

THE GOOD WORK EFFECT

HOW HIGH-QUALITY WORK CAN LEAD A JOBS RECOVERY

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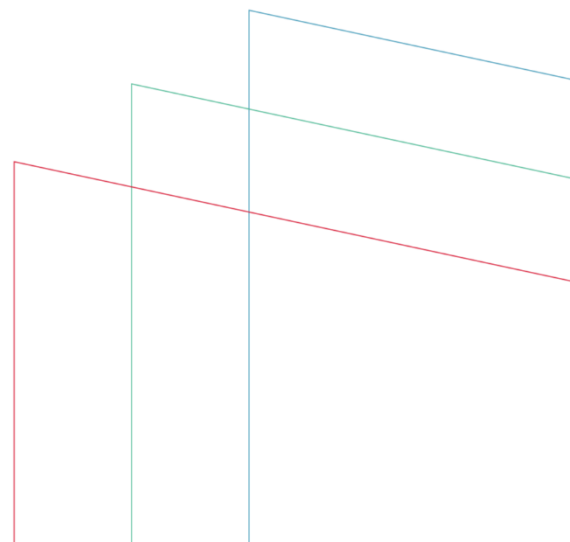
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EXECUTIVE SUMMARY

The UK labour market has not fully recovered since Covid-19. Our economic activity rate has continued to lag behind the best-performing economies.¹ We remain the only G7 economy where the employment rate has still not returned to its pre-pandemic level.² Job vacancies are at a five-year low,³ and have a worrying place-based distribution: a large proportion of people on welfare benefits are in labour markets with very few vacancies.^{4,5}

The most disadvantaged people, and the most disadvantaged local communities, have suffered worse from this situation, with the ongoing Milburn Review highlighting that if action is not taken, the number of 16–25-year-olds not in education, employment, or training (Neet) in the UK – already the second-highest in Europe, after Romania – will increase to 1.25 million within five years.⁶

The inactivity problem is not exclusively one facing young people: wider economic inactivity has risen sharply in recent years, particularly among working-age adults with health conditions (Figure 1). As the Mayfield Review highlighted, it now stands at over one in five of the working-age population – much higher than leading countries such as the Netherlands (14.5%). If the government met its target to increase the employment rate to 80%, there would be 2 million more people in employment.⁷

To date, much of the debate about why the UK's post-Covid recovery has been so weak has focused on worsening population health, NHS waiting lists, and shifts in preferences of workers (such as early retirement). In this report, we don't challenge the validity of these arguments in offering a partial explanation of what has happened.

Instead, we shift the debate in a different direction by asking how the nature of work itself – such as more precarious and lower-quality jobs – might be contributing to exits from employment. We suggest that the ability of workers to be well-supported by their employers during disruptions to their working life – such as an economic shock like Covid, or periods of ill health – is a critical and underexplored part of the story on economic inactivity.

To investigate this question, we use a mixed methods approach. Most of our analysis is based on longitudinal survey data from the large-scale UK household survey (*Understanding Society*),⁸ which is representative of people in paid employment and covers the period 2012–25. We measure workers' job quality using a multidimensional UK Quality of Work index, which captures the quality of workers' jobs on 20 different indicators – including job security, flexibility, earnings, and workplace health and safety.

We published an accompanying supplementary report alongside this one, which provides a more comprehensive overview of the methodology underpinning this work⁹.

Alongside this, we carried out qualitative interviews with 10 people with direct experience of leaving paid employment and/or claiming out-of-work benefits in recent years. Participants were recruited through MIS Group and were remunerated for their participation. All interviews were conducted on a semi-structured basis. The findings from these interviews tended to corroborate the quantitative analysis; we quote from them extensively throughout this report. The names and genders of all participants quoted in this report have been changed to protect their identity.

We found that poor job quality is strongly associated with the likelihood of leaving work, with workers with lower job quality when interviewed in the prior wave (Wave T) much more likely to leave employment when interviewed in the wave after (Wave T+1). The rate of exit rose markedly during the pandemic, with the nature of the relationship also changing towards different forms of non-employment and affecting those in different-quality jobs to varying degrees. These patterns remain robust even when accounting for individual characteristics, suggesting that the nature of work itself may play an important role.

We then examined which specific job quality indicators might be driving this relationship between poor job quality and job exit. We found evidence that autonomy and voice in the workplace are particularly important: jobs that enable workers to adjust hours, modify tasks, or take time off when needed are more likely to support continued employment. By contrast, roles that are rigid, insecure, or lacking in managerial support often leave workers with little option but to leave when their health deteriorates. Qualitative evidence highlights how exits are frequently the result of cumulative pressures, rather than single shocks, and how small differences in job design can determine whether individuals remain in work.

We also found that these risks are concentrated in more precarious forms of employment, including self-employment and zero-hours contracts. While often presented as flexible, these roles frequently lack the protections and stability needed to support workers through periods of ill health. This suggests that the rise in the level and variety of precarious employment may make the labour market increasingly vulnerable to rises in inactivity in the future.

Taken together, the findings point to the fact that rising non-employment is also shaped by changes in the quality and design of available work. Policy responses therefore need to go beyond supporting individuals, and instead focus on how jobs themselves can better accommodate changing health and circumstances.

From this analysis, we suggest that the government's twin goals of raising job quality and employment participation may be mutually reinforcing, under the right conditions:

- **Lower-quality jobs are linked to higher exit rates:** Workers in the lowest-quality fifth of jobs are significantly more likely to leave employment (1.6–3.4 times, depending on the model used), particularly following changes in their health. Low job quality overall is associated with greater risk of exit from work, with some potential evidence of a quasi-causal relationship.
- **The Covid-19 pandemic created new vulnerabilities for workers in non-standard employment relationships, especially the self-employed, and in certain sectors of the economy.** Previous UK governments were able to achieve rises in the employment rate in part due to rises in self-employment. Our analysis suggests this trend exposed these workers to greater risks during Covid-19. When the pandemic hit, it left a large proportion of workers vulnerable – with few support mechanisms to retain work when experiencing an episode of ill health. This poses a challenge for the current government in choosing how to recover the labour market.
- **A combination of “healthy job” characteristics is particularly protective for workers.** Supporting existing qualitative literature on this topic, and reinforcing the findings of previous studies ^{usi10} this report presents quantitative evidence of a set of characteristics strongly associated with lower risks of non-employment. Perhaps unsurprisingly, this includes job security, but factors such as worker-oriented flexibility, autonomy, and protections arising from continuous employment are also associated with it.
- **There is evidence that “healthy jobs” are especially protective for workers who experience a worsening of mental health, or who develop a long-term health condition, between waves.** Healthy jobs – defined here as jobs with greater levels of autonomy, job security, and other features – were disproportionately more protective in helping prevent labour market exit for workers who experienced a worsening of mental or long-term health than workers who did not. This suggests these characteristics are especially important in keeping those who experience a health-related shock in work. They may, for example, reflect having better in-work protections to help them manage a transition while working.
- **Investing in “good work” is therefore vital to meeting the government's employment targets, as well as being a desirable objective in itself.** Without a drive for a good-jobs-led economic recovery, the government will struggle to achieve a sustained higher employment rate. Those in employment will continue

to be vulnerable to ill-health-related economic shocks, as they were in previous crises. The risk will only continue as our society ages, because increasing numbers of people in the workforce will have to manage health conditions alongside paid work.

We end the report with an outline of proposals to improve accessibility to good work for workers with long-term health conditions, which build on the vital safeguards introduced in the Employment Rights Act 2025. We propose the following:

- **The government should expressly commit to a good-jobs-led economic recovery, rebuilding the labour market back to a better state than it was before the pandemic to build resilience from future shocks.** The incoming Prime Minister has made encouraging statements about the role of high-quality work as part of his drive to deliver.¹¹ There should be explicit recognition that without a drive to improve job quality, workers at the bottom of the labour market will remain vulnerable to future disruptions, as they were during the pandemic. NEF will be setting out a good-jobs-led economic strategy in forthcoming research; a key element must be strengthening rights for self-employed workers and enhancing labour market opportunities available to young people.
- **The government should develop a formal “work what you can” framework to allow individuals with health limitations to work part-time and variable hours within an agreed range.** This model would guarantee a minimum core of hours while building in flexibility as capacity changes, with clear review points to assess progress. This would adopt the partial work or phased reintegration system used in other countries, particularly Denmark’s Flexi-jobs scheme: maintaining labour market attachment without requiring full recovery before return.
- **The government should introduce a specific financial incentive for employers who hire workers in lower conditionality groups who have been on benefits for a continuous period, such as a discount or exemption on employer national insurance contributions.** This could be integrated within both the partial work scheme and the existing system of employer incentives for young people through the Youth Jobs Guarantee and Youth Jobs Grant, although we suggest this financial incentive should be for all adults and not exclusive to the young.

EVALUATING COMPETING EXPLANATIONS FOR RISING EXITS FROM EMPLOYMENT

Chapter 1 focuses on explanations for the post-Covid labour market shifts experienced by the UK. We do this by focusing specifically on the rise in inactivity among people of working age, simply because this is the population studied in most depth in existing research. This population also accounts for the vast majority of those not in paid employment; it is among this population that the UK's post-Covid experience has been most unusual compared with other countries. We investigate this using a broad range of official labour market statistics, mostly from the *Labour Force Survey* and administrative universal credit statistics from the Department for Work and Pensions (DWP). We also focus mainly on trends among those with an accompanying sickness, health condition, or disability.

We define inactivity and employment in more detail in the accompanying methodological report, but for this main report, it is important to carefully distinguish inactivity from unemployment. While neither group is in paid employment, these are in fact two separate categories. To meet the official criteria for unemployment, someone needs to be either (a) not doing any paid employment when surveyed, actively seeking work over the last four weeks, and available to start work within the next two weeks or (b) waiting to start a job they have already found, within the next two weeks.¹²

To meet the criteria of being inactive, someone needs to be out of paid work but not meet the two criteria for unemployment. The inactive population can include students, retirees, and those unable to work for other reasons, such as a long-term illness or disability. However, it can also include people who would like a job, but were not actively seeking one when surveyed, for whatever reason, perhaps because they hold no hope of finding a job in the current labour market, due to a lack of available work opportunities.

In later chapters of the report, we broaden our focus to break down non-employment into three more distinct categories: the unemployed, those inactive who would like a regular paid job (what could be termed “partially” or “want work” inactive), and those who are neither seeking nor would like work (what might crudely be termed “fully inactive”). We also restrict our sample to only those below state pension age, and remove those in full-time education or training from the measure of inactivity.

THE RISE IN INACTIVITY

Since the Covid-19 pandemic, the UK has experienced a marked increase in inactivity, driven predominantly by rising levels of long-term sickness. Understanding the factors underpinning this shift is critical to explaining the persistence of higher inactivity rates. Since the pandemic, the UK has persistently struggled to reverse the decline in labour market participation. Before the pandemic, inactivity – ie those neither working nor looking for work – had been steadily falling for a while, barely deviating from this trend in the financial crisis. As a proportion of the working age (16–64) population, inactivity rates fell from around 23% at the start of the century, to around 20% by 2020, before rising again after the pandemic to around 22%.

As Figures 1 and 2 show, ill health is the largest single driver of the post-pandemic rise in inactivity. Other categories have not sustained their initial increases: early retirement, for instance, rose sharply in the short term but has since unwound, leaving long-term sickness as the category that has grown most persistently since 2020.

Figure 1: The UK has seen a rise in sickness-related inactivity since the pandemic.

