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Intergenerational Commission

REPORT

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THE KIDS AREN'T ALRIGHT

A new approach to tackle the challenges faced by young people in the UK labour market

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Acknowledgments

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Executive summary

The core concern explored by the Intergenerational Commission has been the breakdown of generational progress. Previous research has illustrated that, across a number of domains, the assumption that each generation will do better than the one before it no longer holds.

This paper moves beyond the diagnosis of these problems to consider what action is needed to address the challenges facing millennials. The Intergenerational Commission's final report later this year will recommend a specific suite of reforms across a broad range of policy areas. In this paper, we focus on the labour market and outline a fundamentally new approach: an active labour market policy to confront the challenges of the 21st, not the 20th century. In particular this means a new focus on the security of, and opportunities within, work for young people, rather than a narrow focus on youth unemployment.

The labour market has, on the whole, not been kind to millennials (those born 1981-2000). Employment rates are the clear exception to this, with a record share of people in work and millennials not seeing the high unemployment that previous generations experienced in recessions when young. For millennials, rather than the quantity of jobs, concern has instead focused on the security and rewards that their roles too often lack.

Typical weekly earnings for millennials who have turned 30 are currently £470, £15 less than that of generation X when they turned 30 between the years of 1996 and 2010. This represents an unprecedented break with the past in which successive generations earned significantly more than their predecessors did at the same age. In part this is because today's young bore the brunt of the pay squeeze that followed the financial crisis; hourly earnings fell by 11 per cent for people in their 20s, the largest fall of any age group. Young people have also been central to the significant rise in insecure work that has taken place since the financial crisis, experiencing the sharpest increase in part-time work, self-employment and accounting for the majority of zero-hours contracts and agency workers.

This weak pay progress predated the financial crisis to some extent and there were wider signs that the labour market was becoming a more difficult place for younger people even before Northern Rock was nationalised and Lehman Brothers went to the wall. Job-to-job moves – one of the key drivers of pay progression – began to slow from the early 2000s and the pay rises received by the growing group of people remaining in the same job also shrank from the mid-2000s. We also find that even before the recession, but especially in the years since, the kinds of occupations young people have moved into are lower skilled than in the past and in sectors where progression appears more difficult.

It will be years before we can fully understand how deep the labour market scars of millennials will be from spending long periods in insecure and low-paid work. But simply assuming challenges from these big shifts in our labour market will disappear would be a dangerous mistake. Effects on pay trajectories are likely to be lasting despite some signs of a partial bounce-back on pay, and the tightening labour market, this has not brought the share of younger people in atypical work back to anywhere approaching pre-crisis levels.

In many ways, labour market policy in previous decades offers a helpful guide to how to respond to these challenges. The success of a new breed of active labour market programmes in the 1990s and early 2000s, including the New Deal, stands out. These started with a clear diagnosis of the challenges our labour market faced at the time, focusing on moving unemployed and inactive individuals into work following the legacy of high unemployment from the 1980s and 1990s. In the early 1980s almost 40 per cent of the population were out of the labour force and for much of the mid-1990s long-term unemployment for those aged 18 to 24 was around 30 per cent whereas it has stood below 20 per cent for past two years. Government eventually responded with a focused package aimed at specific groups in need of support. To do this, labour market flexibility was promoted while expectations of and support to work were both increased. Such targeted action made a meaningful difference both to short-term indicators as well as helping to shift cultural norms around employment in the longer term. The evidence that these approaches worked is visible in the share of people currently in work.

But in the same way that the New Deal learned the lessons of the past and shaped them to the challenges of the 1990s and 2000s, new approaches to the big labour market issues of today are needed but conspicuously lacking. In part to help fill that gap this report calls for a 'Better Jobs Deal', made up of new aims and new approaches.

The shape of a new approach to active labour market policies would involve a shift in whom such a policy agenda is focused on and what it is trying to achieve. While support for those out of work remains crucial, a new labour market policy should refocus on the millions of workers, particularly younger workers, who have become stuck in low-paying, low-skilled or insecure jobs. A Better Jobs Deal should explore how workers in these positions can be actively supported to access opportunities to progress, be that within a firm or by taking up an opportunity to move jobs or area.

As well as refocusing on different people a broader shift of objective is also needed, to focus on the nature of work. The benefits of flexible labour markets are well-demonstrated. But as the government has acknowledged in relation to the Taylor Review, that flexibility has become too one-sided for many. This has bred insecurity that is bad for individuals in the here and now while also reducing their capacity to take wider and important labour market risks. For a modern labour market policy more secure work should be a goal in itself but it can also act as a springboard, with workers feeling better placed to seek pay rises and new opportunities.

The shift in the focus of a new active labour market policy should go further, because a Better Jobs Deal should not focus solely on workers. We need a Better Deal for Retail, Hospitality and Social Care. Overlooking firms and the sectors they operate in would miss a key part of the puzzle not least given the fact that some low-paying sectors and workers in them risk being trapped in a loop of low expectations. The traditional pressures that would push firms out of such an equilibrium are weaker, with our analysis and polling by Ipsos MORI suggesting that younger workers have lower expectations in terms of pay rises and inflation than older people, with a mixture of contentment and a fear of changing jobs helping to keep them in their current roles. This may be due to the scarring effect of the recession and is compounded by the diminished role of unions in advocating for more historically 'normal' pay increases and rights. Whatever the cause, if it continues it risks leaving some younger workers stuck in low-paying or insecure positions who would otherwise not be.

While firms have clearly benefitted in the short term from this reduced pressure on wage bills, this may well be damaging in the long run to the companies themselves and may not be sustainable anyway in a much tighter labour market. While far from the full story on the UK's woeful productivity performance, poor management and low investment associated with low pay equilibriums have clearly played a part. But more pressingly for individual firms, with vacancies at record high levels and a potentially smaller pool of workers following Brexit, employers will have to break out of this loop sooner or later. Doing so with the support of a coherent new approach which identifies how firms and sectors as a whole can move forward, rather than in an ad hoc, reactive way is likely to mean better results for both employers and workers.

With a much tighter labour market today, now is the ideal moment for this new approach. Figure 1 below sets out the structure it might take. This Better Jobs Deal is formed of three pillars: enhanced security, better workplaces and greater opportunity. All three pillars aim to reduce the risk that a cohort of young workers find themselves unable to progress as far in the labour market as they might otherwise have done, and they aim to do it now rather than in a decade's time when much of the damage has been done. The Intergenerational Commission's final report will provide firm policy recommendations. Here, we present policy options that would reinforce the three pillars.

Turning first to security, Figure 1 outlines how we need to offer a better deal to the self-employed and those in insecure work. Providing zero-hours contract workers with a right to a contract that reflects the average hours they work week in, week out would be a start. Trialling a premium payment for lower earners working non-guaranteed hours would shift some of the risk associated with these kinds of working arrangements – in many cases dominated by young people – back onto the employer. Crucially, however, policies along these lines could do so without removing the flexibility that many people on such contracts value. With young people more likely to work for themselves than in the past we also need to revisit whether so many people should really be outside as much of the employment law that we have collectively decided should generally apply. Narrowing the entitlement gap to employees through, for example, the extension of statutory maternity and paternity pay would offer greater certainty for the UK's 4.8 million self-employed.

A Better Deal is needed in workplaces too. Taking a sectoral view, the UK could lead the way internationally by developing genuinely transformative plans in low-wage, low-productivity industries. This should be the new frontier, where an active labour market policy overlaps with an industrial strategy. As with current active labour market policies, it should involve both carrots and sticks for sectors to improve. The government should sign new deals with retail, hospitality and social care. There are nearly 1 million non-graduates aged 18-35 working in these sectors that could benefit from employers working with government and unions to make them better places to build a career.

The deals with these sectors would have some common elements: they should all involve government working with firms and employees to design and publicise career paths, matched to skills gaps identified by employers and with incentives for firms to invest in the qualifications of their employees. (A forthcoming policy options report for the Intergenerational Commission will consider skills policy in depth.) Boosting the opportunities available to those with responsibilities outside of work through rethinking how jobs are designed would be another route towards making these sectors more of a route towards quality employment.

These new deals would also allow government and firms to respond to the unique challenges that industries face. In retail, this may involve ensuring that firms and employees are able to adapt to a world where commerce is increasingly done online. In hospitality, responding to the downward shift in labour availability that may follow

Brexit is likely to be important. Government and the sector need to come together to address the challenges in social care ensuring that progression and worker development is part of the solution, not an afterthought.

Although sometimes overlooked in discussions of how to achieve these goals, trade unions clearly have a major role to play. Though union membership is just 20 per cent among people aged 26-30, compared to 29 per cent two decades ago, our survey and focus groups with millennials revealed that few have written off unions as a means of protecting their rights in the workplace. Indeed they have a much more positive attitude towards trade unions than older workers, just 8 per cent of millennials would not join a union because they don't agree with them in principle. But a lack of information was a major barrier to joining a union, with many unwilling to commit to paying a monthly fee for membership of organisation they feel they don't understand. To tackle this, unions should be given the right to speak to employees in their workplace, something young workers support, but should also look to offer reduced rates for younger people who repeatedly raise cost as a barrier to joining.

Going hand in hand with improving low-paying sectors and workplaces where younger workers are today should be a new focus for government on supporting some of the generation stuck after the financial crisis to take up opportunities to progress in work. That means a new approach to directly overcome some of the barriers young people face. Analysis of longitudinal data on people's earnings suggests that approximately 1.5 million people across a range of sectors and occupations who were aged between 16 and 25 in 2006 had failed to move consistently onto higher wages a decade later. While many in this group may well be a happy in their current role, a number of programmes in other countries have sought to tackle the barriers facing younger workers who are stuck and may be seeking to move into better-paying positions.

Within such a large group, a range of issues may be limiting their ability to find better work but common themes include an inability to take risks in the labour market because of financial constraints, skills gaps or geographical search areas. As with the New Deal, different offers for groups facing different challenges should be available. A Better Deal for 'movers' would support those frustrated by the employment options available to them locally to broaden their search area. A similar scheme in Germany, for example, offered funding to help people to relocate for a new job, covering transport and initial housing outlays. But for some, progressing within their current industry should be achievable. In some instances, a lack of specific qualifications may prevent potential 'climbers' from moving into more senior positions.

For others, changing sectors altogether may be the best route to higher earnings. But our focus groups with younger workers underlined the perceived risk that comes with changing career, even at a young age. Support with the upfront costs of moving jobs or purchasing fundamentals for the job e.g. tools or software, could be offered to those who sign up for a Better Deal for 'switchers'.

These Better Deals for a variety of groups would not solve all of the issues facing younger people in the UK. But they represent a different approach to conditionality than that currently used; rather than demanding activity in exchange for support, support would be offered to those with a proven job offer, interview offer or willingness to engage in training. This and the shift of focus to those who are in work but lacking security or opportunity, with a new appreciation of the need for firms to be partners in any such process, would represent a big step towards a labour market that works better for everyone.

Figure 1: **Setting out a new approach to support better intergenerational outcomes in the labour market**

THE BETTER JOBS DEAL	
Enhanced security	*A better deal for the self-employed* o Extend statutory maternity, paternity & shared parental pay to the self-employed o Extend Contributory JSA to the self-employed o Widen minimum wage protection to self-employed 'price-takers' o Simplify and clarify the process to determine employment status *A better deal for atypical workers* o Guarantee ZHC workers a fixed hours contract after 3mths o Protect workers turning down non-guaranteed hours o Introduce minimum notification periods for shifts o Pilot different pay premia policies for non-guaranteed hours
Improved workplaces	*A better deal for representation* o Strengthen worker voice in firms o Allow unions to access workplaces in exchange for lower dues for young people *A better deal for transparency* o Ensure firms have formal pay review processes with important info provided *A better deal for low-paying sectors* Government should agree sectoral deals that include: o Designing clearer progression paths o Maximising progression opportunities for those in part-time/flexible roles o Targeting funding for specific training & qualifications informed by skills gaps o Incentivising firms to improve the skills of their workforce
Greater opportunity	*A better deal for movers* o Offer financial incentives to search for jobs outside of the local area o Provide support with relocation costs including housing *A better deal for climbers* o Target support to young workers to progress within low-paying sectors *A better deal for switchers* o Publish information on in-demand occupations, skills required & career routes o Provide support with upfront costs in a new career

Section 1

Introduction

The experience of the majority of the 20th century is that living standards rise over time, and each generation does better than the one before. Surveys also suggest that this is what the public expects to happen.[1] *Unfortunately, there is evidence that this generational progress has stalled and could even be going into reverse. Partly this is because the UK is on track to experience its worst decade of pay growth in a hundred years. This, however, is only part of the story. Perhaps even more concerning is the fact that generational pay progress was stalling before the crash.*

This stalling is apparent in young people's experience of the labour market. Historically the labour market has been the key driver of generational progress. Successive generations have earnt more than their predecessors, and for most people these earnings have formed the lion's share of their incomes. Therefore it is concerning that the labour market no longer seems to be delivering this progress for younger cohorts.

There are many reasons for this, but before we outline the various causes of this decline, it is important to explain how the millennials (those born between 1981 and 2000) have fared in the labour market compared to previous generations. The picture that emerges is that while employment rates for the youngest generation are no worse – and in the case of women are arguably much improved – than generation X (born 1966-80), the same cannot be said of their earnings and, in some respects, the security and opportunities afforded by their jobs. The current crop of younger workers are earning less than previous cohorts did at the same age and are more likely to find themselves in insecure, low-paying jobs. Generational progress appears to have halted and this policy options paper for the Resolution Foundation's Intergenerational Commission offers a new approach to labour market policy to get it back on track.

Young people today have equal or better employment outcomes than previous generations

The sign of a healthy labour market is that it provides opportunities for employment for all those who seek it and offers people the chance to make use of – and importantly improve – their talents, rewarding them for doing so. In short it is the main driver of improvements in people's living standards. The experience of the majority of the 20th century is that, although subject to setbacks, on average the UK labour market has delivered in providing this progress. Indeed we've become used to the idea of generational progress. Our polling by Ipsos MORI showed that 60 per cent of people in the UK agree that every generation should have a higher standard of living than the one before it, more than six times the number who disagree.[2]

In one respect the UK labour market is delivering. Three-quarters of the UK's 16 to 64 population are in employment, higher than at any other point since comparable records

1 H Shrimpton, G Skinner, and S Hall, [The millennial bug: public attitudes on the living standards of different generations](), Ipsos MORI for the Resolution Foundation, September 2017

2 Ibid.

began in the early 1970s. Unemployment is at a 40 year low and a higher proportion of people aged 16-64 are participating in the labour market than ever before. This strong performance is reflected in the current generation of young people. The employment rate for millennials, for those who have reached age 30, is 80 per cent, marginally above that of generation X when they were 30 (79.2 per cent) and well above that of the baby boomers at 30 (72.6 per cent).

Partly this is because the current younger generation – although many entered the workforce during or in the aftermath of the recent recession – benefitted from the fact that, unlike previous downturns, unemployment did not rise nearly as high. It is also the product of decades of changing cultural norms which have encouraged more women to participate in the labour market, as well as changes to policy. Particularly important in terms of the latter were the equal pay legislation of the 1970s, the greater availability and support for childcare, enhanced employment rights and welfare reform that has improved the financial incentives to work.

The improvement made by the current crop of younger workers is most apparent when we look at female employment. The employment rate for female millennials at the age of 30 is 71.9 per cent, compared to 57 per cent for female baby boomers at 30. For men the respective figures are 88.3 per cent and 88.1 per cent. Indeed since the silent generation (those born between 1926 and 1945) the employment rate for men at age 30 has not topped 90 per cent.

The strong performance of today's young people in terms of employment and labour market participation should not suggest that further progress is not possible. The unemployment rate for those aged 18 to 24 is still nearly three times the national average and though figures have come down sharply there are still 11.1 per cent of people aged 16 to 24 not in employment, education or training. Furthermore young people from ethnic minorities, or those with disabilities, have below significantly below average employment rates. More needs to be done to address this and elsewhere we have outlined what steps should be taken.[3]

It is also important to bear in mind that, although the generational challenge for most younger workers is not employment, there are concerns about employment for older generations. The Commission has explored older people's experiences of the labour market in a separate paper, but given that less than half of the population are in employment the year before they are eligible for their State Pension, it is clear that there are challenges (albeit different ones) at both ends of the age spectrum.[4]

But cohort pay progression appears to have stalled

While the picture – in terms of employment – is one of steady generational progress the same cannot be said about people's earnings. The evidence is that pay progress for today's young adults has stalled or even fallen behind that of the previous generation. Median hourly earnings for millennials who have reached 30 are currently £13, equal to that of generation X who turned 30 between the years of 1996 and 2010. This stalling

3 S Clarke 'All working together' in S Clarke (ed.) [Work in Brexit Britain: reshaping the nation's labour market](), Resolution Foundation, July 2017

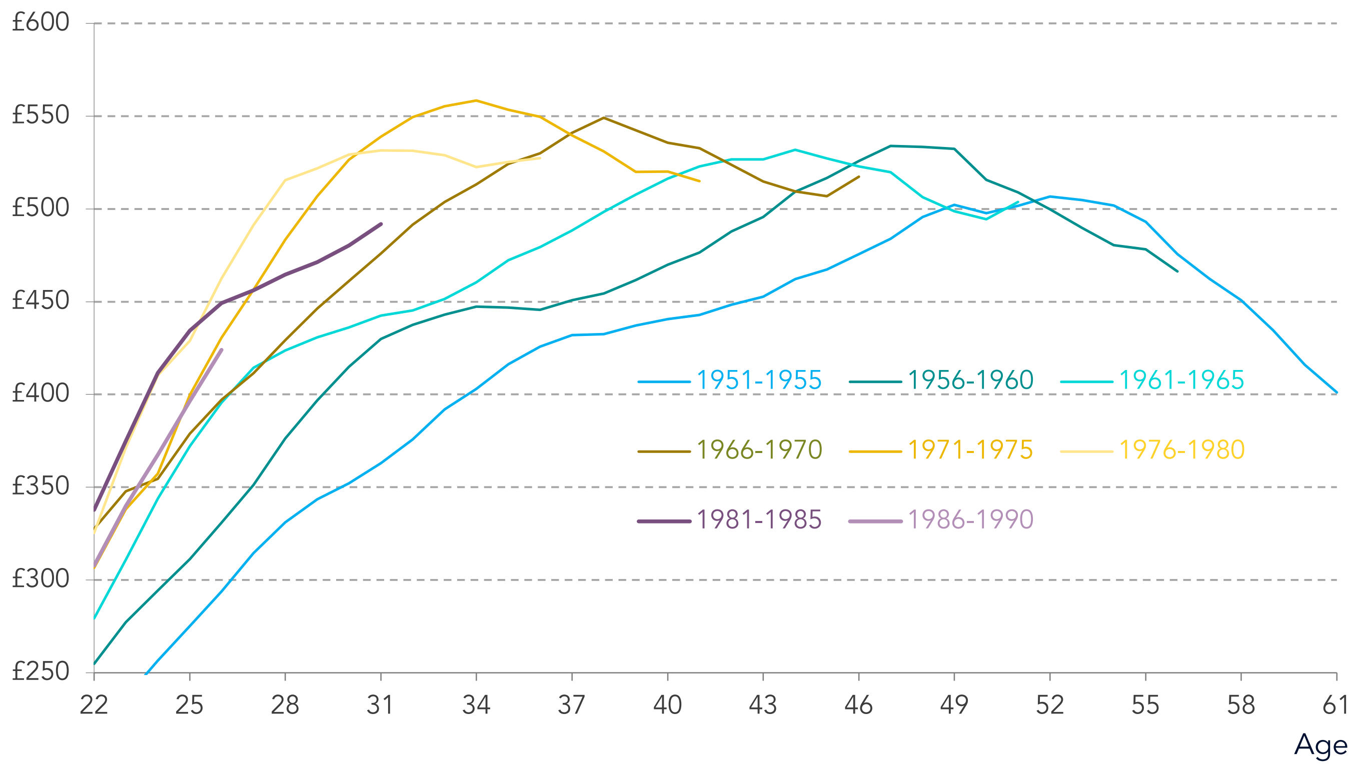
4 P Thomson, *A Silver Lining for the UK Economy? The intergenerational case for supporting longer working lives*, Centre for Ageing Better, February 2018

of generational pay progress is unprecedented. At age 30 generation X earned 36 per cent more than the baby boomers, and the baby boomers earned more than the silent generation, who in turn earned more than the greatest generation (born 1911-25).

