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2nd Report of Session 2022–23

Where have all the workers gone?

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SUMMARY

Since the start of the pandemic, economic inactivity has increased by 565,000 people.[1] This is quite different from what has happened in most other developed economies, where inactivity rose during the COVID-19 pandemic but has since fallen back. Job vacancies have peaked at 1.3 million, and unemployment has fell to its lowest level since 1974.[2] Meanwhile, there has been a fall of 171,000 in the number of EU workers but a rise of 186,000 in the number of non-EU workers.[3]

The rise in inactivity poses serious challenges to the UK economy. Shortage of labour exacerbates the current inflationary challenge; damages growth in the near term; and reduces the revenues available to finance public services, while demand for those services continues to grow.

This report seeks to answer the question "Where have all the workers gone?" Our answer is that over the past three years, the UK's workforce has been squeezed by four factors: retirement among those aged 50–64; increasing sickness; changes in the structure of migration; and the impact of an ageing UK population. This final factor—ageing—reflects an increase in the numbers in age groups which have lower participation rates. This is potentially a significant factor. Before the pandemic, this impact was largely offset by higher participation of older workers. But the reversal of the trend in inactivity, and the different experience of the UK, cannot be explained by slow-moving demographic effects.

The reduction in labour supply has been driven by an increase in economic inactivity, in particular amongst 50–64-year-olds who do not wish to return to work. The causes of this rise are complex. The biggest contributor to this rise in inactivity has been increased earlier retirement, not increasing long-term sickness as many people have inferred from the data. Although the population is getting sicker, much of the rise in sickness-related inactivity is among people who were already inactive, rather than people who were employed becoming inactive due to sickness.

Instead, the decision to retire earlier has been the key driver of the change in trend in inactivity since 2020. It is unclear why earlier retirement has risen. COVID-19 pandemic, including the furlough scheme and increased redundancies, could have prompted some people to consider earlier retirement. Other possible explanations include increased savings during the pandemic and the UK's pensions flexibilities, which could have enabled earlier retirement.

Alongside the rise in inactivity, changes to the structure of migration have had an impact on specific sectors seeking workers for lower paid roles (such as

1 Office for National Statistics, 'Employment in the UK', (December 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest [accessed 14 December 2022]

2 Office for National Statistics, 'Vacancies and jobs in the UK' (December 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/latest [accessed 14 December 2022] (this number is an average over the three months) and Office for National Statistics, 'Unemployment rate (aged 16 and over, seasonally adjusted)', (December 2022) https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms [accessed 14 December 2022]

3 Letter from Mike Keoghan, Office for National Statistics to Lord Bridges of Headley, Chair of the Economic Affairs Committee (5 October 2022): https://committees.parliament.uk/publications/30455/documents/175679/default/ (this data relates to the period between June 2019 and June 2021)

agriculture, hospitality and care). Over the last few years many EU workers, who filled these roles, have left the UK. Counterbalancing their departure has been the arrival of non-EU workers granted visas under the new immigration system which prioritises skilled workers. This has contributed to a mismatch within the labour force, accentuating labour shortages in these sectors.

Finally, the impact of the ageing UK population on the workforce has, and will continue to have, a long-term impact on the proportion of the population seeking work. Prior to the pandemic, ageing was driving down labour supply, but this effect was masked by other trends towards higher participation. The key difference since the pandemic is that the ageing effect is now being reinforced, rather than offset, by other factors. The impact of an ageing population as a contributor to the shortage of labour is a factor which has not received the attention it deserves.

Looking ahead, the majority of those over 50 who have left the workforce since the COVID-19 pandemic state that they neither want nor expect to return to work. From the limited information available on their economic resources, it appears that most of them are reasonably well-off, suggesting that retirement may be financially viable for them (although the cost-of-living crisis may yet have an impact). It would, therefore, be unwise to proceed on the basis that a significant proportion of those who have exited the labour force since 2020 will come back, or be persuaded back, by changes in employers' practices or by policy measures.

In the 2022 Autumn Statement the Chancellor of the Exchequer announced that the Department for Work and Pensions will "thoroughly review workforce participation" and report in early 2023.[4] This report underscores the urgency and importance of that review. In this report we identify gaps in our understanding of what is causing changes to the labour force. Understanding more about the causes, and likely persistence, of the rise in inactivity should be the focus of the Department for Work and Pensions' review.

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4 HM Treasury, *Autumn Statement 2022*, CP 751 (November 2022): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118417/CCS1022065440-001_SECURE_HMT_Autumn_Statement_November_2022_Web_accessible__1_.pdf [accessed 9 December 2022]

Where have all the workers gone?

CHAPTER 1: INTRODUCTION

Our inquiry

1. We launched this inquiry on 28 July 2022 with a call for evidence on the causes of the reduction in the size of the UK labour force. This report seeks to explain the recent reduction in labour supply in the UK, the types of people who have left the labour market and their reasons for leaving. A thorough examination of policy solutions to the rise in inactivity was outside the inquiry's remit. We are grateful to all our witnesses and to our Specialist Adviser, Robert Joyce.

Impacts of reduced labour supply and labour shortages

2. Falls in labour supply can impact inflation, economic growth, and public finances. They can add to inflationary pressures—as employers compete for scarce employees by raising wages, adding to the cost of producing goods and services. [5] By constraining the level of output that can be produced, or by leading to increases in the costs of producing it, labour shortages can limit economic growth. Falls in labour supply will worsen the public finances, through lower tax receipts and, depending on who is withdrawing from the labour force and why, could result in increases in benefits payments.

3. In the UK, changes in the labour market (higher vacancies and rising economic inactivity) have occurred against the backdrop of the economic shock caused by COVID-19, and then the energy price shock exacerbated by Russia's invasion of Ukraine. The Bank of England factors labour market tightness into its decisions on interest rate changes because a tight labour market can lead to inflation.[6] Labour market tightness means that labour supply is low relative to demand. Huw Pill, Chief Economist and Executive Director for Monetary Analysis at Bank of England, said:

> "Two shocks in particular stand out … The impact of higher gas prices interacts with developments in the labour market. Even as economic activity in the UK has weakened as higher gas prices weighed on household spending power, the labour market has remained tight. The unemployment rate recently reached its lowest level since the mid-1970s. Recruitment difficulties in a tight labour market have supported stronger underlying wage growth. Taken together with the supply chain disruptions that accord firms pricing power in supply chains, this tightness creates conditions conducive to the emergence of the second-round effects we fear."[7]

5 Q 95 (Huw Pill)

6 Bank of England, 'Monetary Policy Committee Report' (August 2022): https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022 [accessed 9 December 2022]

7 Bank of England, 'Monetary policy and central bank asset purchases: Substitutes and complements: speech by Huw Pill' (23 November 2022): https://www.bankofengland.co.uk/speech/2022/november/huw-pill-speech-at-the-beesley-lecture-series [accessed 9 December 2022]

4. The August Monetary Policy Committee report said:

> "How labour market tightness evolves will be a key factor determining wage growth and domestic inflationary pressure over the medium term. This is because inflationary pressure stemming from the labour market has tended to be more persistent in the past than that caused by factors such as the cost of energy."[8]

5. The adverse supply shock caused by a reduction in labour supply "adds to the difficult shorter-term trade-offs facing monetary policy."[9] The Bank of England's Monetary Policy Committee has projected that the UK economy will probably be in recession throughout 2023 and until the middle of 2024.[10] The Office for Budget Responsibility has forecast a somewhat shallower recession and also forecast that the budget deficit in 2022/23 is £177 billion (7.1% of GDP), rising from £133 billion (5.7% of GDP) last year.[11] The Recruitment and Employment Confederation told us that labour shortages could cost up to £39 billion a year in GDP.[12]

6. Trends in benefit payments to those suffering from ill health and potentially unable to work also highlight one of the fiscal impacts linked to increasing economic inactivity: it will worsen the public finances; health- and disability-related benefit claim increases are forecast to cost an additional £8.2 billion in 2026/27.

7. In addition to the macro-economic impact, there are crucial questions to be asked about what has caused people to withdraw from the labour force, and whether this signals vulnerability or hardship that should elicit concern not simply for the wider economy but also for those individuals and their households.

8. Policy makers are unclear about the balance of factors causing reductions in labour supply and labour shortages. The Autumn Statement 2022 said "The Department for Work and Pensions will thoroughly review workforce participation. This work will conclude in early 2023."[13] Bank of England officials have said publicly that they do not understand the reasons for reduced labour supply. Andrew Bailey, Governor of the Bank of England, told the Treasury Committee on 16 May 2022 that the Bank of England were uncertain about what has been causing persistently high levels of long-term sickness. He said:

> "The scale and persistence of the fall [in the workforce] has been very unusual. If you go back to the period after the global financial crisis, there was a much smaller fall in the labour force, but it recovered much

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8 Bank of England, 'Monetary Policy Committee Report' (August 2022): https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022 [accessed 9 December 2022]

9 Bank of England, 'Monetary policy and central bank asset purchases: Substitutes and complements: speech by Huw Pill' (23 November 2022): https://www.bankofengland.co.uk/speech/2022/november/huw-pill-speech-at-the-beesley-lecture-series [accessed 9 December 2022]

10 Bank of England, 'Monetary Policy Committee Report' (August 2022): https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022 [accessed 9 December 2022]

11 Office for Budget Responsibility, 'Economic and Fiscal Outlook' (November 2022): https://obr.uk/overview-of-the-november-2022-economic-and-fiscal-outlook/ [accessed 9 December 2022]

12 Written evidence from Recruitment and Employment Confederation (ULS0011)

13 HM Treasury, *Autumn Statement 2022*, CP 751 (November 2022): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118417/CCS1022065440-001_SECURE_HMT_Autumn_Statement_November_2022_Web_accessible__1_.pdf [accessed 9 December 2022]

> more quickly after that. The notable difference this time … is that we have got this quite large long-term sickness element in there.
>
> I have to be honest: we don't know much, really, about what is behind that. We have discussed it with health experts. We have asked: is it long COVID-19? Is it, as some health economists have suggested to me, people with other pre-existing conditions who feel insecure about going to work in the COVID-19 era? It is possible."[14]

9. Dave Ramsden, Deputy Governor, Markets and Banking said, "it's not clear what is driving this participation puzzle".[15] Huw Pill told us, "The short answer is that it is difficult. I do not have an easy answer."[16] Trying to answer this question is the focus of this report.

10. The rise in economic inactivity and changes in the labour market appear to have contributed to inflationary pressures in the economy. A smaller workforce will hinder the UK's recovery, while rising long term sickness among the economically inactive will increase welfare costs. This underscores the importance of understanding what is happening in the workforce and why inactivity is rising.

Box 1: Labour Market Definitions

- **Economic inactivity:** the term for being neither in work (employed) nor actively seeking work (unemployed). This lack of participation in the labour market is often due to retirement, studying, looking after family or ill health.
- **Participation Rate:** this can also be called the economic activity rate, referring to the number of people in work, plus those actively seeking work, divided either by the working age population (people aged 16–64), or the 16+ population.
- **Unemployment:** defined by the Office for National Statistics as people who are without a job, have actively sought work in the last four weeks and are available to start work in the next two weeks; or are out of work, have found a job and are waiting to start it in the next two weeks.[17]
- **Labour demand:** the amount of work that employers are willing to pay for at prevailing wage rates. Demand is the total amount of employment and job vacancies.
- **Labour supply:** the amount of work people are willing and able to do at prevailing wage rates. It is often measured by the number of people in employment added to the number of people actively seeking it (the "unemployed").

14 Oral evidence taken before the Treasury Committee, 16 May 2022, (Session 2022–23), Q 423 (Andrew Bailey)
15 Bank of England, 'Shocks, inflation, and the policy response: speech by Dave Ramsden' (7 October 2022): https://www.bankofengland.co.uk/-/media/boe/files/speech/2022/october/dave-ramsden-securities-industry-conference.pdf [accessed 9 December 2022]
16 Q 99 (Huw Pill)
17 Office for National Statistics, 'A guide to labour market statistics' (June 2020): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/methodologies/aguidetolabourmarketstatistics [accessed 9 December 2022]

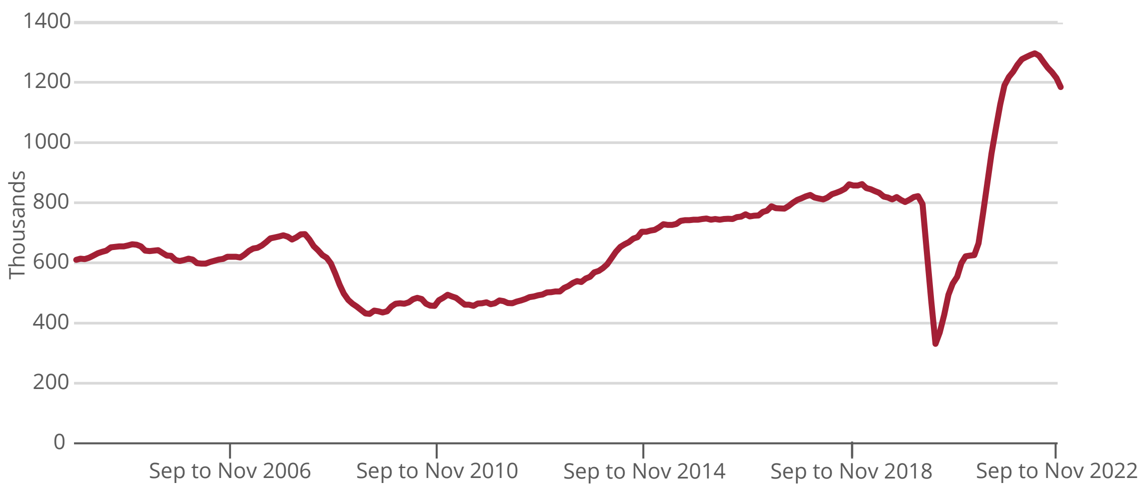
CHAPTER 2: LABOUR SHORTAGES—AN OVERVIEW OF THE PROBLEM

11. Labour shortages occur when the supply of labour is low relative to demand and are typically evidenced through a high number of job vacancies or from employer surveys highlighting recruitment difficulties.

Vacancies

12. The number of job vacancies in September to November 2022 was 1,187,000, which is 65,000 lower than the previous three-month average in June to August 2022.[18] However, the number of vacancies in the latest three months are 364,000 higher than before the COVID-19 pandemic (in December-February 2020).

Figure 1: The number of job vacancies



Source: Office for National Statistics, 'Vacancies and jobs in the UK' (December 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/latest [accessed 14 December 2022]

13. Figure 2 shows how during the lockdown periods the number of vacancies dropped sharply in a range of sectors, especially hospitality. Following the easing of lockdown restrictions, the number of vacancies in the hospitality sector increased by a larger proportion than other sectors. There may be some sector and geographic causes for the rise in vacancies. For example, we heard that property prices in regions such as the Lake District are limiting the pool of available lower wage labour in sectors such as hospitality.[19] However, high housing costs were an issue pre-pandemic.