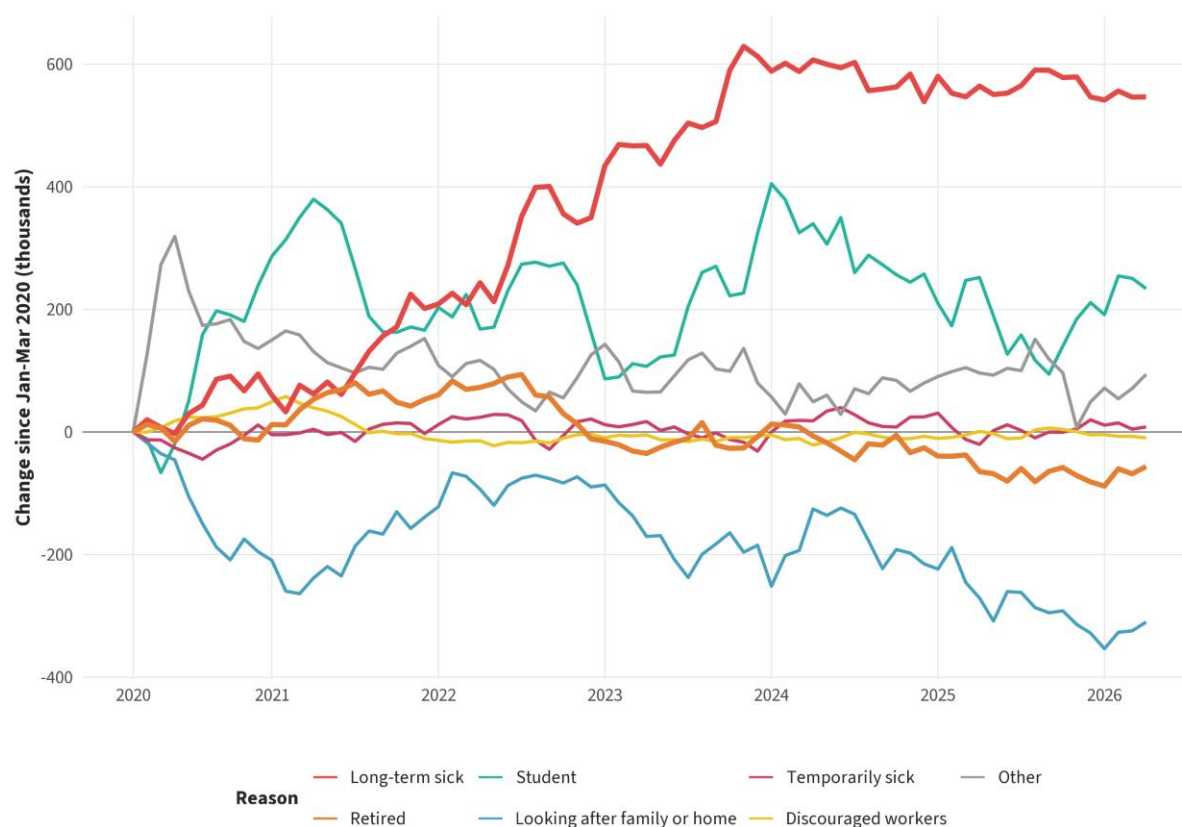
Inactivity due to long-term sickness, (16–64, UK) 2000 to 2026 (thousands).



Source: NEF analysis of Office for National Statistics labour market statistics from the *Labour Force Survey*.¹³

Figure 2: The proportion of workers citing long-term sickness as a reason for inactivity has increased.

Change in inactivity by reason, 2020–26 (16–64, UK).



Source: NEF analysis of Office for National Statistics labour market statistics from the *Labour Force Survey*.¹⁴

This rise in health-related inactivity has also been reflected in the universal credit statistics, where there has been a substantial rise in the *no work requirements* group. While some claimants move into this category if they have caring responsibilities, most are in this group after being assessed in a Work Capability Assessment as having limited capability for work and work-related activity, meaning they are not required to search for employment or participate in work preparation.

Since 2013, the share of universal credit claimants assigned to the no work requirements group has increased steadily. As of February 2026, around 50% of all claimants fell into this category, up from roughly 11% in 2018.¹⁵ This rise reflects both demographic shifts (including an ageing claimant population and higher numbers with health conditions) and the growth in long-term sickness and disability claims within the benefits system. Once individuals are assessed into this category, they are not expected to look for work, and many remain outside the labour market for extended periods.

Taken together, the rise in health-related inactivity alongside the growth of the no work requirements group indicates that a larger number of people are becoming detached from the labour market because of health conditions. Understanding why this group has grown (and why returning to work has become increasingly difficult for many within it) is therefore central to explaining the recent rise in economic inactivity.

EXISTING EXPLANATIONS FOR THE RISE IN INACTIVITY

Researchers and policymakers have offered three main explanations for the persistence of sickness-related inactivity in recent years. The first is simply a sicker population, the second is a growth in structural barriers to healthcare such as rising NHS waiting lists, and the third is a fall in worker motivation. However, none of these explanations appears to fully explain the shifts that we have seen in the UK labour market.

On the first explanation, the Office for National Statistics (ONS) found that the health conditions people report as the reason for being inactive rose uniformly across a range of different and unrelated conditions, suggesting no single illness (such as Covid-19 or long Covid) has driven a deterioration in health. The Health Foundation has also found that poor health drove a rise in economic inactivity for those aged 50–69, and that this rise pre-dated the pandemic.¹⁶ Taken together, this points to a general deterioration in health but does not in itself explain why the labour market has been unable to accommodate more of those affected. Many individuals with health conditions can remain in work where jobs are sufficiently flexible and supportive, and a significant share of those who are inactive due to ill health report wanting to work. The key question, therefore, is not simply why health has worsened, but why worsening health has resulted in higher rates of labour market exit.

This leads to the second explanation: reduced access to healthcare, particularly through rising NHS waiting lists, may be limiting people's ability to remain in or return to work. The broad-based nature of the increase in reported health conditions lends some support to this argument. If the rise were driven by a specific illness, it would point more clearly to changes in underlying health. Instead, the fact that increases are observed across many unrelated conditions is consistent with a more systemic constraint, such as delays in diagnosis, poor treatment, or a lack of ongoing care. In this sense, pressures within the healthcare system may be preventing individuals from managing their conditions effectively, increasing the likelihood that they exit the labour market.

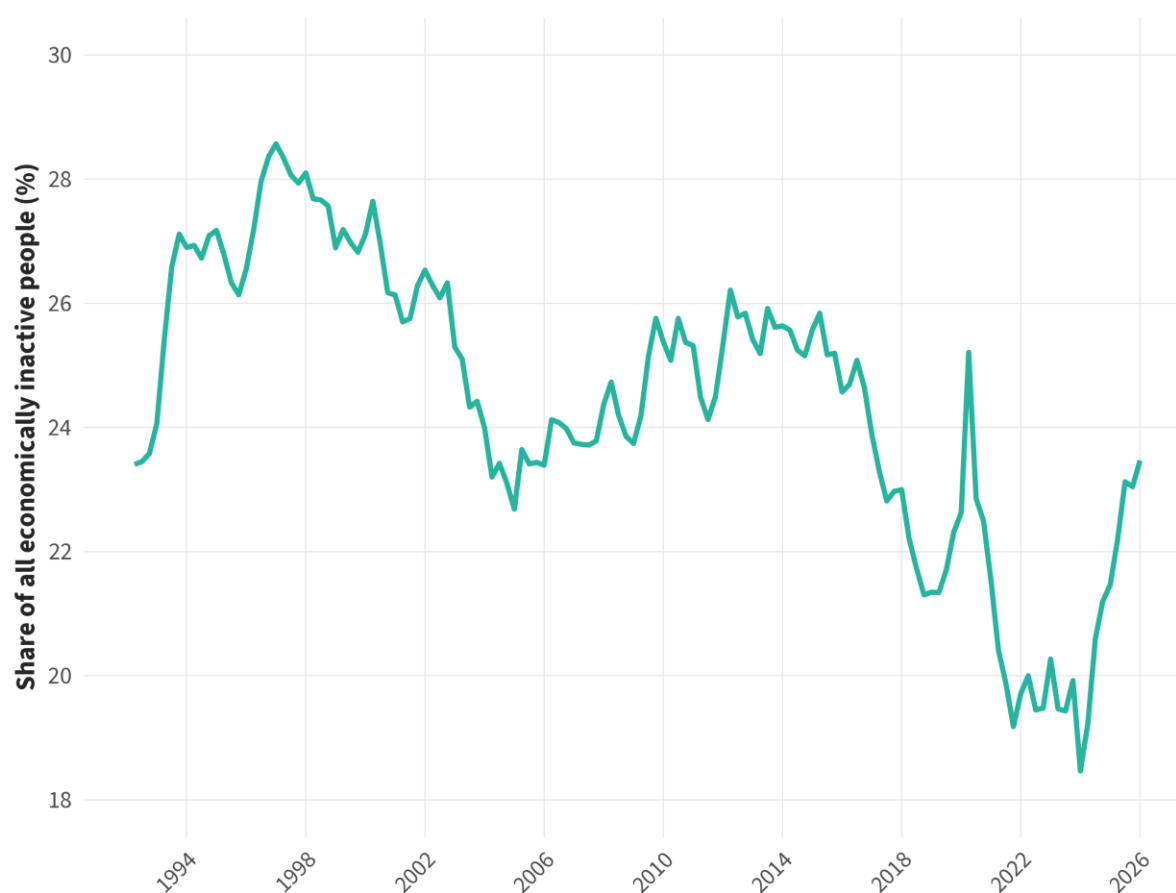
While there is some evidence for this argument,¹⁷ the Office for Budget Responsibility (OBR) estimated that NHS waiting lists only made a modest contribution to economic inactivity.¹⁸ It found that most people on waiting lists are either in employment or not of

working age, limiting any labour supply effect. Only a small share of the long-term sick and inactive are waiting for treatment, and their time out of work tends to stretch far beyond typical waiting periods. Either way, this story is unlikely to explain the total rise in health-related inactivity.

The third reason offered for rising inactivity is that workers are less motivated to find a job. This is not borne out by statistics either. Within the inactive population, there has been a rise in the number of inactive people who want a job compared to those who do not, suggesting the rise is not driven by a falling desire for work. Nor is there any evidence that health-related issues are fictitious. To the contrary, rises in underlying ill health are to be expected as societies age – with the number of working-age people with health conditions set to continue rising over the coming years.¹⁹

Figure 3: A growing proportion of inactive people report wanting a job, suggesting they are involuntarily out of work, even if they do not feel able to actively search for it.

Percentage share of working-age inactive (aged 16-64, UK) who want a job.



Source: NEF analysis of Office for National Statistics labour market statistics from the *Labour Force Survey*.^{20 21}

The data on inactive people who want a job finds a direct echo in qualitative accounts. Kane's experience illustrates how the barrier to staying in work is often not motivation

but inflexibility, and how the absence of basic adjustments can force an exit that the worker themselves did not want.

Kane (office job with strict attendance policy):

"... and there is no 'in between'; if you're not sick-sick, you have to be in the office. If you're sick-sick, you have to call in sick.

"I was torn between having to continuously take a day off here and there, when I knew that if I just didn't have to deal with the transport and the fatigue that resulted from that, I would have enough energy to do the work from home. But they refused to let me work from home."

THE POTENTIAL ROLE OF JOB QUALITY

This report explores the case for a fourth explanation of the rise in health-related inactivity. We suggest that in addition to the factors discussed already, it could be driven by the underlying quality of the work done by workers in the years before the pandemic. Within this, we are also specifically interested in the effect that the changing nature of work and employment might have had – including a rise in the number of non-standard, precarious jobs. This includes solo self-employment, and insecure and inflexible employment arrangements such as zero-hours contracts. We hypothesise that this may have played a role in making the UK more vulnerable to the labour market shocks of the pandemic.

We suggest the effect of job quality on exit from employment runs in both directions. A low-quality job is likely to have a direct effect on the likelihood of wanting to leave the labour market, and within this developing a health issue in the first place. This could then in itself drive an unwanted exit from work. Analysis of multi-country panel data suggests this is indeed the case, with lower-quality work found to directly worsen health and wellbeing outcomes – with job quality accounting for greater variation in wellbeing among men than women.²²

However, even when low-quality work does not directly cause exit, it makes exit more likely when external effects intervene in the labour market. For example, if there is a deterioration in the wider economy, it is generally the most insecure and precarious jobs which go because these are the easiest to lay off.²³ Low-quality jobs are also often located in sectors most vulnerable to falls in consumption during economic downturns, such as retail and hospitality.²⁴ The pandemic arguably made this pattern more pronounced by extending the heightened risk of layoffs to all face-to-face services deemed non-essential.

