ECONOMIC GROWTH AND LABOUR RIGHTS: THE CASE OF THE EMPLOYMENT RIGHTS ACT 2025

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Abstract

How do labour rights affect economic growth, and what may we predict from the Employment Rights Act 2025? The UK government says its first mission is ‘growth’, and improving workers’ rights is part of this. However, the government chose to define its ‘growth’ mission solely in terms of Gross Domestic Product. GDP often conflicts directly with growth in real wages, valuable production, equality, or improving the environment, because it accurately measures market prices alone. It ignores market failures. It ignores inequality. It discounts public services, voluntary work, and leisure. Yet to grow GDP, Labour’s leadership dropped its original pledges to create ‘a national goal for well-being’ and a *New Deal for Working People*. This paper evaluates the Act’s new rules on zero hours contracts, day one rights, equality action plans, fire and rehire, collective bargaining, collective action, and the Fair Work Agency, using comparative data. It shows the UK will still have among the worst labour rights in the OECD on virtually every front, and its position barely moves even if all rules are implemented. This reveals the folly of defining a ‘growth’ mission around contradictory GDP metrics. Real economic growth is growth in household wealth, not growth in corporate profit by redistributing wealth away from workers, rent-seeking, or externalising damage. The UK’s experience shows that labour rights are unsafe while GDP is in use. The solutions are to define growth, in law, to focus on real household wealth within an Inequality-adjusted Human Development Index, and to pass a new Employment Rights Act to match international standards. This must include a single worker status, fair pay agreements across all sectors, worker directors on company boards and in control of pension money, and statutory duties for full employment for the Treasury and Bank of England. The text of draft legislation is proposed.

Keywords: Labour, Economic growth, GDP, Innovation, Productivity, Well-being, Worker status, Sector collective bargaining, Codetermination, Full employment, Unemployment, Equality, Equal treatment, Discrimination

JEL Codes: K10, K22, K31, J71, J51, I30, I32, I31

1. Introduction

‘The programs that are labelled as being for the poor, for the needy’, said Milton Friedman in 1975, ‘almost always have effects exactly the opposite of those which their well-intentioned sponsors intend them to have’. In Friedman’s view this included nearly every labour right,[1] so that even ‘minimum wage laws have been almost wholly bad, to increase unemployment and increase poverty’.[2] With half a century of experience and data, we know that Friedman was wrong. Fair wage laws (through unions, worker directors and minimum wages) raise pay, equality, job security, *and* employment,[3] by boosting aggregate demand.[4] Higher pay drives investment in capital and technology,[5] as firms seek to make pricier labour more productive. Voice at work drives organisational efficiency, by connecting managers with the realities of work and service. Investment in capital and tech (k), plus more efficient organisation (e), are the two keys that equal economic growth (g),[6] or $k + e = g$, for short.

So, far from increasing unemployment and poverty, good labour rights increase jobs and increase prosperity. By contrast, the absence of labour rights, an unbridled boss right to manage, impoverishes workers (by reducing bargaining power) and leads to lower capital formation, hoarding of wealth, and unemployment.[7] As inequality escalates to extremes, bosses organise to extend their authoritarian economic model into politics, threatening democracy.[8] Of course, the varieties of labour rights are infinite, like the possible combinations of words to make a law. Yet we can see patterns among wealthy democracies, and we all witness the patterns among pauperising, failing democracies. We can see what good labour laws do, and what to avoid. If we want prosperity, not poverty, full employment, not unemployment, there is a well-trodden path to follow.

The Employment Rights Act 2025 could have followed this well-trodden path, but instead it became a shadow of its original plan. The *New Deal for Working People* in 2021 did follow the path,[9] after the pledges of Keir Starmer to set ‘a national goal for wellbeing... as important as GDP’ and stand ‘shoulder to shoulder with trade unions’.[10] But in 2024 Peter Mandelson and Rachel Reeves publicly demanded the *New Deal* to be watered down.[11] In the ‘quietly uploaded’ *Make Work Pay* plan,[12] the two biggest casualties were ‘fair pay agreements’ across job sectors, and a ‘single worker status’. Both are now promoted in EU law, through an 80% collective bargaining cover target,[13] and a requirement to disregard contract terms in identifying worker status,[14] but not in UK law. Then there were a host of U-turns and retreats. No ban on unpaid internships.[15] No ban on zero hours contracts, or fire and rehire, rather than complex limits. No ‘day one rights’ for fair dismissal, reasonable notice, and redundancy, or equal treatment of agency workers, or paid family leave - only for sick pay, and unpaid leave. No specific content for ‘equality action plans’. No legislation in the first 100 days of government, rather than a time-line of well over 1000 days. No new funding for a Fair Work Agency, but a chief who has openly opposed universal labour rights, such as paid holidays,[16]

which he subordinates to a ‘flexible approach’ that is supposedly ‘the British way’.[17]