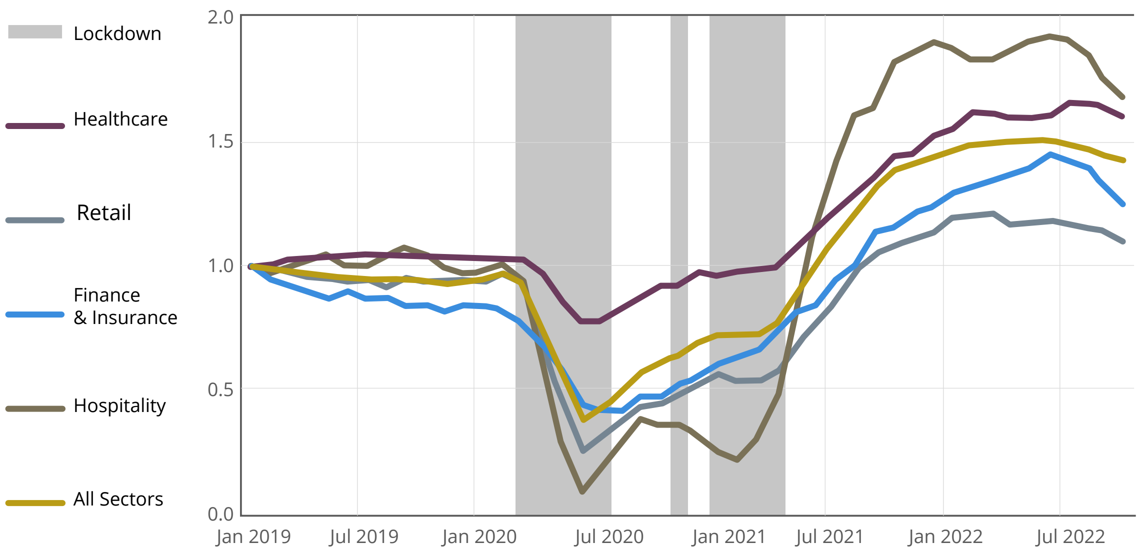
18 Office for National Statistics, 'Vacancies and jobs in the UK' (December 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/latest (this number is an average over the three months) [accessed 14 December 2022]

19 Q 62 (David Sheen)

14. This increase in vacancies can partly be explained by an increase in consumer demand. Lauren Thomas, Economist and Senior Data analyst at Glassdoor, a job review website, told us:

> "During coronavirus, there was a lot of pent-up demand that led to a quicker than expected surge in consumer activity after the pandemic … We were all cooped up and we did not have the opportunity to go travelling, or to spend on hospitality."[20]

Figure 2: Number of UK job vacancies by sector, indexed to January 2019



Source: Written evidence from Glassdoor (ULS0004)

15. The Bank of England said that between March 2020 and November 2020 households saved an extra £125 billion.[21] This increased to over £200 billion by June 2021.[22] This was because of restrictions on social contact and economic activities leading to significantly reduced household spending.[23] Once the economy came out of lockdown, there was a steep decline in households' rate of saving as consumption rose sharply.[24]

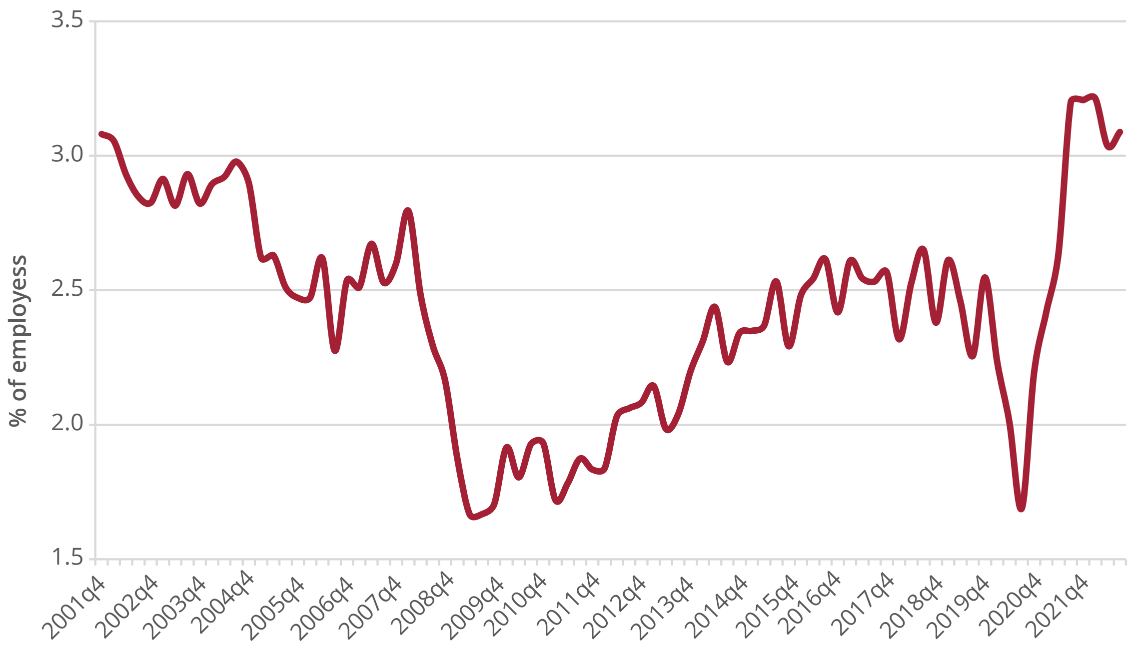
16. High levels of vacancies for a period after the easing of lockdown restrictions may also have been related to a high number of people changing jobs. People who were unable to move jobs during the COVID-19 pandemic made up for it in large numbers afterwards.[25] Job-to-job moves tend to create further vacancies as employees leave their old posts behind. Huw Pill told us, "not

20 Q 41 (Lauren Thomas)
21 Bank of England, 'Monetary Policy Report' (February 2021): https://www.bankofengland.co.uk/monetary-policy-report/2021/february-2021 [accessed 12 December 2022] and Bank of England, 'Thirty years of hurt, never stopped me dreaming: speech by Andy Haldane' (30 June 2021): https://www.bankofengland.co.uk/speech/2021/june/andy-haldane-speech-at-the-institute-for-government-on-the-changes-in-monetary-policy [accessed 12 December 2022].
22 *Ibid.*
23 Office for National Statistics, 'Economic modelling of forced saving during the coronavirus (COVID-19) pandemic' (6 June 2022): https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicmodellingofforcedsavingduringthecoronaviruscovid19pandemic/2022–06-06 [accessed 9 December 2022]
24 Bank of England, 'The inflationary consequences of real shocks: speech by Ben Broadbent' (20 October 2022): https://www.bankofengland.co.uk/speech/2022/october/ben-broadbent-speech-at-imperial-college-the-inflationary-consequences-of-real-shocks [accessed 9 December 2022]
25 Q 51 (Hannah Slaughter)

only is the vacancy rate high but the hiring rate is high. That is symptomatic of the fact that we are seeing more churn in the labour market."[26]

17. Figure 3 shows this increase in job mobility rates, with more people moving between jobs—measured through employment to employment (EE) flows.

Figure 3: The quarterly rate of job-job moves for the population aged 16-64



Source: Office for National Statistics, 'X02: Labour Force Survey Flows estimates' (15 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourforcesurveyflowsestimatesx02 [accessed 14 December 2022]

Labour supply

18. However, we heard that, while short-term increases in vacancies may partly have been driven by pent-up consumer demand and job-to-job turnover, changes in labour supply are also likely to have been a major factor. Donald Houston, Professor of Economic Geography at the University of Portsmouth, said: "The current vacancies crisis seems to be driven principally by a reduction in labour supply."[27]

19. Prior to the pandemic, labour supply had grown due to net immigration, increases in the state pension age and higher participation of women in the workforce, which more than offset the impact of an ageing population on labour force participation. This increase in economic activity has been reversed since the COVID–19 pandemic. A small component of this change may have been predictable, for example as the state pension age for women stopped rising. This does not, however, explain all the changes, for example the change in inactivity among men for whom there were no state pension age changes prior to the pandemic.[28]

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26 Q 97 (Huw Pill)
27 Written evidence from Prof Donald Houston (ULS0028)
28 Office for National Statistics, 'Employment in the UK: November 2022': https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest [accessed 9 December 2022]

20. Changes to migration trends following Brexit and during the COVID-19 pandemic have disrupted the growth in labour supply for some sectors, by changing the skill structure of the migrant population. This will be explored further in Chapter 4.

21. However, Lauren Thomas and Kate Shoesmith, Deputy CEO, Recruitment and Employment Confederation, told us that a reduction of labour supply, due to more people becoming economically inactive, is the main cause of labour shortages. The rise in economic inactivity will be covered in the next chapter.[29]

22. **The COVID-19 pandemic reduced the ability of households purchase goods and services and caused employees to delay job moves. When lockdown restrictions were eased, pent-up consumer demand and labour market churn caused vacancies to increase to record high levels**

23. **However, the tighter labour market has also been due to lower labour supply. In the current circumstances, the reduction in labour supply, especially due to economic inactivity, is probably playing a more significant role than pent-up demand and churn.**

29 Q 41 (Kate Shoesmith and Lauren Thomas)

CHAPTER 3: ECONOMIC INACTIVITY—WHO HAS LEFT THE WORKFORCE?

Overview of the economically inactive

24. In August-October 2022 there were 8,935,000 economically inactive 16–64-year-olds in the UK—565,000 more than at the start of the COVID-19 pandemic.[30] This amounts to an increase in the rate of age 16–64 economic inactivity from 20.2% to 21.5% since December–February 2020.

25. As Figure 4 shows, while increases in inactivity during the pandemic were common across economies, the UK stands out among developed economies in not having seen a return of economic activity rates to their pre-pandemic trend. Similar economies (such as USA, Australia and Canada) have seen their inactivity rates fall after the pandemic. Understanding why the UK is an outlier is a key question.

26. The Learning and Work Institute told us: "since the pandemic if the UK had matched the economic activity rate growth of Australia, France or Netherlands, there would be an additional one million people in the UK workforce."[31]

27. As pointed out by the Rt Hon Guy Opperman MP, Minister of State for Employment at the Department for Work and Pensions, although recent trends in UK inactivity are internationally unusual, our level of inactivity remains lower than the Organisation for Economic Cooperation and Development (OECD) average. Indeed, this rise in inactivity follows a declining UK inactivity rate for many years prior to the pandemic. On the one hand, this puts the recent turnaround in perspective: the UK still has a low economic inactivity rate by international standards; and the recent increase takes the UK back to 2016 rates of inactivity. On the other hand, that previous long-term decline makes the recent increase look even more dramatic as a break from trend

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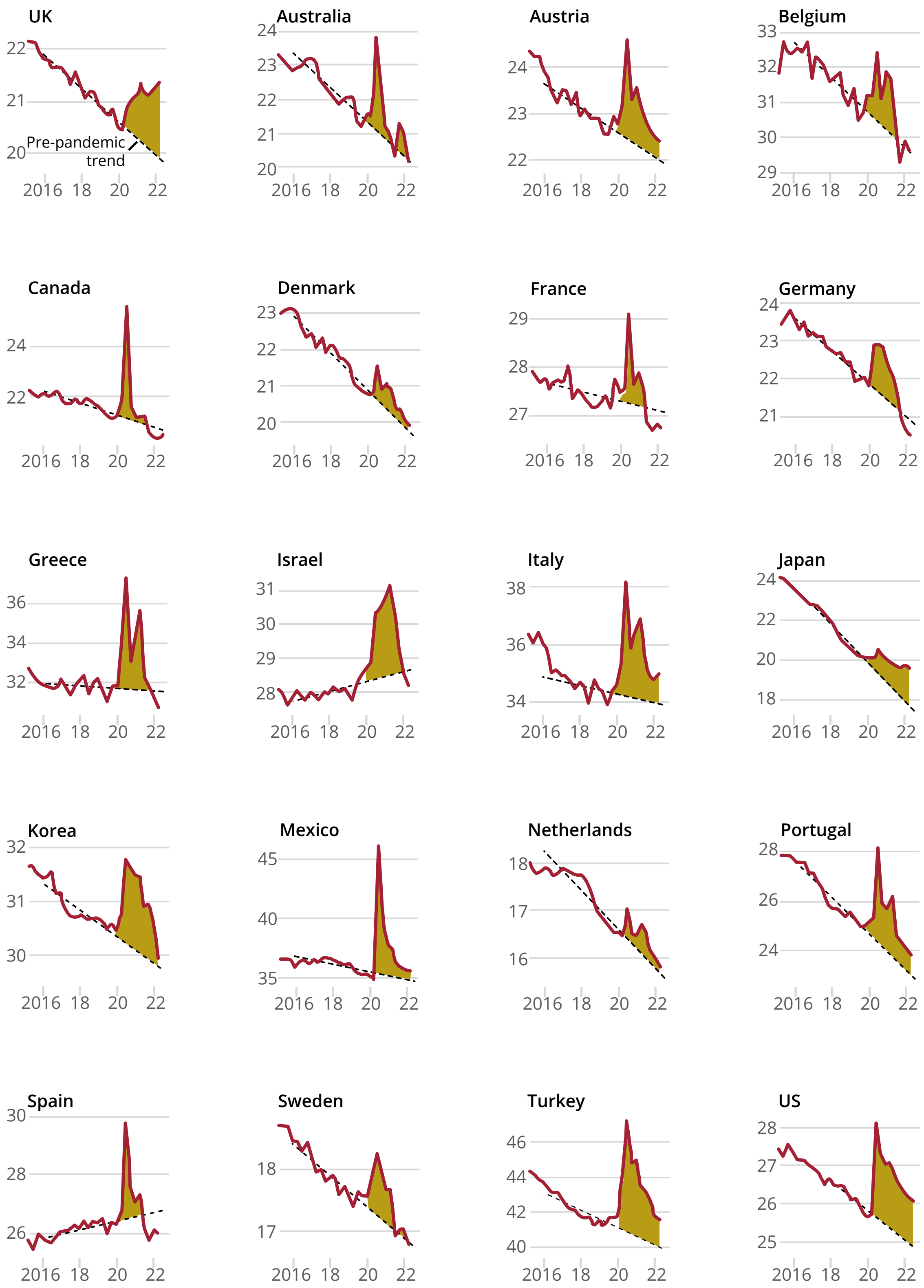
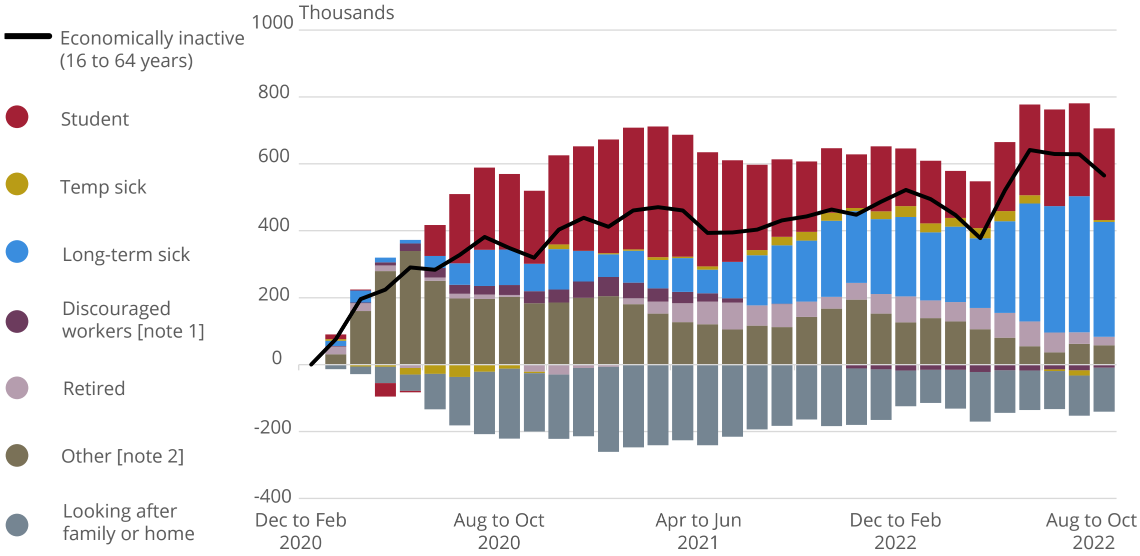
30 Office for National Statistics, 'Employment in the UK: December 2022': https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest [accessed 14 December 2022]
31 Written evidence from Learning and Work Institute (ULS0013)