In a similar vein, those in more precarious arrangements may also find it harder to re-enter the labour market, due both to weaker labour market conditions and to the nature of their employment relationship. For example, there is evidence from Germany that self-employed workers facing an involuntary exit often suffer sustained negative health and wellbeing outcomes, which persist even two years after a job loss.²⁵ This would make sense, since success in self-employment depends heavily on building and maintaining relationships: the loss of these relationships during a shock makes re-starting a business even more difficult.

Likewise, when a worker's health deteriorates, job quality potentially shapes whether that deterioration leads to exit even if the job didn't directly contribute to their deterioration in health. Where employment is precarious, workers have fewer of the protections (contractual, financial, and relational) that would allow them to absorb a health shock without losing their livelihood entirely. Job quality therefore interacts with the other three explanations discussed already. Rising ill health and poor job quality are not competing explanations for rising inactivity: they compound one another.

DEFINING AND MEASURING JOB QUALITY

To investigate our hypothesis and build on this fourth strand of research, this report analyses the role that underlying job quality might have played in explaining this shift out of paid employment. The bulk of the analysis uses large-scale longitudinal data from a well-established UK household survey (*Understanding Society*), covering over a decade (2012–25), with a representative sample of 24,000 workers across nearly 70,000 observations. To complement this, we undertook interviews with several people who have experienced transitions out of work, many due to ill health, to discuss the role that their jobs played in this process and explore the interface with the welfare system.

Job quality is measured using an existing UK Quality of Work (QoW) index built using the same survey.²⁶ It has been updated for this report to include a comprehensive range of new indicators. The dimensions used in the index are closely aligned to well-established indices in existing job quality literature.^{27,28} Figure 4 shows the indicators, dimensions, and weights of the QoW index. In total, there are six dimensions to the index, and twenty indicators, as follows:

- **Earnings quality.** This captures how workers' take-home pay compares with the minimum income standards (earnings sufficiency); how their gross hourly wages sit within the wage distribution (earnings equity); and whether they are contributing to a personal pension or, if over 60 and not contributing, receiving an adequate pension income.

- **Security.** This measures workers' job security. It comprises three indicators, measuring whether they worked continuously enough with the same employer to accrue associated rights at work, eg against unfair dismissal (continuous employment); whether they are in a permanent or temporary job (security of contract); and their self-assessed risk of losing their job over the next year (perceived job security).
- **Autonomy and voice.** This captures the ability workers have to shape their working environment, and the manner in which they can go about their work. It is captured using measures of workers' self-assessed autonomy over the nature and pace of their tasks (autonomy over work tasks and pace) and the manner and ordering of their work (autonomy over work manner and order); and whether there is a union or staff association in their workplace (collective voice).
- **Working time quality.** This captures the availability of formal (formal flexibility) and informal (informal flexibility) flexible working arrangements in their workplace, such as varying working times or working from home; workers' self-assessed influence over the time they start or finish their working day (influence over working time); whether their hours of work exceed the UK working time directive or the average for full-time workers (excessive hours); and the extent to which their job involves unsociable weekend working (non-standard working time).
- **Prospects.** This captures the prospects workers have for advancement within their jobs, or within the occupation in which they operate. It is captured using measures of whether they have managerial responsibilities in their current job (managerial duties); their expectations of training, advancement within their job or a better job or business prospect within the next year (short-term prospects); and whether they work in an occupation with good long-term occupational growth prospects, given their qualification.
- **Health and safety.** This captures workers' day-to-day exposure to health and safety risks within their workplace. It is estimated based on the workers' industry of employment in their main job, using Health and Safety Executive data on reported work fatalities by industry (work fatalities); and using Labour Force Survey data on self-reported work accidents (work accidents) and illnesses (work illnesses) by industrial classification.

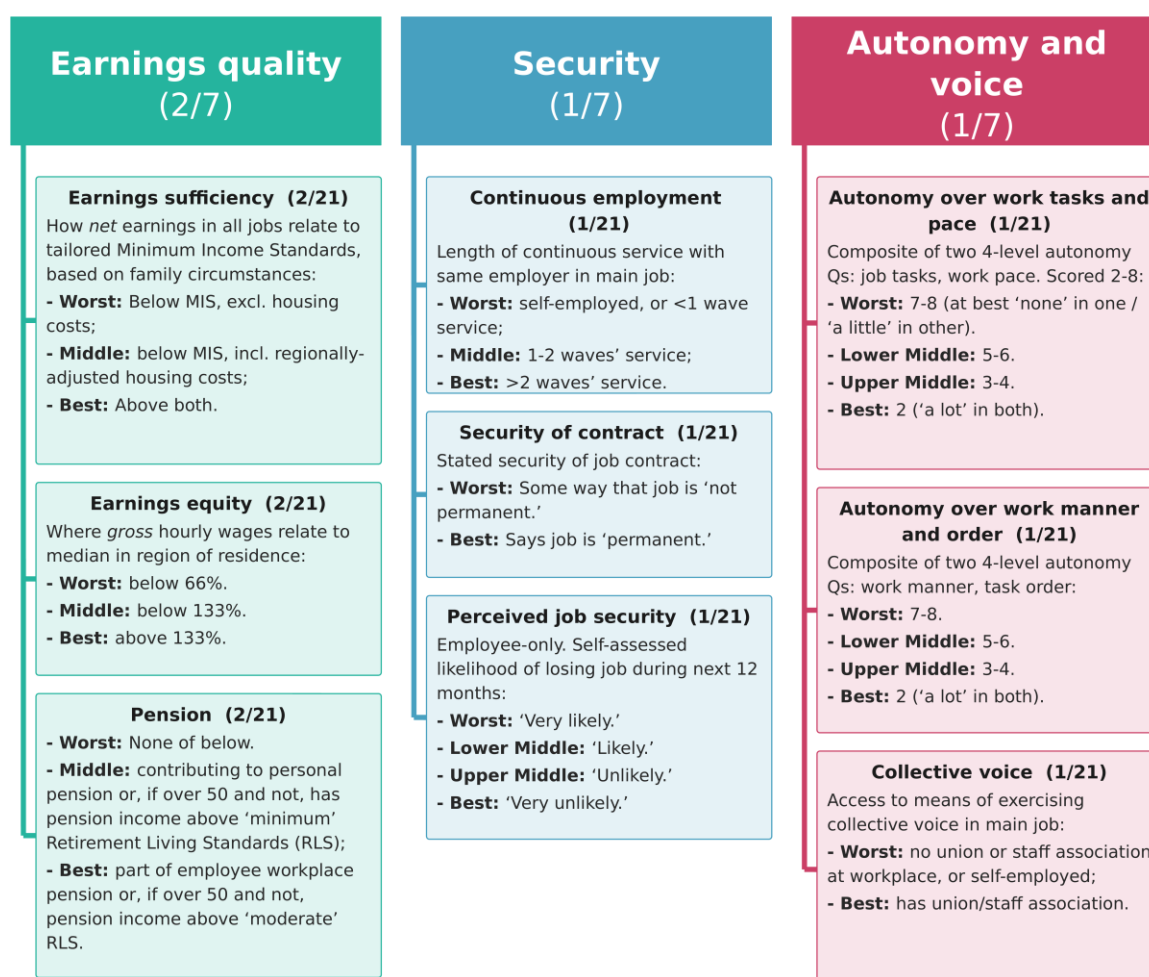
This index is used in a range of ways. Much analysis in this report looks at each indicator separately. It explores the effect of higher scores on each indicator (ie better job quality) on the likelihood of exiting into non-employment. However, some of the more complex analysis also uses the aggregated index score overall, which combines individual

workers' scores across all six dimensions into a single weighted sum. This is discussed more extensively in the accompanying methodological report.²⁹

The rest of this report is split into three further chapters. Chapter 2 explores the relationship between job quality and non-employment and describes the key features of the job quality index used. Chapter 3 focuses specifically on the role that new forms of precarious employment, particularly self-employment and zero-hours contract use, might have played in this picture. Chapter 4 sets out our policy proposals, in light of these findings. A separate supplementary report, published alongside this one, sets out further details on the data and methods used, and provides a more comprehensive review of how this work builds on the academic literature on this topic.

Figure 4: Workers' job quality was measured using a comprehensive multidimensional index, which has been updated especially for this report.

Indicators, dimensions, and weights of the updated UK Quality of Work Index.





Source: Reproduced and updated from a separate paper.³⁰ See methodology report for further details.

THE RELATIONSHIP BETWEEN JOB QUALITY AND EXITS FROM EMPLOYMENT

A growing body of longitudinal evidence points to a clear relationship between low-quality work and a worker's subsequent exit from the labour market. For example, studies using cohort data for England show that workers in roles characterised by low autonomy are significantly more likely to leave employment earlier than expected, even after accounting for prior health.³¹ A large Swedish cohort study finds that poor working conditions, including low control and high physical strain, significantly increase the risk of early labour market exit via disability, sickness absence, and unemployment.³² These factors explain a substantial share of early exits, particularly among lower-educated workers.

This literature also points to a broader concept that underpins this chapter: the role of what we term “healthy jobs”.^{33,34,35} These are jobs that are structured in ways that allow people to remain in employment as their health circumstances change. Roles that offer security, flexibility, autonomy, and support are more likely to sustain employment over time, including through periods of ill health. By contrast, jobs that are insecure, rigid, or lacking in worker voice may be less able to absorb even relatively common health shocks, increasing the likelihood of labour market exit.

Against this backdrop, this chapter examines whether workers in lower-quality roles are more likely to leave employment, and which specific job characteristics appear to matter most. In doing so, we first seek to establish the overall relationship between job quality and labour market exit, before examining the role of individual job characteristics, and finally considering whether healthy jobs are especially important in enabling workers to remain in employment when their health deteriorates.

DEFINING NON-EMPLOYMENT

To assess whether deteriorating job quality could plausibly contribute to rising inactivity, we first examine whether workers in lower-quality roles are more likely to exit employment. Our definition of job quality and data used are explained in the previous chapter. They are also elaborated on in more detail in the methodological report.

We define non-employment in three ways, splitting the non-working population into three distinct groups:

- The first is ILO unemployment using the official definition used by the government and many countries, and is the official measure of unemployment

adopted by the International Labour Organization (ILO; hence the term ‘ILO unemployment’) around the world. As discussed in Chapter 1, this predominantly covers those who are out of work, have actively searched for work in the past four weeks, and are available for work within two weeks. However, those who have found a job and are starting within two weeks are also included here.

- The second is people who are out of work but only partially meet the criteria for unemployment. They want a job but fall short of the search or availability requirements. For this reason, they can be termed ‘want work’ inactive or partially inactive.
- Third, we explore those who become fully inactive. These are out of work and meet none of the criteria for unemployment: they are neither seeking work nor available to start work.

As discussed in Chapter 1, this is both broader and slightly more granular than the measure of inactivity used in many existing studies of the UK labour market, which tend to focus on inactivity and sometimes just health-related inactivity. However, it should be borne in mind that the majority (~80%)^{1,36} of the working-age population who are out of work are inactive anyway. Because we have a wide range of job quality indicators and rich longitudinal data, we can explore this question in more depth than previous studies.

THE GENERAL RELATIONSHIP BETWEEN JOB QUALITY AND NON-EMPLOYMENT

In this subsection, we first track the exit rate of workers across different levels of job quality. While this analysis is not causal, it helps gain insight into the general pattern of which types of jobs are most likely to potentially lead to work exit, setting up a more causal, detailed exploration in the following subsections.

In our qualitative interviews, Shantanu highlighted how exits from employment are often not the result of a single decision, but the culmination of sustained pressures within low-quality roles.