This article contends that the economic consequences of the Employment Rights Act 2025 are so marginal that the UK’s relative decline will continue, and this raises the risk of an extremist political takeover. Part 2 explores how labour rights are essential for ‘economic growth’, but the only credible understanding of this is ‘growth in real household wealth’. Against 90 years of wisdom,[18] and Starmer’s pledges to Labour, the UK government chose to continue measuring ‘growth’ solely in terms of ‘Gross Domestic Product’.[19] This adds up ‘the value of goods and services produced’ in corporate and government accounts. The problem is, rising GDP often indicates active harm to the economy - real household wealth. This is because GDP, under its legal and accounting definition, only prices market transactions accurately. It fails to price leisure. It fails to price volunteer and domestic work. It under-prices more efficient publicly funded public services. It does not discount for activities that are inherently wasteful and rent-seeking. It does not discount harmful and unlawful conduct (aside from crimes like theft) such as workplace or environmental torts. For instance, GDP goes up if people work longer hours for lower wages, if pensions are depleted by asset manager fees for financial churn, if more-efficient public services are privatised and outcomes fall dramatically, and if polluters profit but kill children or retirees,[20] not to mention more inequality and climate damage. Because GDP shapes meta political goals, labour rights are unsafe while GDP is in use. This means a crucial goal for labour lawyers is to adjust GDP metrics in law, or to replace GDP with better metrics, such as real wages or capital formation, in a credible framework of human development.

Part 3 assesses the economic consequences of the Employment Rights Act 2025 in a comparative light. First, the right to a ‘guaranteed hours contract’ has so many exceptions that it appears unlikely to reverse the rise to 1.2 million zero hours contracts. It does not yet address a main cause, that Jobcentres sanction benefit claimants who refuse contracts without guaranteed hours. Second, the shift from a 2 year to a 6 month qualifying period for unfair dismissal covers another 21% of the workforce, yet it merely moves the UK from 3rd worst to 8th worst position among 38 OECD countries. Third, the requirement for ‘equality action plans’ in companies with over 250 does not require ‘action’ of any particular kind that would end the gender pay gap,[21] namely ending discriminatory paid family leave that makes women solo child carers; raising enforcement against outright discrimination; or addressing occupational segregation with sector-wide bargaining. Fourth, the reforms to ‘fire and rehire’ and redundancy consultation still leave the UK in the 6th worst place in the OECD. Fifth, a single new ‘fair pay agreement’ in Adult Social Care (on top of schools, the NHS, and a few others) still leaves the UK in the bottom half of OECD countries by collective bargaining cover. Sixth, reforms to union organising and action still leave, in Tony Blair’s words, ‘British law the most restrictive on trade unions in the Western world.’[22] Seventh, because ‘personnel is policy’, and governments can neuter regulators by defunding them, the Fair Work Agency appears to be as vivacious as a dead parrot. It is unlikely to improve

enforcement of labour rights to any material extent.

Part 4 addresses four key policies that would grow the economy, but are missing in the Act. First, every wealthy democracy has a single worker status, and the best performing determine who gets rights by law, not contract. The UK ranks as joint worst in the OECD, so most of the Employment Rights Act 2025 will not help those who need it most. Rogue employers with armies of lawyers will keep contracting out of rights, and courts will keep helping. Second, nearly every wealthy democracy has sector-wide collective bargaining. The better models have over 80% cover. This pre-empts take-it-or-leave-it terms, or migrant workers being exploited to undercut wages. Third, nearly all wealthier democracies require worker directors on company boards, while the UK does in only a handful of enterprises. Worker directors make management less adversarial, improve collective bargaining, raise productivity, raise pay, and drive innovation. Fourth, the UK's most sustained economic growth came when the government committed to full employment, at fair wages and hours. So a legal goal of full employment, to fulfil the right to work with a statutory job guarantee, is needed. Part 5 concludes.

2. Economic growth and the role of labour rights

Before we evaluate the Employment Rights Act 2025's economic impact, it is useful to understand the goal of economic growth and the role of labour rights. This includes (1) the meaning of economic growth, (2) how economic growth can be measured, and (3) the effect of labour rights on real growth.

2.1The meaning of economic growth

In law, and properly understood, 'economic growth' is part of a larger concept of 'sustainable development'. [23] Sustainable development includes factors such as education, health and environmental improvement, whose outcomes are measured by social values not wholly reduceable to prices or economic results. The 'economy' (Ancient Greek for 'household management') is a subcategory. The economy means the 'wealth of households' added together,[24] and political economy is the study of the 'wealth of nations'. [25] Economic 'growth' (g), therefore, means that households increase wealth (w) by some positive amount (n) or $g = w \times n$, for short.

How do we get growth in wealth? Aside from increasing the population, people in households work may choose to work more or less. If they are happy to work longer hours, their wealth increases. Alternatively, they may find ways to work more efficiently, to produce more in less time. An obvious way is to specialise, so that if people find an efficient 'division of labour', in Adam Smith's words, between what they can do well, and others do well, they can produce more, and trade.[26] People can

also work cooperatively, for instance by organising their labour power in firms (partnerships, companies, or other enterprises) and devise an efficient division of labour with the firm. And, people can use tools, machines, and new technology to raise their productivity at work. This property used for production is 'capital'.[27] People in firms can pool their resources to buy more capital. Or they can invite equity and debt (a specialisation not only within labour, but among additional stakeholders of investors and creditors) to accumulate more capital. If people work longer, or smarter with better capital and tech, their wealth will grow. So, investment in capital and tech (*k*), combined with more efficient organisation (*e*), are the two keys that equal real economic growth (*g*), or $k \times e = g$, for short.