The picture is worse for weekly wages (Figure 2). At age 30, typical weekly earnings for the cohort born between 1981 and 1985 were around £480 a week. Compare this to the cohort born ten year earlier (between 1971 and 1975) for whom earnings were around £530 and you get a sense of the reversal in generational progress. The decline in millennial pay relative to that of generation X owes much to the impact of the recession, which affected all generations. However, Figure 2 suggests that even before this recent dip the cohort born between 1981 and 1985 were only keeping pace with the previous cohort.

Figure 2: **Pay progress has stalled or even gone into reverse for recent cohorts**

Median real weekly pay (CPIH-adjusted to 2017 prices) for five-year birth cohorts: UK



Source: RF analysis of ONS, *Labour Force Survey (LFS)*; ONS, *Annual Survey of Hours and Earnings (ASHE)*; ONS, *New Earnings Survey Panel Dataset (NESPD)*

Furthermore, while it is true that the recession caused a dip in the earnings of all cohorts, the squeeze was significantly worse for the younger generation because the slowdown in pay growth pre-crisis (discussed in Section 2) and then the recession came at a time in their lives when pay progression is usually most rapid.

Navigating this report

In this report – the 17th published as part of the Intergenerational Commission – we briefly recap the problem of stalling and reversing pay progression for the most recent generation before exploring what is driving it and what the government, businesses and social partners, and younger workers themselves can do to address it. The goal of the paper is to set out a 'Better Jobs Deal' to support younger workers. Unlike the old approach of labour market policy focused primarily on the unemployed or those out of work, the strategy outlined here will target those in work, with a new awareness of the important role of employers. Unlike in the past we need to encourage secure employment and opportunities for progression rather than one-sided flexibility. With employment at a record high and unemployment at a 40 year low, now is the right time for a new approach.

In the following section, Section 2, we recap what we know about the problem. We show that, although the recession is responsible for some of the poor pay performance of recent cohorts, the stalling of generational progress began before the crisis and there is evidence to suggest its effects will continue to be felt long after the impact of the recession finally fades. Policy-makers should not view the problem simply as a temporary blip.

Sections 3, 4 and 5 outline how a 'Better Jobs Deal' will help firms and workers restart generational pay progress. There are three key elements to this, which each section covers in turn.

Recognising that the UK labour market has done a terrific job of creating jobs over the past five years we now need to go one step further and guarantee that these jobs provide people with a platform to progress in work. Building on the flexibility of the UK labour market Section 3 looks at how we can offer a better deal to the self-employed and those in insecure work.

The reforms outlined in Section 3 will encourage some firms and sectors to rethink how they use labour, but will still leave a larger share of young people in sectors dominated by low-wage, lower-investment business models than for previous generations. Therefore in Section 4 we outline how the government needs to offer a better deal to low-paying sectors which includes strengthened worker voice, clearer progression routes and government funding to plug skills gaps.

Finally, Section 5 turns to how the government can offer a better deal to those who face barriers taking up new opportunities or moving jobs. In particular we need to provide support for those whom upfront costs make it hard to move jobs, who can't afford to relocate to find work and those who don't have the skills to do so.

Section 2

The decline in generational pay progress

Britain is experiencing a crisis of intergenerational progress because the labour market hasn't been delivering earnings progress for today's young people. Some people have noted the poor performance of today's younger workers and assumed that this is entirely driven by the impact of the financial crisis and sluggish recovery. However, in this section we show that – although addressing the impact of the financial crisis is crucial in understanding the weak position of many young people – the stalling of generational progress began before the crisis and is likely to persist into the future unless action is taken.

The financial crisis and ensuing recession, as well as the weak bounce-back that followed, affected the earnings of millions of people in the UK. However there are reasons to be particularly concerned about the impact upon younger people. Entering the labour market, or starting one's career shortly before, or during, a recession, has a significant impact on a person's earnings trajectory. Historical and international evidence, as well as analysis of the most recent UK data, suggests that this negative impact is large and persistent. While some lost ground has been made up for those in their 20s in recent years, the pay of millennials remains further below its peak than for older workers.

Although recognising the damage done to the earnings trajectories of younger workers by the recession is key, there are structural as well as cyclical forces at work. Pay growth slowed significantly well before the crisis and some of the drivers of this pay stagnation – a fall in job mobility, a shift into lower-paying sectors and occupations, and declining returns to tenure – all preceded the crash.

Although the recession had an impact on all cohorts, the consequences could be particularly damaging for younger workers

Before we examine the structural causes of stalling pay progress, it is worth explaining the impact that the recession had. The recession hit the pay of all cohorts. For those born between 1961 and 1965, who were aged 43 to 47 in 2008, their weekly pay at age 50 was 4 per cent lower than for employees born between 1961 and 1965 at the same age. However the pay squeeze has been worse for younger cohorts. For those born between 1986 and 1990, who were aged between 18 and 22 in 2008, their weekly pay at age 25 was 9 per cent lower than that of the previous cohort.

Entering work during a recession has a pronounced impact upon someone's chance of finding work, their starting salary, and their opportunities for progression. A review of the international evidence suggests that those entering the labour market during a recession experience a reduction in their initial earnings of between 10 and 15 per cent and that their earnings trajectories do not recover for between 5 and 10 years, if ever.[5] A

5 B Cockx, 'Do youths graduating in a recession incur permanent losses?', *IZA World of Labor* 2016: 281

recent paper focusing on British young people found that those leaving education during periods of high unemployment were more likely to be out of work, suffer a pay penalty and also have lower incomes.[6]

However the extent to which someone is affected depends on their level of education and how the labour market is regulated. It is expected that graduates in flexible labour markets (similar to that of the UK's) see a smaller reduction in their initial earnings than non-graduates, but the effects persist for longer. For this group the relative loss of earnings is largely the result of accepting jobs at lower starting wages than they would when the economy is growing strongly. The initial loss of earnings is made up for over time by moving jobs. However in labour markets in which job-to-job moves are limited there is evidence that the hit to earnings could be very long-lasting or even permanent.[7]

For those with lower levels of education it is less of an issue of accepting a substantially lower starting wage, indeed in many countries minimum wages limit this, but more about struggling to find work. Studies from the US suggest that the impact on the incomes of lower-educated workers is larger than for graduates. However, the effects do not persist for as long because the earnings trajectories of non-graduates are shallower and so, while their 'catch-up' is quicker than for graduates, they ultimately earn less.

Although not enough time has passed since the financial crisis to make a full assessment of how the earnings trajectories of different workers have been impacted by this recession, the initial evidence (shown in Figure 3) is that both graduates and non-graduates have been affected. Figure 3 illustrates the earnings trajectories of two cohorts who entered the labour market during the recession or in its aftermath. A third cohort (the 1976 to 1980 cohort) is also included for comparison.

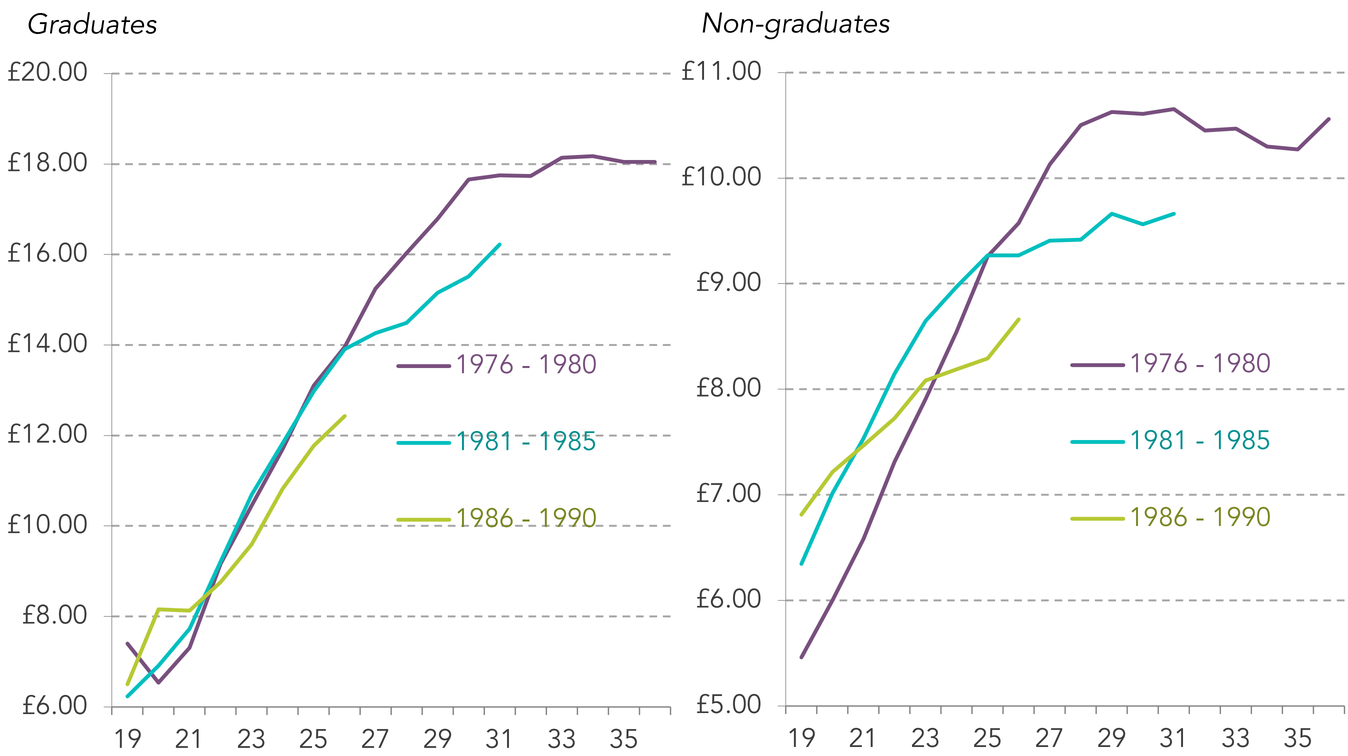
In 2008, a non-graduate born in 1983 would have been 25 years old. Although not entering work for the first time, it is likely that they would be at a point in their careers when they would expect significant earnings growth. By age 30, the hourly earnings of the 1981 to 1985 non-graduate cohort were 10 per cent lower than for the 1976 to 1980 cohort. Perhaps unsurprisingly, the earnings penalty experienced by the 1986 to 1990 cohort (who would have turned 20 in 2008) is similar. By 25 the hourly earnings for non-graduates born between 1986 and 1990 were 11 per cent lower than for those born between 1981 and 1985. Turning next to graduates, those in the 1981 to 1985 cohort were earning 12 per cent less than the 1976 to 1980 cohort at age 30, while the earnings penalty for those in the 1986 to 1990 cohort (compared to the 1981 to 1985 cohort) was 9 per cent.

6 J Cribb, A Hood and R Joyce, Does leaving education in a recession have a lasting impact on living standards?, Institute for Fiscal Studies Working Paper W17/27, November 2017

7 B Cockx, C Ghirelli, 'Scars of Recessions in a Rigid Labor Market', *IZA DP No. 889*, 2015

Figure 3: **The earnings of graduates and non-graduates have been affected by the recession**

Median real hourly pay (CPIH-adjusted) for each 5 year cohort



Source: RF analysis of ONS, *LFS*

These initial results, although only tentative, do support the findings in the literature. Although the data above suggests that the impact on graduates and non-graduates to date has been similar in magnitude, this could be because here we have only examined the impact on earnings and so ignore the greater propensity for non-graduates to find themselves out of work during downturns.

For both groups, the extent to which these effects fade will only be clear in time. The international evidence already indicates that only in Greece were younger people's wages more squeezed following the crisis than in the UK.[8] History also suggests that it would be foolish to be sanguine about their prospects. Research on young cohorts who came of age during previous recessions has suggested that those who experience extended spells out of the labour market, go on to experience much more time out of work, lower wages and even significantly worse health outcomes than others.[9] The risk is that we ignore these warnings. The rise in worklessness that followed the recessions of the 1980s and 1990s scarred those affected, the danger is that this generation could be scarred by low-pay, insecure work and few opportunities for progression.

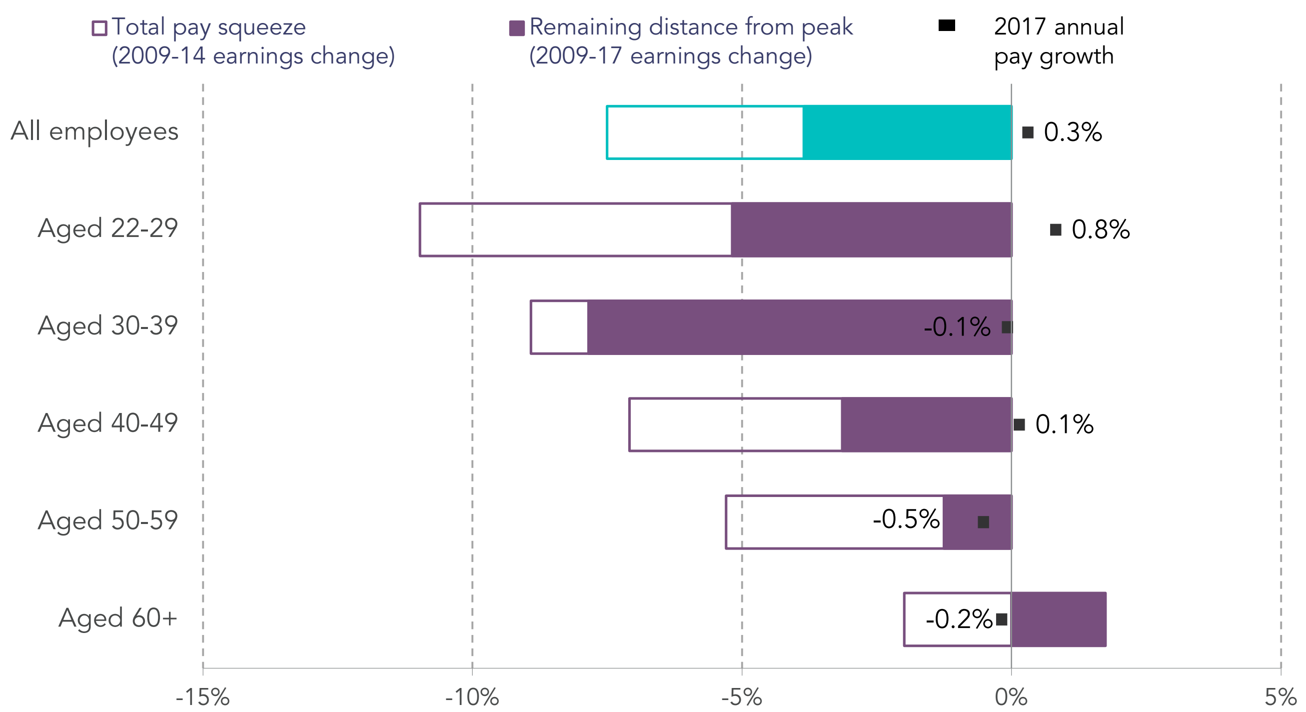
8 D Tomlinson and F Rahman, *Cross countries*, Resolution Foundation, February 2018

9 P Gregg, 'The impact of youth unemployment on adult employment in the NCDS', Economic Journal, 111 (475), F623-53, 2001

To what extent has a tight squeeze been compensated for by a strong bounce-back? The evidence is mixed. The tighter labour market of recent years appears to have particularly benefitted workers in their 20s, but has less of an effect on those in their 30s. In both 2016 and 2017, median hourly pay grew faster for those aged 22-29 than older groups. While the National Living Wage is likely to have played some role in these improved outcomes as it affects the pay of a greater share of workers in this age band, earnings growth has been stronger too for higher-paid members of this group. By contrast, the earnings of those aged 30-39 fell in real terms in the year to April 2017, and the typical earnings of people in their 30s remain further from their 2009 peak than any other age group.

Figure 4: **Pay has begun to bounce back for some younger workers but remains further from peak than for their older counterparts**

Real median hourly earnings (CPIH-adjusted) across age groups



Source: RF analysis of ONS, ASHE

This is perhaps particularly concerning given that we would expect that younger people who are earlier in their careers to experience faster pay growth. The fact that it is actually older people for whom the recovery has been more marked suggests that we should not necessarily expect the earnings prospects of younger workers to rapidly recover. While a continued strengthening of the labour market may well feed through into more of a visible bounce-back in the wages of younger workers, with the next recession perhaps closer than the last one, this is far from assured.

Looking further ahead, we do not yet know what, if any, long-term scars will be left on the current cohort of young people as a result of a significant period of depressed wages.[10] But one of the lessons learnt from the recessions of the 1980s and 1990s was that public policy needed to do more to support those particularly affected and ideally without waiting for the damage to be entrenched. Policy-makers need to learn a similar lesson from the recent downturn, but rather than a singular focus on worklessness, more needs to be done to support those whose earnings trajectories has been impaired.