Figure 4: Comparison of economic inactivity rates among developed economies



Source: 'Half a million missing workers show modern Britain's failings', Financial Times (7 October 2022): https://www.ft.com/content/b197e9e0-dd53-4d77-a84f-a94824100ed5 [accessed 14 December 2022]

Figure 5: Cumulative change in number of people aged 16-64 who are economically inactive by reason since December-February 2020



Source: Office for National Statistics, 'Employment in the UK', (December 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest [accessed 14 December 2022]

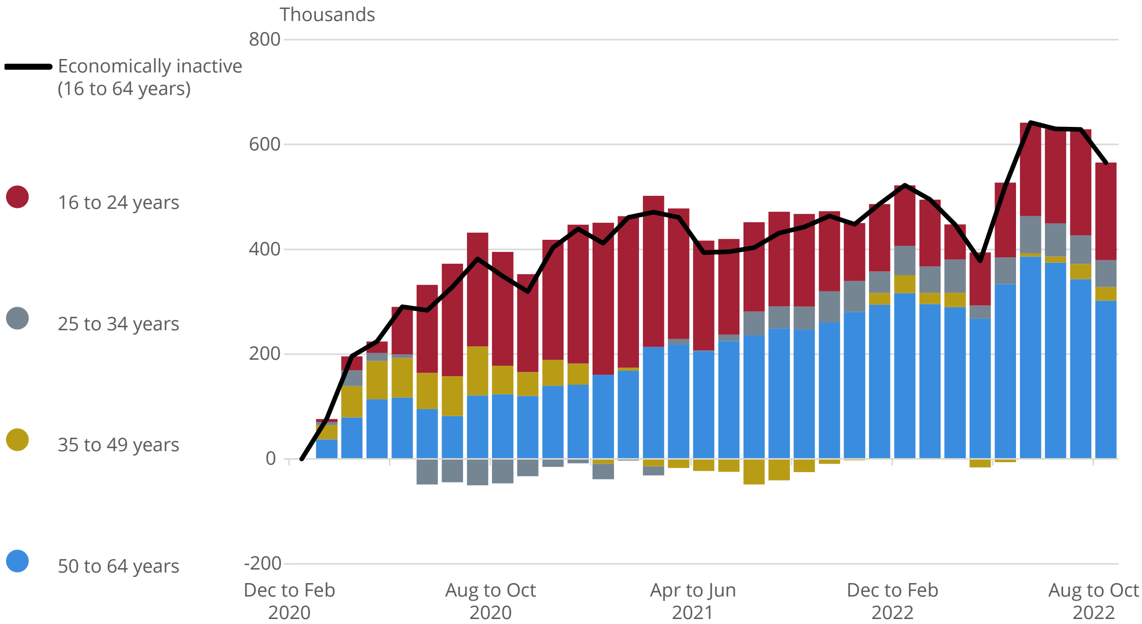
Notes 1. Discouraged workers are those who are not looking for work because they believe no jobs are available.
2. Other reasons for being economically inactive include those who are waiting for the results of a job application, have not yet started looking for work, do not need or want employment, have given an uncategorised reason for being economically inactive, or have not given a reason for being economically inactive.

28. As shown in Figure 5 there has also been a significant increase in education participation coupled with a long-term decline in the number of students who are in paid employment, driving higher economic inactivity at younger ages.[32] These are trends worth interrogating but, given that they are small relative to the movement in 50–64-year-olds, they are not the focus of this report.

29. As Figure 6 shows, of the 565,000 increase in inactivity since the pandemic began, most is accounted for by the 50–64-years-old age-group. Therefore, much of our evidence focused on the older working-age population.

32 Q 86 (Tony Wilson)

Figure 6: Cumulative change in number of people aged 16-64 who are economically inactive by age group since December-February 2020



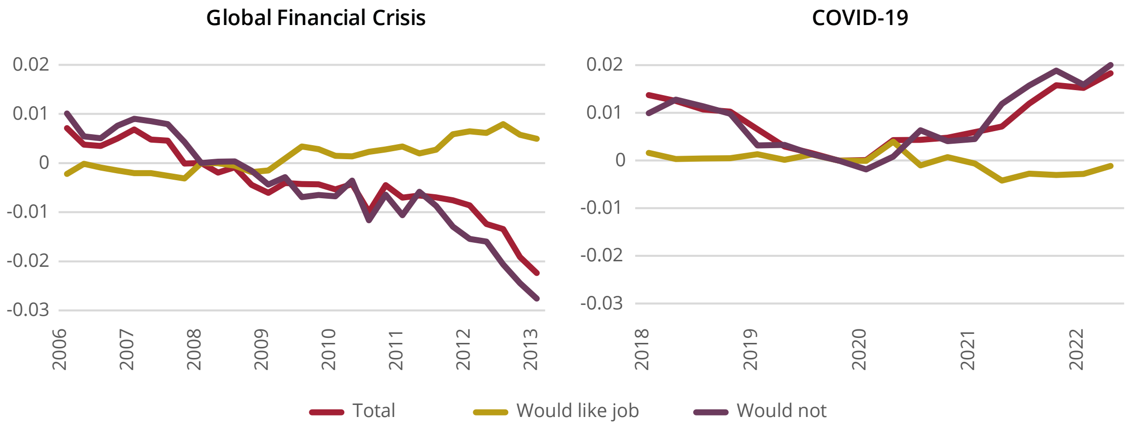
Source: Office for National Statistics, 'Employment in the UK', (December 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest [accessed 14 December 2022]

30. Almost the entire increase in inactivity among 50–64 year olds has been among people who state that they have no intention of working and most of these people transitioned directly from work into inactivity, with no period of job searching in between.[33,34] Jon Boys, Labour Market Economist at the Chartered Institute of Personnel and Development, told us "they are gone, and they are not coming back."[35] It means that employers are unlikely to entice those people who have already become economically inactive back into work because, according to Jon Boys, they are "working against a gradient."[36]

31. Figure 7 shows that during the years following the Global Financial Crisis, the inactivity rate fell, especially among people who did not want to work, whereas following the pandemic the inactivity rate has increased among people who do not want a job.

33 This contrasts with the more familiar change in inactivity in or immediately after a recession, whereby people who want to work become "discouraged" by lack of suitable jobs and stop looking.
34 Carrillo-Tudela et al, *Policy Briefing Note: Rising Inactivity in the Over 50s post-COVID* (October 2022): https://covidjobsresearch.co.uk/wp-content/uploads/pdf/over50sInactivity.pdf [accessed 9 December 2022]
35 Q 36 (Jon Boys)
36 *Ibid.*

Figure 7: Inactivity rate by whether respondents want a job



Source: Carrillo-Tudela et al, Policy Briefing Note: Rising Inactivity in the Over 50s post-COVID (October 2022): https://covidjobsresearch.co.uk/wp-content/uploads/pdf/over50sInactivity.pdf [accessed 9 December 2022]

32. We heard that there are three main factors causing the increase in economic inactivity among older workers: long-term sickness, earlier retirement and the UK's ageing population. The final point has been affecting the labour force since at least 2008 but is no longer masked by other factors which were causing a net increase in activity—we will return to this below.[37]

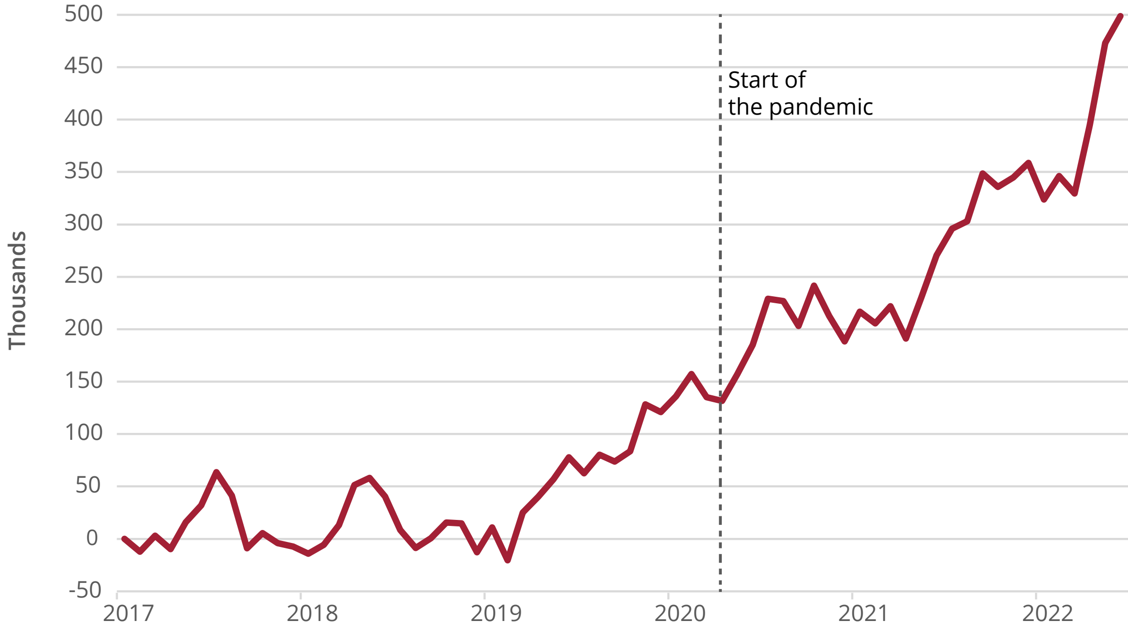
Long-term sickness

33. In July—September 2022 there were around 2.5 million people aged 16–64 in the UK who reported long-term sickness as the main reason for their inactivity.[38] The number has increased by 500,000 since 2019 and by 363,000 since the start of the COVID-19 pandemic. As Figure 8 shows, the increasing trend appears to have started one year before the pandemic.

37 Q 98 (Huw Pill); Q 44 (Lauren Thomas) and Q 51 (Hannah Slaughter and Ian Stewart)

38 Office for National Statistics, 'Half a million more people are out of the labour force because of long-term sickness' (10 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022–11-10 [accessed 9 December 2022]

Figure 8: Cumulative change in number of people aged 16-64 who are inactive due to long term sickness



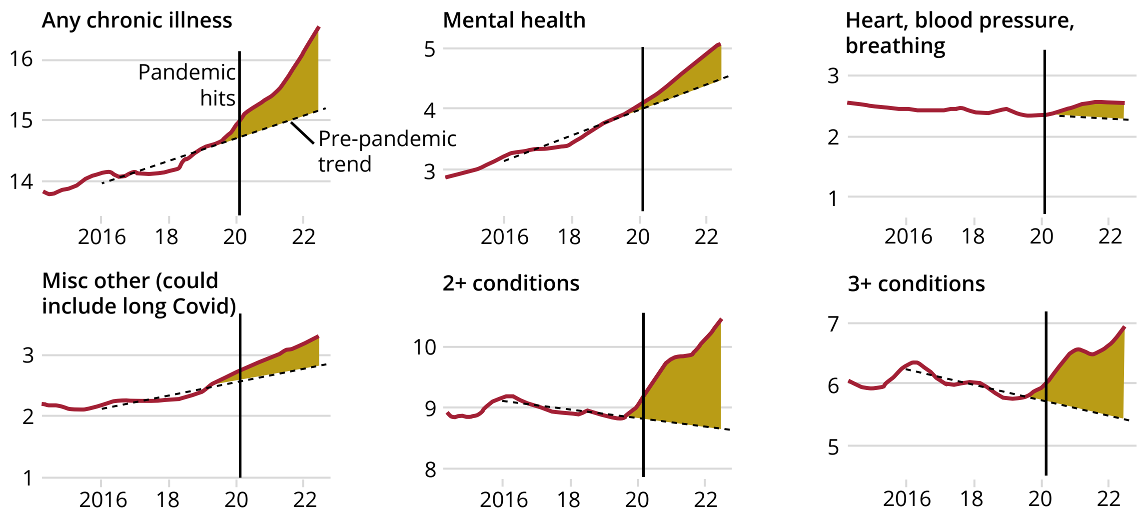
Source: Office for National Statistics, 'Half a million more people are out of the labour force because of long-term sickness' (10 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022–11-10 [accessed 14 December 2022]

34. Andy Haldane, Chief Executive Officer of the Royal Society of Arts said, "having been a strong tailwind for two centuries, health is now a strengthening headwind to UK economic growth, for perhaps the first time since the Industrial Revolution."[39]

35. We heard that long-term sickness is increasing in the general population as well as among the economically inactive. Figure 9 illustrates that some health conditions were worsening before the pandemic, but there appears to be a broad increase in chronic illness since the pandemic, including in the share of people who have multiple conditions.

39 Andy Haldane, 'Worsening health is an economic headwind', *Financial Times* (25 November 2022): https://www.ft.com/content/46119e99-cc7c-4058-b76c-3117e3b376ae [accessed 9 December 2022]

Figure 9: Share of all people aged 16-64 with selected long-term health conditions (%)



Source: 'Half a million missing workers show modern Britain's failings', Financial Times (7 October 2022): https://www.ft.com/content/b197e9e0-dd53-4d77-a84f-a94824100ed5 [accessed 14 December 2022]

36. The number of economically inactive people who reported problems or disabilities connected with the back or neck rose by 62,000 (31%). The ONS said it is possible that increased home working since the pandemic has given rise to these kinds of chronic conditions."[40]

37. We heard that the increase in people reporting mental health conditions over recent years could be partly explained by growing awareness of mental illnesses within the general population. However, this does not explain why there was a break from trend since 2020, as illustrated in Figure 9.

38. Alongside the rise in reports of sickness related inactivity we have seen increases in the number of new claims for benefits related to long-term health conditions. Monthly new Personal Independence Payment (PIP) claims rose from an average of 37,000 a month in 2019 to 64,000 a month between April and July 2022.[41] These increases have been higher than originally forecast by the Office for Budget Responsibility (OBR), despite it having allowed for an increase in claims following the pandemic.[42] The OBR's November forecast is also predicting a greater increase in the number of Universal Credit claims

40 Office for National Statistics, 'Half a million more people are out of the labour force because of long-term sickness' (10 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022–11-10 [accessed 9 December 2022]

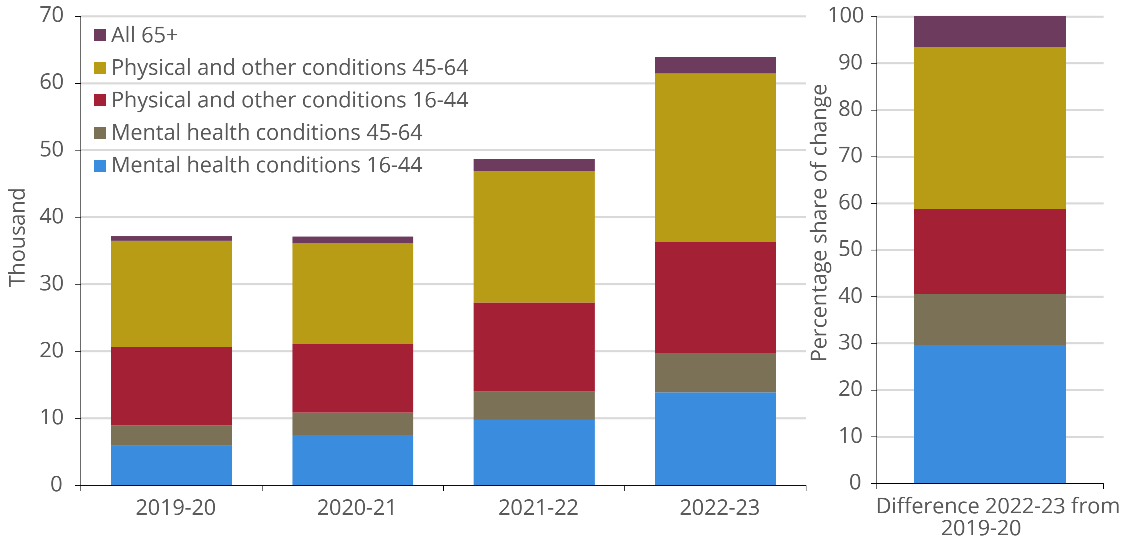
41 Letter from Richard Hughes, Chair of Office for Budget Responsibility to Lord Bridges of Headley, Chair of the Economic Affairs Committee (25 November 2022): https://committees.parliament.uk/publications/31754/documents/178237/default/

42 Office for Budget Responsibility, *Supplementary forecast information release: Upward revisions to welfare spending since March* (25 November 2022): https://obr.uk/docs/dlm_uploads/OBR_supp_forecast_info_release_welfare_spending_web.pdf [accessed 12 December 2022] and Institute for Fiscal Studies, 'The number of new disability benefit claimants has doubled in a year' (7 December 2022): https://ifs.org.uk/publications/number-new-disability-benefit-claimants-has-doubled-year [accessed 12 December 2022]

associated with a reduced capability to work and Employment Support Allowance claims than previously assumed.[43]

39. The OBR acknowledge that, whilst it is not possible to map its forecast assumptions to the Labour Force Survey, the age profile and conditions reported for new claims do appear to echo the trend in sickness-related inactivity reported by the ONS.[44] As shown in Figure 10 the largest rise in claims has been among older age groups with increases in claims for physical and other conditions in the 45–64 year old group accounting for 35% of the increase in average monthly new claims between 2019/20 and the first four months of 2022/23.[45] This provides further evidence that health is deteriorating in this population.

