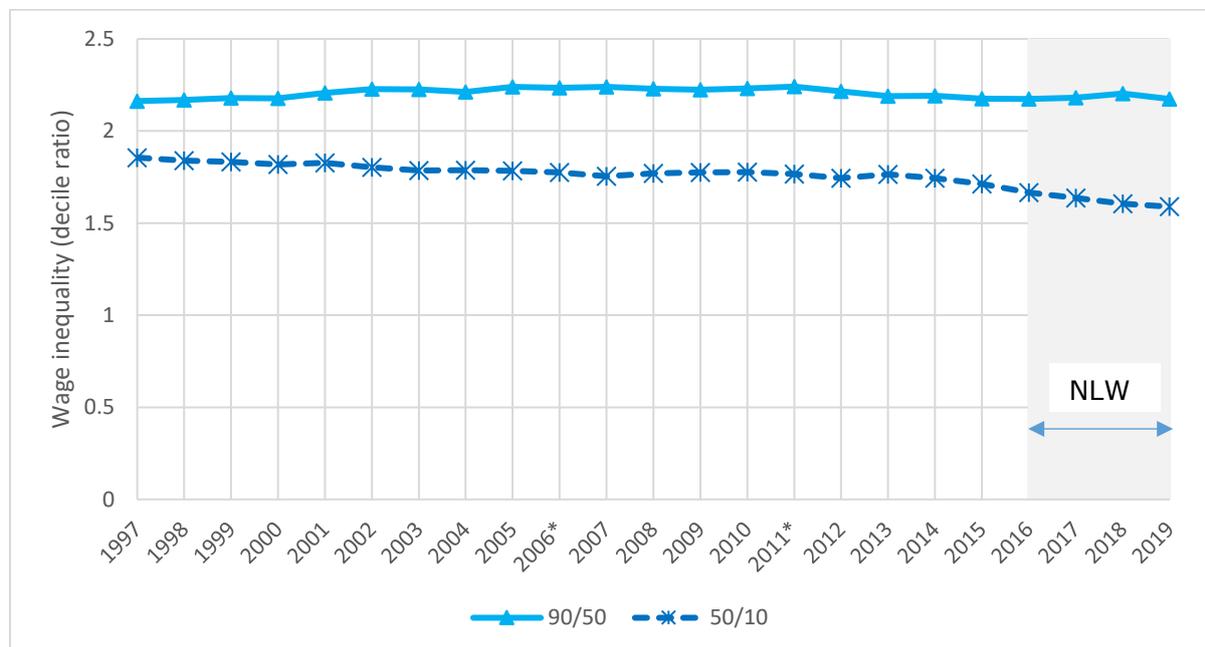
Earnings

Since the financial crisis wage growth has been sluggish, at best. For full-time employees average real gross weekly earnings increased between 2014 and 2019 but remained lower than prior to the financial crisis. Examining average earnings by age cohort reveals that younger cohorts and prime age workers lost out the most. Poor labour productivity performance, more surprising given the context of rising educational attainment, was a key factor.

Inequality in earnings was fairly stable from 2006 to 2015 but fell after the introduction of the National Living Wage in 2016. The higher minimum wage compressed the lower half of the wage and weekly earnings distributions (measured by the 50/10 ratio). Between 2015 and 2019, earnings inequality fell further and faster than at any time since at least the late 1970s. Although reducing earnings inequality was not an explicit policy aim in relation to the NLW, which

was more to do with reducing the tax-payer subsidy to low paying employers through in-work benefits, from a distributional perspective, it is nevertheless a welcome development.

Figure 3: Inequality in gross hourly earnings of all employees



Source: ONS Annual Survey of Hours and Earnings (ASHE) Table 1.5a (1997-2019). Notes: a) Employees on adult rates, whose pay for the survey period was unaffected by absence; b) * methodological and classification discontinuities in ASHE.

Regional differences

Although unemployment fell and employment rose across UK nations and English regions, large regional disparities remain and on the eve of the pandemic there was no evidence that stubborn regional employment inequalities had fallen. Although there were relative improvements in some areas, in others high rates of unemployment and low-wage employment persisted (e.g. the North East of England).

Disability

The employment rate for people with disabilities increased faster than for people without disabilities; the gap in employment rates declined from 34.5 percentage points in 2015 to 28.6 percentage points in 2019.