It is worth pointing out that the analysis above does not include the self-employed because the majority of data collected on earnings in the UK doesn't include this group. This is increasingly an issue as 15 per cent of all those in employment are self-employed. The limited data we have, however, suggests that their earnings squeeze was greater than that which affected employees and – as we discuss in more detail below – younger self-employed workers are more likely to be low paid.[11]

As well as lasting long after, poor earnings performance began before the crash

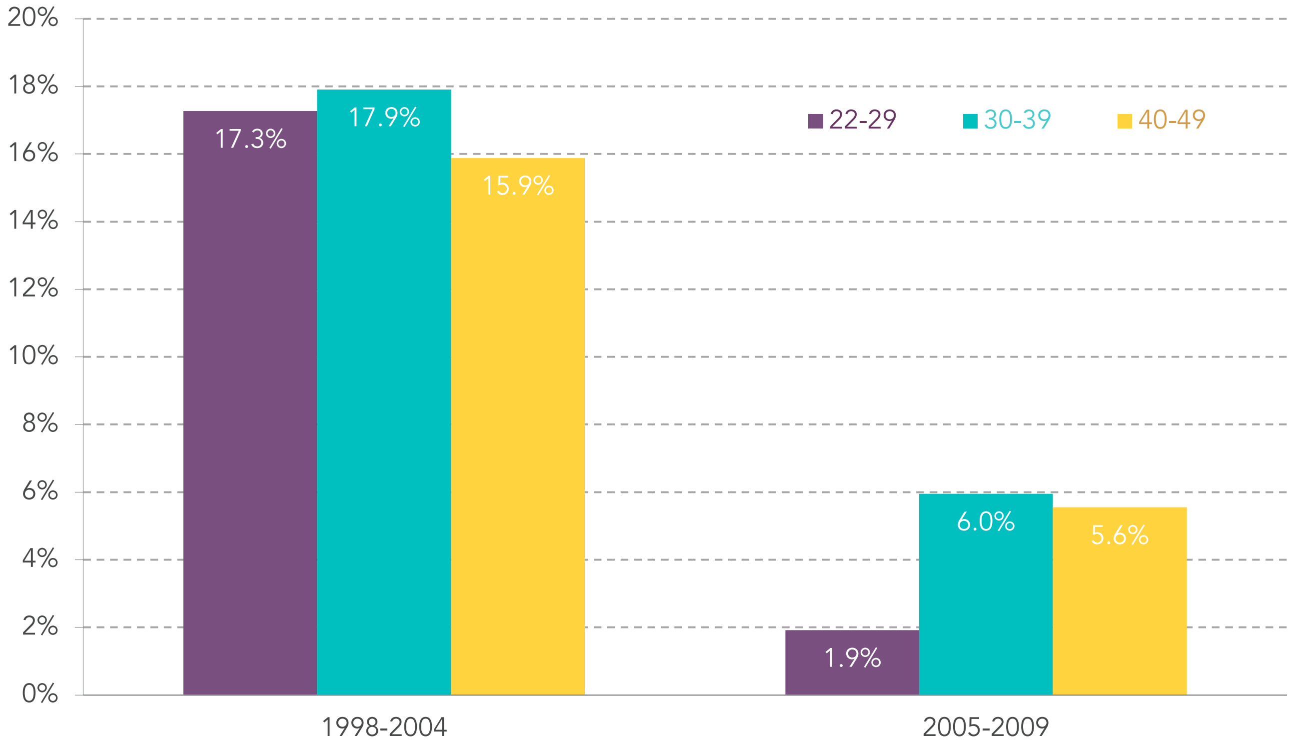
Although the crisis bought with it an acute squeeze for younger workers, the slowdown in pay growth for younger workers began before the crash. Figure 5 shows that between 1998 and 2004 the hourly earnings of people in their 20s, 30s and 40s rose at a broadly similar – and brisk – pace. However, in the years leading up to the crisis – 2005 to 2009 – those aged 22-29 fell behind, experiencing real-terms pay growth of just 1.9 per cent across the period, compared to 6 per cent for those in their 30s and 5.6 per cent for those in their 40s.

10 Future Resolution Foundation work will investigate this issue.

11 A Corlett, *The RF Earnings Outlook Q2 2016*, October 2016

Figure 5: **Pay growth was slowing for younger those under 30 before the crash**

Real-terms growth in hourly pay (excl. overtime) by age group: UK (CPIH-adjusted)



Source: RF analysis of ONS, *ASHE*

The recession amplified the issue of poorly-paying jobs for younger workers, but it did not create it

This slowdown is perhaps related to changes in the types of jobs undertaken by the younger generation. There has been a significant increase in 'atypical'[12] forms of work in the UK since the financial crisis and in some respects this is contributing to lacklustre pay performance. Because the data on some of these 'atypical' forms of work were not available it is difficult to compare how today's younger people are faring compared to previous generations. Nevertheless nearly half of all people on a ZHC are aged between 16 and 29, and agency workers are more likely to be under 30 years of age than full-time employees.[13]

Where we have data that spans multiple generations and precedes the crisis, the evidence is that millennials – particularly male millennials – are more likely to be

12 Many of the growing forms of employment, such as ZHCs and agency work, have been described as 'precarious'. In some respects this is a good description, yet for some people, working for an agency, being on a ZHC, or being self-employed is desirable and financially beneficial (particularly in the case of self-employment) so it would be a misnomer to describe all these forms of work as 'precarious', therefore we will use the term 'atypical'.

13 S Clarke 'Atypical day at the office' in S Clarke (eds) *Work in Brexit Britain: reshaping the nation's labour market*, Resolution Foundation, July 2017.

working part-time than generation X and are more likely to be self-employed, particularly if they do not have a university education.[14] Although the recession bought with it a rise in atypical, in some cases insecure, work, there is evidence that tax and regulation, along with technological change, were changing the world of work before the crash.

As well as a pronounced increase in atypical working, there is evidence too that recent cohorts are more likely than their predecessors to be working in lower-paying sectors and occupations. Again, this shift preceded the financial crisis and is the result of a range of factors. Some, including the automation of routine tasks propelled by globalisation and technological change have changed the structure of the UK economy, while others, such as shifts in ideas about gender roles and work, have changed society. Also important is the fact that – as we have discussed in more detail elsewhere – it is becoming harder to keep up the rate of generational progress, for instance the significant expansion in higher education that occurred in the late 20th century means that the largest relative gains in this area are almost certainly behind us.[15] All these changes have created winners and losers, but generationally, today's younger workers are more likely to be amongst the losers.

Part of the reason for this is the high rate of atypical working amongst younger workers and the fact that they are more likely to work in lower-paying occupations and sectors than previous generations. There was a 32 per cent increase in the share of caring and leisure roles undertaken by 26-30 year olds between 2007 and 2015 compared to the cohort at that age in 1997 to 2015.[16] There has also been strong employment growth for younger workers in the hospitality, retail, transport and storage sectors, which tend to be lower paid.

It could be argued that this is just the effect of the financial crisis with workers forced to temporarily accept lower-quality employment. Therefore, in order to strip out the impact of the downturn as far as possible, we can carry out the same piece of analysis on just the pre-crisis period. Looking at the period between 1996 and 2011,[17] Figure 6 shows how the share of younger workers (those aged 26 to 30) working in the nine main occupational groups changed compared to the cohort a decade earlier. For instance, for the cohort born between 1976 and 1980 there was 31 per cent increase in the share of people working in professional roles compared to the 1966 to 1970 cohort. Towards the lower end of the labour market there was a 27 per cent rise in the share of people working in caring and leisure roles, an increase of 10 per cent in the share of people in sales roles and a marked decline in people in mid-paying roles such as skilled trades and process and plant operatives.

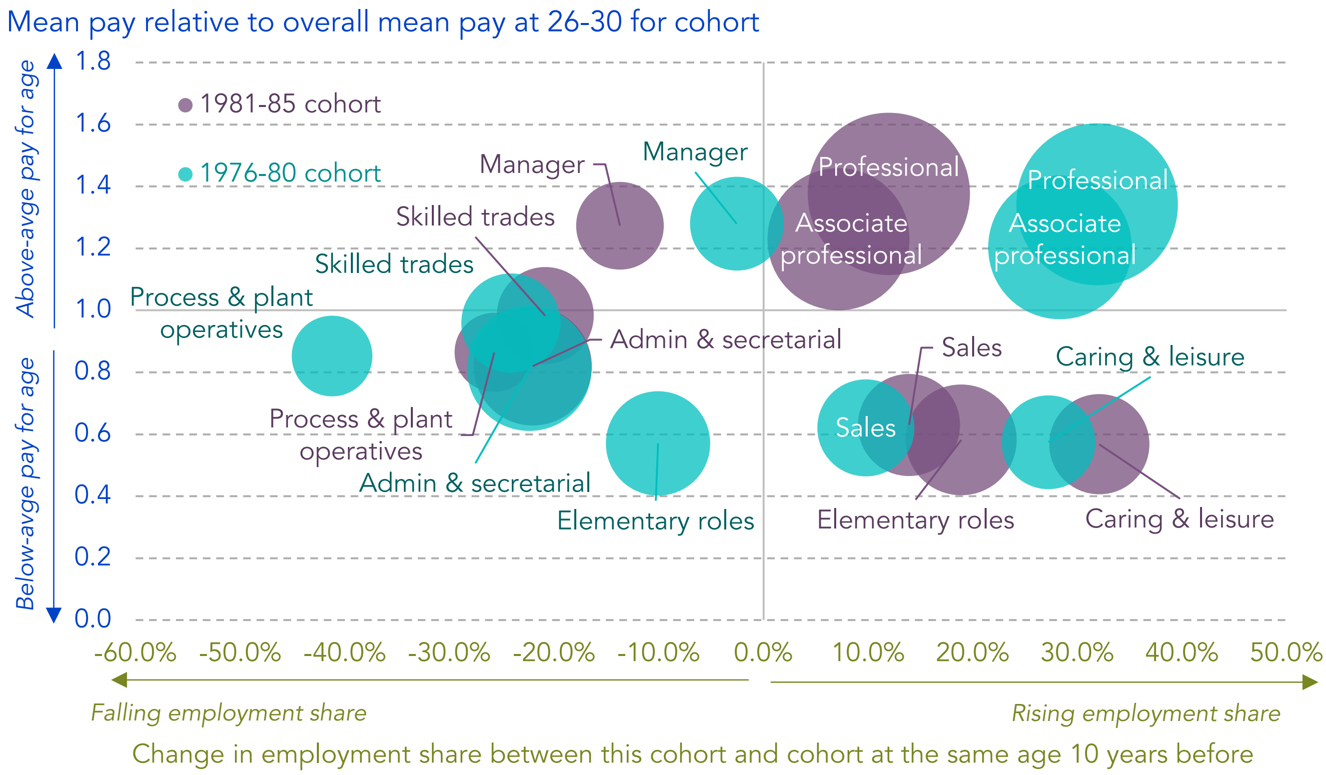
14 L Gardiner & P Gregg, *Study, work, progress, repeat?* Resolution Foundation, February 2017

15 Ibid.

16 Ibid.

17 The period up to 2011 was chosen so as to have enough data over successive 5-year cohorts to meaningfully assess occupational shifts.

Figure 6: **The increase in younger cohorts working in lower-paying roles preceded the financial crisis, but was exacerbated by it**



Notes: Changes in occupational coding frames are overcome using probabilistic matching based on dual-coded datasets provided by the Office for National Statistics. Analysis is tested over a shorter time-period using non-dual coded data to ensure these techniques are not distorting the results. See L Gardiner & A Corlett, *Looking through the hourglass: Hollowing out of the UK jobs market pre- and post-crisis*, Resolution Foundation, March 2015 for more details.

Source: RF analysis of ONS, *LFS*

What is also interesting is that moving five years forward and looking at the 1981 to 1985 cohort and the evidence is that they have experienced a slower increase in the share of people in higher-paying roles and a faster increase in the share of people in lower-paying roles. While the share of younger workers in professional roles increased by 31 per cent for the 1976 and 1980 cohort, the increase was only 12 per cent for the 1981 to 1985 cohort. By contrast there was a larger increase in the share of younger people in caring and leisure roles, sales jobs and elementary roles for the 1981 to 1985 cohort than for the 1976 to 1980 cohort.

We see the same pattern if we go back further in time and compare the 1976 to 1980 cohort to the 1971 to 1975 cohort. Although in this case the younger cohort experienced a sharper rise in professional roles, they also experienced a sharper rise in the share of people working in caring, leisure and elementary roles. The increased shift into lower-paid employment for people in their 20s therefore began in the early 2000s. Furthermore, over the same periods as those analysed above the share of older workers in managerial and professional roles expanded strongly, while the share of workers aged 56 to 60 working in lower-paying occupations – aside from caring and leisure – fell. This suggests that the increase in younger workers in lower-paying roles is a partly the result of structural shifts in the UK economy that preceded the crisis, and partly the result of the fact that the crisis disproportionately affected younger workers.

The marked decline in pay progression also preceded the crisis

As well as shifts in the types of jobs younger workers are doing, the other significant driver is the marked decline in earnings progression within these jobs and when switching jobs. In previous analysis for the Intergenerational Commission, we have shown that once the changes to the composition of the labour force are stripped out, it is clear that the wage returns for successive cohorts have been negative for all those since the early 1970s.[18] The evidence is that the malaise had set in well before the financial crisis.

We can get a sense of the degree to which pay progression was slowing before the crisis by dividing wage returns into three components: the returns earned by those who remain in their job (the 'returns to tenure'); those earned by people moving jobs; and the difference between the wages of those who enter the labour market and those who exit. In some cases, there is evidence that the financial crisis severely exacerbated an already downward trend. For instance job-to-job moves had been declining since the early 2000s before a sharp fall between 2009 and 2011. This rate has so far failed to return to its pre-crisis level, not to mention that of the early 2000s. There is also evidence that the returns to moving jobs also declined in the decade to 2008. In other cases, the impact of the recession is more evident. Starting salaries for those under the age of 20 had been rising consistently for cohorts born since the mid-1970s. However for people born in the 1990s starting salaries have fallen.[19] It appears likely that this is primarily down to the impact of the crisis.

Explicitly ignoring the crash and post-crisis period (Table 1), there is evidence that many of the forces weighing down on pay progression for younger workers were present previously. Table 1 analyses the typical real hourly pay growth experienced by employees in two periods: 1998 to 2004 and 2005 to 2009. In each period, we have decomposed that growth into three components: that accounted for by those who move jobs ("Job movers"); those who stay with their employer ("Stayers"); and the difference between the wages of those who enter the labour market and those who exit ("Entry or exit").

18 L Gardiner & P Gregg, *Study, work, progress, repeat?* Resolution Foundation, February 2017

19 Ibid.

Table 1: Returns to tenure were falling before the crisis

Decomposition of the median change in real (CPIH-adjusted) hourly pay for employees as a function of the frequency of and returns to different labour market transitions: UK, 1998-2008

	(1998 - 2004)		(2005 - 2009)		Change in freq * avg	Change in return * avg	Total change
	Frequency	Return	Frequency	Return			
Job movers	11.5%	12.2%	9.5%	10.4%	-0.2%	-0.2%	-0.4%
Stayers	79.3%	4.7%	82.6%	3.8%	0.1%	-0.7%	-0.6%
Entry or exit	9.2%	-39.3%	7.9%	-40.4%	0.5%	-0.1%	0.4%
Overall	100%	1.5%	100%	0.9%	0.4%	-1.0%	-0.6%

Notes: Returns to job moves and tenure are derived from the median individual pay change for employees in that position; returns to entry or exit are estimated as the difference between the median entry wage and the median exit wage.

Source: RF analysis of ONS, *Five-quarter longitudinal Labour Force Survey*

The evidence is that between the first and second periods the frequency of people staying with their employer rose from 79.3 per cent to 82.6 per cent, and the average return fell from 4.7 per cent to 3.8 per cent. Over the same period there was also a decline in the frequency of job movers (from 11.5 per cent to 9.5 per cent) and a fall in returns for this group. However, the fall in the returns for stayers (19 per cent) was larger than that for job movers (15 per cent). Overall, the final column on the table shows that job stayers are responsible for a larger proportion of the total change over the two periods.

During the period real pay growth declined from an average of 1.5 per cent to 0.9 per cent per annum, suggesting the UK labour market was becoming less effective at driving generational progress even before the financial crisis hit. Similar analysis to that above, but disaggregated by cohort, shows that while declining returns to tenure affected all cohorts aged between 24 and 50, younger cohorts were more affected by the decline in job-to-job moves.

We need a 'Better Jobs Deal' to address the new challenges in the UK labour market

In the following three sections, we outline what can be done to reinvigorate the UK labour market and ensure that it delivers generational progress. The approach we outline not only deals with the fallout from the financial crisis to prevent lasting damage to the working lives of those affected, but it also tackles the structural shifts that have occurred in the UK economy.

Clearly, part of the solution lies in raising productivity and improving the general health of the UK economy. However, the evidence presented above suggests that, even if growth significantly picks up, this is may not improve the lot of many younger workers. In particular, this ignores the fact that generational pay progress was slowing before the crash and that a generation of younger people have been scarred by it.

Policy-makers need to take action. Responses to the rise in worklessness that followed the recessions in the 1980s and 1990s with programmes like the New Deal shows what can be achieved through financial incentives, changes to the regulatory environment and welfare reform, alongside support for specific groups.[20] History also tells us that

20 P Gregg & D Finch, Employing new tactics: the changing distribution of work across British households, *Resolution Foundation*, January 2016

some challenges – most notably inactivity for older workers that spent a long-time out of the labour market – rarely sort themselves out. The message is clear: governments can make a difference, both by acting and failing to do so.

To make a difference for todays' and future generations of younger workers, we need a new approach to supporting people in the labour market. The old approach focused on the unemployed or those out of the labour force. However, the challenge today for many young people is not worklessness but pay stagnation and insecure jobs. Therefore, the new approach needs to focus on those in work. Previous labour market support often ignored the private sector other than as a source of jobs to move people into. In contrast, the new approach needs to work with specific sectors to improve opportunities for progression.

Labour market policy which is focused on getting people into work will not deal the new challenges we face. While such support needs to continue for specific groups, we need to broaden our conception of what active labour market policies try to achieve. Previously, 'a job, any job' was often the mantra, but for too many younger workers today finding work is not a problem, finding security and advancement is. Therefore, we need a focus on security and opportunity, of the kind outlined below (Figure 7).

The approach we outline – described here as a 'Better Jobs Deal' – has three elements. The first (Section 3) attempts to tackle insecurity, providing more stability for workers but also encouraging firms to rethink their business models. The second element (Section 4) – Better Workplaces – is more specifically targeted at firms. By creating new partnerships with lower-paying sectors, the government can dedicate resources to helping firms raise productivity and getting sectors to collaborate in developing their workforce. The third element helps younger workers take on new opportunities by overcoming the barriers that prevent some moving jobs (Section 5).

Now is the ideal time to launch such a new approach. We have achieved employment rates that policy-makers would have thought impossible in the dark days of 2008 and the UK labour market has proved resilient in the face of uncertainty, meaning the risk associated with any labour market tweak is lessened. But we also need to act now before progression is no longer a realistic possibility for the generation of younger workers affected by the crash. Although we may know less about which specific policy levers to pull than in dealing with worklessness, this is not an excuse to delay action, as some of the tools of the past – such as regulatory change and financial incentives – are part of the solution. In other areas – in particular the need to work closely with specific sectors – new tools are needed. Therefore, a multi-faceted approach is required, we need to take action – offering support to firms and younger workers – while also testing and refining. In the next three sections, we describe how we can do this.

