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## A New Deal for workers: Three suggestions for change

*The UK's new government came into power with a promise to "deliver a new deal for working people". To achieve this, **Kirsten Sehnbruch** writes, requires rethinking the status quo. If we are to offer a genuinely new deal for workers, we have to upgrade the current social contract in three critical ways.*

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A quarter of the labour force in the UK is currently employed in "poor quality" jobs. This grim statistic, I argue in my [previous post](#), is underpinned by a social contract that's based on the logic of "flexicurity": the hiring (and firing) of workers on flexible contracts.

The new Labour government appears alive to the issue. In its "[Plan To Make Work Pay](#)", part of the manifesto on which they campaigned on before taking office this summer, it set out proposals such as ending one-sided flexibility, prohibiting "firing and rehiring" and strengthening statutory sick pay. All of these should improve the situation. However, to deliver a genuinely "new deal" for working people – as promised in that manifesto plan – we have to address the **fundamental incongruence** of the existing flexicurity model: namely that when too many jobs are precarious, this undermines the welfare state, which simultaneously receives fewer taxes and contributions from these jobs and also has to pay out more to support workers in them.

In this post, I therefore sketch out three key pillars that need to be strengthened to sustain the existing social contract so that it can withstand long-term trends such as an aging population, increased migration and unprecedented technological change. These pillars are not only necessary to sustain our welfare state but also to improve our productivity going forwards.

## Towards a sustainable social contract

As our labour markets continuously change and evolve, a process most recently accelerated by the Covid crisis, it is becoming clear that our existing data infrastructure on employment and the labour

market is not fit for purpose in a technology-driven economy. Household and labour force surveys ask only a limited range of questions, do not keep track of rapid new developments (such as the gig economy), and are based on sample sizes that are too small for a labour market in which employment relationships are increasingly diverse. Low response rates further lead to questions about whether we are adequately measuring developments in the labour market. At present, much of the relevant research on employment conditions is undertaken on an ad hoc basis by researchers, if at all.

Other countries have resolved this in part by linking up administrative databases to each other (eg, data on earnings, benefits, pensions, educational outcomes and household data). In addition, survey samples should be drawn from administrative databases so that the data gathered can be linked automatically: at present, researchers are attempting to match survey results to administrative data through imputation techniques, which can be imprecise. Of course, such a change would require discussing and resolving any data protection issues. But if other advanced *and* developing economies can do this, the UK should be able to do so too.



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Revamping the data infrastructure would not only allow governments and researchers to monitor labour market developments (such as the adoption of new technologies or the expansion of the gig economy) more carefully and in real time. It would also allow them to introduce new measures (such as defining a measure of “**poor-quality employment**”) and use these to target fiscal resources and active labour market policies towards the most vulnerable workers, and to do so in the most efficient way.

Second, we lack a functioning institutional infrastructure for life-long learning and skills development. As the pace of technological change accelerates this will become an increasingly important pillar of our socioeconomic development. Not only has the amount of training declined in recent years, but so has public funding for it. Once young adults graduate into the labour market, skills development is up to them and their employers, if indeed it happens at all. In reality, this means that most resources for up- and re-skilling flow to the most qualified and educated workers

who are often those with higher incomes, too. From a public policy perspective, this is regressive as it exacerbates inequalities in the labour market. As [Christopher Pissarides \(2024\)](#) has argued, the likely future impact of AI and technology on the labour market suggests a greater role for public policy in this area.



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In practice, this means establishing institutions that track and assess education and skills in the labour market much more systematically and extending educational opportunities beyond higher education. Workers in poor-quality employment are often trapped in situations where they cannot afford to stop working to retrain or acquire further education if needed. Other countries have resolved this through systems of re- or up-skilling that are funded through a combination of public and private financing. For example, companies may hire workers on a reduced wage or reduced working week while they are in training or further education. Public funding (or potentially publicly guaranteed loans) then supplement their income to make up for wage losses during this time.



*A “New Deal” requires a functioning infrastructure for life-long learning and skills development*

A better data infrastructure for employment would allow governments to manage and target skills development over the life cycle. This would be especially important when workers become unemployed, inactive, or exposed to technological shifts; require social support or assistance with health problems or care commitments towards others; or more generally have the potential to upgrade their skills. Establishing a “life-long learning infrastructure” that tracks skills development in the workforce and which anticipates demographic and technological changes should therefore be a policy priority. Ensuring that workers are not excluded from productive jobs and do not become “stuck” in poor-quality employment is essential to sustaining our social contract.

Third, we should think more seriously about regulatory reforms that level the playing field in the labour market. In my previous post, I discuss how **poor-quality employment generates negative externalities** in the shape of lower productivity and less stable contributions to taxes and national insurance while also generating higher costs as governments subsidise these jobs through income support and other benefits. It should therefore never be cheaper to hire a worker on a temporary, outsourced or zero-hours contract than on a permanent one, as the former is associated with higher negative externalities. At present, employers with good and bad hiring practices pay the same rates of tax and national insurance. In addition, the UK’s Generally Accepted Accounting Practice (GAAP) currently only require companies to publish minimal data on employment but nothing on their hiring practices.



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A progressive way of approaching this issue – already implemented by different countries around the world – would be to factor the cost of negative externalities associated with precarious employment relationships into the contributions paid on precarious contracts, or into tax rates. This would level the playing field between different types of employment relationships, in particular those that blur the line between employment and self-employment, and disincentivise abuse.

## **Social and labour policies: two sides of the same coin**

Thinking about these proposals from the perspective of a social contract built upon a fair, forward-looking labour market highlights the interconnectedness of these issues. As our 2023 [Beveridge Symposium on Changing Labour Markets and the Future of Social Protection](#) concluded, “social policies affect behaviour in the labour market, and the functioning of the labour market determines the effectiveness (or lack thereof) of social policies.”

To sustain our social contract going forward, we must treat social and labour policies as two sides of the same coin – to be guided and informed by a fit-for-purpose data infrastructure and a clear moral vision as to what a fair deal for workers looks like in the 21<sup>st</sup> century.

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### About the author



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