Shantanu (local authority):

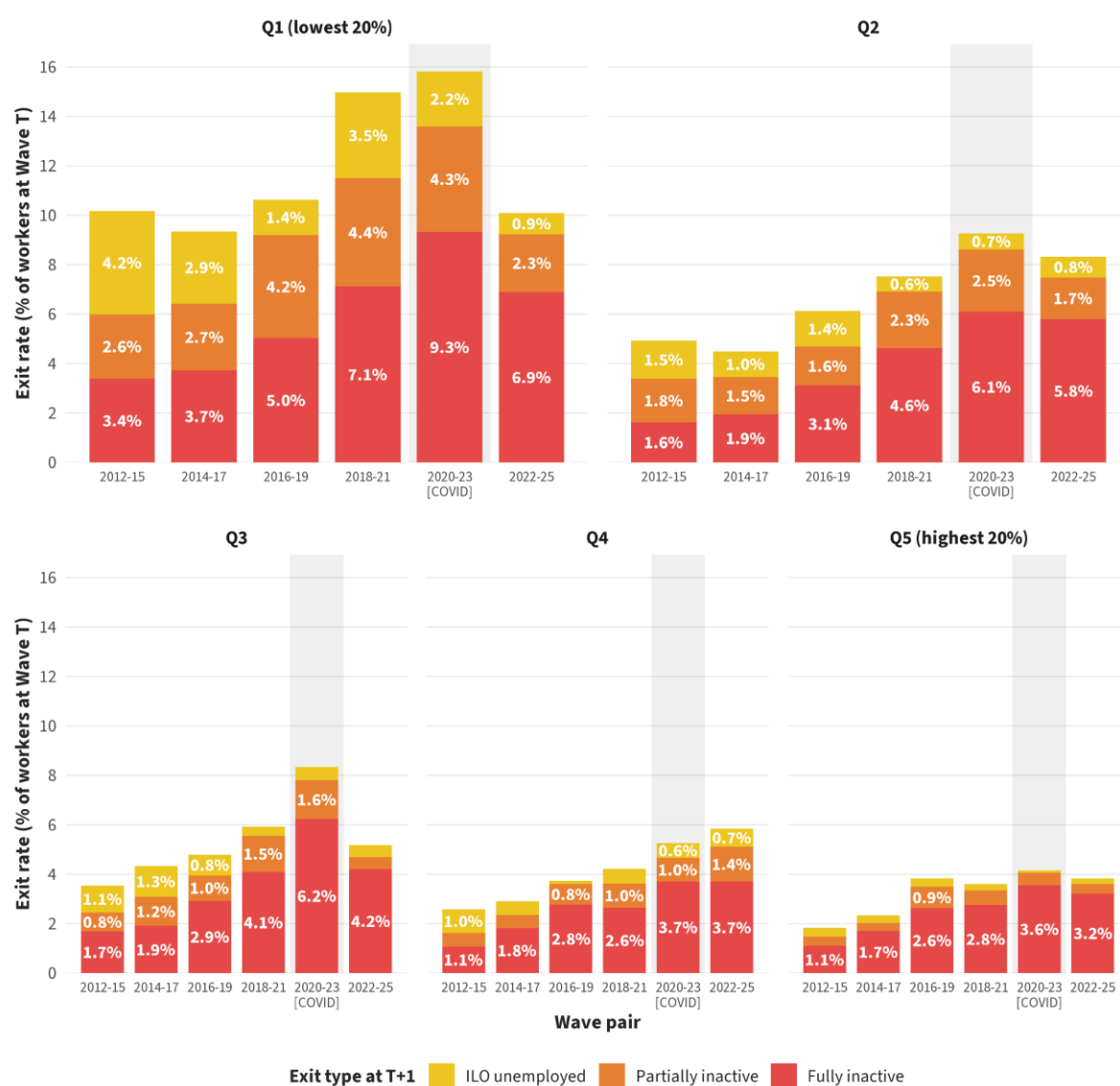
"I just felt I was drowning. At that point, I think it doesn't matter how much money they threw at me — I don't think I would have been able to continue."

¹ Extrapolated from figures in Andy Powell and Brigid Francis-Devine (2026).

Figure 5 examines transitions out of employment across the working population, grouped into quintiles of job quality (QoW), from the lowest-quality 20% of jobs (Q1) to the highest-quality 20% (Q5).

Figure 5: Those in the lowest-quality jobs are significantly more likely to exit into non-employment, particularly during the pandemic.

Exit rates into non-work between waves by job quality quintile.



Notes: Exit rates into three forms of non-work at Wave T+1 by QoW quintile of worker in Wave T. Sample grouped by pairs of waves in *Understanding Society*.

Source: NEF analysis of *Understanding Society*. See methodology report for further details.³⁷

This reveals a notable overall increase in all quintiles between 2012–14 and 2022–24 in the proportion of workers exiting into non-employment, consistent with the population-level trend. While this rise accelerates sharply during the Covid-19 pandemic, exit rates

were already trending upwards before the pandemic and have not fully returned to pre-pandemic levels in the more recent period.

Importantly, we find that exit rates are strongly associated with job quality. Workers in the lowest-quality jobs consistently face the highest likelihood of leaving employment, indicating a clear gradient between job quality and labour market attachment. However, the post-pandemic increase in exits is not confined to these groups; workers in higher-quality roles have also experienced elevated exit rates, suggesting a broader shift in labour market dynamics.

This gradient is consistent with our hypothesis that if the share of workers in lower-quality or more precarious roles has increased over time, this could place upward pressure on overall exit rates from employment.

The destinations of labour market exits differ markedly by job quality. Workers in lower-quality jobs are much more likely to leave employment for unemployment or forms of economic inactivity that suggest they would still like to work. Throughout this report, we refer to these outcomes as less-voluntary forms of non-employment.

During the pandemic period (2020–23), 41% of workers in the lowest fifth of jobs by quality who left the labour market moved into ILO unemployment or partial inactivity. By contrast, only 14% of workers in Q1 exited into these states. This means that workers in the lowest-quality jobs were almost three times as likely (2.93 times) to leave work for less voluntary forms of non-employment as workers in Q5. The gap was substantially smaller in our earlier period (2012–15), when the equivalent figure was 1.63 times.

Since early retirees have been excluded from the analysis, these findings suggest that when workers in higher-quality jobs leave the labour market, they are more likely than those leaving lower-quality jobs to do so voluntarily. This interpretation is supported by the fact that many exits from higher-quality jobs are into full inactivity. Individuals in this group do not want a regular paid job and are not actively looking for work, meaning they do not meet the criteria for either partial inactivity or ILO unemployment.

We further see that there has been a structural shift in the composition of exits across all levels of job quality. Exits into unemployment have declined, while exits into inactivity (particularly full inactivity, and to a lesser extent partial inactivity) have risen substantially. As a result, full inactivity now constitutes a much larger share of total exits than it did a decade ago – going from almost four in ten exits of all workers (38.5%) in

2012–15 to almost seven in ten (71.2%) in 2022–25.² Finally, while there are tentative signs of recovery in exit rates following the pandemic across the job quality distribution, these have not yet returned to the levels observed at the start of the previous decade. This raises the possibility that elevated rates of labour market exit (particularly into inactivity) may persist.

Building on the findings of our previous subsections, it is possible to move beyond correlations observed at a single point and instead examine whether certain job quality indicators are associated with a higher probability of leaving work in the future. In particular, it allows us to test whether workers with specific job characteristics are more or less likely to transition into non-employment across the whole sample, over the whole period covered by *Understanding Society*.

THE IMPORTANCE OF JOB SECURITY

The previous subsection identified a general relationship between low job quality and higher risk of labour market exit. In this subsection, we look at specific indicators of job quality which are driving this relationship, examining which job characteristics enable workers to remain in employment; and which are typically absent in more precarious roles where workers are more likely to exit.

We start by looking at job security. Figure 6 describes exit rates into non-work by workers' scores on each of the three indicators of the security dimension of the QoW index. For example, it finds that, across the *Understanding Society* sample: workers without a permanent contract are twice as likely to fall into full inactivity; almost three-and-a-half times more likely to fall into partial inactivity (3.38); and almost four times more likely to fall into ILO unemployment (3.88).

This pattern is noteworthy. Workers without these protections are disproportionately more likely to be actively seeking work or to desire it, suggesting that insecure employment has pushed them out of their jobs rather than that they have chosen to leave.

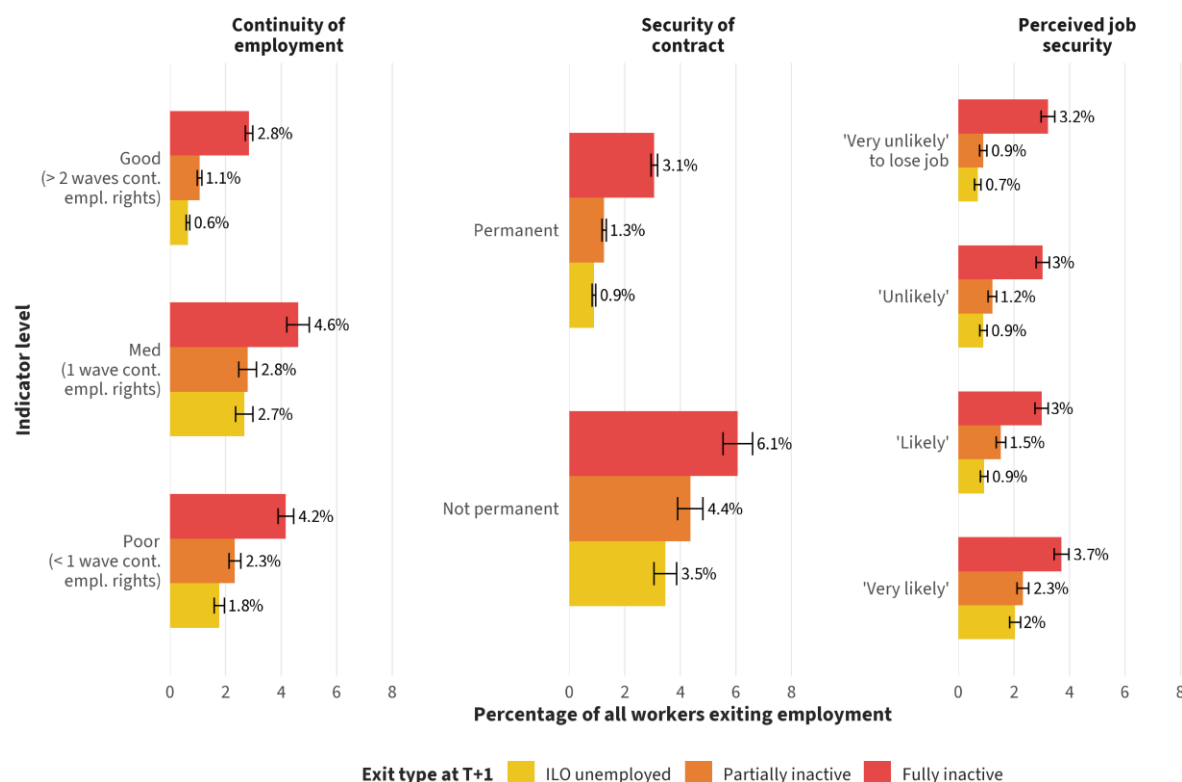
Our accompanying analysis paper investigates whether there is a causal association between low scores on each of these job quality indicators, including security, and greater risk of labour market exit, using a range of methods. It finds some evidence of a causal association for job security in particular. This suggests that increasing job security

² Analysis in the supplementary report suggests that natural ageing of respondents within the panel only plays a very minor role in this shift. This change is so dramatic that it mostly reflects a genuine change in the nature of exits over the time period.

in itself would be a useful route towards supporting sustainable employment – rather than merely a feature of jobs which those with high security for other reasons may happen to access.

Figure 6: Job security, and particularly the security of the job contract, was particularly important in determining likelihood of exiting a job.

Exit rates out of work by score in each job security indicator.



Notes: Figure shows, for each sub-set of workers with each job security score (Wave T), what proportion exited work in the subsequent wave (Wave T+1).

Source: NEF analysis of *Understanding Society*. See methodology report for further details.

THE ROLE OF AUTONOMY AND COLLECTIVE VOICE IN THE WORKPLACE

Job quality extends beyond security alone. Other aspects of work organisation also appear to influence future labour market attachment. Our supplementary report finds evidence of a potential causal association between indicators in the autonomy and voice dimension of the QoW index and a lower risk of labour market exit.