Figure 10: Monthly average new Personal Independence Payment claims by age and condition



Source: Office for Budget Responsibility, Supplementary forecast information release–Upward revisions to welfare spending since March (25 November 2022): https://obr.uk/docs/dlm_uploads/OBR_supp_forecast_info_release_welfare_spending_web.pdf [accessed 12 December 2022]

40. Survey data on health, such as in the Labour Force Survey, depends on respondents' interpretations and awareness of health conditions. Successful new claims to health-related benefits might also be affected by changing awareness of those conditions. However, we do appear to be witnessing objective declines in health in the UK: we are also seeing elevated levels of mortality among the working age (16–64) population. The number of deaths

43 Office for Budget Responsibility, *Supplementary forecast information release: Upward revisions to welfare spending since March* (25 November 2022): https://obr.uk/docs/dlm_uploads/OBR_supp_forecast_info_release_welfare_spending_web.pdf [accessed 12 December 2022

44 PIP recipients may be in employment, seeking employment or economically inactive; Office for Budget Responsibility, *Supplementary forecast information release – Upward revisions to welfare spending since March* (25 November 2022): https://obr.uk/docs/dlm_uploads/OBR_supp_forecast_info_release_welfare_spending_web.pdf [accessed 12 December 2022]

45 Office for Budget Responsibility, *Economic and fiscal outlook*, CP 749 (November 2022): https://obr.uk/docs/dlm_uploads/CCS0822661240-002_SECURE_OBR_EFO_November_2022_WEB_ACCESSIBLE.pdf [accessed 12 December 2022]

not caused by COVID-19 has been well above the 5-year average during 2022.[46]

41. David Finch, Assistant Director, Healthy Lives Team, at the Health Foundation, said the UK has experienced a larger slowdown in life expectancy improvements than other developed economies.[47] This suggests there was "poorer underlying health in the UK" even before the pandemic started.[48] Further, UK life expectancy has decreased since 2019.[49] We heard how it is difficult to establish whether worsening health (as opposed to the performance of health systems) is unique to the UK, due to inconsistency in how it is defined and measured.[50] It is therefore hard to know if it is a key factor in the break from trend in inactivity. Lauren Thomas told us:

> "Globally, many employment surveys are not designed to understand the impact of chronic illness, particularly regarding COVID-19. This is because definitions relating to chronic illness lack consistency across countries, making comparison difficult. Greater cooperation between statistical agencies in different countries would certainly assist in a comparison of long-term sickness trends."[51]

Long COVID-19

42. Respondents to the Labour Force Survey were not given explicit guidance on what main health condition to report for long COVID-19, but it is likely that "other" would be a common choice.[52]

43. John Burn-Murdoch, Chief Data Reporter at the Financial Times, told us:

> "The tricky thing is that [long COVID-19] has to go under the "other" category in the Labour Force Survey, which means that it is lumped in with many other things and that category as a whole started accelerating before the pandemic. Of course, that does not mean that long COVID-19 has not played a role, but we cannot see that from this data alone."[53]

44. A July 2022 report by the Institute for Fiscal Studies (IFS) said that the impact of long COVID-19 was equivalent to 110,000 workers being off sick on any given day.[54] The Trade Unions Congress carried out a non-representative

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46 Office for National Statistics, 'Deaths registered weekly in England and Wales, provisional: week ending 18 November 2022' (6 December 2022): https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsregisteredweeklyinenglandandwalesprovisional/weekending18november2022 [accessed 14 December 2022]

47 Q 92 (David Finch)

48 *Ibid.*

49 Office for National Statistics, 'National life tables: life expectancy in the UK: 2018 to 2020' (25 September 2021): https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2018to2020 [accessed 14 December 2022]

50 Q 83 (Tony Wilson)

51 Supplementary written evidence from Glassdoor (25 October 2022): https://committees.parliament.uk/publications/31501/documents/176687/default/

52 Office for National Statistics, 'Half a million more people are out of the labour force because of long-term sickness' (10 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022–11-10 [accessed 14 December 2022]

53 Q 90 (John Burn-Murdoch)

54 Institute for Fiscal Studies, 'Long COVID and the labour market' (27 July 2022): https://ifs.org.uk/publications/long-covid-and-labour-market [accessed 12 December 2022]. This includes people already measured as economically inactive and people still attached to jobs but working zero hours.

online survey of their members which found that 50% of respondents were experiencing difficulties at work and 5% said that they had left their jobs because of long COVID-19. Kate Bell, Head of Rights, International, Social and Economics Department, Trades Union Congress, told us:

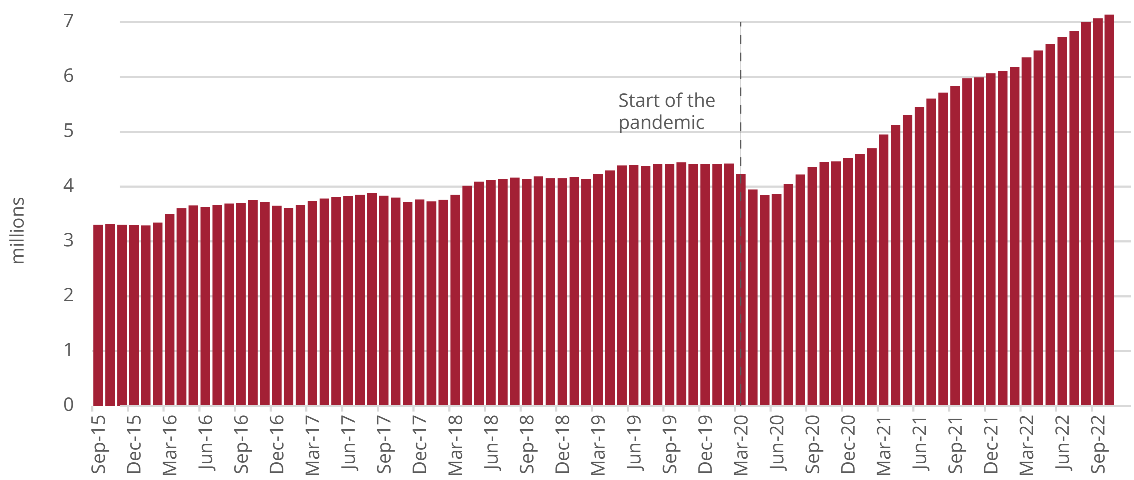
> "We are understanding more about long COVID-19 the longer it goes on, but certainly the results from our indicative survey suggest it was causing significant health problems, which were causing people issues at work and forcing them out of work."[55]

45. A November 2022 report by Demos and the Physiological Society found that long COVID-19 was unlikely to be driving the increase in inactivity. It said, "if long COVID-19 was a key reason for the rise in economic inactivity, it is surprising that this is not observed in other countries which also had high rates of COVID-19 infections during the pandemic."[56]

Lengthening NHS waiting lists

46. Figure 11 shows that the number of people waiting for treatment by the NHS gradually increased over the five years before the pandemic from 3.3 to 4.4 million. After a drop in the early stages of the pandemic, the growth in waiting list numbers accelerated to 7.21 million people in October 2022.

Figure 11: Number of people on NHS waiting lists for consultant-led elective care



Source: British Medical Association, 'NHS backlog data analysis' (December 2022): https://www.bma.org.uk/advice-and-support/nhs-delivery-and-workforce/pressures/nhs-backlog-data-analysis [accessed 14 December 2022]

47. David Finch told us:

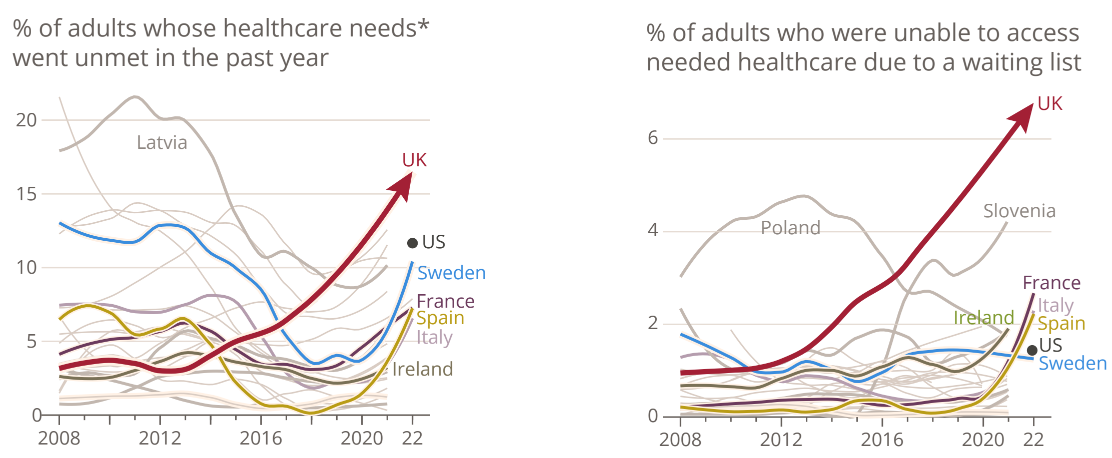
> "There was underlying and pre-existing poor health within the population before the pandemic, but backlogs and waiting lists in the NHS are exacerbating the situation. That is extending the period in which people already in poor health are in poor health … leading to a

55 Q 32 (Kate Bell)
56 Demos and Physiological Society, *Understanding 'Early Exiters' The case for a Healthy Ageing Workforce Strategy* (November 2022): https://demos.co.uk/wp-content/uploads/2022/11/Understanding-Early-Exiters-Demos.pdf [accessed 12 December 2022]

risk that, if people who become sick are not treated fast enough, they could lose employment and then become inactive."[57]

48. John Burn-Murdoch told us that deteriorating health care in the UK could help explain why the UK is an outlier in terms levels of economic inactivity post-COVID-19, when compared with other OECD economies.[58] He explained that the UK had rising rates of people reporting unmet healthcare needs even before the pandemic started; in contrast almost all other developed economies saw these rates increase towards the start of the pandemic.

Figure 12: International comparison of survey responses for unmet care needs and waiting lists



*Note: * At least one occasion when the respondent "really needed medical examination or treatment (excluding dental)" but was unable to get it.*
Source Britons now have the worse access to healthcare in Europe, and it shows' Financial Times (3 November 2022): https://www.ft.com/content/de8fc348-0025–4821-9ec5-d50b4bbacc8d [accessed 14 December 2022]

49. The ONS said "Further work is required to establish whether and to what extent there is a relationship between growth in NHS waiting lists and long-term sickness in the labour market."[59]

Has long term sickness driven the rise in inactivity?

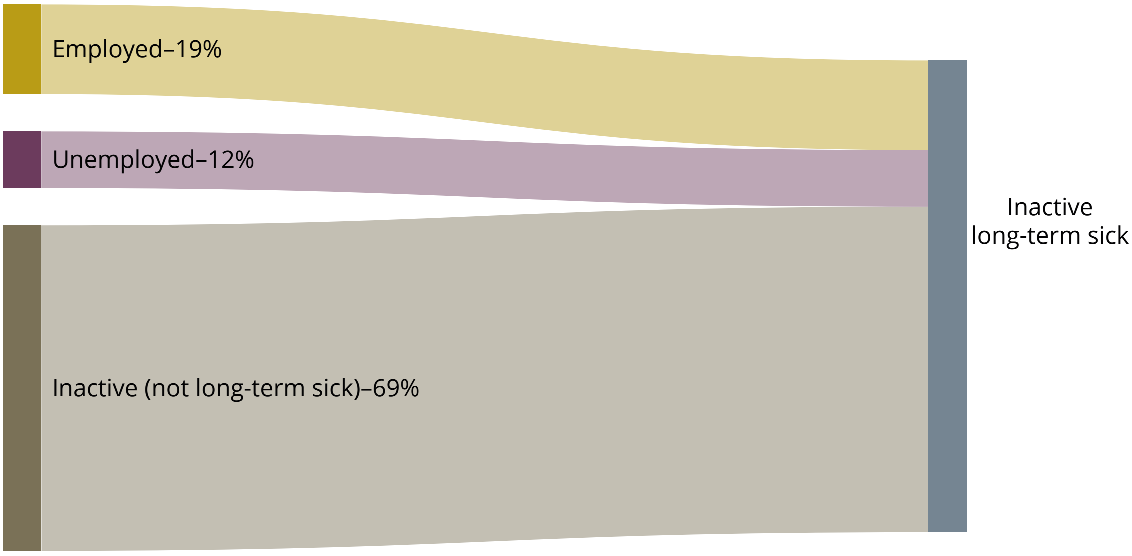
50. A breakdown of inactivity by stated "main reason" shows that, on the surface, the rise in sickness-related inactivity appears to account for much of the net change in inactivity since mid-2019, as illustrated by Figure 5.

51. However, at the individual level there can be multiple intersecting reasons for inactivity, and people's circumstances can evolve over time; the already-inactive population can, and do, change their stated main reasons for inactivity. Recent ONS data (Figure 13) show that more than two thirds of those who have transitioned to sickness-related inactivity between January 2021–June 2022 were already inactive for some other reason, such as retirement or caring responsibilities. Hence, while the rate of long-term

57 Q 92 (David Finch)
58 Q 88 (John Burn-Murdoch)
59 Office for National Statistics, 'Half a million more people are out of the labour force because of long-term sickness' (10 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022–11-10 [accessed 9 December 2022]

sickness has been increasing, this does not necessarily mean that it has been the main influence on decisions to leave the labour market.