Figure 7: **A new approach to restarting generational pay progress in the UK labour market**

THE BETTER JOBS DEAL	
Enhanced security	*A better deal for the self-employed* o Extend statutory maternity, paternity & shared parental pay to the self-employed o Extend Contributory JSA to the self-employed o Widen minimum wage protection to self-employed 'price-takers' o Simplify and clarify the process to determine employment status *A better deal for atypical workers* o Guarantee ZHC workers a fixed hours contract after 3mths o Protect workers turning down non-guaranteed hours o Introduce minimum notification periods for shifts o Pilot different pay premia policies for non-guaranteed hours
Improved workplaces	*A better deal for representation* o Strengthen worker voice in firms o Allow unions to access workplaces in exchange for lower dues for young people *A better deal for transparency* o Ensure firms have formal pay review processes with important info provided *A better deal for low-paying sectors* Government should agree sectoral deals that include: o Designing clearer progression paths o Maximising progression opportunities for those in part-time/flexible roles o Targeting funding for specific training & qualifications informed by skills gaps o Incentivising firms to improve the skills of their workforce
Greater opportunity	*A better deal for movers* o Offer financial incentives to search for jobs outside of the local area o Provide support with relocation costs including housing *A better deal for climbers* o Target support to young workers to progress within low-paying sectors *A better deal for switchers* o Publish information on in-demand occupations, skills required & career routes o Provide support with upfront costs in a new career

Section 3

A Better Deal to enhance security

The share of 'atypical', sometimes insecure, work rose dramatically in the aftermath of the financial crisis. Perhaps unsurprisingly, younger workers were the ones most affected by this, forming the majority of people working part-time, through an agency or on a ZHC. Encouragingly, as the labour market has tightened, the proportion of people in atypical work has plateaued and, in some cases, started to fall. Less encouraging, however, is the fact that younger workers have not disproportionately benefitted from this shift and the level of such atypical work remains near record highs.

Although more of the rise in atypical work will unwind, it is unlikely to do so fully with evidence that ZHCs and similarly insecure contracts becoming more standard in some sectors. And we should not expect the majority of the young people engaged in such work to simply move onto more regular forms of employment in future. A feeling of insecurity is likely to be damaging for young people if it discourages them from taking on other, more potentially rewarding risks in other parts of their lives.

In this section we outline how we can offer a better deal to the self-employed and those in insecure jobs. Such an offer includes providing workers on ZHC that are in practice doing regular hours the right to move onto a regular contract, disincentivising 'bogus' self-employment and provide more pay protection – including premia for non-guaranteed hours – for those in insecure work. The NLW shows what governments can achieve when they take decisive action on low pay. Now is the time to be similarly decisive about insecurity.

We need to address 'atypical' work for a generation that is doing more of it

In recent years, there has been significant growth in the number of people working through an agency, on a ZHC or moving into self-employment. There has also been a significant increase in part-time working. As we outlined above, younger people are more likely to be engaged in atypical work (aside from self-employment) and, as discussed below, for some forms of work they are more likely to want a more regular relationship with their employer.

'Atypical' working arrangements suit many workers, particularly those seeking to supplement other household income sources. However, there is a sizeable minority of workers on such terms that desire a more regular relationship with their employer. 12 per cent of part-time workers would prefer to work full-time, 20 per cent of the self-employed would like to be employees, 27 per cent of those on temporary contracts would like a permanent role and only a slim majority of those on a ZHC are happy with their lack of guaranteed hours.[21] Furthermore, in some cases younger workers are more likely to be unhappy with atypical work: 17 per cent of those aged 16 to 34 working part-time would like a full-time role, compared to 12 per cent of those aged 35 to 54 and 8 per cent for those over 55.[22]

21 ONS, Labour Market Statistics, C D'Arcy & L Gardiner, Just the job – or a working compromise? The changing nature of self-employment in the UK, Resolution Foundation, May 2014 & D Tomlinson, Zero-hours contracts: casual contracts are becoming a permanent feature of the UK economy, Resolution Foundation, March 2016

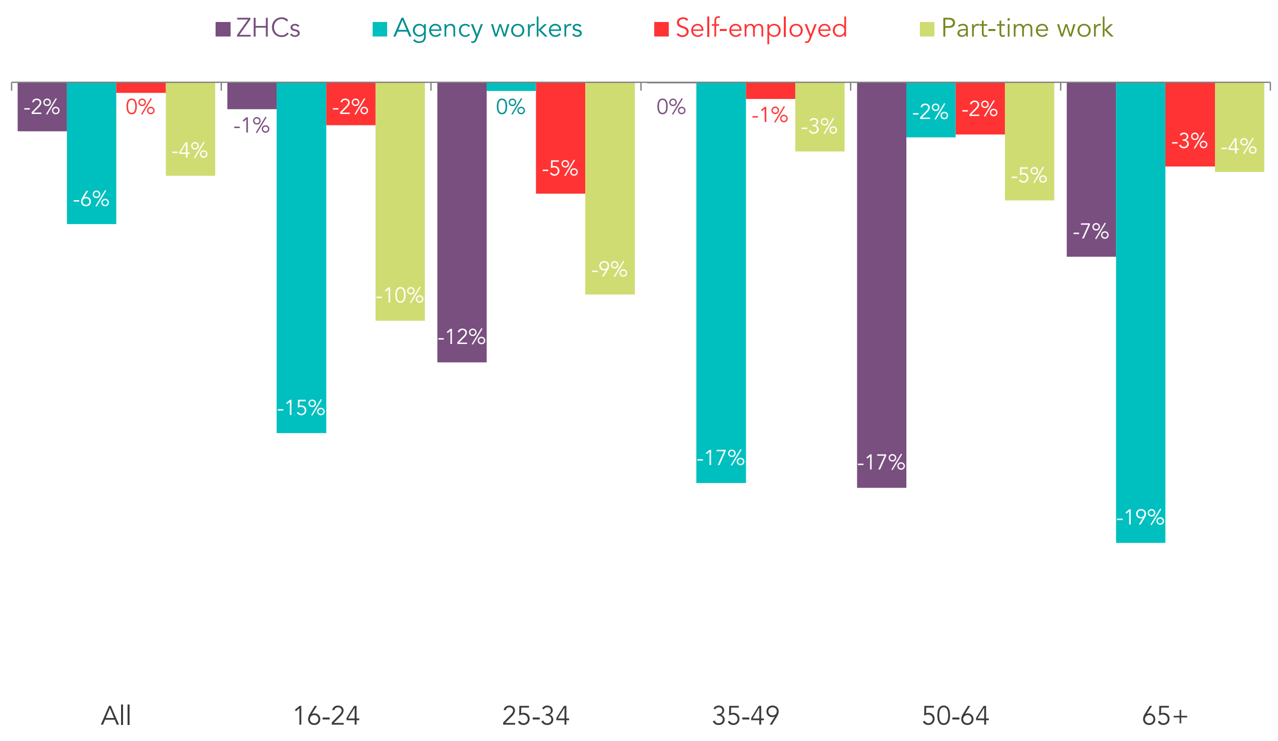
22 RF analysis of ONS, *Labour Force Survey*

The extent to which the rise in atypical work will unwind as the labour market tightens remains to be seen. We argued back in the summer of 2017 that a tighter labour market would show up first in a plateauing of the rise in atypical work and later in an uptick in nominal pay. The evidence to date is consistent with this hypothesis. The share of those on ZHCs reached 2.9 per cent of those in employment in June 2016, and has since fallen (marginally) to 2.8 per cent. The share of people working through an agency peaked at 2.7 per cent in the middle of 2016, and now stands at 2.6 per cent. The growth of self-employment has also plateaued recently. The share of self-employed workers grew on average by 1.9 per cent per annum between 2009 and 2016, whereas over the last year it fell by 0.4 per cent. 26.5 per cent of those in work are currently employed part-time down from 30 per cent in mid-2012.

Have younger workers disproportionately benefitted from this recent shift? The evidence is mixed. In some respects, younger workers have experienced higher falls in atypical work than their older counterparts, but in other cases the situation is reversed, or declines have been relatively even across the age distribution. Figure 8 shows that only in part-time work can it be said that there is a clear pattern by which younger workers (those aged 16-35) have seen the biggest falls. The situation is reversed for agency workers, and more mixed in terms of ZHCs and self-employment.

Figure 8: **Declines in 'atypical' work have not disproportionately benefitted younger workers**

Percentage change, from peak, in share of people employed in various forms of atypical work



Source: RF analysis of ONS, *Labour Force Survey*

In time, we will be able to gain a clearer understanding of which age groups are driving any further falls in atypical working. The initial evidence, however, is that we should not expect the rise in atypical work amongst younger workers to be fully reversed remotely swiftly. If this proves to be the case then many of the current generation of young people may end up spending a significant proportion of their working lives in such roles. Policy-makers should respond to this fact rather than hoping it will go away.

Those working regular hours on ZHCs should have the opportunity to move onto a more stable contract

With more atypical, sometimes insecure work, and the likelihood that a significant number of younger workers will spend more of their working lives in such roles addressing the negative aspects of atypical work is important for generational fairness. Now is also the right time to take action. Employment rates are at a record high and the labour market has proved impressively resilient, suggesting that an increase in regulation is unlikely to have a significant negative impact on employment. However, we should not be blasé about the fact that regulatory change could have disemployment effects.

The answer, though, is not to avoid making changes altogether. The introduction and annual uprating of the minimum wage is instructive and we should proceed similarly in introducing changes that address atypical work. As a well getting as a sense of the number of people who may be affected and some prediction of the possible employment effect, it is also worth assessing the impact after the introduction of new rules.

Whether or not the government should take action to prohibit or curb the use of ZHCs has been hotly debated for years. The TUC has called for all those on a ZHC to have the right to a guaranteed-hours contract and the Taylor Review called for ZHC workers to have the right to request a regular contract after a year. The government's response to the Taylor Review confirmed it was taking the right to request policy forward, but applying it to all workers rather than only those on ZHCs.

While a positive step, a right to request remains a much more limited offer to workers, with no guarantee that employers will agree, and power imbalances meaning that those on ZHCs may be concerned about falling out of favour. Previously, we have argued that after three months of employment, ZHC workers who are in practice doing regular hours should have the right to a fixed-hours contract guaranteeing them the average weekly hours worked over the previous three months.[23] This approach provides workers with more protection without denying firms the ability to use these contracts where appropriate (for instance for seasonal or temporary work) or where employees desire them. Although firms could continue to make use of them, if the right to be moved off a ZHC resulted in a broader reduction in ZHCs, then this may have some disemployment effect. However, it is likely to be very small.

i Policy option

After three months of employment, ZHC workers should have the right to a fixed-hours contract guaranteeing them the average weekly hours worked over the previous three months.

23 S Clarke 'Atypical day at the office' in S Clarke (eds) [Work in Brexit Britain: reshaping the nation's labour market], Resolution Foundation, July 2017

We need to disincentivise 'bogus' self-employment and offer more support to the self-employed

As well as the proliferation of ZHCs, perhaps the other most discussed labour market shift of the last decade has been the rise in self-employment. It is also apparent that this has been driven in part by younger, less qualified workers in lower-paid self-employment. Action is needed to ensure that self-employment is a genuine choice driven by preferences, rather than an opportunity to engage in tax arbitrage. To get to the root of the problem the tax treatment of employees and the self-employed should, as far as possible, be equalised. At present an employee pays approximately £8,000 tax on £30,000 earnings, whereas a self-employed person pays £5,600 and a company owner-manager pays £5,000. This provides incentives to individuals – particularly higher earners – to classify as self-employed, and incentivises firms to use self-employed subcontractors rather than employees.

The reason that their tax burden is lower is that the self-employed pay less in personal National Insurance Contributions (NICs) and do not pay the employer component of NICs. To discourage (mostly older, higher-paid) individuals engaging in tax arbitrage, the government should raise Class 4 NICs (paid by the self-employed). The Chancellor proposed raising Class 4 NICs to 11 per cent in the 2017 Spring Budget, before ruling it out, however the government should return to this idea.

But this step, albeit an important one, will not dim the incentives for employers to use self-employed subcontractors, which is the more important issue in terms of addressing insecure self-employment for younger workers. To address the fact that the there is no 'employer' component of NICs for the self-employed, the government should explore how PAYE-registered firms using self-employed labour could be charged a payroll levy equal to the amount of employer NICs they would need to pay to use an employee. A similar though more extensive reform advocated by the Social Market Foundation would be to charge firms and households using self-employed labour a 'transaction tax' on the services provided by any worker (self-employed or employee) similar to how VAT is charged at present on invoices.[24]

i Policy option

So as to discourage firms from using self-employed subcontractors the government should impose a payroll levy on PAYE-registered companies using self-employed labour. In addition to this Class 4 NICs should be raised to equalise rates with employees.

In conjunction with this, the government should ensure that the self-employed do not miss out on the rights and benefits enjoyed by employees, something that the Association of Independent Professionals and the Self Employed has been calling for.[25] We have discussed this issue at length elsewhere and found that it would be relatively easy and inexpensive (costing around £50 million) to extend statutory maternity and paternity pay to the self-employed. This would provide more generous support than the maternity allowance, which self-employed workers are currently eligible for, and offer

24 R Reeves, *Working it out: responses and recommendations to the rise in self-employment*, Social Market Foundation, February 2017

25 IPSE, *Under Pressure: Enabling the vulnerable self-employed to break free*, December 2017

self-employed people the same rights to shared parental pay and leave as their employee partner currently has. Contributory JSA could also be extended to those self-employed workers that have made the necessary Class 4 national insurance contributions (NICs) at a cost of around £50 million.[26] It would be more challenging to extend statutory sick pay to the self-employed (and is likely to cost a minimum of approximately £340 million) but at the very least self-employed workers experiencing health problems should be able to access publicly available support.[27]

Policy option

So as to support workers genuinely choosing self-employment, the government should extend statutory maternity, paternity and shared parental pay to the self-employed. Contributory JSA should also be extended to the self-employed that have made the necessary Class 4 national insurance contributions.

As well as tax, rights and benefits, the government needs to consider how it regulates self-employment. In one respect this is about providing clarity around employment status. The government has already demonstrated its interest in this issue, launching a consultation on employment status in response to the Taylor Review.[28] The draft legislation put forward by the Work and Pensions and Business, Energy and Industrial Strategy Committees could provide a sensible way of taking the question of who is self-employed further. The Committees argued that how far a worker is subject to control and supervision should determine their employment status and called for a shift in with whom the onus to prove this lies, from employees to employers. In conjunction with this, the Committees also called on the government to legislate so that all those who work for companies above a certain size are deemed 'workers by default', with the onus being on the firm to prove that people are genuinely self-employed.

More clarity for workers is sorely needed and, ultimately, this must come from the government rather than the courts. To that end, the government should bring forward legislation to simplify and codify the various tests for employment status so that it is easier to determine someone's employment status.

Policy option

The government needs to legislate and codify the tests for employmentstatus so that it is easier to determine an individual's employment status. Furthermore, as far as possible, it should be relatively easy and cheap to determine someone's status with the responsibility being on the firm to do so.

26 S Clarke 'Atypical day at the office' in S Clarke (ed.) *Work in Brexit Britain: reshaping the nation's labour market*, Resolution Foundation, July 2017

27 The government recently ended referrals to its Fit for Work Service. Employers and GPs could refer staff to the service which provided occupational health assessments for employees at risk of long-term sickness absence. The self-employed were not permitted to use the service.

28 BEIS, *Good Work: A response to the Taylor Review of Modern Working Practices*, February 2018

As well as changing the regulations so that they provide more clarity the government should ensure that the new rules are properly enforced. Encouragingly, the government's response to the Taylor review showed that it takes enforcement seriously, promising to do more 'naming and shaming' of poorly-behaving firms and increasing fines for repeat offenders.

Beyond the issue of employment status, it is also important to remember that low-earning individuals who are classified as self-employed remain beyond the protection of the minimum wage. In previous work, we have outlined how some elements of low pay protection could be extended to some self-employed workers. The target group for such a policy should be the self-employed who are 'price-takers', that is those who are carrying out work but without control over the price they charge, for example hairdressers who have no control over how much they charge for a haircut. Minimum wage protection for this group could be achieved through a test of whether a person working in a 'reasonable' way would earn the minimum wage – similar to the piece rates test in the existing National Minimum Wage regulations for workers.[29]

Policy option

The government should explore how minimum wage protection can be extended to a subset of the self-employed who carry out work without any control over the price they charge.

The government should explore how overtime pay can help raise returns in the lowest-paying roles

There may also be ways to discourage the use of atypical working arrangements by firms, or increase the rewards to workers that carry out such work. In terms of addressing the issue whereby agency workers do not benefit from the same rights as employees after 12 weeks – the government is currently seeking evidence to "determine the extent of abuse" of this rule – we support calls to prohibit the use of the Swedish Derogation in agency worker contracts.[30] This should prevent firms from paying agency workers less than regular staff.

Another proposal made as part of the Taylor Review was for a minimum wage premium for non-guaranteed hours to address the insecurity associated with zero-hours and short-hours contracts. The Review's proposal has shone a useful light on the issue of non-guaranteed hours as overtime is a large part of the UK labour market, with one in ten employees doing some overtime. Furthermore, overtime is particularly important for younger workers: overtime hours form 17 per cent of the hours worked by those aged 16 to 19, and 9 per cent for those aged 20 to 24. By comparison, overtime hours form just 5 per cent of the total hours worked by those aged 30 to 60. Unsurprisingly, the result is that overtime pay forms a large share of total pay for younger workers, accounting for nearly a fifth of the total weekly pay of those aged 16 to 20.

29 C D'Arcy, *The minimum required? Minimum wages and the self-employed*, Resolution Foundation, July 2017

30 The 'Swedish Derogation' under the Agency Workers Regulations 2010 is an exemption from the right to equal pay (but not to equal treatment on holidays and working time) for agency workers. If this clause is not triggered then agency workers should receive equal pay to employees after being employed for 12 weeks.

Given that overtime pay is particularly key for younger workers, we have recommended that the government devotes more attention to this issue. At a minimum, workers should be explicitly protected when turning down non-guaranteed hours and the government should also explore if rules that limit the extent to which firms can change people's shifts at short notice should be introduced.

Policy option

Workers should be explicitly protected when turning down non-guaranteed hours. The government should introduce rules that outline the minimum notification that firms are required to give workers if they wish to change their shift.

A more significant shift that the government should trial is making overtime premia compulsory. Currently, only one in five employees that work paid overtime receive time-and-a-half, with half of all overtime workers getting less than a 10 per cent uplift. Younger workers are less likely to receive a paylift with the typical overtime worker aged 16 to 24 receiving virtually no premium while for those in their 30s it is above 15 per cent. Although some caution is merited – and the government is right to have asked the Low Pay Commission to explore this question – trials of different overtime premia would be welcome in order to rebalance the costs and benefits of non-guaranteed hours between firms and workers.

Setting the uplift at between 10 per cent and 50 per cent ('time-and-a-half') would reflect current practice, with pilots in a handful of sectors a sensible way to explore its effect. Exactly who the premium affects and how it is calculated should be varied too, for instance requiring any non-guaranteed hours to be paid a premium above the minimum wage, or rules that guaranteed overtime premia of a fixed percentage e.g. time-and-a-half for all workers earning up to a given hourly rate.[31]

Policy option

The government should pilot different pay premia policies for non-guaranteed hours.

Because the NLW has been hugely important in raising the wages of the lowest paid, 2020 is the time to take stock

Although the government should do more to regulate overtime pay, it has taken great strides recently in terms of minimum wage regulation. The National Living Wage (NLW) has increased the real-terms value of the minimum wage for those aged 25 and over by 9 per cent since its introduction in 2016.