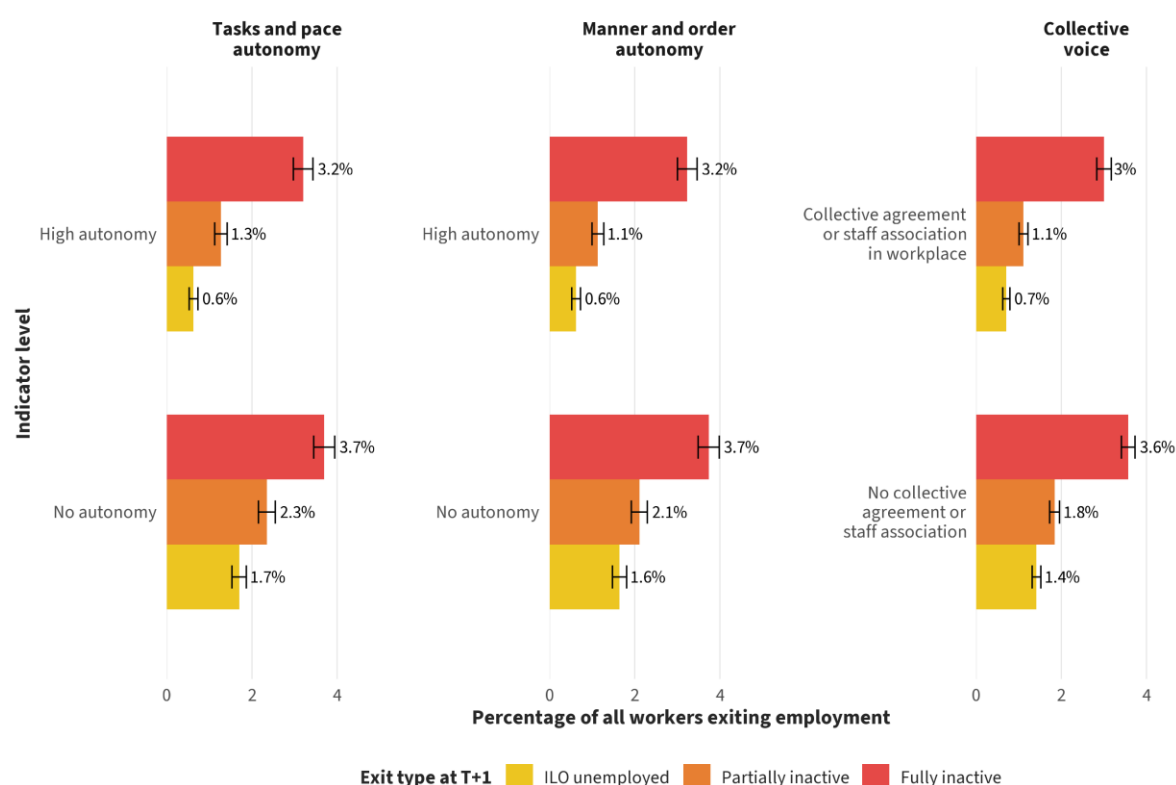
This dimension captures some important aspects of job quality, which are widely discussed in existing job quality literature. In addition to capturing the variety of the tasks done in the job, it also captures the influence that workers have over their working environment: their ability to shape how they go about doing their jobs. The collective

voice indicator within this dimension also captures whether they can do this collectively in the workplace, through recognised unions or staff associations.

Figure 7 illustrates the importance of these dimensions using descriptive data in *Understanding Society*, by comparing rates of exit for workers by their scores in each of the indicators of this dimension. It finds the biggest differences for workers with access to collective agreements or staff associations, but there are also significant differences for workers with no autonomy vs those with high autonomy.

Figure 7: Those with more autonomy over working arrangements and voice in the workplace were less likely to exit into non-employment.

Exit rates out of work by workers' scores in each indicator of the autonomy and voice dimension of the QoW index.



Notes: Figure shows, for each sub-set of workers with each Autonomy and Voice score (Wave T), what proportion exited work in the subsequent wave (Wave T+1).

Source: NEF analysis of *Understanding Society*. See methodology report for further details.

THE USE OF FLEXIBLE WORKING ARRANGEMENTS

In addition to autonomy, the availability of homeworking options, and flexible arrangements such as term-time working all predict, to varying degrees, the likelihood that an individual will enter non-employment in the future. These factors can be understood as mechanisms that allow workers to adjust their working patterns when

their circumstances change. Jobs that offer more control or flexibility appear better able to retain workers, especially when health conditions arise.

Our analysis of the working time quality dimension of the QoW index suggests flexibility is more critical for some indicators than for others. Figure 8 shows exit rates out of work by workers' scores on the most important flexibility indicators, based on analysis in our supplementary report. Informal flexible working opportunities appear to be especially strongly related to lower risk of exit; the informal flexibility indicator captures whether, irrespective of whether any formal flexible working opportunities are available in the workplace, the employee feels they could vary their working hours on an informal basis. Our finding here is consistent with other studies using *Understanding Society*, and adds further weight to the argument that informal flexible working arrangements are especially important.³⁸

Figure 8: Workers with access to informal flexible working arrangements appear more likely to stay in employment.

Exit rates out of work by workers' scores in the significant indicators of the working time quality dimension of the QoW index.



Notes: Figure shows, for each sub-set of workers with each working time quality score (Wave T), what proportion exited work in the subsequent wave (Wave T+1).

Source: NEF analysis of *Understanding Society*. See methodology report for further details.

The role of flexibility becomes particularly clear when examining how workers attempt to manage health conditions within rigid job structures. Julia illustrates how the absence of even basic adjustments can push workers out of otherwise viable employment.

Julia:

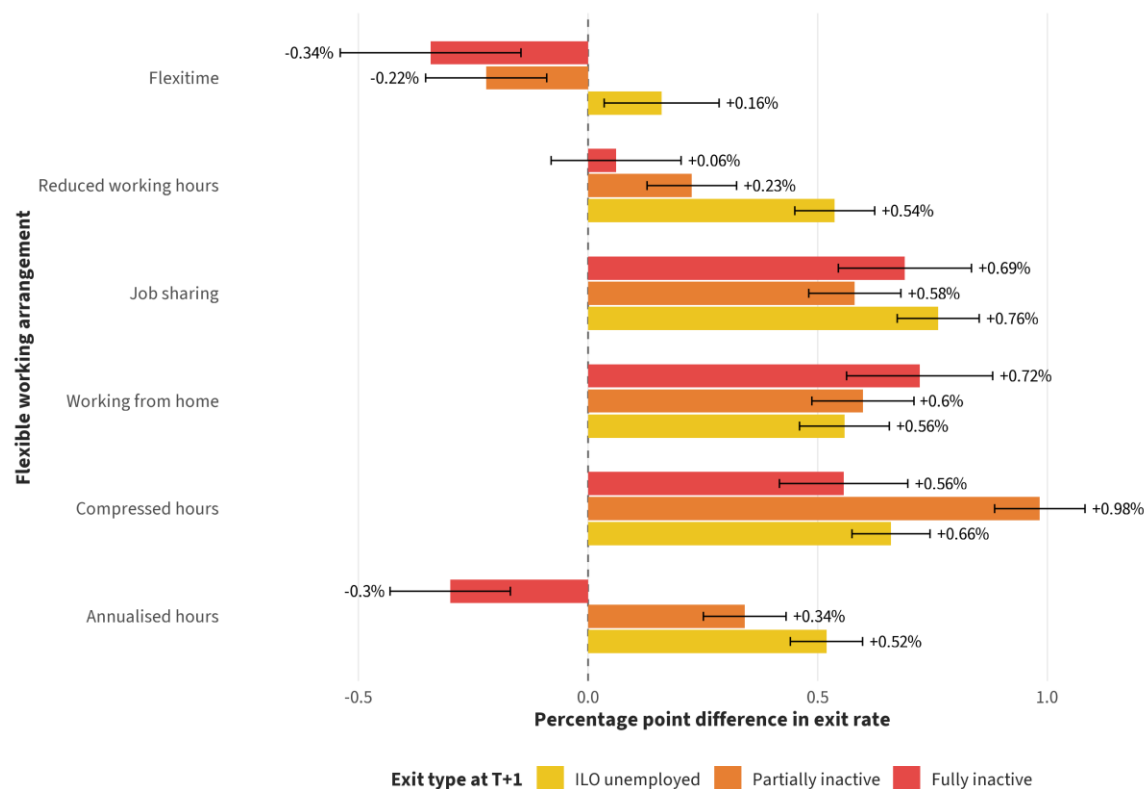
"Over the course of my working life, I've never found an employer to be willing to be flexible. There was no offer of 'What can we do to help you?' — would it involve a change in hours, going part-time, working from home? There was just nothing. It was: 'You're off sick a lot, why are you off sick?'"

"When you have a condition that fluctuates, you don't know on any given day how you're going to be feeling, whether you can make it to work that day. And the anxiety around it was making me ill as well."

Figure 9 explores the net differences in the work exit rate between workers who do not make use vs do make use of six sub-types of flexible working arrangements. We find that the strongest protections against job exit are associated with use of job sharing, home working, and informal flexible working arrangements.

Figure 9: Those with access to working from home, compressed hours and job sharing appear more likely to stay in employment.

Net percentage difference in exit rates into non-work for workers who do not make use of formal flexibility opportunities in the workplace.



Notes: Net difference in exit rates into non-work (Wave T+1) for employees who do not make use of employee-oriented workplace flexibility opportunities in their workplace in Wave T. Figure is net of those who do make use of each arrangement. Error bars show 95% confidence intervals.

Source: NEF analysis of *Understanding Society*. See methodology report for further details.

ARE HEALTHY JOBS DISPROPORTIONATELY MORE BENEFICIAL FOR WORKERS WHO EXPERIENCE AN ONSET OF ILL HEALTH?

The analysis in the previous three subsections points to a range of what we term healthy job characteristics, defined in this report as roles that contain job characteristics associated with a lower risk of exit into non-employment. Our supplementary report also finds some evidence of causal associations for these same characteristics.³⁹ These include, most consistently, job security (both objective and perceived); permanent job contracts; continuity of employment; access to collective representation; and higher levels of worker autonomy over the nature, pace, and manner of their work. The term does not refer to health in a clinical sense, but rather to forms of work that are more

stable and adaptable, and therefore better able to support sustained employment over time.

A key question is whether these healthy job characteristics are particularly important when workers experience a deterioration in health. This is increasingly relevant given the widespread incidence of health conditions across the working-age population. Evidence suggests that by mid-life (ages 48–49), around half of individuals will have experienced the onset of a health condition at some point.⁴⁰ Managing ill health while in work is therefore not a marginal issue, but a routine feature of working life, particularly as populations age. Even were this not the case, the growing frequency of externally-driven shocks – including the projected future rises in pandemic frequency⁴¹ – make the development of a healthy jobs agenda even more urgent, since these same jobs are likely to sustain people in work by offering greater protection during disruptions.

This has clear implications for policy. It requires moving beyond explanations that frame labour market exit among people in ill health as a matter of individual choice, and instead focusing on the conditions that determine whether a job can be sustained in the presence of health limitations. In this context, understanding which job characteristics enable continued employment following health shocks becomes central.

The qualitative evidence provides insight into how these healthy job characteristics operate in practice when health conditions arise. A central theme is the importance of flexibility in enabling continued employment, particularly where health needs require changes to working patterns or environment.

To better understand how these healthy job characteristics operate in practice, we again draw on qualitative accounts. These illustrate how supportive employment relationships can enable workers to remain in work even as their health changes.

Shantanu (on what changed when he returned to work):

“I was given a bit more flexibility in terms of the way I work, so I do a compressed four-day week now. And I work from home the majority of the week. A lot of adjustments have been made.”

Kat (on her current employer):

“My work have been amazing. They're very flexible. If you have to come in late, you can just make the hours up later. If you ever need to go for appointments, that's no issue. There's just a lot more trust in this job — as long as they can see you're getting results at the end, you can go about it whatever way you want.”

These accounts illustrate how flexibility in scheduling and working arrangements can reduce the extent to which health conditions disrupt employment. However, they also point to the importance of the broader employment relationship, particularly trust and perceived security.

Kat (on job security and health):

"I just feel much more able to even approach my employers if there's an issue, because you don't think that your earnings will be in jeopardy just because you have a health problem."

This suggests that perceived job security can shape whether workers feel able to disclose health issues and request adjustments, which in turn affects whether they remain in work.

Employer willingness to adapt roles also appears central. In several cases, continued employment is enabled not simply through flexible hours, but through substantive changes to job content and expectations.

James (on what kept him in work during his illness):

"They had to understand I needed to be fully remote working, because it wasn't possible for me to be in the office. It was a huge concession on their part... I was able to communicate with all my customers and delegate. Are you prepared to retain me? And they said: 'You've been with us for ten years. The customers would go up in arms if we let you go. Of course we'll retain you.'"