Figure 13: Inflows into "economically inactive owing to long-term sickness", people aged 16–64 years, UK, January–March 2021 to April–June 2022



Source: Office for National Statistics, 'Half a million more people are out of the labour force because of long-term sickness (10 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022–11-10 [accessed 14 December 2022]

52. Additionally, analysis by the IFS compared the rise in inactivity due to retirement with inactivity due to long-term sickness among the 50–64 age group. Most of the rise in inactivity due to long-term sickness since 2020 has been among people who have already been out of work for at least five years.[60] Furthermore, movements from employment directly to health-related inactivity have remained at a similar level to pre-pandemic, whereas those from employment to retirement have increased.[61]

53. Equally, whilst there have been significant increases in successful PIP claims since the pandemic, this is not evidence of a surge in people becoming newly inactive due to sickness. The IFS said that:

> "We find no evidence of any change here: in mid-2022, about two-thirds of claimants had been out of work for at least five years, with the remainder evenly split between those out of work for less than five years and those in work–a composition that has remained very steady before,

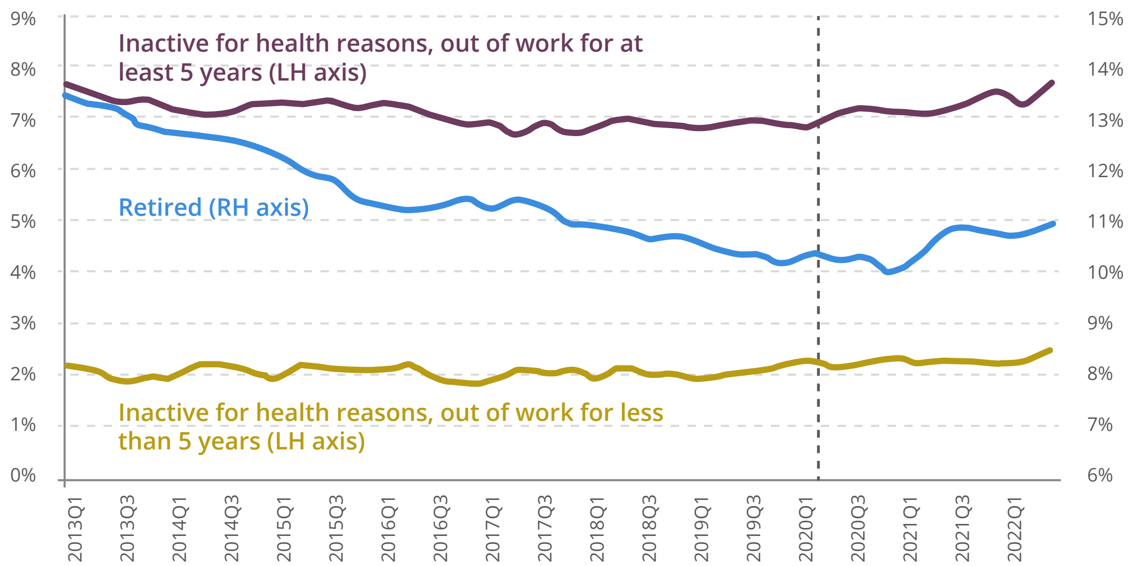
60 Institute for Fiscal Studies, 'Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?' (26 October): https://ifs.org.uk/articles/worsening-health-leading-more-older-workers-quitting-work-driving-rates-economic [accessed 12 December 2022]

61 Office for National Statistics, 'Half a million more people are out of the labour force because of long-term sickness' (10 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022–11-10 [accessed 9 December 2022], Institute for Fiscal Studies, 'Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?' (26 October 2022): https://ifs.org.uk/articles/worsening-health-leading-more-older-workers-quitting-work-driving-rates-economic [accessed 9 December 2022) and Q 92 (David Finch)

during, and since the pandemic. … In other words, ill health does not appear, yet, to be a dominant factor causing exit from the labour force."[62]

54. This is important for assessing the likely impact of rising sickness on labour supply. In principle, rising sickness can affect labour supply even if it is largely afflicting those who are already inactive (as shown in Figure 13) because it can make it harder for them to move from inactivity back into the labour force. But if much of the rise in those who are economically inactive and cite long term sickness as the reason for their inactivity, is among people *already* out of work for a long time, the effect on labour supply is likely to be limited because this is not a group who would have had a high probability of re-entering work soon, regardless of developments in their health. Furthermore, this is not evidence against rising sickness, but it is evidence against the suggestion that the rise in sickness has been the major driver of a shrinking labour force since 2020.

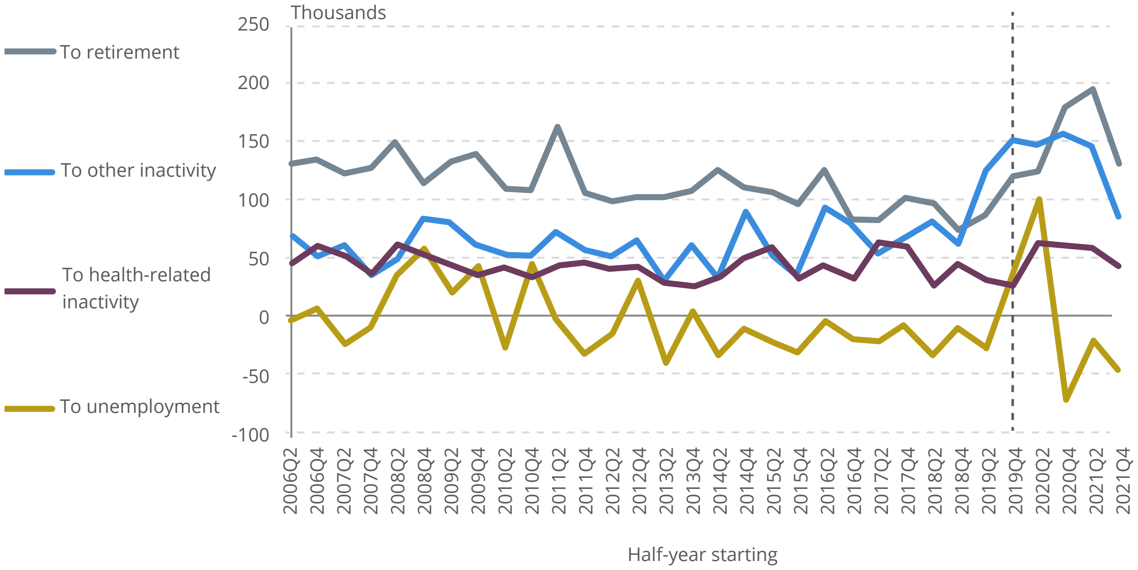
Figure 14: Proportion of 50–64-year-olds who are retired, or are inactive due to long-term sickness or disability, split by whether they have been in paid work within the last five years



Source: Institute for Fiscal Studies, 'Is worsening health leading to more older workers quitting work, driving up rates of economic activity?'- calculations using the Labour Force Survey: https://ifs.org.uk/articles/worsening-health-leading-more-older-workers-quitting-work-driving-rates-economic [accessed 12 December 2022]

62 Institute for Fiscal Studies, 'The number of new disability benefit claimants has doubled in a year' (7 December 2022): https://ifs.org.uk/publications/number-new-disability-benefit-claimants-has-doubled-year [accessed 12 December 2022]

Figure 15: Net flows out of employment to different sources over the course of three months, by half-year, among 50–64-year-olds



Source: Institute for Fiscal Studies, 'Is worsening health leading to more older workers quitting work, driving up rates of economic activity?'- calculations using the Labour Force Survey (26 October 2022): https://ifs.org.uk/articles/worsening-health-leading-more-older-workers-quitting-work-driving-rates-economic [accessed 12 December 2022]

55. In summary, the IFS challenged the hypothesis previously put forward by John Burn-Murdoch and others that worsening health is the key reason for increased economic inactivity.[63] The IFS said:

> "The rise in the number of people who are inactive due to ill-health does not necessarily imply that all these people have left the labour force *as a result* of ill-health. More people may be leaving the labour force for other reasons—for example, because they are taking early retirement—and, simultaneously, those already out of the labour force may be getting sicker."[64]

56. As with any analysis of self-reported reasons for inactivity, it is difficult to be definite about the individual contribution of specific factors. For example, someone could report that they have retired but their health may be one reason why they have done so. [65] John Burn-Murdoch told us that he revisited his work based on the analysis of the IFS and compared the sensitivity of results to how loosely or tightly "health-related inactivity" is defined. He said:

> "If one uses the strictest definition of someone being inactive and flowing from active to inactive due to ill health [namely, if sickness-

63 John Burn-Murdoch, 'Half a million missing workers show modern Britain's failings', *Financial Times* (7 October 2022): https://www.ft.com/content/b197e9e0-dd53-4d77-a84f-a94824100ed5 [accessed 12 December 2022]

64 Institute for Fiscal Studies, 'Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?' (26 October): https://ifs.org.uk/articles/worsening-health-leading-more-older-workers-quitting-work-driving-rates-economic [accessed 12 December 2022]

65 Bank of England and Imperial College Business School, Jonathan Haskel and Josh Martin, 'Economic inactivity and the labour market experience of the long-term sick' (July 2022): https://haskelecon.blogspot.com/2022/07/the-rise-in-uk-inactivity-since.html [preliminary version] [accessed 12 December 2022]

related inactivity is counted only when one states sickness as the main reason for inactivity], in the region of only 5% of the increase in inactivity can be explained by ill health.

If, however, one uses that intermediate definition … where you ask, "Do you have a health condition that would limit your ability to work?", and then, "Are you inactive?" [but without requiring that health is given as the primary reason for inactivity], that figure goes up from about 5% to 20%. In neither case are we talking about it being absolutely dominant, but it could be one of two or three similarly significant trends here."[66]

57. **The UK stands out among developed economies in having a growing inactivity rate and not reverting to its pre-pandemic trend. The recent increase in inactivity is also significant because it breaks from the historic trend of falling inactivity in the UK.**

58. **While sickness is rising and does appear to be one factor contributing to higher inactivity, it is unlikely to have been the overwhelming driver of labour force exit that it first appears. Much of the rise in sickness-related inactivity is among people who were already inactive, rather than people who were employed then becoming inactive due to sickness. This points against expecting future improvements in health to feed quickly through into a reversal of recent increases in inactivity.**

59. **The impact of long COVID-19 and NHS waiting lists on economic inactivity is unclear. We recommend that further work be carried out, as part of the Department for Work and Pension's review into workforce participation, to understand the potential effect of NHS waiting lists and long COVID-19 on the labour supply.**

Earlier retirement

60. Early retirement means retiring any time before the state pension age, currently 66 years. Evidence from IFS shows that, among those aged 50–64 years old (the age group which accounts for the largest rise in inactivity since the pandemic), flows from employment to retirement have increased more than flows from employment to sickness. Movements from employment to retirement have been particularly large among those working part-time or who are self-employed.[67] Both part-time work and self-employment increase markedly as workers approach state pension age, so the IFS interpret this as showing that retirement has increased most among workers who were already winding down their careers.

61. Evidence from academics at the University of Essex (Figure 16) shows that the largest increases in flows from employment to inactivity among older workers have been among those with hourly wages around the middle of the distribution, with some increase among those on the highest wages (and no increase among those on the lowest wages).[68] When ranking people by their

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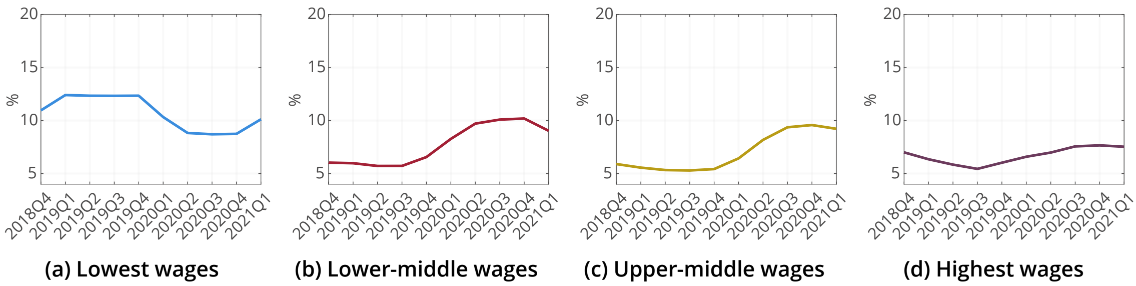
66 Q 90 (John Burn-Murdoch)

67 Institute for Fiscal Studies, 'The rise in economic inactivity among people in their 50s and 60s' (June 2022): https://ifs.org.uk/publications/rise-economic-inactivity-among-people-their-50s-and-60s [accessed 12 December 2022]

68 Carrillo-Tudela et al, *Policy Briefing Note: Rising Inactivity in the Over 50s post-COVID* (October 2022): https://covidjobsresearch.co.uk/wp-content/uploads/pdf/over50sInactivity.pdf [accessed 9 December 2022]

weekly earnings, rather than hourly wages, the rise is more concentrated in the lower-middle of the distribution. Part-time workers were disproportionately likely to leave the labour force and will be lower down the weekly earnings distribution than the hourly wage distribution because they are working fewer hours per week than full-time workers—older workers are more likely to work part-time.[69]

Figure 16: Employment to inactivity flow by hourly wage quartile by percentage of total employment in each wage quartile



Source: Carrillo-Tudela et al, Policy Briefing Note: Rising Inactivity in the Over 50s post-COVID (October 2022): https://covidjobsresearch.co.uk/wp-content/uploads/pdf/over50sInactivity.pdf [accessed 9 December 2022]

62. The limited information available on the wealth of new retirees reinforces the impression that, on average, they are a reasonably resourced group. The ONS Over 50s Lifestyle Study has surveyed 50–64-year-olds who have left work since the pandemic began and not yet returned. It finds that two thirds (66%) of the cohort own their homes without any outstanding mortgage.[70]

63. The Financial Conduct Authority's Financial Lives Survey, conducted largely in May 2022, found that 92% of 55–64 year olds who had retired, or whose partner had retired, in the last 12 months owned their own home (78% owned their home outright with no outstanding mortgage debt); and only 10% had low financial resilience, compared with 16% for 55–64 year olds still in employment.[71] This evidence supports the view that over 55 year olds who have retired early during the last year are, on average at least, relatively well resourced.

64. Figure 17 from the ONS Over 50s Lifestyle Study shows the funding sources of people who have retired. It suggests a large portion comes from private pensions, savings, and investments. Reliance on state benefits is a relatively rare response, even though respondents can provide multiple answers.