Ethnicity

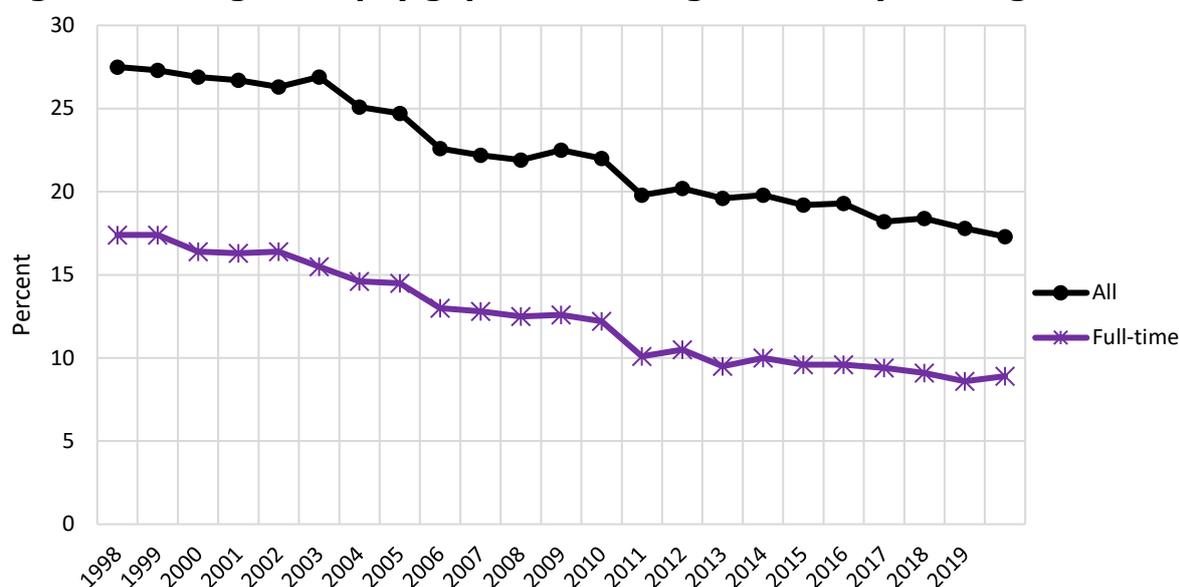
Employment gaps between minority ethnic groups and White British employees narrowed to some extent. Gaps are particularly large for employees from a Pakistani or Bangladeshi background and even greater for women than for men. Ethnic pay gaps also persisted, with most minority ethnic groups receiving lower average gross wages compared to White British employees, and employees from Bangladeshi and Pakistani backgrounds experiencing the largest pay gaps.

The gender pay gap

The gender pay gap fell over the last two decades, in part, due to increases in women working full-time and in men working part-time (which tends to be lower

paid) (Figure 4). However, there has been little change in the gender pay gap in recent years, and no narrowing of the gender pay gap amongst graduates.

Figure 4: The gender pay gap for median gross hourly earnings



Source: data from Figure 1 in ONS, (29 October 2019) 'Gender pay gap in the UK: 2019', data from Annual Survey of Hours and Earnings (ASHE)

Policy challenges looking forward

In-work poverty

Despite real increases in minimum wage rates and a decline in earnings inequality, in-work poverty continued to increase, with nearly 2 million full-time employees living in poverty by 2017/18. The main factors driving this upward trend were disproportionate increases in housing costs among the poorest households (and a decrease in the part of rent covered by housing benefit), with fewer people managing to get on the property ladder and social and private rents continuing to increase, as well as cuts to in-work benefits.

Closing the gender pay gap

Whilst the gender pay gap has been closing for each consecutive generation at younger ages, the generational decline in the gap for those aged over thirty has been much smaller. Many women in this age group will have children and as a result take time out of work, switch to working part-time and face commuting constraints. The remainder of the gap may therefore be more difficult to close. In addition, the gender pay gap has not been falling amongst graduates.

Brexit

Brexit raises a number of challenges for employment. A broad consensus was found among multiple forecasts that economic growth will be lower than it would have been if the UK had remained in the EU. This has important implications for the labour market as economic growth drives employment and wage growth. The predicted fall in migration is also important for employment, though the Migration Advisory Committee (MAC) find little evidence that a reduction in competition for jobs will relieve downward pressure on wages for UK-born workers. Finally, there is concern that UK workers' rights will no longer keep pace with progress at EU

level as the UK will no longer be subject to EU law, and there may even be pressure to 'water down' existing rights in order to create a business friendly environment and secure new trade deals.

Conclusions

Between 2015 and 2020 there were three manifestos, three general elections and three Conservative prime ministers, which makes it hard to assess progress against policy aims. There were a number of important employment policy developments. The National Living Wage was introduced in 2016 and there have been important legal changes. These have led to some rebalancing of power in favour of workers on temporary and zero-hours contracts and companies have been required to report gender pay gaps. A ten year strategy to increase the employment rate for disabled people is also under implementation with a range of initiatives. The Work and Health Programme replaced the Work Programme to provide joined-up support across multiple health, social care and employment services for some. Universal Credit introduced in-work conditionality for the first time, with a requirement that working claimants in low income households need to actively take steps to achieve earnings above a set threshold.

In terms of outcomes, this period was marked by record employment levels and reductions in earnings inequality. However, these positive developments took place alongside increases in in-work poverty and sluggish earnings growth. The idea that work provided the best route out of poverty began to be called into question. There continued to be marked ethnic pay and employment gaps, and there were signs that progress was levelling off by the end of 2019. Additionally Brexit raised challenges in the labour market, via its likely negative impact on economic growth, lower migration and potential erosion of workers' rights.

The state of employment policy on the eve of the Covid-19 pandemic

The pandemic is set to have a negative impact on the economy and employment for some years to come. While 'rescue packages' for employers and employees helped to cushion the blow in the short-term, the effects on the UK economy will be long-term including the need to pay back accumulated debts. It is also clear that the impact of Covid-19 will be unequal with less support available for the growing number of people who were on zero-hours contracts and for those who were combining employment with self-employment. The risk of unemployment and the reliance on Universal Credit is also higher for those in precarious forms of employment who tend to be the least well paid.

Further information

The full version of this paper *The Conservative Governments' Record on Employment: Policies, Spending and Outcomes, May 2015 to pre-Covid 2020* is available at <http://sticerd.lse.ac.uk/dps/case/spdo/spdorp12.pdf>

This is one of a series of summaries produced as part of CASE's research programme [*Social Policies and Distributional Outcomes in a Changing Britain*](#) (SPDO) funded by Nuffield Foundation. The research examines what progress has been made in addressing inequalities through social policies, looking across ten major social policy areas. The views expressed are those of the authors and not necessarily those of the funders.