31 For a full overview of the various options see C D'Arcy, *Time for time-and-a-half? Exploring the evidence and policy options on overtime*, Resolution Foundation, December 2017

While recognising this significant uplift, some organisations – such as the Labour Party and the TUC – want to go further. Both have called for a higher minimum wage (£10 by 2020) and for this to be extended to workers above 21. At present, 14 per cent of 21 to 24 year olds were paid less than the NLW in April 2017.[32]

The early evidence on the NLW suggests that it has not had a negative impact on employment for low earners. Nonetheless, and with only two of the planned five 'above-earnings' increases implemented so far, immediate additional changes to the UK's minimum wage settlement while it is still in flux may be ill-advised. When the NLW is fully implemented in 2020, however, the case to review the various rates and their levels appears much stronger. The Low Pay Commission (LPC) has indicated that it will review the functioning of the youth rates and is commissioning further research into how young low-paid people have fared of late.

One proposal the LPC should consider in its review is whether the age threshold for the NLW – currently at 25 – should be lowered. In weighing this decision, the review should be informed by ongoing research as well as a recognition that young workers are most affected by minimum wages. While any specific age limit is likely to be – at least to some extent – arbitrary, 23 and 24 year olds are likely to have finished their principal education and have spent some years in employment so the case for treating them differently to 25 year olds is relatively weak. As with any change to the minimum wage, the effect of doing so should be carefully monitored, with a delay until the NLW has met its target of 60 per cent of median earnings in 2020 appropriate.[33]

As part of its reflection on youth rates, the LPC should also consider whether the framework could be simplified. The number of age-related rates has increased over the years, with five currently in place. While there is merit in maintaining different rates for some younger workers, it may be that today's system is overly complex with little sense of the benefit or risk of the different rates for apprentices, teenagers and those in their early 20s. This complication will only be compounded if a recommendation of a higher minimum wage for non-guaranteed rates is added.

The proportion of young workers paid at their age-appropriate rate has fallen, employment has grown strongly for those aged 18-24 and not in full-time education and the apprenticeship levy has offered another incentive for firms to take on apprentices.[34] In light of these favourable conditions, reducing the number of age bands from the current five may well be justified, simplifying the framework considerably while retaining some valuable variation. Again, a close eye should be kept on the impact of any such change, particularly when the labour market is looser.

Aside from the legal minimum wage many employers have raised salaries by adopting the 'Real Living Wage', a voluntary wage rate based on a calculation of what individuals need to live on; currently £10.20 in London and £8.75 across the rest of the UK. The government should do what it can, possibly by increasing the share of public sector employees paid the Real Living Wage, to encourage more firms to adopt the living wage.

32 Low Pay Commission, *Recommendations on the National Minimum Wage*, November 2017

33 Given the NLW's target is based on the earnings of all those aged 25 and over, the addition of younger workers could complicate the calculation. While there remains a lack of clarity over how exactly the NLW will be increased after 2020, if this is in line with median earnings growth for all workers, including younger workers would not be problematic.

34 Low Pay Commission, *Recommendations on the National Minimum Wage*, November 2017

Policy option

Review the minimum wage rates in 2020 with a view to including younger workers in the NLW and reducing the number of age-related rates below this.

Section 4

A Better Deal for improved workplaces

A greater share of younger workers are employed in lower-paying sectors than previous generations. Compared to those born a decade earlier, for those born in the 1980s there has been a big increase in the share of those in their late 20s working in retail, hospitality, social care and other lower-paid service sectors. At the moment there are 1.7 million people aged 18 to 35 working in retail, a further million working in hospitality and 330 thousand in social care.

These industries tend not to be good at getting people out of low pay, previous work has shown that you are less likely to escape low pay if you work in the hospitality sector and that in 2016 43 per cent of people who had failed to escape low pay over the previous decade worked in retail. As well as greater numbers of younger people working in these sectors, workers are moving jobs within these sectors less and moving into other sectors at a lower rate. The result is that more are remaining with their employer and in their sector for longer.

Policy therefore needs to help people move (discussed in Section 5) but we also need to change the status quo in these sectors and so a new focus on firms and industries, not just workers, is required. To jolt industries out of the low-pay, low-expectations equilibrium, government needs to improve management processes and carve out a larger role for unions and worker representation.

This involves two things. The first is that the government needs to forge new partnerships with important lower-paying sectors, such as social care, retail and hospitality, to improve pay and progression opportunities.

The second is improving worker voice and bargaining power. We need to ensure that more firms have formal pay review processes in place that provide the necessary information to staff. With the decline in the importance of collective bargaining, individuals need tools so that they are able to effectively represent their interests to management. Younger workers also want it to be easier for them to decide if they'd like their interests represented by unions. To that end government needs to make it easier for them to join unions and unions need to do more to make themselves appealing to younger workers.

Younger people are more likely to work in lower-paying sectors than previous generations

Part of improving the opportunities open to the younger generation is about tackling some of the worse elements of insecure, often low-paid, work. However, this is just the start. Building on the policy options for regulatory change discussed in Section 3, this section outlines how we can improve progression opportunities in lower-paying sectors. From the point of view of individuals, this is important because younger workers are increasingly likely to work in relatively lower-paying sectors, and so improving pay, conditions and career prospects in these sectors will improve their working lives. From the point of view of the economy, this is important because many lower-paying sectors account for a significant proportion of employment and evidence suggests that they are less productive than their counterparts in other developed economies.[35]

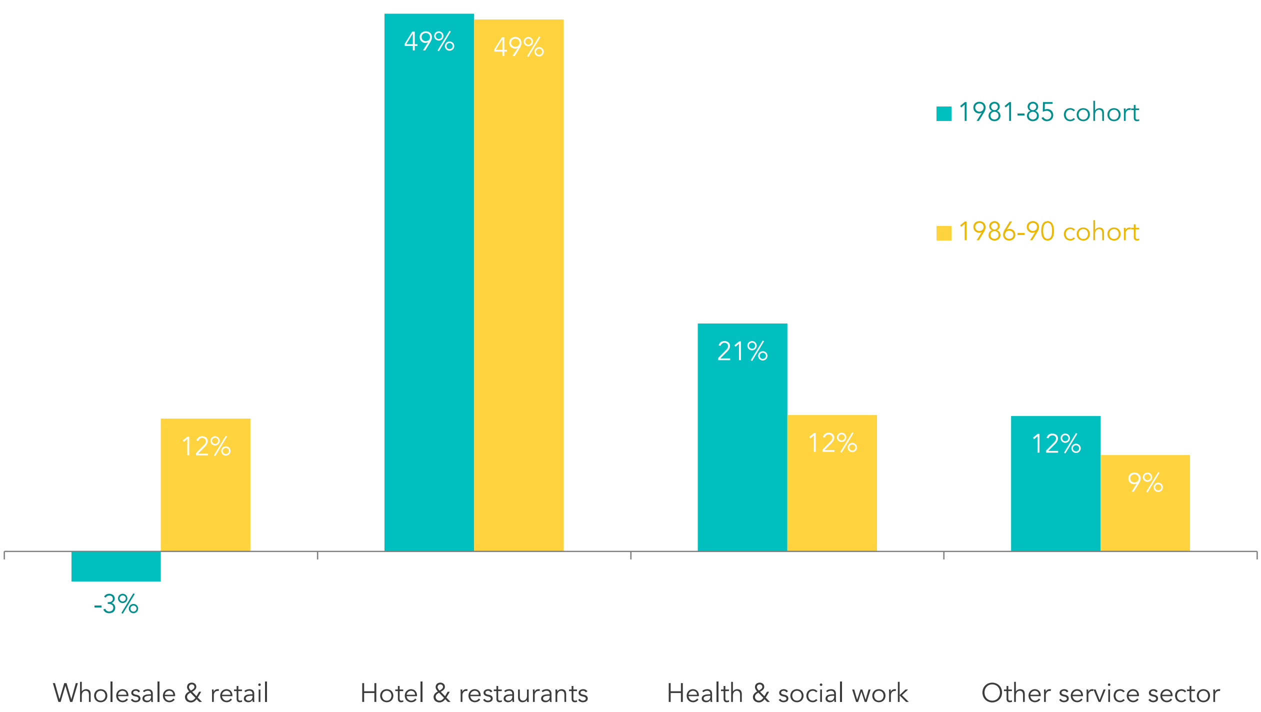
35 S. Thompson et al., *Boosting Britain's Low-Wage Sectors: a Strategy for Productivity and Growth*, Institute for Public Policy Research, 2016

Furthermore tackling insecure work should not be seen as a separate endeavour to that of improving progression. Increasing the security and stability of work will encourage a better approach to people management; firms may be more willing to invest in staff in permanent or more secure roles, while employees are likely to feel more motivated.

In Figure 6 we showed that relative to previous generations younger workers were more likely to find themselves in lower-paying occupations. The evidence is that they are also more likely to find themselves in lower-paying sectors. For those born in the 1980s there has been a large increase in the share of people aged 26 to 30 working in hospitality, health and social work, other service industries, and particularly for younger cohorts, retail compared to those born in the 1970s (Figure 9). The most dramatic rise is in the hospitality sector where the share of people in their late 20s working in the sector increased by nearly 50 per cent for those born in the 1980s. There are now a million people aged 18 to 35 working in hospitality, around 8 per cent of the workforce. There are a further 1.7 million (16 per cent of the workforce) in retail and 330 thousand (40 per cent of the total) younger workers in social care.

Figure 9: **Younger people are more likely to work in lower-paying sectors than previous generations**

Change in employment share between this cohort and cohort 10 years before at 26-30



Source: RF analysis of ONS, *LFS*

While a greater proportion of younger workers are engaged in lower-paying sectors the evidence is that these sectors tend to do a poor job of helping people escape low pay. Previous work has shown that you are less likely to escape low pay if you work in the hospitality sector and that in 2016 43 per cent of people who had failed to escape low pay over the previous decade worked in retail.

Job-to-job moves have declined within lower-paying sectors

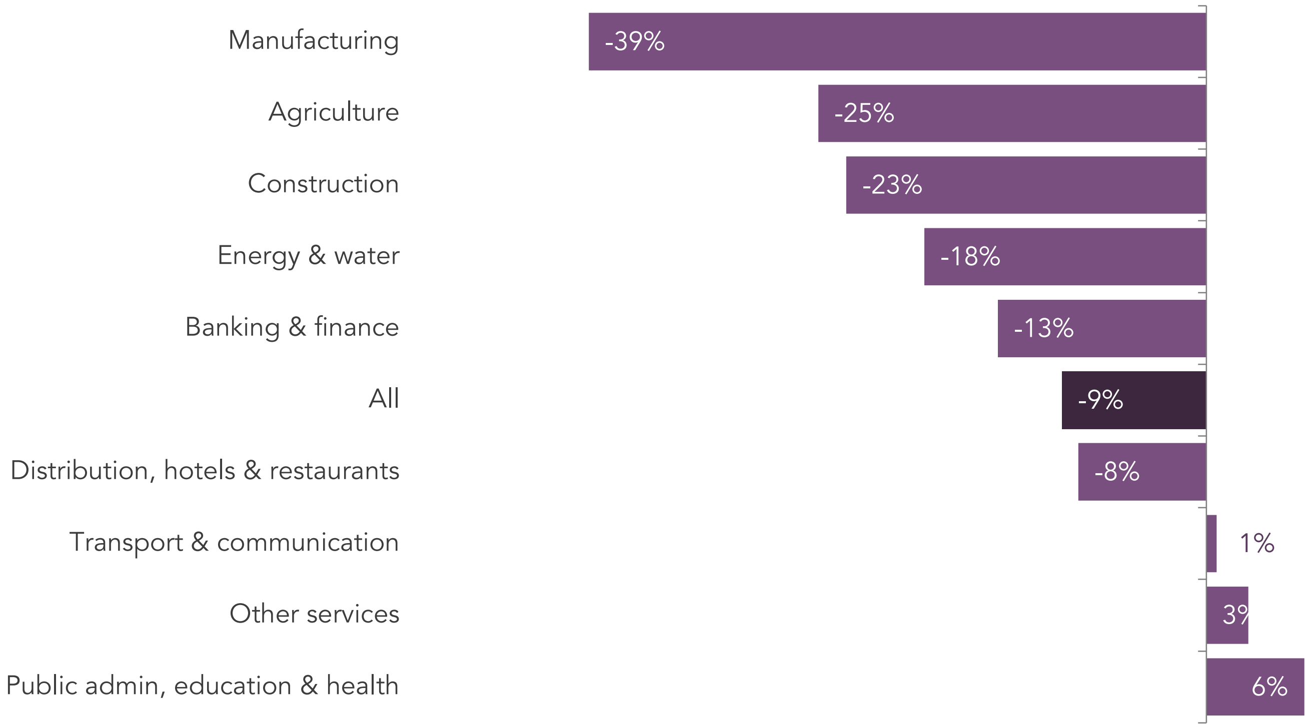
Failing to escape low pay is often cause by remaining in the same, low-paid, role. Part of the problem therefore is the fact that younger workers are remaining with their employer for longer. For the cohort born between 1975 and 1977 (who were 24 to 26 in 1999-2003) 20.5 per cent had been with their employer for five years or more, yet for the cohort born between 1987 and 1989 (who were 24 to 26 in 2011 – 2015) this figure had risen to 24.3 per cent. The younger cohort – perhaps due to the uncertain economic conditions of the time – were more loyal, but were not rewarded for it: the average annual real pay rise for those remaining with their employer fell from 5.5 per cent for the 1975 to 1977 cohort to 1.5 per cent for the 1987 to 1989 cohort.

The fact that people are remaining in lower-paying sectors for longer may be less of a problem if people are more likely to move into higher-paid roles within these sectors. However, younger workers are also moving jobs less *within* sectors. Part of this is the result of the financial crisis but the decline in within sector job-to-job moves began before the crisis, and for younger workers in particular, moves have not fully recovered since. Moves for those aged 18 to 35 peaked at 4.8 per cent per year in 2000 and stood at 4.3 per cent on the eve of the crisis in 2007. From a nadir of 2.9 per cent in 2008 moves are now back at around 4 per cent per annum, but there is little evidence that they are nearing the 5 per cent of the early 2000s.

Fewer job-to-job moves limit the opportunities to move into higher-paying roles that could help to overcome any pay trajectory damage individuals have suffered from the financial crisis. Furthermore, there is no evidence that the lower-paying sectors that younger workers are more likely to be working in are immune to this problem. In fact, the fall has been more pronounced in some lower-paying sectors. Figure 9 highlights that the share of younger workers (between 18 and 35 years old) moving jobs but remaining in the same sector was 9 per cent lower in 2016 than before the crisis, however the decline was more pronounced in some sectors, particularly construction, manufacturing and finance, partly because these sectors are smaller than they were before the crash (and so there could be fewer opportunities to move into new roles within these sectors). The decline in the relatively lower-paying sectors of distribution, retail, and hospitality was in line with the national average, and is perhaps worrying given that, aside from wholesale and retail, these sectors are larger than they were before the crash.

Figure 10: **Job-to-job moves are further from their peak in many lower-paying sectors**

Within-sector job-to-job moves in 2016 compared pre-crisis (2000 - 2007) average: 18 – 35 year olds



Notes: A 'within-sector' job-to-job move is when an employee moves employer but remains in the same sector.

Source: RF analysis of ONS, *Two-quarter longitudinal Labour Force Survey*

Figure 9 suggest that younger workers are less likely (or at the very least no more likely) than previous cohorts to move into new roles within their sector. While some of this inertia is surely down to the financial crisis, the evidence is that these shifts preceded the downturn. The upshot is that longer tenures, in some cases in lower-paying sectors, may be more common for this generation than the last.

Younger workers are also less likely to move sectors

Figure 9 examined moves *within* a sector, but what about moves *out* of sectors? The general decline in job-to-job moves amongst younger workers is likely to mean that out-of-sector moves are less common now than in the past, and indeed this is what we find. Job-to-job moves that also involve a worker leaving the sector are approximately 16 per cent below their pre-crisis average for 18 to 35 year olds. The fact that there was a decline (though less marked) before the crisis and that there has been less of a decline for the over-35 group suggests that, again, although cyclical forces are at work, we should not assume that all of the decline will be made up in the future.

Policy-makers need to plan for the eventuality that, either because there has been a structural shift, or the hangover from the recent financial crisis has gone on so long that it is likely to continue until the next downturn, greater numbers of younger workers will spend a large part of their working lives in relatively low-paying sectors.

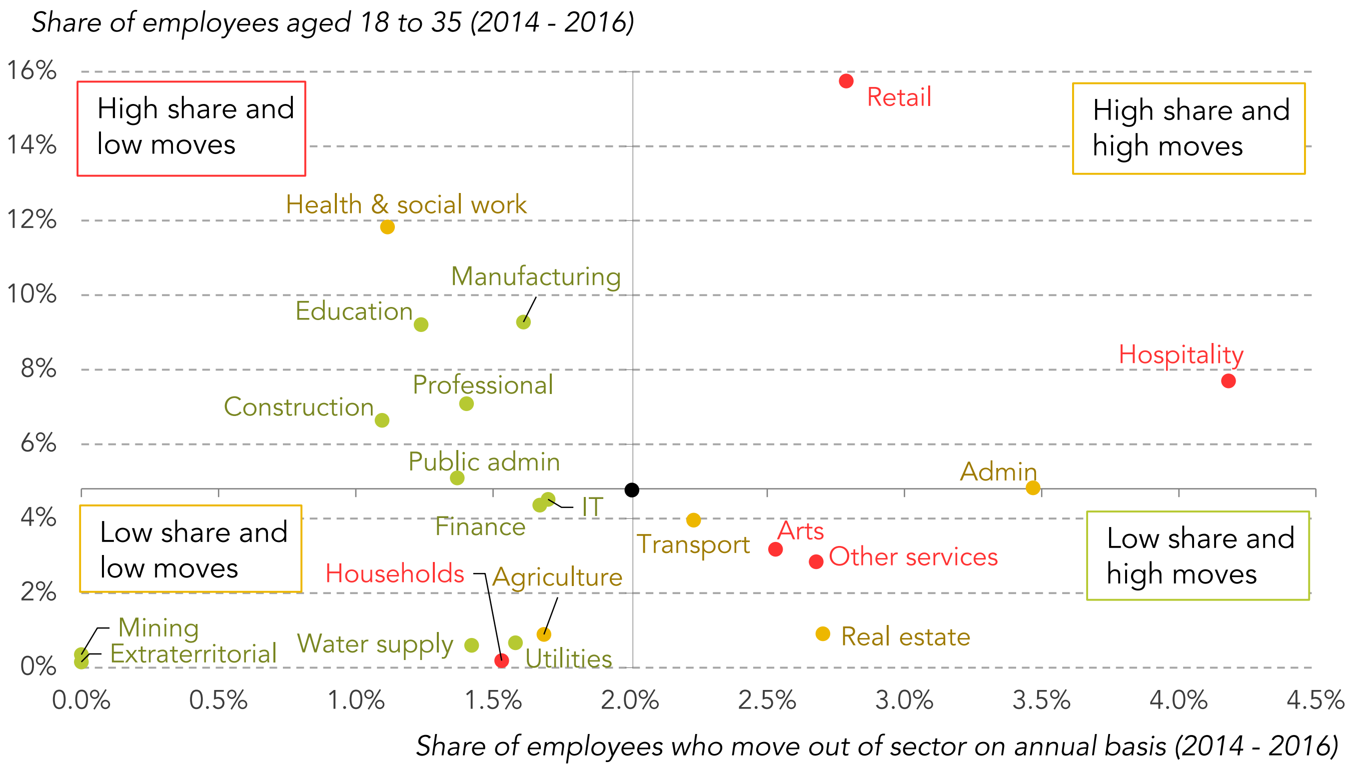
We need to form new partnerships with lower-paying sectors

Section 3 outlined how we can address the atypical work that is often common in lower-paying sectors. Going further, we also need to work with sectors to improve opportunities for progression, while also supporting people who want to move jobs or sectors (the latter is discussed in detail in Section 5).