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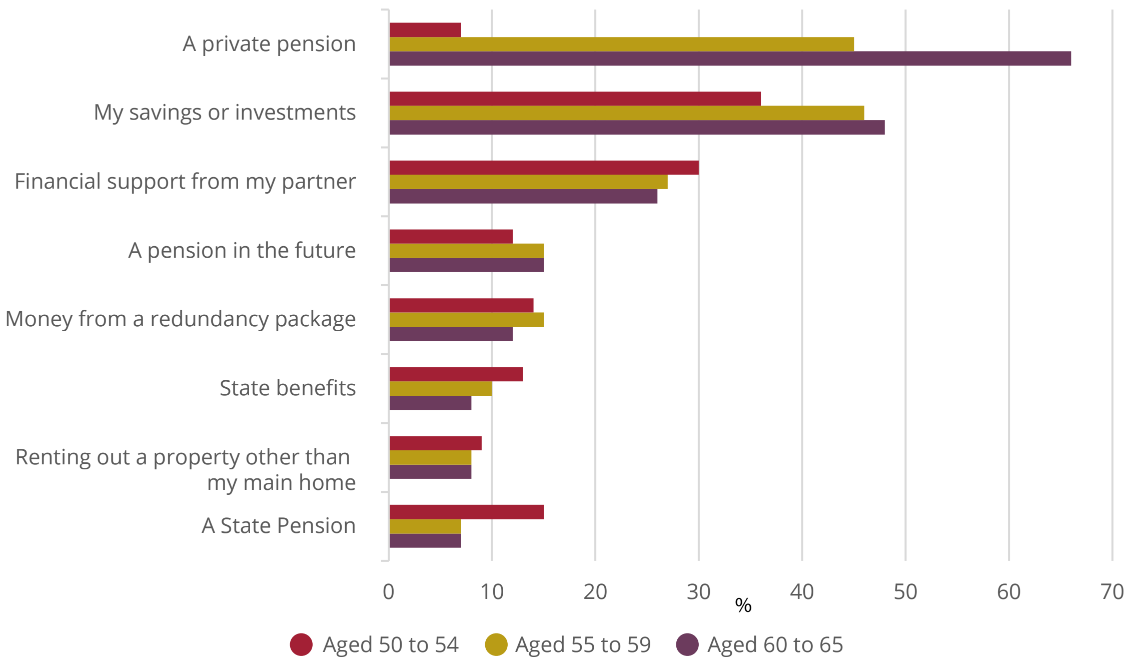
69 Institute for Fiscal Studies, 'The rise in economic inactivity among people in their 50s and 60s' (June 2022): https://ifs.org.uk/publications/rise-economic-inactivity-among-people-their-50s-and-60s [accessed 12 December 2022]

70 Office for National Statistics, 'Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic: wave 2' (27 September 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/wave2 [accessed 14 December 2022]

71 Written evidence from the Financial Conduct Authority (ULS0034). Adults are described as having low financial resilience if they have little capacity to withstand financial shocks, because, for example, they do not think they would be able to withstand losing their main source of household income for even a week or are finding it to be a heavy burden keeping up with their domestic bills or credit commitments, or because they have already missed paying these bills in 3 or more of the last 6 months.

Figure 17: Sources of funding for time out of work or retirement by age group August 2022



Source: Office for National Statistics, 'Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic: wave 2' (27 September 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/wave2 [accessed 14 December 2022]

65. There is a risk that some early retirees underestimate their potential lifespan and the length of time their retirement funds are needed to cover. The Rt Hon Mel Stride MP, Secretary of State for Work and Pensions, told the House of Commons Work and Pensions Committee:

> "Some of them may be mistakenly feeling that they are in a financially secure position that will last them right the way through to the end of their lives … If you were born in 1971, you have a 50% chance of being alive and healthy aged 100."[72]

66. However, it is easier to imagine that retirement has left people financially vulnerable if it is a choice that they were reluctant to make. Evidence on this generally suggests that this is not the case. For the most part, these people express no desire to work and do not expect to work again; and they transitioned directly from employment to inactivity (rather than trying and failing to find a new job in the interim).[73]

67. The fact that so many recent retirees express no desire or expectation to work suggests it is unrealistic to base policy solutions on persuading or facilitating these people to re-enter the labour force. Furthermore, there are limited signs of people aged 16–64 moving from inactivity to employment in the latest monthly data, despite pressures from the high cost of living (although

72 Oral evidence taken before the Work and Pensions Committee on 30 November 2022 (Session 2022–23) Q 12 (Mel Stride)

73 Carrillo-Tudela et al, *Policy Briefing Note: Rising Inactivity in the Over 50s post-COVID* (October 2022): https://covidjobsresearch.co.uk/wp-content/uploads/pdf/over50sInactivity.pdf [accessed 9 December 2022]

it should be noted that the full impact of these pressures may still have an effect).[74]

Why have more people retired?

68. Understanding of what has driven the increase in retirement is still tentative, but several witnesses offered possible explanations.

69. Mike Keoghan, Deputy National Statistician for Economic, Social and Environmental Statistics at the ONS, told us that there is some evidence that "the pandemic forced a variety of behavioural changes on people.".[75] He cited the Over 50s Lifestyle Study which found that 15% of respondents said the COVID-19 pandemic was the main reason for them leaving work. Some 10% said they were furloughed and then lost their job; 10% said they wanted a change in lifestyle; and 10% cited mental health and stress.[76]

70. The Coronavirus Job Retention Scheme applied from 1 March 2020 and ended on 30 September 2021. The scheme provided grants to employers so they could retain and continue to pay staff during coronavirus related lockdowns, by furloughing employees at up to 80% of their wages.[77] 11.7 million employee jobs were furloughed through the scheme, at a cost of £70 billion.

71. Tony Wilson, Director, Institute for Employment Studies, said:

> "Our furlough scheme was relatively generous but also pretty passive; it did not keep in touch with people while they were off, there was no access to employment-related support through Jobcentre Plus or other services, and there were no active requirements on employers to facilitate return to work for people."

72. Nadra Ahmed, Chairman at the National Care Association, told us "We are seeing that people are leaving more because they are making a life choice to retire early, and they are deciding that [work] is too stressful."[78] Mike Clancy, General Secretary at the Prospect Union, said there was an "intensification of work demands" during the pandemic and a "rapidly escalating mental health crisis … born out of the disorientation during the COVID-19 period."[79] He said many people decided to retire earlier because their pensions and personal finances enabled them to do so.

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74 Office for National Statistics, 'Labour Force Survey Flows estimates' (15 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourforcesurveyflowsestimatesx02 [accessed 14 December 2022]

75 Q 5 (Mike Keoghan)

76 Office for National Statistics, 'Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic' (14 March 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/2022-03-14 [accessed 14 December 2022]

77 House of Commons Library, *Coronavirus Job Retention Scheme: statistics*, Library Note, Research Briefing, CBP 9152, 23 December 2021

78 Q 73 (Nadra Ahmed)

79 Q 32 (Mike Clancy)

Enabling factors: pensions flexibilities and financial situation

73. The UK has a relatively flexible pensions system.[80] Some witnesses suggested that, for some people aged over 55, this flexibility may have enabled them to retire earlier. For instance, Ian Stewart, Chief Economist at Deloitte, told us:

> "We also have a cohort of workers in the over-50s, many of whom are very asset rich with low levels of debt. They are relatively financially independent. This is one difference between the UK and a lot of continental countries, where state pension provision is more important. In the UK, our system of pension provision probably gives people more autonomy about the timing of decisions on when they exit the labour market."[81]

74. Tony Wilson agreed that pensions flexibility and increased savings may be a factor for older people retiring earlier. He also highlighted the role of redundancy payments during the pandemic, which enabled people to retire earlier. He said "nearly 1 million people were made redundant in 2020. It is fewer than 500,000 in normal times."[82] In 2020 the number of 50–69-year-olds who moved from employment to inactivity reporting redundancy or dismissal as their reason for leaving their last role doubled in 2020, before dropping back down when redundancy levels returned to normal.[83]

75. The Rt Hon Guy Opperman MP, Minister for State at the Department for Work and Pensions, said: "there is a cohort of people who have opted out of employment by choice and believe they have the finances to do so. That is a very hard cohort to persuade to come back."[84]

76. Another factor, as outlined in paragraph 16, may be that some people built up savings during the pandemic, as lockdowns meant they were spending less on commuting, retail, and leisure activities. The Bank of England estimated that households built up more than an extra £125 billion in savings from March 2020 to November 2020; this increased to over £200 billion by June 2021.[85] This could have enabled some people to accelerate retirement plans.

77. Werner Eichhorst, Coordinator of Labor Market and Social Policy in Europe, IZA Institute of Labor Economics, told us that private pensions and savings play a much smaller role in continental Europe than in the UK. As a result, there is no trend towards early retirement in European labour markets.[86]

80 This flexibility is in part due to Pensions freedoms legislation introduced in 2015 which gave people more flexibility about when and how to draw down their defined-contribution (DC) pensions. The pension freedoms were not aimed at members of defined benefit (DB) pension schemes (which provide benefits based on salary and length of service). However, people with DB schemes may flexibility about when they drawdown benefits or the right to transfer their benefits to another scheme. The number of transfers from DB into DC pensions has risen steadily since the introduction of pension freedoms; House of Commons Library, Research Briefing, *Pension freedoms: transfers from defined benefit pension schemes*, CBP 8382, May 2020

81 Q 51 (Ian Stewart)

82 Q 83 (Tony Wilson)

83 Institute for Fiscal Studies (IFS), *The rise in economic inactivity among people in their 50s and 60s* (June 2022): https://ifs.org.uk/sites/default/files/output_url_files/BN345-the-rise-of-economic-inactivity-in-people-50s-60s.pdf [accessed 12 December 2022]

84 Q 112 (Guy Opperman)

85 Bank of England, 'Monetary Policy Report' (February 2021): https://www.bankofengland.co.uk/monetary-policy-report/2021/february-2021 [accessed 12 December 2022] and Bank of England, 'Thirty years of hurt, never stopped me dreaming: speech by Andy Haldane' (30 June 2021): https://www.bankofengland.co.uk/speech/2021/june/andy-haldane-speech-at-the-institute-for-government-on-the-changes-in-monetary-policy [accessed 12 December 2022]

86 Q 85 (Werner Eichhorst)

Similarly, Ronan O'Connor, Director, Strategy and Governance Directorate at the Department for Work and Pensions, said that UK pensions freedoms have been popular and given people more choice about retirement than in other developed economies. This suggests that it is a viable hypothesis for why UK is an outlier in inactivity rates, but he noted that there is a "data lag" and "the evidence is not there to back it up."[87]

78. A survey by Phoenix Insights, a think tank focused on work and finance for people living longer lives, found that UK workers aged 50-64 have a less favourable view of work than in the USA and Germany (58% of workers in the UK liked their job, compared to 74% in the USA and 73% in Germany).[88] Furthermore, workers in the UK were more likely to rethink how they view working due to the COVID-19 pandemic (40% in the UK compared to 28% in the US and 30% in Germany).

79. In summary, two hypotheses were commonly put forward by witnesses:

(1) Experiments with a different lifestyle during the pandemic meant that people learnt more about their preferences for retirement versus work, and some of those people realised that an accelerated retirement was more appealing than they had thought.[89] It is possible that the furlough scheme, which kept people attached to their jobs, accentuated this effect by giving people no immediate imperative to search for another job, meaning they could experiment with retirement as a lifestyle.

(2) Accelerated retirement may have been facilitated financially by a combination of the UK's relatively flexible pension access arrangements and the extra saving that some households built up during the pandemic.

80. Although there are indications that many who have brought forward their retirement are economically secure, early retirement carries risks. First, inflation has eroded people's real incomes and wealth since many of them decided to retire. Second, while on average the additional retirees may not appear especially poor, the rise in retirement has been large enough to encompass a range of people, with increases in retirement extending down to the second quartile of hourly wages.[90] Third and related to that: without knowing more about the wealth holdings of these people, it is difficult to be confident about whether, for example, a middle-wage retiree is economically secure. Fourth, it is possible that recent, UK-specific changes to pension access rules could be playing a role, but these major reforms are so recent that it is hard to be certain yet of the implications of them on retirement choices.[91]

81. **The evidence suggests that an increase in people retiring earlier has probably been a lifestyle choice for many, rather than a reluctant departure from the labour market. It is possible that people got used to different habits and ways of working during the COVID-19 pandemic,**

87 Q 116 (Ronan O'Connor)
88 Phoenix Insights, *What is driving the Great Retirement?* (November 2022): https://www.thephoenixgroup.com/sites/phoenix-group/files/2022–11/Phoenix-Insights-The-Great-Retirement.pdf [accessed 12 December 2022]
89 Q 51 (Hannah Slaughter); Q 5 (Mike Keoghan) and Q 83 (Tony Wilson)
90 Carrillo-Tudela et al, *Policy Briefing Note: Rising Inactivity in the Over 50s post-COVID* (October 2022): https://covidjobsresearch.co.uk/wp-content/uploads/pdf/over50sInactivity.pdf [accessed 9 December 2022]
91 Q 116 (Ronan O'Connor)

which prompted them to reflect on their careers. The longer-term question that the Department for Work and Pensions workforce review should address is whether future cohorts of older workers will retire earlier in greater numbers, or whether the pandemic cohort have experienced a unique set of pull factors into retirement that will not apply to their successors.

82. **Greater flexibility of pensions and a bigger role for private pensions may explain some of the difference in UK and European inactivity rates. Similarly, the design of the UK furlough scheme may have prompted people to experiment with retirement as a lifestyle. However, we received limited evidence to substantiate these claims. Further research should be carried out, as part of the Department for Work and Pensions' review into workforce participation, to understand the potential link between different pensions systems and economic inactivity and the impact of the furlough scheme on inactivity.**

83. **Although detail on the wealth of retirees is limited, the majority of those who have left the labour force to retire do not wish to return to work. It is not clear that measures taken by employers, or the Government would encourage them to return to work, given their stated attitudes. However, the Department for Work and Pensions should consider, as part of its review into workforce participation, what measures could be taken, whether by the government or employers, to encourage future age cohorts to remain in the workforce.**

84. **More timely high-quality information on the wealth holdings of early retirees, such as that which will ultimately be available through the Wealth Assets Survey or the English Longitudinal Study of Ageing, would be very helpful in assessing the financial resilience of people who have recently retired.**

Ageing population

85. Older people are more likely to be economically inactive. Therefore, the ongoing ageing of the UK population is pushing up economic inactivity and will continue to do so.[92]

86. Jon Boys said that: "given that the inactivity rate is higher for older people, a changing age profile that shifted a higher proportion of 50–64 year olds towards older ages would increase the rate of inactivity."[93] This is because early retirements are more common in the 50–64 age group (increasingly so towards the older end of this range) and because older people are more likely to experience long-term sickness, which could affect their ability to work."[94]

92 Office for National Statistics, 'Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic' (14 March 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/2022-03-14 [accessed 14 December 2022]

93 Jon Boys, 'Can demography explain the missing older workers?': https://community.cipd.co.uk/cipd-blogs/b/cipd_voice_on/posts/can-demography-explain-the-missing-older-workers [accessed 12 December 2022]

94 Q 94 (David Finch)

87. Jon Boys and Huw Pill both agreed that population ageing is increasing economic inactivity.[95] Michael Saunders, a former member of the Monetary Policy Committee said in an 18 July speech:

> "The UK is not alone in experiencing major demographic shifts, and the developed economies in aggregate have seen a slight decline in the 20–64 age population since 2014. But the UK is rather unusual that this demographic shift comes through quite abruptly around now, with a fairly sudden slowdown in the growth of the 20–64 age population to around zero in coming years."[96]

88. Saunders acknowledges that the impact of the UK's ageing population on the workforce has been a known risk since before the COVID-19 pandemic; however, factors such as the UK leaving the European Union and the COVID-19 pandemic have reduced the likelihood that participation would have increased in other ways to counter this, and potentially distracted businesses from the need to adapt to demographic shifts.[97]

89. Figure 18 shows a simulation from the Bank of England about the impact of population ageing on labour market participation. It illustrates that population ageing has been taking place over the last decade and is expected to continue to gradually reduce participation rates. However, until recently the effects of ageing have been counterbalanced by increases to the state pension age and education attainment. When people attain higher levels of education, they tend to have more work opportunities and higher levels of pay, which provides an incentive to stay in the workforce.[98] However, these factors are not projected to grow at sufficient pace compared with population ageing, which means participation would decline over the next decade. The Bank of England said "other" changes in participation probably include changes in annuity rates, benefit legislation, social norms and health.[99] The chart shows that "other" changes have increased sharply over the last two years.