Veronica (NHS worker, on phased return):

"The flexibility I had with the employer — I think that was good at the time. They found different tasks for me to do that enabled me to contribute, but in a slightly lower capacity."

Across these examples, a consistent pattern emerges in which continued employment following health deterioration is enabled not only by formal flexibility, but also by managerial discretion, trust, and the capacity to redesign work roles.

Taken together, these accounts suggest that healthy jobs are not only associated with stronger employment outcomes in general but may be particularly important in buffering the impact of health shocks. Where these job characteristics are present, health conditions are more likely to be accommodated within employment rather than

resulting in labour market exit. Where they are absent, even relatively modest health changes may be more likely to lead to withdrawal from work.

THE ROLE OF PRECARIOUS JOBS IN DRIVING PEOPLE OUT OF WORK

The preceding analysis establishes a relationship between job quality and labour market exit. If the composition of the UK labour market has itself shifted (with a growing share of workers in jobs that are insecure, inflexible, and lacking in protections), then the aggregate risk of inactivity rises. This chapter argues that this is what happened in the decade before the pandemic: the expansion of precarious employment made the UK more exposed to the labour market dislocations that Covid-19 would trigger.

If changes in job quality are contributing to rising inactivity, we would expect this relationship to be particularly pronounced in more precarious forms of work, such as self-employment and zero-hours contracts, where protections and job adaptability are most limited.

This chapter focuses specifically on workers in precarious, non-standard employment relationships – focusing particularly on the self-employed and those on zero-hours contracts. We start by reviewing existing literature on trends in job precarity and its potential association with rising trends in ill-health-related inactivity. We then discuss the situation of self-employed people in the *Understanding Society* sample, ending by discussing similar trends for employees on zero-hours contracts. Self-employment rose in the years leading up to the pandemic and played a significant part in rising employment participation rates over the decade.⁴² There is evidence that other forms of precarious work, such as zero-hours contract use for employees, rose over the same period.⁴³

Our analysis here suggests that these trends may have made the UK distinctly vulnerable during the pandemic, exposing these workers to greater risk of labour market exit, especially, though not exclusively, in cases of ill health.

IS THE UK LABOUR MARKET BECOMING MORE PRECARIOUS?

Since the 2000s, precarious work has become more prevalent in the UK labour market. Reported use of zero-hours contracts has risen from around 200k in 2000 to around a million today.

The TUC estimates that, overall, the number of people in insecure employment has risen from an estimated 3.2 million in 2011 to 4 million (roughly 1 in 8 workers) in 2024.⁴⁴ At

the same time, self-employment up to the pandemic rose steadily over time, from around 3 million in 2000 to over 4.5 million by 2020.

The vulnerabilities associated with self-employment are also evident in workers' experiences. James described how the absence of formal employment protections leaves them exposed when health shocks occur.

James (*self-employed account manager*):

"I joined the company as a contractor. I'm the only account manager within the organisation — which employs over 6,000 staff — retained as a self-employed account manager. The only problem with that is you have an accident, or you go sick, and you're not covered."

However, focusing solely on zero-hours contracts and self-employment risks understating the broader shift towards precarious employment. Precarious work encompasses temporary contracts, agency work, gig economy jobs, and dependent self-employment, which all share common characteristics: unstable hours, uncertain income, limited employment protections, and weaker access to benefits such as sick pay or pensions.⁴⁵ Insecure work is not defined solely by contract type but often emerges from a combination of low income, unstable employment status, and limited bargaining power.⁴⁶

Attempts to measure precarious employment directly suggest that roughly 10% of the UK workforce is in precarious employment.⁴⁷ While this headline share has remained relatively stable, studies have identified a concerning group of around 8% of the workforce who are becoming increasingly likely to remain trapped in precarious employment rather than moving into more secure jobs — suggesting the persistence of precarious work is increasing even if its overall scale has not.

Consistent with what was discussed in Chapter 1, there is evidence that precarious work may directly cause health issues and work absence. A study using Nordic survey data⁴⁸ suggests that precarious employment is associated with significantly higher sickness absence, suggesting weaker attachment between worker and job when health fluctuates. Another study using Australian panel data⁴⁹ finds a link between poor job quality and increased sickness absence, indicating that deteriorating work conditions translate into time out of work. A life course study suggests that unstable labour market participation patterns predict more volatile and prolonged sickness absence trajectories over time.⁵⁰

However, again, it is important to stress that our arguments hold even in the absence of a direct effect on health, for the reasons elaborated on earlier. Understanding the growth and persistence of precarious work is therefore an important part of explaining broader changes in the labour market. We are not able to capture the full spectrum of precarity in this single report, but we focus here on trends in self-employment and the use of zero-hours contract to explore how these precarious contract forms, in some instances, might exacerbate the risk of labour market exit.

THE LINK BETWEEN SELF-EMPLOYMENT AND EXITS OUT OF WORK

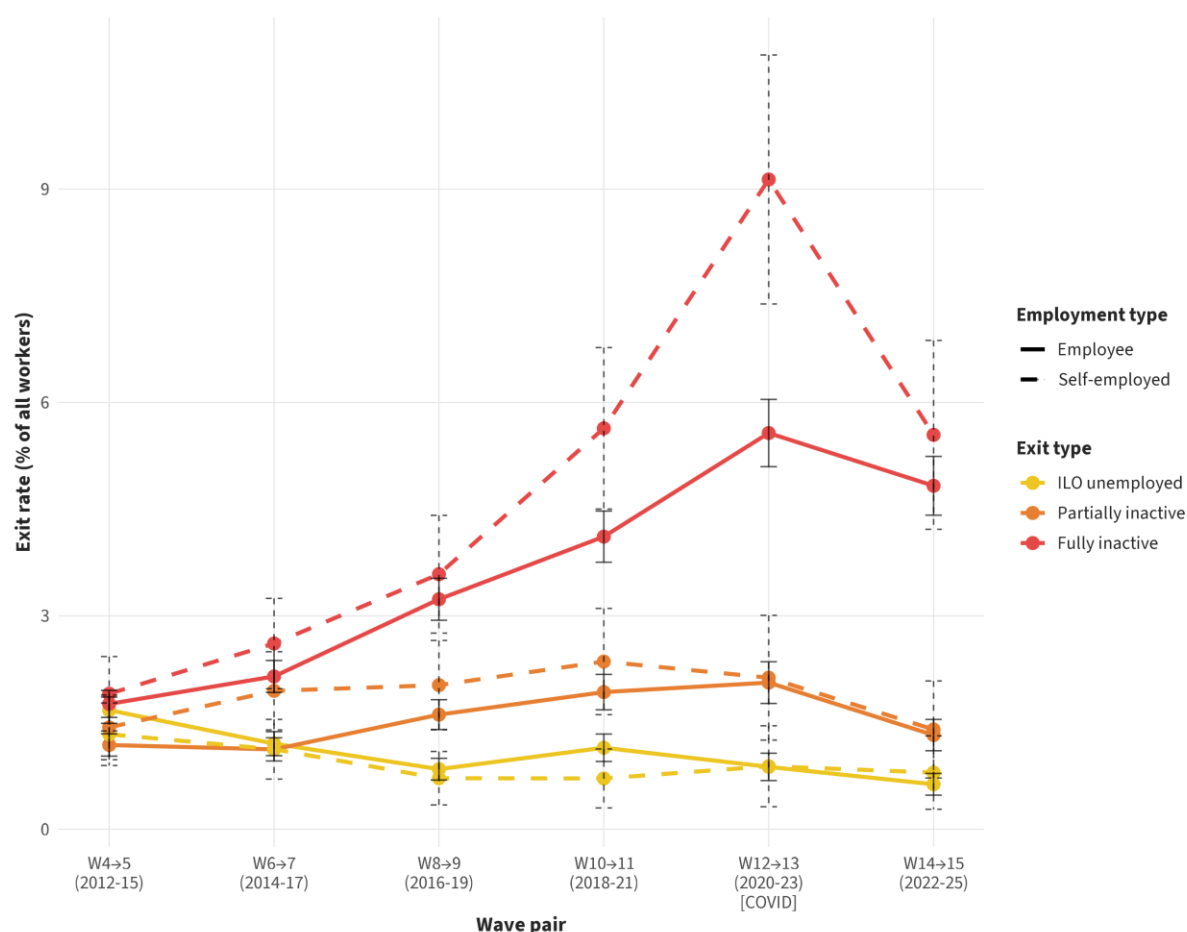
Self-employment levels work well as an overall proxy indicator of precarious employment, as they are by definition without employment protections and are a consistent measure over time (unlike zero-hours contracts, which are a more modern phenomenon).

To explore whether there is a relationship between self-employment and future exits from employment, we track the employment trajectory of employees and self-employed workers in the *Understanding Society* dataset. Figure 10 shows who exits into each type of non-employment over time.

Throughout most of the past decade, the self-employed were no more likely than employees to leave into any form of non-employment. However, this was not the case in the waves covering the period 2018–23: during these periods, which intersect with Covid-19, the self-employed experienced a disproportionate shift into full inactivity – becoming significantly more likely to shift into full inactivity than employees.

Figure 10: The self-employed usually had similar exit rates from employment as employees, but this changed dramatically during the pandemic.

Employment exit rates into non-work for self-employed vs employees, 2012–25.



Notes: Error bars show 95% confidence intervals.

Source: NEF analysis of *Understanding Society*. See methodology report for further details.

Supplementary analysis, discussed in the supplementary report, suggests that early pension enrolment does not explain this trend. Instead, there are plausible reasons why the precarious employment relationship of the self-employed could have played a role in this shift. Our supplementary analysis also finds that for self-employed workers, the pandemic period saw a disproportionately high exit out of work for those in the worst-quality jobs: almost four in ten (39%) exits during 2020–23 were from the lowest-quality fifth of self-employed jobs – 1.5 times higher than in the previous period (2018–21), and the highest exit rate across the whole study period. Overall, almost one in eight (12.1%) of the sample of self-employed workers exited into non-employment during this period, which is very close to the figure suggested by other datasets (the *Labour Force Survey*).

While less formal employment is generally regarded as a 'sticky' employment relationship (which is rare to exit out of), in the case of shocks – such as the onset of a health-related problem – this same employment relationship might expose these

workers to significant risks. Employers retain an obligation to workers in secure jobs in the event of these shocks. The same obligations do not exist for the self-employed – meaning interruptions or shocks likely to lead to a loss of important relationships with clients, buyers, and others that it is difficult to recover from.

Louisa told us how this lack of protection is not only financial but institutional, as self-employed workers often lack access to the support systems available to employees.

Louisa (quasi-self-employed, property sector):

"I didn't have that safety network around me. If I'd been with one of my previous corporate environments with high-level health insurance cover, it wouldn't have been a problem — I would have got my salary and everything. But in this situation, I was just sending them invoices at the end of the month. I couldn't go, 'Hey guys, you're going to cover me. I don't want to be self-employed anymore, because I've seen the flip side of it — the struggle I've had because I didn't have that safety network.'"

THE LINK BETWEEN ZERO-HOURS CONTRACT USE AND EXITS OUT OF WORK

Our analysis suggests a similar relationship to inactivity as that with self-employment might be apparent for those on zero-hours contracts. Although the Employment Rights Act has introduced some changes, under the current legal framework, workers on zero-hours contracts still have no guarantee of future work week-by-week. In theory, during shocks such as Covid, it is therefore easy for layoffs or interruptions to employment to occur, for similar reasons discussed.

While zero-hours contracts are often framed as offering flexibility, Kat told us otherwise, suggesting that in practice this flexibility is frequently one-sided, limiting workers' ability to manage their health.