A good starting point is to get a sense of what sectors tend to retain younger workers, and struggle more to keep them. This could indicate those sectors struggling to keep staff, and which should be incentivised to improve retention. In other cases moves out of the sector may already be relatively rare and so policy needs to ensure that people do not remain stuck in low-pay. Figure 10 compares the out-of-sector job-to-job moves rate (x-axis) with the proportion of total 18 to 35 year old employment accounted for by the sector (y-axis). Figure 10 also indicates whether the sector is, on average, low, medium or high paying.[36] Health and social work stands out: the sector accounts for 12 per cent of 18–35 year old employment, out-of-sector job-to-job moves are below average and so is pay (by approximately 4 per cent). Construction also employs significant numbers of younger people, and has a low sectoral job-to-job move rate, but pay is approximately 30 per cent above the median.

36 This is indicated by the colour of the dot and label. Red indicates that median wages in a sector are more than 10 per cent below the whole economy median. Green indicates that wages are more than 10 per cent above the whole economy median and yellow indicates that the sector falls in between these two points.

Figure 11: **Moves out of health and social work are far rarer than those out of retail or hospitality**



Notes: Earnings in the sector is indicated by the colour of the dot. Red indicates that median wages in a sector are more than 10 per cent below the whole economy median. Green indicates that wages are more than 10 per cent above the whole economy median and yellow indicates that the sector falls in between these two points.

Source: RF analysis of ONS, *Two-quarter longitudinal Labour Force Survey*

By contrast, retail and hospitality have higher rates of out-sector job-to-job moves, are amongst the lowest paying on average and both also employ a significant share of young people. While this suggests that a greater proportion of younger workers in these sectors may quit the industry for higher pay, those that remain in the industry are more likely to remain stuck in low pay. [37]

The fact that job-to-job moves both within and between sectors are so important for both the way individuals fare in the labour market but also the dynamism of the economy as a whole means that active labour market policy needs to consider firms as well as individuals. The government should explicitly recognise the importance of sectors such as social care, hospitality and retail to the life chances of todays' younger generation and work with these sectors to raise productivity and opportunities for progression. Doing so will require a range of responses, including changes to business models and improving management, capital investment, and greater investment in staff.

In terms of changing business models, greater collaboration between firms, government and workers is required because evidence suggests that firms, particularly smaller ones, are more likely to be reactive than proactive. For instance, in the face of some significant changes to the business landscape, in train or imminent, the preparedness

37 C D'Arcy and D Finch, *The Great Escape? Low pay and progression in the UK's labour market*, Resolution Foundation, October 2017

of some firms seems questionable. Our polling –undertaken by ComRes in April 2017 – indicated that although the majority expected the shift to affect them, only 15 per cent of firms said they would react to a possible decline in migration by changing the way they operate. The most common way these firms intended to change was to require existing staff to do more. This was more popular than investing in staff or in machinery that could allow staff to do their job better.[38]

On the other hand, more firms appear willing to try and raise productivity in response to the NLW. In late 2016, two in three firms affected by the NLW said that they have attempted to raise productivity in response.[39] While only time will tell how firms react to Brexit, the NLW and other policies such as the Apprenticeship Levy and auto-enrolment, government should take a more active approach in working with sectors to try and get the best outcome.

Turning to management, research increasingly points to the importance of good management in firm productivity,[40] and the ONS have recently conducted their own research on UK firms which suggests that more structured management is associated with greater productivity at the firm level, even controlling for a range of possible confounding factors. Particularly important is for firms to have systems to facilitate continuous improvement and quality practices around promotions. The ONS estimate that if a firm moves from the median level of management practice to the 75th percentile, productivity rises by 8.7 per cent.[41]

Improving management and the way firms are run has been discussed in the past in relation to some of the lower-paying sectors we have identified above. In particular the UK Commission for Employment and Skills (UKCES) ran a number of pilot projects in the retail and hospitality sectors aimed at improving productivity (Box 1).[42] However we need to go further than just micro initiatives aimed at raising productivity, there needs to be an explicit focus on job quality and progress and government, as well as industries, need to be willing to dedicate resources to the task.

38 K Henehan, 'A firm response: Business responses to the labour market tipping point will vary by sector' in S Clarke (eds) *Work in Brexit Britain: reshaping the nation's labour market*, Resolution Foundation, July 2017

39 C D'Arcy, *Industrial strategies? Exploring responses to the National Living Wage in low-paying sectors, Resolution Foundation for the Low Pay Commission*, December 2016

40 N Bloom, R Lemos, R Sadun, D Scur and J V Reenen, "The New Empirical Economics of Management", CEP Occasional Papers, 41, Centre for Economic Performance, LSE, 2014

41 G Awano, A Heffernan and H Robinson, *Management practices and productivity among manufacturing businesses in Great Britain: Experimental estimates for 2015*, ONS, January 2017

42 UKCES, Evaluation of UK Futures Programme Final Report on Productivity Challenge 3: Pay and Progression Pathways in Hospitality and Retail, August 2016

Box 1: Raising productivity in retail and hospitality

The UK Futures Programme (UKFP) ran from April 2014 to June 2016. The Programme made small-scale investments in projects to develop workforce skills in sectors struggling to raise productivity. As part of this, a number of projects were run in the retail and hospitality sectors. These were evaluated by UKCES. Some of the most important findings included:

Firms

Job design is important. Creating more senior part-time and flexible roles can make it easier for some staff to progress.

Information for employees makes it easier for staff to understand how they can progress. Providing staff with information upon arrival and using it in recruiting helped people know what options for progression there were, what skills were required and what the rewards were.

Longer, more stable contracts provided staff with the confidence that their position was more secure improved engagement and encouraged investment in people.

It is important to engage for a relatively long period of time given that during some periods firms can be too busy to make fundamental changes to their business models.

Government and industry

Industry-wide engagement is needed to encourage professionalism and to develop skills and qualifications that are transferrable across firms.

Industry-wide data on pay and progression is needed but requires government to convene employers and collate this.

Inter-firm moves are good for industries as a whole, but without collaboration it can be difficult for individual firms to see this.

In terms of investment, the prospects for different sectors vary, with the opportunities for automation higher for some lower-wage sectors such as agriculture and construction than for others, such as health and social work. Previous research however has shown that there is no strong evidence that investment over the past two decades has been higher in lower-paid industries, even in those for which there are greater opportunities for automation.[43] There is also evidence that lower-paid industries in the UK invest less than lower-paid sectors in other European countries.[44] A failure to adequately invest is important because recent research suggests that around half of the UK's recent productivity slowdown can be explained by slow capital growth.[45]

Finally, it is important to improve skills and build human capital. While we deal with this extensively in a separate policy paper, here it is worth simply saying that part of the solution involves providing a new skills offer to younger people poorly served by the 16 to 18 education system, particularly as they – more so than previous generations – are now in a labour market with greater insecurity and fewer opportunities for training.[46]

43 K Henehan, 'A firm response: Business responses to the labour market tipping point will vary by sector' in S Clarke (eds) [Work in Brexit Britain: reshaping the nation's labour market](), Resolution Foundation, July 2017.

44 S Thompson et al., *Boosting Britain's Low-Wage Sectors: a Strategy for Productivity and Growth*, Institute for Public Policy Research, 2016

45 Bank of England, *Inflation Report: February 2018*, February 2018

46 Forthcoming from Resolution Foundation

These partnerships should involve government, employers and employees

The government is already engaged with a number of sectors as part of its industry strategy. The current deals, however, tend to ignore large, lower-paying sectors (with construction aside), and do not include specific provisions for employee collaboration. Most importantly though the sector deals do not explicitly focus on the nature of work and progression.

Given this, a rethink it required. Improving pay and progression opportunities in some of the country's lowest paying sectors involves new partnerships between these sectors and government. This partnerships need to be built on collaboration between firms, employees and policy makers, and need to represent the views and needs of those workers in most need of support. The involvement of workers and/or worker representatives is needed so that there is sufficient focus on improving management quality and providing opportunities for progression. The National Retraining Scheme, announced in last year's Budget, which brings together the CBI and TUC to oversee a scheme to help adults retrain and obtain new skills, provides a possible blueprint. The automotive sector is a good example of where unions, sector bodies and employers have worked together with policy makers over a number of years, this and similar tripartite structures to the one discussed above should be part of the new partnerships.

In terms of which sectors the government should build new partnerships with, it was right to recognise in its recent industrial strategy white paper that "some of the biggest opportunities for raising productivity come in sectors of the economy that have lower average productivity levels" and to promise to "work closely with sectors such as hospitality, retail and tourism". However, to date no sector deals have been signed with the large, relatively low-paying, sectors which tend to employ significant numbers of younger workers social care, retail and hospitality.[47]

i Policy option

The government needs to create new partnerships with important lower-paying sectors, such as social care, retail and hospitality explicitly focused on progression and routes to higher productivity.

These partnerships should involve government, firms and employees working together to design and publicise clear progression paths that allow for progression by workers that may work part-time or in flexible roles. There should also be a recognition that greater professionalization and investment in staff should be part of the solution, and to this end firms should be incentivised to improve the skills of their workforce.

These new deals would also allow government and firms to respond to the unique challenges that certain sectors face. For instance in retail, this may involve ensuring that firms and employees are able to adapt to a world where commerce is increasingly done online. In hospitality, responding to the fact that vacancies in the sector are currently at a record high should be a priority. Social care should involve government and the sector coming together to decide how to appropriately finance the sector while ensuring that progression and worker development is part of the solution, not an afterthought.

47 The government has included one relatively low-paying sector – construction – as one of the four sectors with which it has signed a 'sector deal'. It has also established a sectoral council with the food and drink industry. The Business, Energy and Industrial Strategy (BEIS) Select Committee have said that they will be monitoring the impact that the industrial strategy has on the retail and hospitality sectors

To meet these goals, government and industry should provide funding for training and investment. The automotive sector deal includes over £1 billion of funding from government and the sector and similar resources should be mobilised to improve productivity in lower-paying sectors.

Improving the pay review process could combat low expectations amongst younger workers

As well as specifically working with lower-paying sectors, government should encourage a number of broader changes to business practices. One possible reason for the declining returns to tenure is that young people, as a result of coming of age during a decade of relatively low inflation, may have lower inflation and earnings growth expectations than previous generations.

Despite the fact that CPI inflation rose from 1.8 per cent to 3.1 per cent between January and November 2017, only a quarter of 15 to 24 year olds thought that prices had been rising by 3 per cent or more when surveyed in the third quarter of 2017. By contrast, this figure was 38 per cent for 35 to 44 year olds and 48 per cent for 45 to 54 year olds.[48] Perhaps linked to such low inflation expectations is the fact that the proportion of 15 to 34 year olds that plan to push for a pay increase in light of expectations of price changes has not changed significantly since 2012. If anything, a smaller share expect to push for a pay rise next year (9.4 per cent) than were planning to in 2012 (11.4 per cent), despite the much better state of the labour market.

If low expectations are partly to blame for the declining returns to tenure then there is a strong case – with collective pay bargaining becoming rarer, and the fall in coverage particularly pronounced for younger workers – to provide people with information to help them with pay negotiations. Such information – describing how to conduct annual pay reviews – is commonly available for employers,[49] but it is rare for employees to have a similar level of understanding. More firms should conduct formal pay reviews on a regular basis which staff fully understand and feel able to engage in. Staff should be made aware of when, and how often, pay reviews will happen. For each review, staff should be informed what their current rate of pay is, what it will be in the following period, what the difference is, in cash and percentage terms, and what the rate of (CPIH) inflation has been since the last review. It should also be clear how inflation has affected the real value of their pay. Firms should also be encouraged to publicise and explain the average pay increase.

i Policy option

All firms should have formal pay review processes in place that are understood by employees. In order to bring this about the government should provide publicly available guidance outlining the standards a good pay review process needs to adhere to. At each review, staff should be provided with information on their current rate of pay, any pay increase they will receive (in cash and percentage terms) and how inflation has affected their pay since their last review.

48 RF analysis of Bank of England, *Inflation Attitudes Survey*.

49 For example see CIPD, *The Pay Review Process*, January 2011

Increasing the opportunities for younger workers to come together to represent their interests can help tackle insecurity and improve progression

One of the reasons that more information about the pay review process and the pay of firms should be made available to younger workers is that declining union membership means that many workers do not have an organisation working on these issues on their behalf. 21 per cent of all people in employment are union members, down from 29 per cent in 1995.[50] Furthermore, declines in membership have been more pronounced among younger workers; today just 20 per cent of employees aged 26 to 30 are members of a union, down from 29 per cent two decades ago.[51]

These shifts have occurred in spite of the fact that young people are more positive about unions than older generations. To better understand these attitudes, we commissioned Ipsos MORI to survey 2,584 people across Britain/the UK, including 1,114 millennials in November 2017. Our polling shows that just 8 per cent of millennials would not join a union because they don't agree with them in principle, compared to 11 per cent of generation X and 13 per cent of baby boomers. Only 13 per cent of millennials find the culture of unions off-putting, while the figures are 17 per cent and 22 per cent for generation X and baby boomers respectively.[52]

To dive further into these findings, in January 2018 we held focus groups with 17 younger workers (aged 23-36). Each of the groups were broadly representative in terms of sex and ethnicity, with the average salary just under £20,000. One was held in a city in Yorkshire while the other was in a city in the Midlands, though in both groups the participants lived and worked in a variety of surrounding towns and cities. A little over half of the participants had changed job in the past two years while the rest had stayed with their employers.

The survey trends were broadly reflected in our focus groups. The vast majority of participants were not, and had never been, members of a union, though one was a member and two others had been in the past. Only one person described themselves as being opposed to unions in general.

Positive views about unions amongst young people (36 per cent of millennials think that unions do a good job of improving the pay of their members, compared to 14 per cent that think they do a bad job) suggests that there is an opportunity. Although only around one in five young employees are members of a union, one in four work in organisations in which colleagues are members.[53]

The evidence then is that younger workers are relatively well-disposed towards unions but are increasingly not members. The evidence from our polling and focus groups is that this is down to two things. The first is a lack of access to unions, the second is that they are unimpressed by the union offer. In terms of addressing the first issue the government should make it easier for younger workers to join unions. Our polling suggests that the younger generation are supportive of changes to make it easier for unions to reach them, but also want more from the union movement (Figure 12).

50 D Tomlinson, *Trade union membership has fallen further than ever before*, Resolution Trust, June 2017

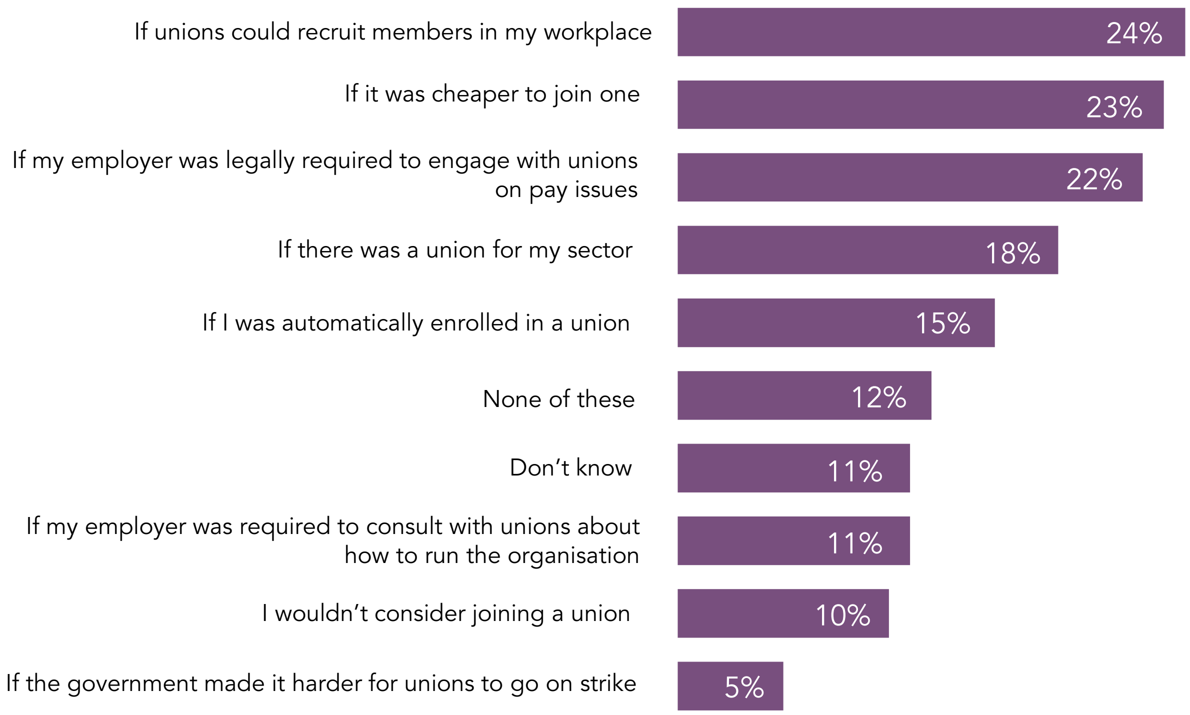
51 G Kelly & D Tomlinson, *Act now or shrink later: trade unions and the generational challenge*, Resolution Trust, September 2016

52 Ipsos Mori polling of 2584 adults (16 – 75) in Great Britain between 24th and 30th November 2017.

53 Ipsos MORI polling of 2584 adults (aged 16-75) in Great Britain between 24th and 30th November 2017.

Figure 12: **Young people want it to be easier for unions to recruit and for it to be cheaper to join one**

Which two or three of the following changes, if any, would be most likely to encourage you to join a union?



Base: all millennials aged 17 – 36 in Great Britain (n=1114)

Source: Prepared by Ipsos MORI, fieldwork 24th to 30th November 2017

Unions should take heart, and the government should take note, that millennials are positive about legislative action that would make it easier for unions to engage with workers and firms. Only 5 per cent of younger workers want the government to make it harder for unions to go on strike, while there is support for it being a legal requirement for businesses to consult with unions on pay. A quarter of all millennials would like it if unions were able to enter workplaces to recruit them. In our focus groups, few if any participants were aware that unions do not have the right to enter a workplace in order to recruit new members, and this was seen as an area where greater freedom for unions could be welcome.

The TUC have called on the government to give unions this right and have also argued that the requirement that an organisation have 21 employees for the rules around union recognition to apply should be dropped. Although more broadly related to employee voice rather than union representation, the Taylor Review called for a reduction in the threshold for the implementation of the ICE regulations from 10 per cent to 2 per cent of the workforce with the government launching a consultation into how to take this forward.