95 Jon Boys, 'Can demography explain the missing older workers?':https://community.cipd.co.uk/cipd-blogs/b/cipd_voice_on/posts/can-demography-explain-the-missing-older-workers [accessed 12 December 2022] and Q 99 (Huw Pill)

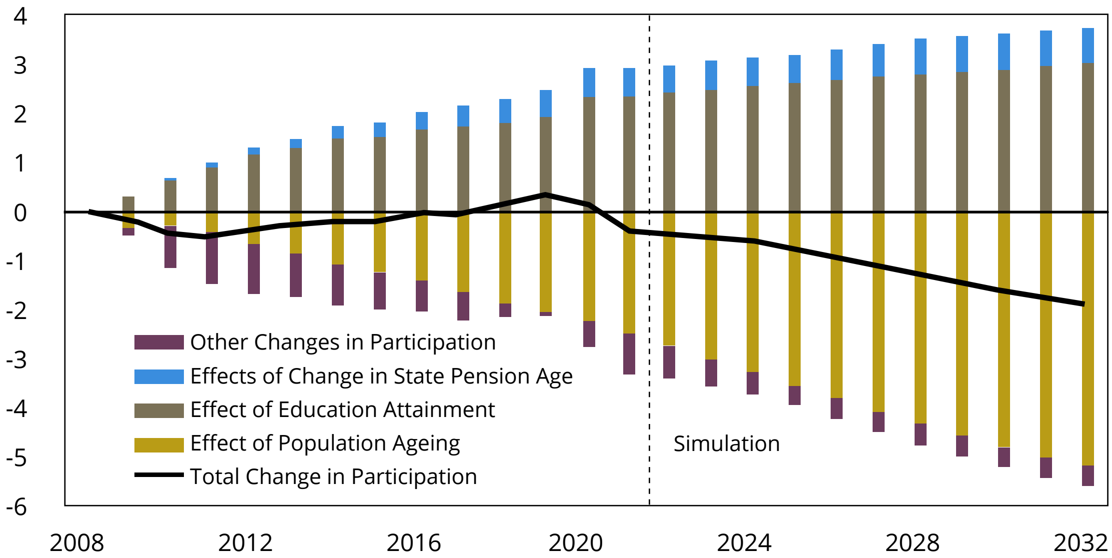
96 Bank of England, 'Some reflections on Monetary Policy past, present and future: speech by Michael Saunders' (July 2022): https://www.bankofengland.co.uk/speech/2022/july/michael-saunders-speech-at-the-resolution-foundation [accessed 12 December 2022]

97 *Ibid.*

98 *Ibid.* "over the period 2001–2021, the share of the 25–59-year-old population with degree level education (who have high participation) rose from 17% to 41%, while the share with education below secondary level (who have relatively low participation) fell from 52% to 32%. As a result, the overall participation rate for this age group rose from 81.6% to 85.8%".

99 *Ibid.*

Figure 18: Changes in the Workforce Participation Rate (for the 16+ population) since 2008, and Simulation to 2032



Source: Bank of England, 'Some reflections on Monetary Policy past, present and future: speech by Michael Saunders' (July 2022): https://www.bankofengland.co.uk/speech/2022/july/michael-saunders-speech-at-the-resolution-foundation [accessed 12 December 2022]

90. Huw Pill told us:

> "If inactivity rates had stayed the same in each of the population buckets, just the ageing of the population would have increased inactivity by about [0.6] of a percentage point from the beginning of the pandemic until now. In reality, the inactivity rate has risen by 1 percentage point, so you could, in that sense, attribute quite a big part of the rise in inactivity just to demographic effects, which were… largely anticipated."[100]

91. The problem is that inactivity rates have not stayed the same in each of the population buckets, since the start of the pandemic—especially in the 50–64 age group. The "other" factors, including decisions to retire and long-term sickness, have caused a fall in labour supply.

92. Michael Saunders said: "these demographic trends imply that, unless there is a sizeable improvement in productivity growth or a trend of rising working hours, the UK is likely to face persistently low potential economic growth in coming years."[101]

93. **The ageing of the population is exerting a gradual downward pressure on economic activity and has reduced the economic activity rate for people aged 16 and over by 0.6 percentage points since the start of the pandemic. Prior to the pandemic, although ageing was pushing labour supply down, other factors were pushing it up—hence the**

100 Q 98 (Huw Pill) and Letter from Huw Pill, Chief Economist and Executive Director for Monetary Analysis and Research to Lord Bridges of Headley, Bank of England to Lord Bridges of Headley, Chair to the Economic Affairs Committee (2 December 2022): https://committees.parliament.uk/publications/31909/documents/179249/default/. Huw Pill wrote to the Committee to clarify that the figure should be 0.6%, rather than 0.7% as he initially said during the oral evidence session.

101 Bank of England, 'Some reflections on Monetary Policy past, present and future: speech by Michael Saunders' (July 2022): https://www.bankofengland.co.uk/speech/2022/july/michael-saunders-speech-at-the-resolution-foundation [accessed 12 December 2022]

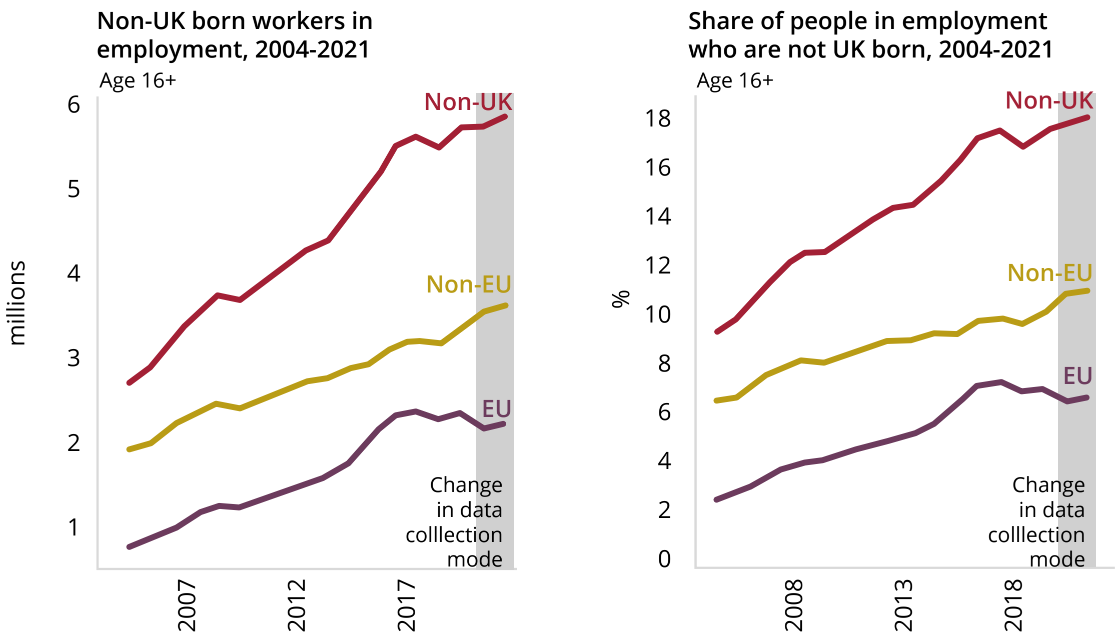
overall decline in the inactivity rate. Since the pandemic, however, ageing has continued exert downward pressure on labour supply and other factors are now reinforcing that effect. A key finding of this report is that those other factors—notably earlier retirement—which are the prime reason why our pre-pandemic trend in inactivity has suddenly reversed: but, looking ahead, ageing will continue to exert a downward pressure on labour supply.

94. **Given the importance of the ageing of our population to economic forecasts, it is critical that the Bank of England and OBR understand more about the determinants of older people's labour supply, especially health; pensions arrangements (including the minimum state pensions age); and the flexibility and impact of macroeconomic conditions in general, and recessions in particular.**

CHAPTER 4: MIGRATION

95. Immigration has contributed significantly to the UK's labour supply in recent decades. The number of people in employment in the UK rose by 4.2 million from 2004 to 2021.[102] As illustrated by Figure 19, over three quarters of this increase (3.2 million) was accounted for by workers not born in the UK.

Figure 19: Non-UK born working in employment, 2004–2021. Actual and percentage share.



Source: Migration Observatory, 'Migrants in the UK Labour Market: An Overview' (6 January 2022: https://migrationobservatory.ox.ac.uk/resources/briefings/migrants-in-the-uk-labour-market-an-overview/ [accessed 2 December 2022]

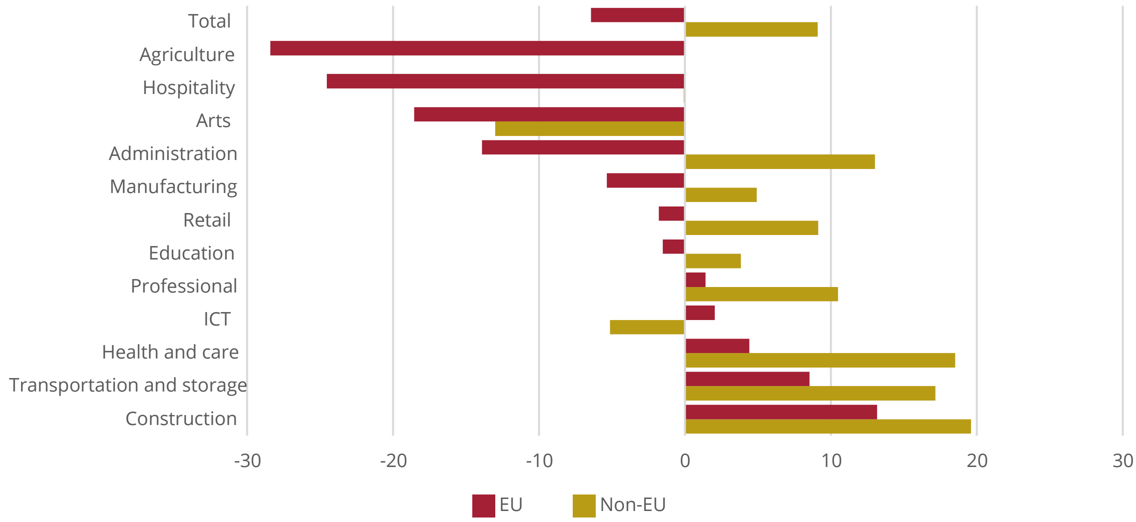
96. Figure 19 shows that although there has been a fall in EU workers in employment since 2016, the number of non-EU workers has continued to grow. The ONS told us:

> "Between June 2019 and June 2021, payrolled employments held by EU nationals fell by 6% (171,100). This was offset by non-EU nationals, which increased by 9% (186,300) in the same period. There is a lot of variation at industry level, meaning changes in the makeup of migration could be affecting some industries more than others."[103]

102 Office for National Statistics, 'Number of People in Employment (aged 16 and over, seasonally adjusted):000s' (15 November 2022): https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/timeseries/mgrz/lms [accessed 14 December 2022]

103 Letter from Mike Keoghan, Office for National Statistics to Lord Bridges of Headley, Chair of the https://committees.parliament.uk/publications/30455/documents/175679/default/

Figure 20: Percentage change in payrolled employments June 2019-June 2021, UK



Source: Office for National Statistics, 'Changes in payrolled employments held by non-UK nationals during the coronovirus (COVID-19) pandemic ad EU Exit periods' (1 March 2022): https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/changesinpayrolledemployment sheldbynonuknationalsduringthecoronaviruscovid19pandemicandeuexitperiods/2022–03-01 [accessed 14 December 2022]

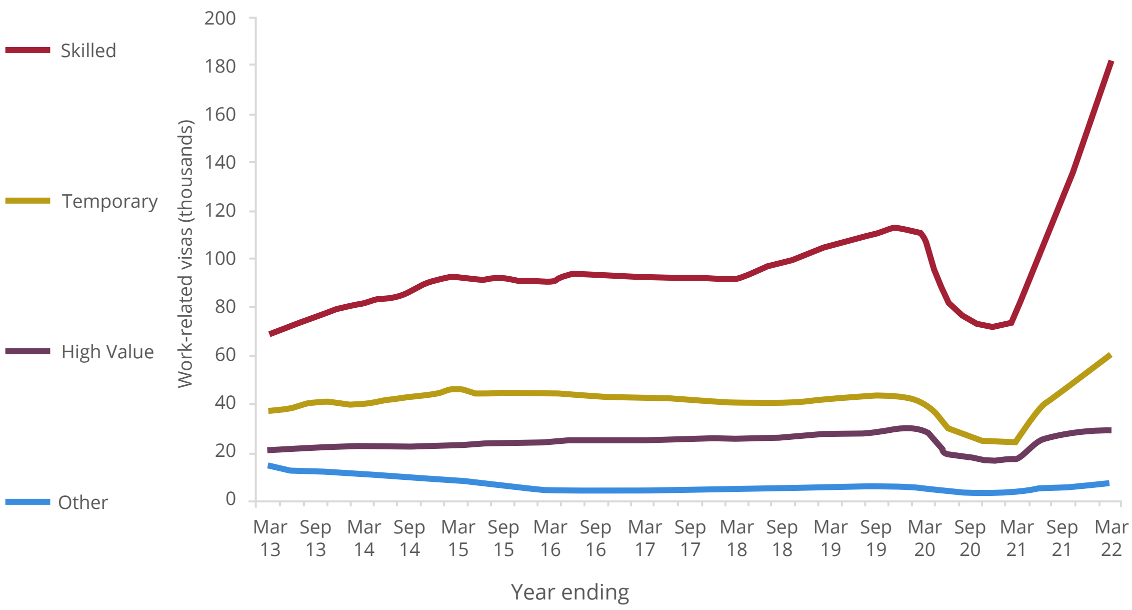
97. As Figure 20 shows, agriculture and hospitality have seen a significant reduction in EU nationals on their payroll, with no commensurate increase in non-EU nationals. The British Retail Consortium also highlighted that they are facing challenges with specific occupations such as workers in supply chain operations.[104]

98. In numerical terms the increase in the number of non-EU workers has offset the fall in EU workers. However, the skill make up of those workers has changed Madeleine Sumption, Director of the Migration Observatory at the University of Oxford, and Jonathan Portes, Professor of Economics and Public Policy at Kings College London, agreed that the UK immigration system is undergoing an "adjustment" whereby the skills structure is shifting, meaning that lower-paid sectors tend to be struggling to recruit while there are more migrants in professional roles.[105] This adjustment is reflected in the rise of skilled visas (see Figure 21 from the Home Office).

99. The Learning and Work Institute told us that there is "evidence of a mismatch between available roles and the types of work that older people … want or are able to do."[106] This "mismatch" could be explained by the changing structure of migration, which is causing vacancies to arise (especially in sectors such as hospitality and agriculture).[107]

104 Written evidence from British Retail Consortium (ULS0020)
105 Q 77 (Jonathan Portes and Madeleine Sumption)
106 Written evidence from the Learning and Work Institute (ULS0013)
107 Q 70 (Tom Bradshaw) and Q 66 (David Sheen and Kris Hamer)

Figure 21: Number of work-related visas issued by type



Source: Home Office, 'Immigration statistics, year ending September 2022' (24 November 2022): https://www.gov.uk/government/statistics/immigration-statistics-year-ending-september-2022 [accessed 14 December 2022]

100. The flexibility of labour supply in certain sectors can also be important, especially where work is seasonal, such as hospitality and agriculture. Professor Jonathan Portes told us:

> "In recent years in particular, because there was no bureaucracy or fees—essentially, Europeans were treated like Brits—we had lots of relatively young people doing often relatively short-term jobs. They were a very flexible part of the labour force, hence a lot of them worked in high-turnover occupations such as hospitality and food services."[108]

101. In a speech on 20 October 2022 Ben Broadbent, Deputy Governor, Monetary Policy at the Bank of England, said: "It's possible that, by adding a degree of friction to the inflow and outflow of migrant workers, the combination of Brexit and the pandemic have made the labour market less adaptable than it was a few years ago."[109] Professor Houston told us: "This churn in the workforce arising from Brexit and the pandemic may have contributed to frictions and mismatches in the labour market."[110]

102. For Jonathan Portes, this shift towards high-skilled immigration suggests that the post-Brexit immigration system is delivering its policy ambition. However, in the short term it has caused acute labour shortages for those sectors that relied heavily on EU migration.[111] Madeleine Sumption expected these labour shortages to be "transient" and that "in the long run those problems might resolve themselves."[112] The witnesses suggested this might

108 Q 78 (Jonathan Portes)
109 Bank of England, 'The inflationary consequences of real shocks: speech by Ben Broadbent', (20 October 2022): https://www.bankofengland.co.uk/speech/2022/october/ben-broadbent-speech-at-imperial-college-the-inflationary-consequences-of-real-shocks [accessed 12 December 2022]
110 Written evidence from Prof Donald Houston (ULS0028)
111 Q 70 (Tom Bradshaw) and Q 66 (David Sheen and Kris Hamer)
112 Q 80 (Madeleine Sumption)

be through automation, reducing the amount of labour required, or through businesses closing and affected industries simply shrinking.