Kat (hospitality sector, now works in employability):

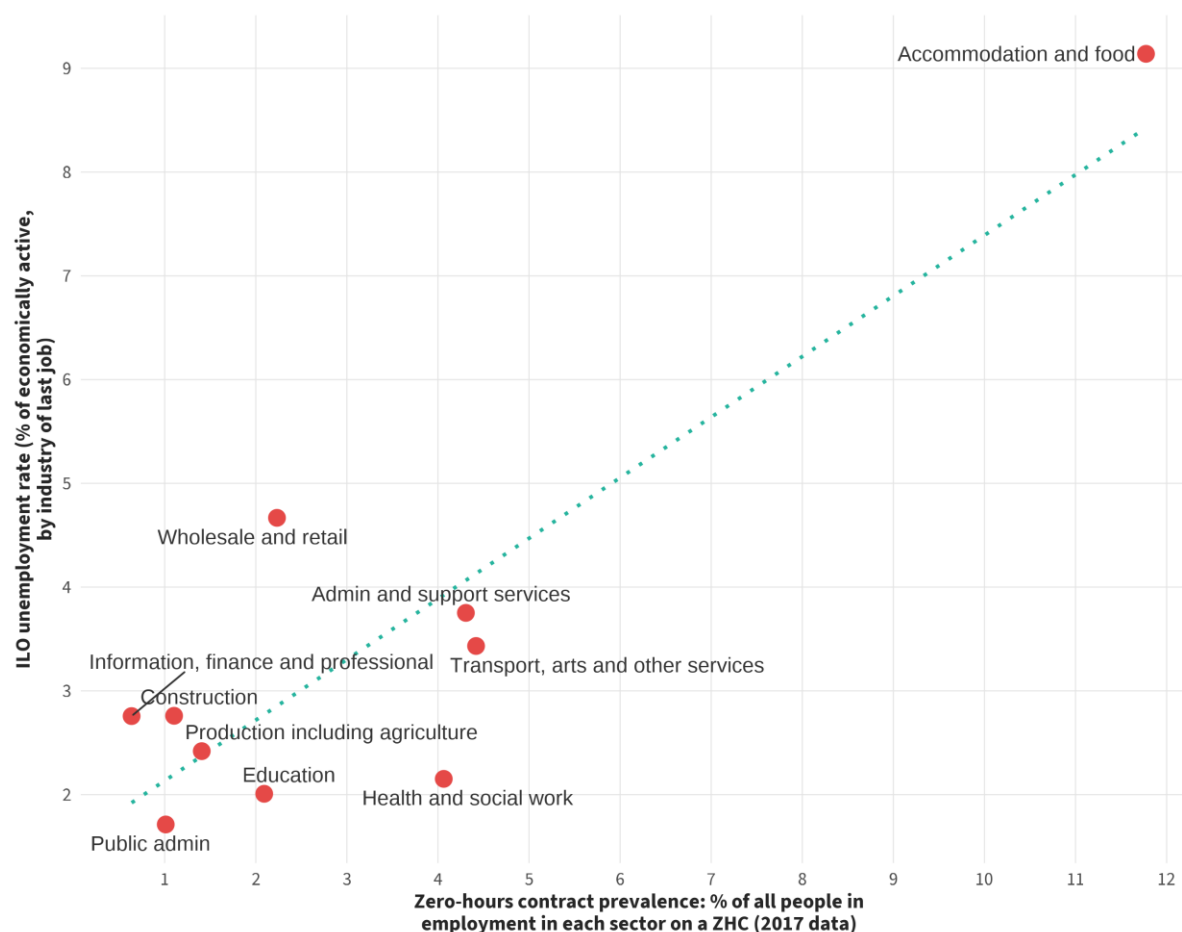
"They were sold as flexible, but they're not. You were expected to be fully flexible seven days a week, 24 hours a day to be called in for a shift. But if you ever had an appointment, that was a no-go."

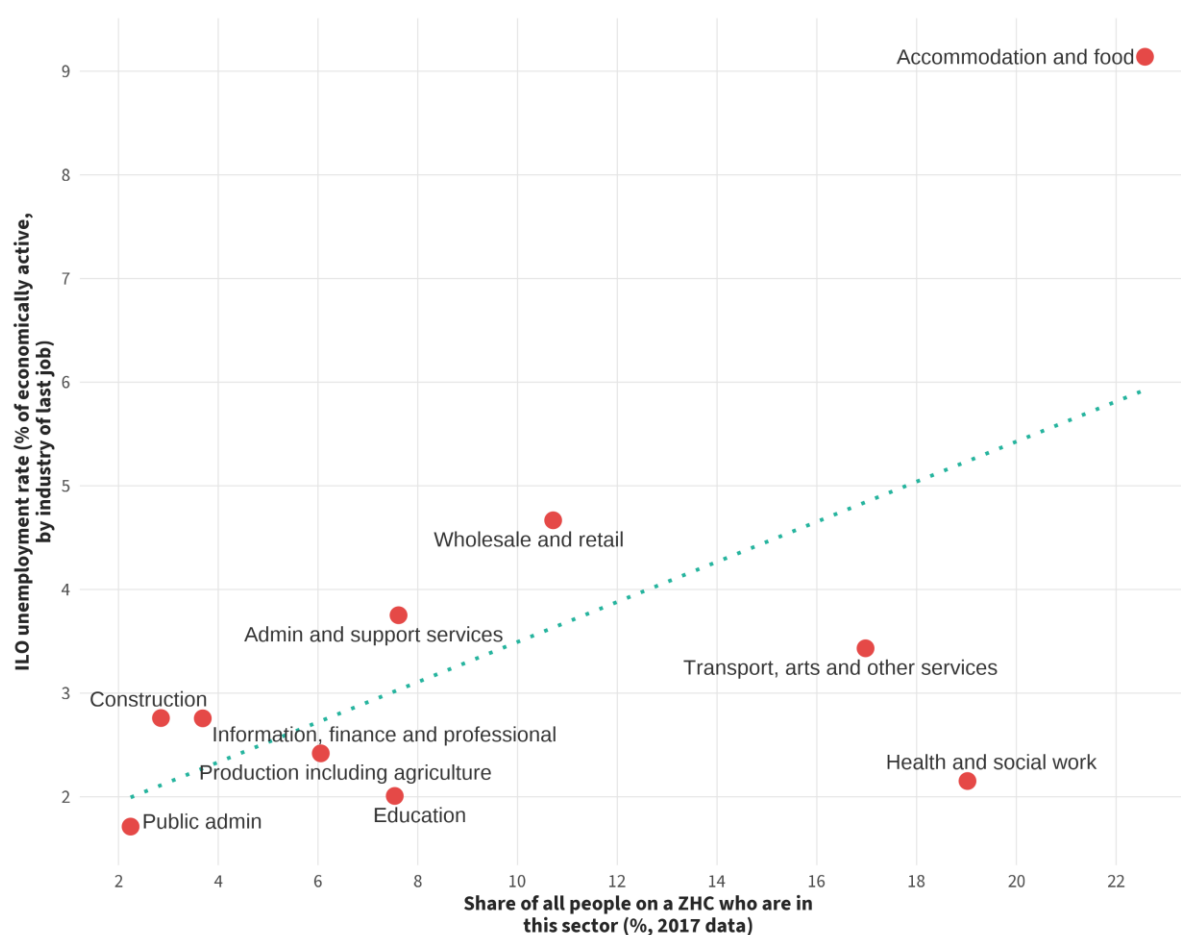
"If you don't know what your days off are in advance, how can you ever make those appointments? If you said, 'I have a doctor's appointment that day', it would be very much frowned upon. Obviously, they can't legally stop you going — but then you'd be seen as someone who's a bit awkward and not willing to take every shift going, which can punish you further down the line."

We start by investigating the reported rise of zero-hours contract use over time, and exploring its association with other outcomes. Before we do so, it is important to consider alternative explanations for this pattern. The rise in recorded zero-hours contracts may partly reflect improved measurement or greater awareness of such arrangements, rather than a straightforward increase in the prevalence of these work arrangements or of precarious work generally. Some workers may have shifted from other forms of insecure employment into contracts that are now more visible in official statistics. If that were the case, the observed relationship could reflect changes in classification rather than a fundamental shift in labour market risk.

Figure 11: Sectors which have historically had higher zero hours contracts prevalence also have higher rates of unemployment.

Comparison of zero-hours contract (ZHC) use and rates of exit into ILO unemployment by sector, using two measures of prevalence from 2017 data: the share of each sector's employment which is ZHCs (left panel), and the share of all people on ZHCs who are in that sector (right panel).





Source: NEF analysis of Office for National Statistics labour market statistics from the *Labour Force Survey*.^{51 52} Zero-hours contract (ZHC) prevalence is from Q4 2017 - the last industry breakdown ONS published before discontinuing this series - while the unemployment rate is the latest available quarter. Three industry groups in the ZHC data combine categories kept separate in the unemployment data, using simple (unweighted) averages: "Production including agriculture" averages agriculture/mining/utilities with manufacturing; "Information, finance and professional" averages information/communication, finance/real estate, and professional/scientific/technical; "Transport, arts and other services" averages transport/storage with other services.

To try and control for this, we examine the distribution of insecure work across industries during the same period. We find in Figure 11 that the sectors with the highest historical prevalence of zero-hours contracts also tend to display higher rates of recent unemployment. The sector-level scatter plot shows a clustering of industries with both elevated use of insecure contracts and greater employment instability. This does not show that insecure contracts directly cause job loss or inactivity, but it suggests that they are concentrated in parts of the economy where maintaining continuous employment is more difficult. In these contexts, workers experiencing a health shock may face a higher probability of leaving employment altogether.

These individual experiences also point to broader sectoral dynamics, where persistent instability may contribute to both workforce churn and difficulties retaining staff.

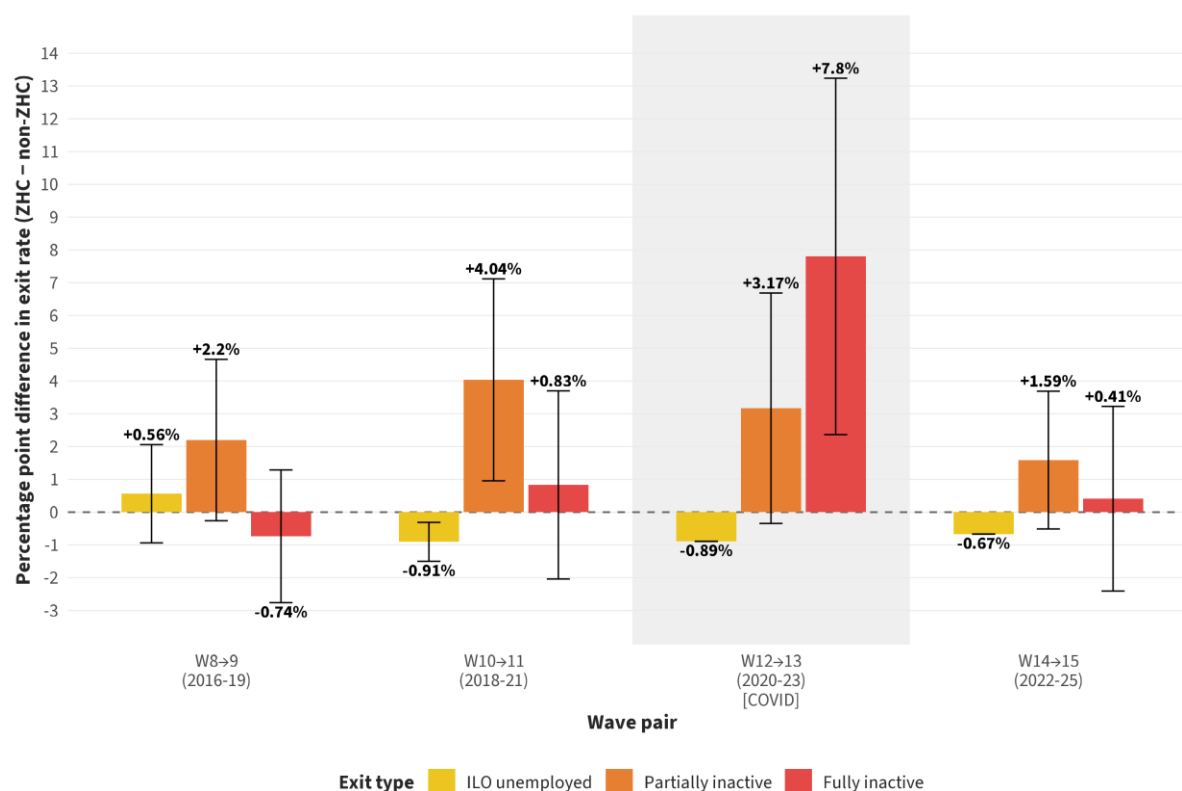
Kat (hospitality sector, now works in employability):

"I wonder if that is what contributes to the big staff shortages in those sectors — because people just can't make it work anymore."