Given that our polling provides evidence that the younger generation may be more willing than older ones to support these and possibly other reforms the government should ascertain if the current regulations act as a barrier to younger workers joining.

In particular, the government should make it easier for younger workers to join unions and should encourage other forms of representation (see Box 2) that can help workers play a greater role in discussions around pay, progression and other workplace issues.

Policy Option

The government should permit unions to access non-unionised workplaces in order to offer them the chance of membership.

Box 2: New ways of representing the interests of workers

Recently a number of initiatives, both in the UK and elsewhere, have sprung up to represent workers. These initiatives (detailed below) have a wide range of goals, but they all want to put more power and control in the hands of workers and many use new technologies to overcome some of the difficulties of traditional organising. Some of these UK based 'Workertech' initiatives have been backed by the Resolution Trust, in partnership with Bethnal Green Ventures.

Organise

A UK start-up that has developed an online petitioning tool making clever use of targeted advertising to reach people about the issues affecting them at work. It's been running for little over a year and has already won improved pay and rights for a small number of workers at some of Britain's most well-known employers, including ITV, Tesco and McDonald's.

Labour Xchange

This new venture is a platform that seeks to match workers who want additional hours with businesses in need of short term labour. It's unique in so far as work carried out through the platform must be paid at least the 'real' Living Wage, and it's the workers who first express their availability before businesses are matched with them.

Co-worker

An established start-up based in the US. Co-worker runs petitions to galvanize workplace campaigns much like Organise in the UK. Successes include securing paid parental leave at Netflix and changes to the uniform policy at Starbucks. One in ten Starbucks employees worldwide have interacted with this platform.

Shyft

A US-based shift-swapping platform. Shyft takes some control over when, and how much, people work away from managers and puts it in the hands of the workers themselves. Instead of having to go through managers to swap shifts, employees can post shifts they can no longer work on the app to be picked up directly by their colleagues.

Although regulatory change can make it easier for unions to reach younger, non-unionised workers, this alone will not halt the decline in membership. The discussions in our focus groups suggest that a lack of knowledge about what unions actually do is a major barrier to increasing younger people's involvement. When asked for the first word that came to mind when trade unions are discussed, the most commonly cited was "strikes". But beyond strikes, negotiating with employers when redundancies were planned and representing employees having problems with their employer, there was a limited sense of the day-to-day work carried out by unions. While most participants had never received any information about unions, those who had felt the marketing materials were aimed at "old blood":

> "Seeing folk within my age group using the service, whether that be on marketing materials, leaflets, posters, even if a younger person rather than someone in their 40s or 50s is at the stall giving information about it, someone enthused about being part of a union. What it's done, examples of how it's helped young people progress in their work careers or protected them from being made redundant."

Improving the information available and making a strong case for unions appears all the more important given, our polling shows that millennials are not as confident as older generations in the effectiveness of unions in improving people's pay, ensuring their rights are respected and obtaining benefits for their members.[54] Data from the British Social Attitudes Survey also shows that 70 per cent of those aged 51 to 65 think that unions improve working conditions, whereas this figure is 58 per cent for those aged 16 to 35.[55] Millennials are more positive about the campaigning that unions do and unions' defence of their members' rights, than in their ability to help workers progress in their career or improve their pay.[56]

Our focus groups discussed what people would most like from a union. For some, an 'insurance' model was all they wanted. One non-member said: "It's a bit like insurance, but – I don't know if it is, I don't know that much about it! But it's just having that to fall back on. Like, you'd pay it for your phone because you think 'oh god, I can't do without my phone'. Because you know of the consequences if you didn't have your phone on you. You can't do A, B, C. But then you don't really think about it with your job, like, 'oh, if this happened'."

But for others, this wasn't viewed as enough to convince them. One woman explained she wouldn't join "unless you get something back from them. How long do we end up working for, for something that we might never use?" Interestingly, most participants understood that unions could help them understand their rights (the majority having little knowledge of these rights), but many felt that they were more likely to leave their employer if dissatisfied rather than seeking redress.

Other than insurance and information, opinions were mixed on what else unions could offer. Some mentioned helping them improve their progression prospects through training, while 'perks' like discount cards were supported, particularly by those who had recently left education and lost their student discounts. Some unions already offer such services and the TUC is currently investigating what others they can offer that will be most useful to younger workers. They also – like some in our focus groups – identified support for job progression as an important issue. [57] Some unions already offer support for progression but given its importance this is an issue that the union movement should place more emphasis on in future.[58]

As well as progression, our polling suggests a number of other areas that could be worth exploring. The first is cost: nearly a quarter of non-unionised millennials felt that

54 Ipsos Mori polling of 2584 adults (16 – 75) in Great Britain between 24th and 30th November 2017.

55 RF analysis of British Social Attitudes Survey, 2016

56 Ipsos Mori polling of 2584 adults (16 – 75) in Great Britain between 24th and 30th November 2017.

57 A Bance, *Prototyping a new trade union offer*, Medium, September 2017

58 The Prospect Union already runs a careers website for professionals "Career Smart".

reducing membership costs would encourage them to join a union. The Fabian Society recently argued that unions may want to consider introducing discount membership rates for under-35s and workers in unrecognised workplaces.[59] Many unions already offer reduced rates for those on low incomes, or those who work part-time. Many also offer introductory or student rates. However, fee policies could explicitly recognise the need to recruit younger workers.

The majority of participants in our focus groups were unaware of how much it costs to be a union member. When asked, most felt that £5 per month would be acceptable, well below the rates currently charged by most unions for typical members. As touched on above, among those who had previously been members, the monthly fee was not deemed value for money: "I did join the union but I never used so I came out of it. Just a waste of money each month coming out of my wages... About £12 a month. But over three years it was, like, that could've been saved for a holiday or something. I never used it so I just came out of it." Another said: "One of my colleagues said, 'well you know if you do get into a spot of trouble you just start paying for it and they'll help you'... So I cancelled it."

Of course, simply cutting monthly dues is likely to impair unions' ability to function, barring a sizeable increase in the number of members. Ideas that drew some support from the participants included an introductory offer, lower rates for younger people and a lower monthly rate that rises in the months when you avail of union services. While there are drawbacks to each of these, exploring such options could help unions to attract more younger members.

Another issue that arose in our polling and focus groups was that of providing a more bespoke offer to workers in different sectors. Nearly one in five millennials said that the lack of a union for their sector was a barrier to them joining. However, many participants in our focus groups felt that unions did not necessarily need to focus on a specific sector, perhaps reflecting the fact that in many sectors union membership is very low, particularly amongst younger workers, and so it is more the lack of any union could be the problem. A good example of this could be retail, which is the one sector in which (albeit low) union membership has not declined. On the face of it this could reflect the fact that the Union of Shop, Distributive and Allied Workers (USDAW) provides a sector-specific offer, but it is more likely because the union has been successful in working with large employers – such as Tesco – to improve staff's pay and conditions. Although we should not rule out that a more sectorally-focused offer could appeal to millennials, it would appear that other issues such as cost, access and influence are more important.

i Policy option

In order to attract them unions should consider a range of approaches to make it more economical for younger workers to join. These could include longer introductory rates for new members or cheaper fees for younger workers.

59 C Tait, *Future Unions: Towards a membership renaissance in the private sector*, Fabian Society & Community, November 2017

Section 5

A Better Deal for improved opportunity

Previous labour market programmes have tended to focus on the opportunity for those out of work to find jobs. But the UK's experience of late indicates that a new drive to boost opportunity for those who are in work but held back is needed. During the recent recession, around 43 per cent of those aged 21 to 40 did not get a 5 per cent real pay rise over a five-year period. That proportion was far higher for lower earners. For the youngest workers, the recent period has been worse than the recession of early 1980s for pay progression.

One of the things driving this failure to progress is the fact that job-to-job moves by younger workers have declined significantly. Younger workers are moving jobs at a lower rate than their predecessors and this decline began before the crisis. To restart pay progression, policy-makers need to devise a new active labour market programme targeted at people in work who have the desire, but face barriers, to moving jobs. This programme should offer support to those who do not have the financial resources to meet the upfront costs sometime associated with moving jobs, those who cannot afford to relocate for better-paid work and those who need to retrain to get on.

For many pay progression came to a halt following the recession

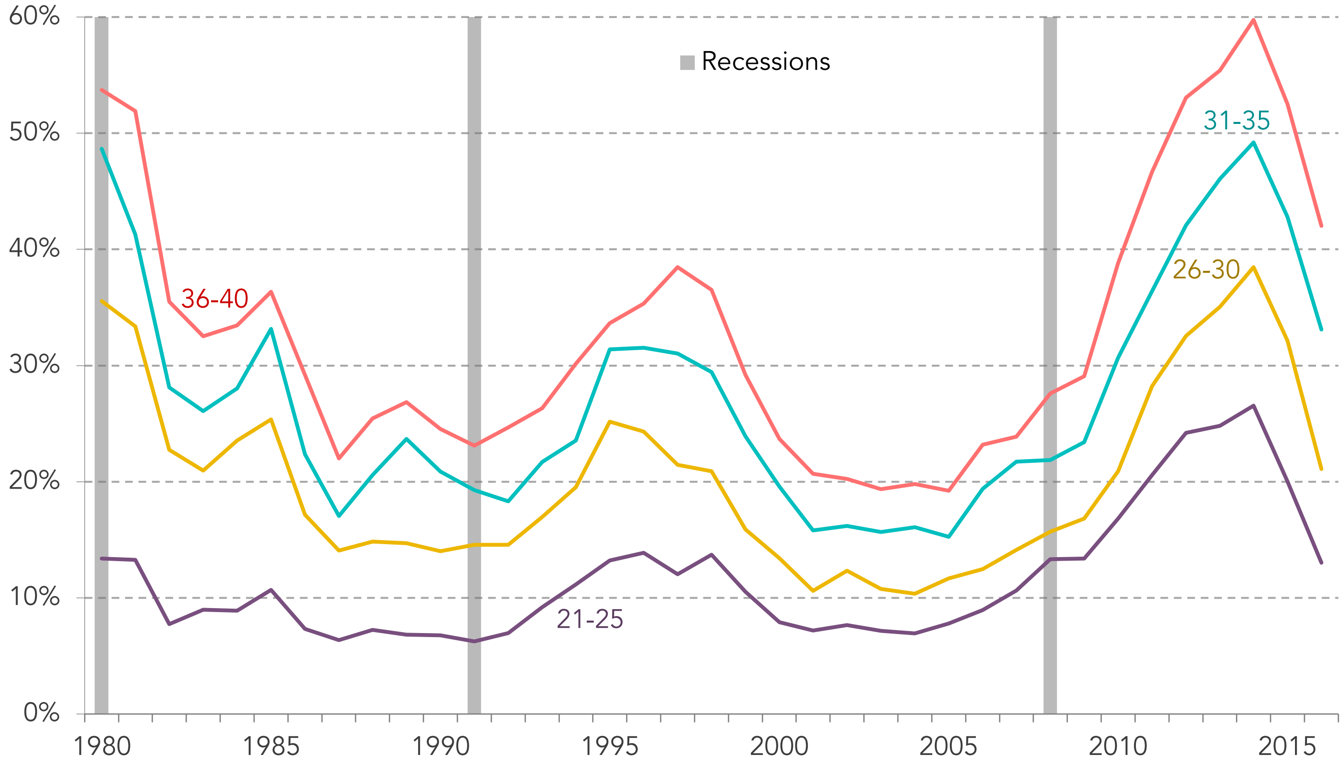
In Section 2, we discussed the slowing and reversal of generational pay progress for millennials. However, one of the limitations of the data used in Figure 2 is that it does not track the same people over time. To get a more comprehensive sense of how the earnings of individuals have evolved over the past three decades, we must use data that tracks people from year to year. Figure 13 uses such data and plots the proportion of employees failing to achieve at least a 5 per cent real pay rise over a five-year period. For example, Figure 13 shows that in 2016, 13 per cent of 21 to 25 year olds whose pay – in real terms – was not 5 per cent higher than it had been in 2011.

The below attempts to capture the share of employees failing to achieve pay progression over a suitably long time period.[60] The evidence is that this is cyclical, following the recession of the early 1980s it rose, and rose again after the early 1990s recession. For some groups, particularly those aged between 26 and 40, it reached a low in the 2000s, before rising sharply following the financial crisis. However, although there is clearly a cyclical element to pay progression, there are reasons to be particularly concerned about the recent rise and its impact on younger workers. The recent rise for the youngest group was far higher than at any point in the past, whereas for the older age groups the 1980s recession was similarly severe. More positively, last year saw a sharp fall for all workers, but those in the younger age group are closer to their pre-crisis level than older age groups.

60 We have also carried out the analysis over a 10 year period, and although the proportion of employees failing to progress on this measure is lower, the shape of the series are the same.

Figure 13: **The recent recession saw an unparalleled halt in pay progression**

Share of employees that have remained on the same real (RPI- & CPIH-adjusted) hourly wage for 5 years



Notes: Any individuals with more than 5 observations missing in the panel have been dropped in order to minimise the impact that people with long spells out of work could be having on the results. RPI is used to deflate a series from 1980 to 2016, while CPIH is used to deflate a series from 1994 to 2016, the above is the CPIH series projected backwards using the RPI one.

Source: RF analysis of ONS, *NESPD & ASHE.*

Figure 13 suggests that the impact of the recent recession on pay growth was particularly acute and so, although progression rates may be picking up, the impact of the recession of younger people's pay trajectories will be felt for some time. Also of concern is the fact that lower-earners have been worse hit. In the recent recession, the share of those aged 21-25 unable to progress over a five-year period peaked at 27 per cent. However, if we just take those aged 21-25 on below-median pay (for that age group), the peak was 62 per cent. The difference between the fortunes of all workers and those on below-median earnings rose sharply following the financial crisis, suggesting that it may take longer for the effects to unwind for lower earners.

What is clear from Figure 13 is that the recent period has been the worst since the early 1980s for pay progression for the youngest workers. The parallels with the 1980s are instructive. Policy-makers were slow to respond to the dramatic rise in unemployment and resultant rise in inactivity, leaving a generation scarred by the effects. Having avoided the same rise in unemployment and inactivity in the recent recession, today's policy-makers must make sure that they do not make a new mistake. While the challenges in the 1980s were unemployment and long-term inactivity, today they are the unprecedented wage squeeze and a rise in the share of younger people for whom pay progression has stalled.

Partly this is because fewer younger people are moving jobs

To understand what we can do to kick-start generational pay progress, we need to understand what has driven it. As we have already discussed, part of the answer lies in the types of jobs and sectors that younger workers increasingly find themselves in. The other part of the answer is that fewer younger workers are moving jobs than in the past.

Only around 3 per cent of employees change jobs each year. However, those that do are generally rewarded for doing so. The typical pay rise for someone voluntarily moving jobs (including those remaining with their employer and those switching) is around five times that of the typical pay rise earned by someone remaining in the same job. Such moves are obviously good for those taking up better-paid jobs but they also have wider benefits. Job-to-job moves create 'vacancy chains' whereby someone vacating a position causes others to move jobs which in turn allows someone to fill their vacant position. More job-to-job moves also tends to improve job matching and means that more people's skills are utilised to a greater extent, which in turn raises productivity, with workers also reallocated towards more productive firms. The upshot is that, although subject to diminishing returns, a higher job-to-job moves rate is a sign of a healthy labour market.

So while there may be many such reasons for people staying put in a particular job, it is of some concern that younger workers are moving jobs at a lower rate than their predecessors. Around 4 per cent of the cohort born between 1981 and 1985 moved jobs each year at the age of 26, well below the figure at the same age for those in the 1976 to 1980 cohort (6 per cent) and the 1971 to 1975 cohort (nearly 8 per cent).[61] Initial data for some younger cohorts is that they have higher job-to-job move rates than the 1980s cohorts, most likely because moves rose as the economy recovered from the recession. Nevertheless, moves remain below their pre-crisis peak.

Insecurity and satisfaction appear to be driving increases in job tenure

Why are younger people staying with their employer for longer? While some are in insecure employment, there is also evidence that overall the crisis has fostered broader feelings of insecurity. One plausible explanation is that they are concerned about losing their job or their ability to find another job. The most recent Bank of England and NMG household survey asks respondents how likely they think it is that they will lose their job. Nearly a third of those aged 18 to 24 think that it is likely they will do so in the next 12 months, and a quarter of those aged 25 to 34 feel the same. This is up from 23 per cent and 22 per cent respectively in 2016. Feelings of insecurity appear to be growing despite the fact that there is little evidence of any rise in unemployment. Feelings of insecurity also remain far higher for those under 35 than those over it.

Our Ipsos MORI survey found that a significant minority (37 per cent) of responses by millennials suggested that people are pessimistic about the opportunities available to them.[62] Discussing job-to-job moves in the focus groups, some of the reasons given for remaining with an employer were directly linked to the health of the labour market. A widely-held view among participants was that the jobs market is now more competitive than when their parents or grandparents were their age. There was also a concern about job security more broadly, with one man in his early 30s describing workers as "very disposable".

61 L Gardiner & P Gregg, *Study, work, progress, repeat?* Resolution Foundation, February 2017

62 This is the sum of the answers "Not many opportunities with better pay", "Moving jobs could be risky", "Not many opportunities with better career prospects" and "I don't have the right skills for the jobs available".

But alongside this, some participants spoke about the risks that go along with any change of job, regardless of the availability of other jobs. As one man in his mid-20s put it: "To go out and be like the new kid in school... you may not be as good as you think you are... You do kind of pigeon-hole yourself: this is what I can do, I'm good at this, why take that risk? Granted, yeah, nine times out of ten it will probably pay off but it's having the confidence to leave behind what you know."

Although fears about job security and despondency about available opportunities are important, the most common single reason given by millennials for not changing job was satisfaction with it (Figure 14). This is important and suggests that the decline in job-to-job moves could be the product of an increase in job satisfaction. That said, it is difficult to know if this generation is more satisfied than younger people were in the past. Another crucial element of job satisfaction is income: only one-fifth of those (of all generations) in work earning below £20,000 a year were satisfied with their job, compared to half who are earning £55,000 or more.

Figure 14: **Pessimism about other opportunities and satisfaction with their current employer are keeping millennials in their jobs**

Why haven't you left your job in the past two years?