103. At a sector level, Tom Bradshaw, Deputy President at the National Farmers Union, said:

> "We are seeing a contraction in the horticultural sector… not just because of labour, although labour is a key issue in it, but because of all the inflationary pressures as well—and this applies to multiple sectors, including pigs, poultry and horticulture—are all contracting at a time when we need them to produce more."[113]

104. **At an economy-wide level, it appears that a fall in the number of EU workers has been counterbalanced by an increasing number of non-EU workers. This means that, at a macro level, there has been no reduction in the number of immigrants to the UK.**

105. **However, changes in the structure of immigration are contributing to labour supply problems. Some sectors, especially agriculture and hospitality which relied more on EU workers are experiencing acute labour shortages. The changing structure of migration may explain why there are vacancies in roles associated with younger workers despite much of the rise in economic inactivity being in those over 50.**

106. **We heard that, if recent changes to labour supply persist, these sectors will find that their only options are to adapt by re-organising the way they produce their output (such as replacing labour through automation or changes to terms and conditions). To the extent that it proves impossible or too costly to adapt in those ways, these sectors will be smaller than they would have been, and some businesses will likely fail. We recommend that the government considers (for example, in the Department for Work and Pension's review of workforce participation) which combination of these outcomes is likely to materialise; and whether any of those scenarios would elicit concern and a policy response.**

113 Q 74 (Tom Bradshaw)

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Labour shortages—an overview of the problem

1. The COVID-19 pandemic reduced the ability of households purchase goods and services and caused employees to delay job moves. When lockdown restrictions were eased, pent-up consumer demand and labour market churn caused vacancies to increase to record high levels (Paragraph 22)

2. However, the tighter labour market has also been due to lower labour supply. In the current circumstances, the reduction in labour supply, especially due to economic inactivity, is probably playing a more significant role than pent-up demand and churn. (Paragraph 23)

Economic inactivity—who has left the workforce?

3. The UK stands out among developed economies in having a growing inactivity rate and not reverting to its pre-pandemic trend. The recent increase in inactivity is also significant because it breaks from the historic trend of falling inactivity in the UK. (Paragraph 57)

4. While sickness is rising and does appear to be one factor contributing to higher inactivity, it is unlikely to have been the overwhelming driver of labour force exit that it first appears. Much of the rise in sickness-related inactivity is among people who were already inactive, rather than people who were employed then becoming inactive due to sickness. This points against expecting future improvements in health to feed quickly through into a reversal of recent increases in inactivity. (Paragraph 58)

5. The impact of long COVID-19 and NHS waiting lists on economic inactivity is unclear. We recommend that further work be carried out, as part of the Department for Work and Pension's review into workforce participation, to understand the potential effect of NHS waiting lists and long COVID-19 on the labour supply. (Paragraph 59)

6. The evidence suggests that an increase in people retiring earlier has probably been a lifestyle choice for many, rather than a reluctant departure from the labour market. It is possible that people got used to different habits and ways of working during the COVID-19 pandemic, which prompted them to reflect on their careers. The longer-term question that the Department for Work and Pensions workforce review should address is whether future cohorts of older workers will retire earlier in greater numbers, or whether the pandemic cohort have experienced a unique set of pull factors into retirement that will not apply to their successors. (Paragraph 81)

7. Greater flexibility of pensions and a bigger role for private pensions may explain some of the difference in UK and European inactivity rates. Similarly, the design of the UK furlough scheme may have prompted people to experiment with retirement as a lifestyle. However, we received limited evidence to substantiate these claims. Further research should be carried out, as part of the Department for Work and Pensions' review into workforce participation, to understand the potential link between different pensions systems and economic inactivity and the impact of the furlough scheme on inactivity. (Paragraph 82)

8. Although detail on the wealth of retirees is limited, the majority of those who have left the labour force to retire do not wish to return to work. It

is not clear that measures taken by employers, or the Government would encourage them to return to work, given their stated attitudes. However, the Department for Work and Pensions should consider, as part of its review into workforce participation, what measures could be taken, whether by the government or employers, to encourage future age cohorts to remain in the workforce. (Paragraph 83)

9. More timely high-quality information on the wealth holdings of early retirees, such as that which will ultimately be available through the Wealth Assets Survey or the English Longitudinal Study of Ageing, would be very helpful in assessing the financial resilience of people who have recently retired. (Paragraph 84)

10. The ageing of the population is exerting a gradual downward pressure on economic activity and has reduced the economic activity rate for people aged 16 and over by 0.6 percentage points since the start of the pandemic. Prior to the pandemic, although ageing was pushing labour supply down, other factors were pushing it up—hence the overall decline in the inactivity rate. Since the pandemic, however, ageing has continued exert downward pressure on labour supply and other factors are now reinforcing that effect. A key finding of this report is that those other factors—notably earlier retirement—which are the prime reason why our pre-pandemic trend in inactivity has suddenly reversed: but, looking ahead, ageing will continue to exert a downward pressure on labour supply. (Paragraph 93)

11. Given the importance of the ageing of our population to economic forecasts, it is critical that the Bank of England and OBR understand more about the determinants of older people's labour supply, especially health; pensions arrangements (including the minimum state pensions age); and the flexibility and impact of macroeconomic conditions in general, and recessions in particular. (Paragraph 94)

Migration

12. At an economy-wide level, it appears that a fall in the number of EU workers has been counterbalanced by an increasing number of non-EU workers. This means that, at a macro level, there has been no reduction in the number of immigrants to the UK. (Paragraph 104)

13. However, changes in the structure of immigration are contributing to labour supply problems. Some sectors, especially agriculture and hospitality which relied more on EU workers are experiencing acute labour shortages. The changing structure of migration may explain why there are vacancies in roles associated with younger workers despite much of the rise in economic inactivity being in those over 50. (Paragraph 105)

14. We heard that, if recent changes to labour supply persist, these sectors will find that their only options are to adapt by re-organising the way they produce their output (such as replacing labour through automation or changes to terms and conditions). To the extent that it proves impossible or too costly to adapt in those ways, these sectors will be smaller than they would have been, and some businesses will likely fail. We recommend that the government considers (for example, in the Department for Work and Pension's review of workforce participation) which combination of these outcomes is likely to materialise; and whether any of those scenarios would elicit concern and a policy response. (Paragraph 106)

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

Lord Bridges of Headley (Chair)
Viscount Chandos
Lord Fox
Lord Griffiths of Fforestfach
Lord King of Lothbury
Baroness Kramer
Lord Layard
Lord Livingston of Parkhead
Lord Monks
Baroness Noakes
Lord Rooker
Lord Skidelsky
Lord Stern of Brentford

Declarations of interest

Lord Bridges of Headley (Chair)
Senior Adviser to Banco Santander
Viscount Chandos
Trustee, Esmee Fairbairn Foundation
Lord Fox
No relevant interests declared
Lord Griffiths of Fforestfach
No relevant interests declared
Lord King of Lothbury
No relevant interests declared
Baroness Kramer
No relevant interests declared
Lord Layard
No relevant interests declared
Lord Livingston of Parkhead
No relevant interests declared
Lord Monks
No relevant interests declared
Baroness Noakes
No relevant interests declared
Lord Rooker
No relevant interests declared
Lord Skidelsky
No relevant interests declared
Lord Stern of Brentford
No relevant interests declared

A full list of Members' interests can be found in the Register of Lords' interests: https://members.parliament.uk/members/lords/interests/register-of-lords-interests

Specialist Adviser

Robert Joyce
No relevant interests declared

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at https://committees.parliament.uk/work/6887/uk-labour-supply/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with ** gave both oral and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

*	Mike Keoghan, Deputy National Statistician for Economic, Social and Environmental Statistics at the Office for National Statistics	QQ 1–24
*	David Freeman, Head of Labour Market and Households at Office for National Statistics	QQ 1–10
*	Mike Clancy, General Secretary at Prospect Union	QQ 25–32
**	Kate Bell, Head of Rights, International, Social and Economic Department at the Trades Union Congress	QQ 25–32
*	Jon Boys, Labour Market Economist at Chartered Institute of Personnel and Development	QQ 33–40
*	David Hale, Head of Public Affairs at Federation of Small Businesses	QQ 33–40
**	Kate Shoesmith, Deputy CEO at Recruitment and Employment Confederation	QQ 41–49
**	Lauren Thomas, UK Economist at Glassdoor	QQ 41–49
*	Hannah Slaughter, Senior Economist at Resolution Foundation	QQ 50–57
*	Ian Stewart, Chief Economist at Deloitte	QQ 50–57
*	David Sheen, Public Affairs Director at UK Hospitality	QQ 58–68
**	Dr Kris Hamer, Director at British Retail Consortium	QQ 58–68
*	Nadra Ahmed, Chairman at the National Care Association	QQ 69–75
**	Tom Bradshaw, Deputy President at the National Farmers Union	QQ 69–75
*	Professor Jonathan Portes, Academic at King's College London	QQ 76–81
*	Madeleine Sumption, Director at the Migration Observatory	QQ 76–81
*	Eliza Forsythe, Assistant Professor, School of Labor and Employment Relations at the University of Illinois	QQ 82–86

*	Tony Wilson, Director at the Institute for Employment Studies	QQ 82–86
*	Werner Eichhorst, Coordinator of Labor Market and Social Policy in Europe, IZA	QQ 82–86
*	John Burn Murdoch, Chief Data Reporter at the Financial Times	QQ 87–94
*	David Finch, Assistant Director, Healthy Lives Team at The Health Foundation	QQ 87–94
*	Huw Pill, Chief Economist and Executive Director for Monetary Analysis at Bank of England	QQ 95–104
**	Kevin Hollinrake MP, Parliamentary Under Secretary of State at the Department for Business, Energy and Industrial Strategy	QQ 105–119
**	Guy Opperman MP, Minister of State at the Department for Work and Pensions	QQ 105–119
**	Mike Warren, Director, Labour Markets at the Department for Business, Energy and Industrial Strategy	QQ 105–119
**	Ronan O'Connor, Director of Labour Markets Strategy at the Department for Work and Pensions	QQ 105–119

Alphabetic list of all witnesses

*	Nadra Ahmed, Chairman at the National Care Association (QQ 69–75)	
	Association of Independent Professionals and the Self-Employed (IPSE)	ULS0019
	Association of Professional Staffing Companies (Global) Ltd	ULS0007
	Best Western Plus Linton Lodge Hotel	ULS0001
*	Jon Boys, Labour Market Economist at Chartered Institute of Personnel and Development (QQ 33–40)	
*	British Retail Consortium (BRC) (QQ 58–68)	
*	John Burn-Murdoch, Chief Data Reporter at the Financial Times (QQ 87–94)	
	Business Services Association	ULS0016
	Care England	ULS0008
	Professor Carlos Carrillo-Tudela (Professor in Economics at University of Essex), Dr Alex Clymo (Lecturer in Economics at University of Essex), Miss Camila Comunello (PhD Student at University of Essex), and Dr David Zentler-Munro (Lecturer in Economics at University of Essex)	ULS0005
	Centre for Care at the University of Sheffield	ULS0015
	Chartered Institute of Building (CIOB)	ULS0033

	Circularl Health (C1H)	ULS0003
*	Mike Clancy, General Secretary at Prospect Union (QQ 25–32)	
	Coproduce Care	ULS0023
**	Department for Business, Energy and Industrial Strategy (QQ 105–119)	ULS0018
**	Department for Work and Pensions (QQ 105–119)	ULS0029
*	Werner Eichhorst, Coordinator of Labor Market and Social Policy in Europe, IZA (QQ 82–86)	
	Financial Conduct Authority	ULS0034
*	David Finch, Assistant Director, Healthy Lives Team at The Health Foundation (QQ 87–94)	
	Focus on Labour Exploitation (FLEX)	ULS0014
*	Eliza Forsythe, Assistant Professor, School of Labor and Employment Relations at the University of Illinois (QQ 82–86)	
*	David Freeman, Head of Labour Market and Households at Office for National Statistics (QQ 1–10)	
	Gigl	ULS0006
**	Glassdoor, Inc.(QQ 41–49)	ULS0004
*	David Hale, Head of Public Affairs at Federation of Small Businesses (QQ 33–40)	
	Heart of London Business Alliance	ULS0012
	The Horticultural Trades Association (HTA)	ULS0021
	Professor Donald Houston, Professor of Economic Geography at the University of Portsmouth	ULS0027
	Institute of Directors (IOD)	ULS0032
	International Longevity Centre UK (ILC)	ULS0031
*	Mike Keoghan, Deputy National Statistician for Economic, Social and Environmental Statistics at the Office for National Statistics (QQ 1–24)	
	Learning and Work Institute	ULS0013
**	National Farmers Union (NFU) (QQ 69–75)	ULS0024
	National Farmers Union Scotland	ULS0017
	The Nuffield Trust	ULS0025
*	Huw Pill, Chief Economist and Executive Director for Monetary Analysis at Bank of England (QQ 95–104)	
*	Professor Jonathan Portes, Academic at King's College London (QQ 76–81)	
	Pregnant Then Screwed	ULS0022

**	Recruitment and Employment Confederation (QQ 41—49)	ULS0011
*	David Sheen, Public Affairs Director at UK Hospitality (QQ 58–68)	
*	Hannah Slaughter, Senior Economist at the Resolution Foundation (QQ 50–57)	
*	Ian Stewart, Chief Economist at Deloitte (QQ 50–57)	
*	Madeleine Sumption, Director at the Migration Observatory (QQ 76–81)	
**	Trades Union Congress (TUC) (QQ 25–32)	ULS0028
*	Tony Wilson, Director at the Institute for Employment Studies (QQ 82–86)	

APPENDIX 3: CALL FOR EVIDENCE

The House of Lords Economic Affairs Committee, chaired by Lord Bridges of Headley, is launching an inquiry on recent trends in the UK labour market.

Recent statistics show that labour shortages are acute, with vacancies still at record levels and above pre-pandemic levels in all industries. The Committee is seeking evidence to help it to answer the following questions:

(1) What are the recent trends in labour supply? How large are reductions in the size of the labour force?

(2) Which sectors and regions are most affected? Are the public and private sectors affected differently?

(3) Which people have been leaving the labour market? What is the socio-economic and demographic breakdown?

(4) What factors are contributing to reductions in the size of the labour force?

(5) What effect are wage levels having on the supply of labour?

(6) How do recent changes in the UK's labour supply compare with those in other developed economies?

This is a public call for written evidence. The deadline for submissions is Friday 30 September 2022.

The Committee is looking to hear from as diverse a range of views as possible—if you think someone you know would have an interest in contributing to the inquiry, please pass this on to them.

Short, concise submissions are preferred. Responses should not be longer than five sides of A4. The Committee cannot accept anything that has not been prepared specifically in response to this call for evidence, or that has been published elsewhere.