In our analysis of *Understanding Society*, we find some (though weaker) evidence to support similar conclusions as for the self-employed. Workers on zero-hours contracts transitioned into inactivity at disproportionately higher rates than other employees³ during the Covid-19 pandemic (Figure 12). In the two waves before the pandemic,⁴ rates of exit for these workers were not noticeably different, but this changed markedly in the final wave of analysis.

Figure 12: Those on zero hours contracts were also disproportionately more likely to leave work during the pandemic.

Gap in exits to non-work between zero-hours contract workers and the wider workforce, by wave.



Notes: Error bars show 95% confidence intervals of the percentage for workers on zero-hours contracts.

Source: NEF analysis of *Understanding Society*. See methodology report for further details.

³ Note the comparison here is with employees vs employees on zero-hours contracts, because by definition a worker needs to be an employee to be on a zero-hours contract. This sets a higher bar than, for example, comparing those on zero hours vs all other workers (employees + self-employed).

⁴ Note the analysis in this figure is restricted to three pairs of waves in the pooled cross-section, because the zero-hours contract use question was only introduced into *Understanding Society* in later waves of the survey.

These findings reinforce the idea that the expansion of more precarious forms of work may increase the risk of labour market exit, particularly for workers experiencing health shocks. Our supplementary analysis suggests almost one in five (18.8%) workers on zero-hours contracts exited into non-employment during the period corresponding with Covid-19 (2020–23). This is higher than the shift suggested in *Labour Force Survey* data, although direct comparison is challenging because our analysis can track the same group of workers on zero-hours contracts over time, and low sample size for those on zero-hours contracts within *Understanding Society* is an issue.

The expansion of precarious work over the past decade could therefore be a substantial driver of the rise in inactivity due to long-term health issues. This trend would mean inactivity has risen not only due to a rise in overall sickness, but also due to a change in the nature of the UK labour market that makes staying in work when these conditions occur increasingly difficult. In the context of the pandemic, it could mean that a more precarious labour market is less able to hold onto its workers when shocks arise. Taken to its logical conclusion, this suggests the rise in self-employment and reported zero-hours contract use seen in previous decades therefore made the UK distinctly vulnerable to the labour market dislocations triggered by the pandemic.

CONCLUSION AND RECOMMENDATIONS: TOWARDS A GOOD JOBS'-LED RECOVERY

The evidence in this report establishes that job quality plays an under-appreciated role in determining whether workers remain in employment when an economic shock occurs. Jobs that are insecure, inflexible, and unsupportive increase the likelihood of labour market exit. The growth of precarious work over the past decade appears to have made the UK more vulnerable to these shocks, with those who experience simultaneous health issues being more vulnerable still.

It is both unhelpful and uninformative to attribute the UK's post-pandemic labour market experience to issues with individuals' personal motivation and health. Instead, we need to ask deeper questions about the structure of the labour market and the jobs available to them. Government policy should seek to change these structures, and pursue an unashamedly good-jobs-led economic recovery. The case for reform is also reflected in how workers, like Kane, describe the kinds of employment arrangements that would allow them to remain in work:

Kane (on what an ideal system would look like):

"I really wish there was some kind of requirement in law to have hybrid options, unless it's literally a service job where you have to be there physically."

If the labour market has evolved in ways that make it harder to remain employed with fluctuating health, what kind of employment support would best assist these workers to find the work they want? The UK's current approach to employment support is a patchwork of employer discretion, fit notes, and Access to Work.⁵³ Evidence from UK labour market studies and evaluations of return-to-work programmes suggests that this all-or-nothing dynamic is a key barrier to labour market re-entry among people with long-term health conditions.⁵⁴

In its existing format, the UK's approach to employment support for inactive people lacks the coherence and coverage needed to meet this challenge at scale. We propose a new flexible employment model built on three interlocking elements: structured partial participation, meaningful employer incentives, and properly resourced administration.

We suggest the UK develop a formal framework allowing individuals with health limitations to work variable hours within an agreed range, with income support partially

bridging the gap between reduced earnings and a standard wage. This "work-what-you-can" model would guarantee a minimum core of hours while building in flexibility as capacity changes, with clear review points to assess progress. Many countries have developed partial-work or phased reintegration systems along these lines, maintaining labour market attachment without requiring full recovery before return – with Denmark's Flexi-job scheme being a notable example, offering a wage subsidy for part-time work for those with more limited capacity.⁵⁵

The UK is unusual among comparable economies in lacking a coherent national equivalent. The long-run fiscal costs of inaction (foregone tax receipts, rising benefit caseloads, and entrenched labour market detachment) make a compelling case for building one.

It seems, however, to be unlikely that there would be sufficient employer participation in such a scheme or model without a financial incentive. The times when similar active labour market policies have been successful – such as with Kickstart – have by design created financial benefit to employers. The same goes for Denmark's system, which, as noted, involves a partial wage subsidy.

We propose a new model for flexible employment participation that incentivises employer involvement by offering an exemption from paying employer national insurance contributions (NICs) for workers hired through such an approach. To make the scheme easy to implement, we suggest eligibility would need to be restricted to those receiving welfare benefits continuously for longer than a certain period of time (eg several months) It should also be restricted those on less conditional elements of universal credit (such as the Limited Capacity for Work and Work-Related Activity (LCWRA) group) so that those least proximate to the labour market, such as the ill or disabled, are prioritised for support. The roles offered through the incentives will likely predominantly be part-time, but with jobs with onward progression opportunities onto higher working hours prioritised

We also suggest it could run alongside the government's existing employer incentive payments for young people – such as the Youth Jobs Grant, a £3,000 payment firms receive for hiring a young person on universal credit for longer than 6 months; and the Youth Jobs Guarantee, which is a 100% wage subsidy for young people out of work continuously for 18 months. However, for our proposal, we suggest that the payment also be available for adults rather than restricted to young people. Indeed, we suggest that all three schemes could be integrated into a single seamless employer incentives

offer, potentially with variable wage subsidies, depending on people's degree of need.^{5,56} This would also bring the UK more in line with other economies, where full 100% wage subsidies are relatively rare.

As the analysis in Box 1 demonstrates, a targeted NICs exemption for employers hiring or retaining recently inactive or disabled workers generates a substantial additional employment entry, at a net dynamic cost of £1.37bn. That compares favourably with cutting the personal independent payment (PIP) for 20% of recipients – as has previously been proposed to encourage work among disabled people – which produces roughly half the employment impact while imposing substantial income losses on disabled households.

The fiscal cost of the NICs approach should be understood as an investment with a long-term return. Each additional person retained in work generates income tax and NI receipts and reduces pressure on the benefits system over time.

Policy design and delivery are equally important. Access to Work has long been valued in principle, but the National Audit Office has consistently identified delays and administrative backlogs that limit its reach and effectiveness.⁵⁷ Any new flexible employment model must be accompanied by genuine investment in the institutions responsible for delivering it. A well-designed framework that is chronically under-administered will not achieve its objectives, as the Access to Work experience makes clear.

The government has committed to both raising employment participation and improving job quality. The findings of this report suggest these objectives are more closely connected than policy has so far reflected. Workers in higher-quality jobs are significantly less likely to exit the labour market following a deterioration in health. A recovery strategy that raises headline employment without attending to job quality will remain exposed to the same structural vulnerabilities this report identifies.

⁵ For a discussion of hiring subsidies and details on the proposal for a variable subsidy, see Alessio Brown (2015).

Box 1: Employment and fiscal impacts of NICs exemptions vs PIP cuts

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Previous proposed reforms to the personal independence payments (PIPs) focused on reducing the caseload as a mechanism for raising employment among disabled and inactive people. The underlying assumption was that reducing out-of-work income would act as a push factor to seek employment. This box examines an alternative pull-factor approach of exempting employers from national insurance contributions (NICs) for recently inactive or disabled workers they hire or retain and compares the employment and fiscal effects of both policies using microsimulation modelling.

The analysis

Using PolicyEngine UK microsimulation matched with *Labour Force Survey* data, the analysis models employment responses for both policies in 2025–26, targeting the exemption at around 1.1 million recently inactive or disabled workers. Employer savings are assumed to pass through to workers through higher wages at a 76% rate, consistent with Office for Budget Responsibility (OBR) standards,⁵⁸ meaning for every £1 an employer saves through a tax cut, 76p is passed onto the worker. The PIP reduction models complete benefit removal for 20% of current recipients (approximately 3.8 million people), reflecting the form in which such reforms have typically been implemented.

Employment responses are estimated using a participation elasticity of 0.25 for the NICs exemption, consistent with Diamond and Saez⁵⁹ and an income effect elasticity of 0.15 for the PIP reduction, consistent with Blundell and MaCurdy.⁶⁰ The former captures the probability that inactive individuals entering employment increases by 0.25% in response to a 1% increase in post-tax wages; the latter reflects the degree to which benefit reductions generate a compensating increase in labour supply.

Findings

The NICs exemption is estimated to generate approximately 17,400 additional employment entries in 2025–26, compared with 8,300 under the PIP reduction; a difference of roughly twofold. The NICs approach produces a larger employment response in part because it directly reduces the cost of employing the target group, and in part because the responsiveness of PIP recipients to income changes may be

constrained by the health and disability barriers that limit their labour market participation in the first place.

On the fiscal side, the NICs exemption carries a net dynamic cost of £1.37bn, reduced from a static cost of £1.55bn once income tax and NI receipts from new employment are accounted for. The PIP reduction generates net savings of £4.82bn, rising to £4.99bn in 2026–27 once the employment response is incorporated. The distributional effects differ markedly: affected households see an average income gain of around £24,400 under the NICs exemption, compared with an average loss of approximately £8,000 under PIP cuts.

	NICs Exemption	PIP Reduction
Additional employment entries	17,429	8,322
Dynamic fiscal impact (£bn)	-1.37	+4.82
Avg. household income impact (£)	+24,420	-8,009

Interpretation

The NICs exemption generates roughly twice the employment impact of PIP cuts, while supporting rather than reducing the income of the households it targets. The PIP approach generates fiscal savings, but primarily through benefit withdrawal rather than increased participation, and at a substantially higher cost to affected households. For a government committed to both raising employment and improving living standards, the NICs exemption represents the more coherent instrument. It works with the grain of the labour market by reducing the cost of employing people who face barriers to work, rather than attempting to push them into employment by reducing their income. The fiscal cost, at £1.37bn net of tax receipts from new employment, should be understood as an investment in sustained participation rather than a deadweight expenditure.

CONCLUSION

This report has examined the role that job quality may have played in the rise of health-related economic inactivity since the pandemic, finding it to be more significant than existing policy debates have recognised. While worsening population health has clearly contributed to higher rates of labour market exit, health alone does not determine whether individuals remain in work. The quality, security, and flexibility of available jobs – as well as the autonomy and voice workers have to shape their own working

environment – appear to affect that outcome, too. The UK's position here has worsened with the rise in precarious employment models throughout the 2010s.

Workers in lower-quality jobs are significantly more likely to exit the labour market, particularly following a deterioration in health. Job security is the most consistently important factor, with autonomy, collective voice, and access to flexible working arrangements also playing a meaningful role. Qualitative accounts gathered for this report reinforce this picture. They consistently show that small differences in job design and managerial culture can determine whether someone remains in work or leaves it entirely when health conditions arise.

We found that precarious employment amplifies these risks. Self-employed workers and those on zero-hours contracts were disproportionately more likely to exit into full inactivity during the Covid-19 period. The expansion of these employment forms in the years before the pandemic left a large share of the workforce exposed when a major shock arrived, with few protections to fall back on.

Rising inactivity has typically been framed as a health problem requiring individual-level solutions. This report suggests that many of those who have left the labour market want to work. What they often lack is work that can accommodate them.

We propose a structured flexible employment model with meaningful employer incentives and adequate administrative support to address this directly. Alongside the broader push to raise job quality through the Employment Rights Act and beyond, it represents a more coherent strategy for sustained employment participation than either supply-side health interventions or benefit reductions alone can deliver.

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