Base: all adults aged 16-75 in Great Britain who did not leave their job in past two years (n=1940)

Source: Prepared by Ipsos MORI, fieldwork 24th to 30th November 2017

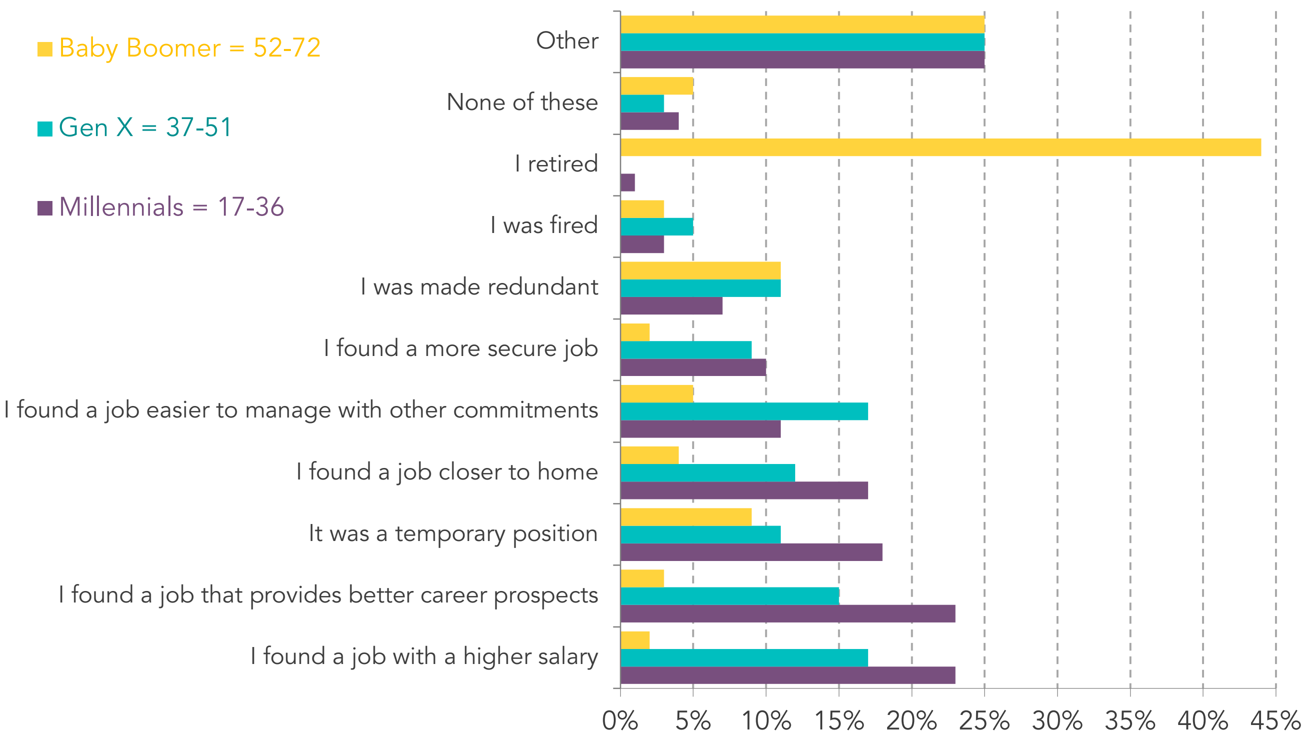
Notes: 'Other', 'None of these' and 'Don't know' responses are not shown. Question was multi-response and there were 426 responses from millennials, 165 responses from Generation X and 158 responses from Baby Boomers.

This sense of satisfaction was common in our focus groups too. One woman in her mid-20s who had been in her current role for six months after a period of frequent job changes said: "It's the first time I've had perks. It's the first time I've been part of a team. I've enjoyed moving but it's really nice to belong somewhere." The chance to progress, a variety of tasks in their work, flexible or family-friendly hours, a good relationship with colleagues and the opportunity to make a difference were all given as reasons why they were in their current role.

What about those moving jobs? When surveying those who have left their job in the past two years the evidence is that nearly half of responses by millennials revealed that people moved because they found a higher-paying job and/or one that had better career prospects (Figure 15). They were much more likely to move for these reasons than their older counterparts, who were more likely to say that they valued employment that they could fit around other commitments. On the face of it then the current generation of younger people do not seem to be suffering from a dearth of ambition.

Figure 15: **Younger workers move for better opportunities, while older ones place more value on employment they can fit around other commitments**

Which two or three the following reasons, if any, are most important in explaining why you left a job in the past two years?



Base: all adults aged 16-75 in Great Britain who left their job in the past two years (n=602)

Source: Prepared by Ipsos MORI, fieldwork 24th to 30th November 2017

Notes: 'Other', 'None of these' and 'Don't know' responses are not shown. Question was multi-response and there were 895 responses from millennials, 720 responses from Generation X and 839 responses from Baby Boomers.

Rather than a dearth of ambition, Figure 14 and Figure 15 suggest pessimism and insecurity could be encouraging young workers to play it safe. Earlier papers for the Intergenerational Commission have shown how millennials are much more likely than their parents to be renting, less likely to have a pension that will provide a guaranteed level of income in future and, as we showed above, are more likely to be in irregular work.[63] In all three areas, millennials face more real and perceived risk, risk that could be making it harder for them to take beneficial gambles, such as moving jobs.

The heightened levels of risk faced by this generation is perhaps evident in Figure 15 where nearly one in five millennial responses was that they moved jobs because their last job was a temporary one. Feeling the need to more insulate themselves from risk could be responsible for the fact that a higher proportion of millennial responses (17 per cent) said that they had moved jobs because they had found one closer to home than either baby boomers (4 per cent) or generation x (12 per cent). Given that risk has been transferred onto the shoulders of millennials, labour market policy needs to do what it can to offset this.

We need to redesign support for younger workers struggling to progress out of low-paid jobs

At present, there is precious little support available to young people who want to move jobs, particularly those who wish to escape low pay. The fact that growing numbers of younger workers find themselves in relatively low-paying jobs means that now is the time to fundamentally rethink how we support people at the start of their careers or those who want to retrain, upskill and progress. The introduction of Universal Credit and in-work conditionality also means that government (either directly or indirectly) will have to take a more active role in providing advice and guidance to help people increase their earnings. Previously the focus of policy has often been on unemployed young people, and while specific support for this group is still required, more needs to be done to support young people who face barriers to progression.

To that end, active labour market policy needs to evolve. The first thing that individuals need is better information. Although young people outside of the education system can access the National Careers Service, provision is often considered to be ineffective and the government recently announced that a new careers strategy – which includes a revamping of the National Careers Service website – will begin this year. What is needed however is clear and accurate information about specific career paths at a far more granular level than that provided by the National Careers Service. It will also need to be able to support firms (see Section 4) as well as individuals. While of course this should not be driven by very specific predictions of the types of jobs that will blossom, it can illustrate bigger trends and signpost established progression routes. An approach worth learning from is that taken by the Minnesota state government and the Minneapolis-St. Paul metro area (see Box 3).

63 D Finch & L Gardiner, *As good as it gets? The adequacy of retirement income for current and future generations of pensioners*, Resolution Foundation, November 2017 and A Corlett & L Judge, *Home Affront: housing across the generations*, Resolution Foundation, September 2017

Box 3: Minneapolis-St. Paul's Career Pathways Maps

The Minnesota Department of Employment and Economic Development collects information on occupations that are currently in demand and undertakes analysis to understand which will be in demand over the next ten years. This information is then used by local governments, including the Minneapolis-Saint. Paul metro area, to create 'Career Pathways Maps' which provide information on the number of openings, wages, necessary qualifications and level of demand (both current and future) for various occupations in the metro area. The Maps also show how occupations fit together in an industry so that people get a sense of possible career pathways.[1]

1 See www.mspwin.org

In some respects, the UK government already conducts this type of labour market analysis but for a different purpose. The Migration Advisory Committee (MAC) is charged with regularly assessing which occupations the UK is short of. This assessment underpins the 'Shortage Occupation List' which sets out those roles for which UK employers can obtain a visa for a foreign worker. In terms of forward-looking analysis, UKCES – now abolished – produced projections for those sectors, occupations and skills that would be in demand in future.

The government should make better use of the work of the MAC, and particularly with the need to devise a new immigration system, should broaden the MAC's remit to be more forward looking, in the same way that UKCES was. A broader role for the MAC would allow it to carry out the labour market analysis needed to draw up the (likely expanded) shortage occupation list while also providing intelligence for employers, employees, training providers and local governments. This is of increased importance given that the government plans to devolve responsibility for the adult education budget to some city regions by 2019.

This requires a better understanding of what works

The second requirement for a better approach is a clearer sense of what works when it comes to progression. The Department for Work and Pensions (DWP) has already started a large randomised control trial which will seek to test how best to help people on low earnings o progress in work. The trial involves 15,000 Universal Credit claimants and an initial assessment has been completed.[64] This initial assessment was unable to provide any analysis of how the different treatment groups fared, although there was some evidence consistent with participants increasing their earnings after joining the trial. A full evaluation will be published this year.

In addition, the DWP has been funding and carrying out a number of other programmes aimed at helping people progress in work and there are many other progression programmes, mostly being run by third sector organisations. Some such as 'Step-Up', a programme being delivered by six voluntary sector providers and targeting (though not exclusively) Lambeth residents, have been evaluated.[65] This programme – albeit only initially assessed – and others provide some indication of what makes for a successful progression programme.[66] While organisations such as the Learning and Work Institute have done a significant amount of work assessing a variety of different progression programmes, the government should take a more active role in setting the

64 Department for Work and Pensions, *In Work Progression Trial Progress Update*, March 2017

65 Learning and Work Institute, *Step-Up: Year One Learning Report*, February 2017

66 The Learning and Work Institute provide an overview of the findings from initial assessments of progression programmes.

frameworks for these programmes. One approach would be to conduct more trials along the lines of the 'Employment Retention and Advancement demonstration' programme (see Box 4). Although the government has set aside £10 million in 2020-21 and 2021-22 for in-work progression trials, there needs to be more investment in programmes and their evaluation.

Box 4: Employment Retention and Advancement Demonstration (ERA)

ERA was a programme introduced in the mid-2000s that paid single parents entering work a time-limited credit to remain in full-time employment for a specified duration. ERA participants were offered a payment of £400 every 17 weeks up to a maximum of 6 payments, plus an additional payment worth up to £1,000 was available for training. A similar programme 'In Work Credit' (IWC) provided financial incentives to single parents to move into and remain in employment. IWC participants were offered a £40 a week payment (for a maximum of 12 months). An assessment of the IWC programme suggested that it led to an increase in employment but that it may have discouraged some people from working full-time and had less of an impact on retention. The ERA programme had more of an impact, resulting in as many as four times the number of people in work and an increase in full-time work. Assessments of ERA also found that the effect persisted after the benefits stopped being paid.[1] It has been suggested that the ERA had more of an effect that the IWC programme because of its focus on full-time work and wider support offered to participants.

1 M Brewer & J Cribb, *Progression and retention in the labour market: what have we learned from IWC and ERA?*, IFS Briefing note BN220, October 2017

Policy option

The government should set aside further funding for running and evaluating progression trials aimed at supporting younger workers.

But this shouldn't stop us taking action before it's too late

While it is important to build up the evidence base around progression, government cannot wait years to be really certain what works. Now is the time to launch three new programmes of support for younger workers that face barriers to moving jobs. This approach starts from the perspective that opportunities are out there, and a new active labour market programme should look to unlock the ability of young people at risk of being stuck to access those opportunities.

These Better Deals should learn from the New Deals of the 1990s and 2000s, targeting specific groups. Identifying the kinds of people that would most benefit from interventions, calculating the size of the group and assessing how to overcome the specific barriers facing them all boost the odds of success. But in contrast to the New Deal's focus on different types of out-of-work people, a Better Deal seeking to provide more opportunity to progress should focus on specific groups of younger workers that have been held back. Of course, many people will be satisfied with their current role; previous

Resolution Foundation research has highlighted that low-paying jobs are far from universally bad jobs. But below, we outline three programmes of support for people in work and keen to progress but struggling to do so.

The first programme would reduce the upfront costs of moving jobs –'switchers' – for those with limited financial resources to fall back on if things go wrong. As above, the ERA trials introduced in the mid-2000s which provided financial incentives to people to encourage them to remain in work, particularly full-time work. The government could trial something similar for younger workers who are struggling to make the leap to better-paid work because of the upfront costs that make such moves risky for those on lower incomes. To offset some of the risk involved in moving jobs the government could target young people with a proven record of struggling to access better-paid work with a time-limited payment if they find better paid work.

The second would be a system of support for people that are unable to take up better employment because they do not have the resources to relocate – 'movers'. There is a body of evidence that suggests that high housing costs discourage mobility.[67] This may not be a problem if there are good commuting links, and indeed there is evidence that in those regions that share a border with London and the South East the ability to commute significantly reduces the incentive to relocate. Unfortunately successive governments have done too little to ease the pressure on house prices in London, the South East and other successful metropolitan areas and have tended to invest far less in transport infrastructure outside the South East. The result is that for many people housing costs are too high in some of the most economically vibrant parts of the country and a lack of transport infrastructure means that commuting into such areas is not a viable alternative.

While housing is high on the political agenda, the impact that high housing costs have on the ability of the labour market to match people to the best opportunities available is less discussed. In a separate paper for the Intergenerational Commission we outline how the government can tackle the housing challenge, doing so could have help encourage more job-to-job moves.[68] However, tackling the problems in the housing sector will take many years, the government needs to take action now to mitigate some of labour market distortions.

Although not part of active labour market policy in the UK, other countries have deployed programmes to encourage people to look further afield in their job search and also provide financial support if relocation is needed. In Germany there are a number of mobility assistance programmes (MAPs) that offer financial incentives – such as assistance with attending job interviews, commuting to a new job or relocating – to job seekers that search for and/or accept jobs outside their local area. Given that fewer people, including young people, are moving region for work,[69] programmes that encourage regional mobility, as well as job-to-job moves, should be part of the solution.

67 A Murphy, J Muellbauer and G Cameron, 'Housing Market Dynamics and Regional Migration in Britain', *Oxford University Department of Economics Working Paper*, August 2006

68 Forthcoming from the Resolution Foundation

69 S Clarke, *Get A Move On? The decline in regional job-to-job moves and its impact on productivity and pay*, Resolution Foundation, August 2017

Box 5: Mobility Assistance Programmes (MAPs)

MAPs have been part of active labour market policy in Germany since 1998. A number of different programmes fall into this category and include those that reimburse people for distant job interviews to those that provide financial support to people wishing to relocate for a job. 84,000 people received assistance through the programmes in 1998 and this had increased to 375,000 in 2008. Participants need to have a job offer or an offer of an interview to be eligible and the final decision on payment is made by a caseworker. Those with job offers or interviews are eligible for a range of different payments, some as small as €260 for paying for tools or equipment needed to do the new job, some as large as €4,500 to help people relocate. One study of these programmes found that they encouraged job seekers to look outside of their local area for opportunities and that doing so had no impact on the total amount of job applications that they made. Furthermore, participants were more likely to find work and earn more in their new roles.[1]

1 M Caliendo, S Kunn and R Mahlstedt, 'Mobility Assistance Programmes for Unemployed Workers, Job Search Behaviour and Labour Market Outcomes', *IZA Discussion Paper Series*, November 2017

The third and final part of the new system of support would be for people that need to improve their skills – 'climbers'. We will be discussing this issue at length in a future Intergenerational Commission report, but supporting people who require new skills to move jobs will require targeting resources at lower-skilled individuals, and making it easier for individuals to build upon prior knowledge as adult learners. As noted above, the most effective programmes identify a group of workers with specific needs; a scheme that applied to a very broad range of workers seeking to upskill would likely be expensive or ineffective. Restricting it to those of a certain age, earning below a particular threshold and excluding those who have recently completed education or training could help to target the group most likely to benefit.

To get a sense of how many people these programmes could help, and how much this may cost, this question of defining the groups we wish to help progress is crucial. In particular, these schemes should be aimed at those aged around 18 to 35 with less than a degree level qualification in low-paying roles and (although perhaps not exclusively) in lower-paying sectors. Based on this classification and taking a sectoral focus, we have identified 950,000 people aged 18 to 35 without a degree working in elementary occupations in wholesale, retail, food services, administration and support, and social care. A focus on skills acquisition may point towards the 1.4 million employees aged 26-35 – and therefore likely to have spent some years in work already – with Level 2 qualification or less who could potentially benefit from greater support.

Another way to identify this group would be to take a dynamic approach and target those that have been unable to escape low pay for a significant amount of time. Using longitudinal data on people's earnings, we have identified approximately 1.5 million people across a range of sectors and occupations who were aged between 16 and 25 in 2006 who had failed to escape low pay (defined as hourly pay below two-thirds of the median) by 2016. Such a programme could be limited to sectors like retail and hospitality where low pay is more common and escaping onto higher wages proves more challenging.

Of course, the criteria for these groups means there would be significant overlap in terms of the population eligible for the three programmes. Taking this into account, an upper bound for the size of the group potentially entitled to support would be a little less than 1 million people. And as with the ERA, IWC and MAPs programmes there would be entry criteria that would limit the number of people who could make use of one of the programmes. While entry criteria such as being in receipt of benefits would not be appropriate for these schemes, others such as evidence of a job interview, job offer, or willingness to complete training could be used. As discussed, many people will be entirely satisfied with their current position and not be interested in participating.

Nevertheless, making the unrealistic assumption that all those meeting the criteria made use of one of the programmes, and that the cost per person was an average of the maximum spend on the IWC, ERA and MAPS programmes,[70] we estimate that the upper limit for spending on these three programmes could be approximately £2.7 billion. Under the more realistic – but still likely too high – assumption that only half of those eligible make use of the programme and that the cost per-person is the maximum available on the cheapest of the programmes we discuss above (the IWC), this figure falls to approximately £400 million.[71]

Such programmes cannot be expected to solve all the problems facing millennials in the labour market. But government needs to start focusing on the issues that these Better Deals would address now, before the damage to the earnings potential and productivity of these workers becomes lasting.

i Policy option

The government needs to create a new active labour market programme to support younger workers who face barriers to moving jobs. The programme should provide limited and conditional financial incentives to help those who can't afford the upfront costs of moving jobs, the costs of relocating for better work, or who lack the skills to progress. Around 1.2 million workers could be eligible for such a programme.

70 The maximum we assume is £2,744. The maximum per-person spend for the ERA programme was £3,400 (including training), for the IWC it was £834, and across the MAPs programmes it was £4,000.

71 Upper limit calculated as 1,000,000 participants costing £2,744 per-person. Lower estimate is based on 500,000 participants costing £834 per-person.

Section 6

Conclusion

In this report we have outlined how we can tackle the new labour market challenges of the 21st century through a Better Deal for workers and industries. Couched within the new framework are some policy options for getting to grips with insecurity, tackling low pay and boosting productivity, and encouraging job progression. However, the difficult labour market conditions facing younger workers are only part of the intergenerational challenge.

In previous work for the Intergenerational Commission we have shone a light on how today's younger generation is confronted with a housing market that poorly serves them, the possibility of more meagre pension provision than that enjoyed by previous generations and a welfare state that, if generosity is to be maintained, will require significantly more resources. In upcoming reports we will offer new approaches and fresh thinking on how to deal with these issues before bringing together all our recommendations in a final report.

Annex

Data and Methodology

Datasets

The datasets used in this report are:

- ONS, Labour Force Survey;
- ONS, Two-quarter longitudinal Labour Force Survey
- ONS, Five-quarter longitudinal Labour Force Survey
- ONS, Annual Survey of Hours and Earnings;
- ONS, New Earnings Survey Panel Dataset;

Ipsos MORI interviewed 2,584 adults (16 – 75 year olds) in Great Britain between 24th and 30th November 2017. Data were weighted to be demographically representative of the population.

Methodology

For full methodological details of the decomposition analysis conducted in Table 1: Returns to tenure were falling before the crisis can be found on page 73 of L Gardiner & P Gregg, *Study, work, progress, repeat?* Resolution Foundation, February 2017

Resolution Foundation

Intergenerational Commission

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- *developing practical and effective policy proposals; and*
- *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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