And what, exactly, is wealth? According to Adam Smith 'real wealth' was 'the annual produce of the land and labour of the society'.[28] In tax law, wealth is equated with assets or property,[29] such as a car, a house, gold bars, company shares, or managed funds. But 'real wealth' goes further and necessarily includes, not only material assets or property, but also the 'produce of labour', namely valuable services that people receive, such as knowledge from a degree, better health after an operation, or pleasure from a concert. Just as people may value services, they usually value leisure time, and so leisure must be regarded as another form of wealth. In short, wealth (*w*) is primarily made up of property (*p*), services (*s*), and leisure (l), or $w = p + s + l$, for short. If one or more of these factors is discounted, then the full scope of real economic growth in wealth is being missed.

Most types of wealth (the property, services or leisure that people value) are the subjects of human rights: the rights to fair pay, property, leisure, 'food, clothing, housing and medical care', education, 'cultural life', or sharing in 'scientific advancement and its benefits'.[30] People may get wealth through a system of prices, depending on their ability to pay from wages, social security or other income. Or, goods and services may be funded through taxes (occasionally donations) and free at the point of use, or some mix. The 'cost of living' grows the more that goods and services are provided through prices, and the cost of living decreases as goods or services are publicly funded through tax and freely provided (such as schools, health, roads, parks, defence, NPR or Wikipedia). Prices are almost always regressive (meaning that the poor pay more, or spend a higher proportion of income on them) while taxes may be progressive (so the rich pay more) if the government follows time honoured 'principles of taxation'.[31] There are no 'principles of prices' as such, as prices are arbitrarily set by bargaining power, demand and supply.[32]

The distribution of wealth can change not just by taxes, but also the operation of the law, especially contracts, corporations, pensions, and human rights such as labour rights. So, if returns on capital grow relative to labour's share of income, and fewer people hold capital than labour, inequality will grow. Or if the rate of return to capital (*r*) is greater than the rate of growth (*g*), inequality will grow, or $r > g$ for short, as

Thomas Piketty famously put it.[33] This crucially depends on the shape of enterprise law, so the equation could become $r < g$ if returns to capital are shared progressively, for instance if corporations, pensions, and labour rights are reformed to pre-distribute income differently.[34]

2.2 Measuring growth

If we understand that real economic growth is rising household wealth, there are several ways to measure growth. The common method is 'Gross Domestic Product' (GDP), which according to a major report to the EU Commission, led by Joseph Stiglitz and Amartya Sen, 'mainly measures market production' and 'can lead to misleading indications about how well-off people are and entail the wrong policy decisions'.[35] GDP is tailored to the price system (not publicly funded, freely provided services or goods, not volunteering, and not leisure), because it was devised to analyse gains in US production by (mostly) private corporations during the Great Depression and World War Two.[36] Similarly, His Majesty's Treasury, which follows the EU Gross National Income Regulation 2019,[37] defines GDP simply as adding up 'the value of goods and services produced'.[38]

To deduce GDP figures, the Office for National Statistics (ONS), like statistical authorities globally, gets sales and production cost data in a Monthly Business Survey, to which firms have a duty to respond.[39] For public sector bodies, where there are no sales, the ONS measures outcomes such as the number of patient operations, or pupils taught, based on international account standards to identify a sum of 'unit' prices.[40] As Eurostat puts it, in 'the absence of a unit market price, the unit cost of a non-market service can be considered as the equivalent to the price.'[41] In other words statisticians invent a price, based on cost (e.g. what the government funds the NHS, per operation, from tax), for freely provided public services. This 'output' method to calculate GDP should equal the 'income' method of adding 'money earned through wages and profits', or the 'expenditure' method of summing 'all the money spent on goods and services, minus the value of imports... plus exports'.[42]

There are many well-known, long-standing criticisms of GDP, yet government and international inertia has led us to retain it, despite its positive economic damage. We may focus on six problem types:

- (1) **leisure**: GDP measures hours of work, but ascribes no value to leisure,[43] even though on an objective view people are becoming poorer if they have to work longer hours for lower wages. For example, GDP will go up if all German workers go from a 5 day to a 6 day working week (a 20% increase) but get a 25% pay cut, with the difference going into profits held by the wealthiest 1%. Workers are absolutely poorer, with less time for themselves, and less pay; society is similarly poorer by working more; but profit is up by monetising people's leisure time, so GDP is up;

- (2) **voluntary work**: GDP does not count domestic work, or volunteer work, because these have no market prices.[44] So, if people have less time off work, this often subtracts household and national wealth, producing fewer goods and services that make people better off;

- (3) **rent-seeking**: GDP counts activity that is inherently wasteful, so long as it takes place on a market, even if it decreases overall economic production. For example, suppose that in American pension funds more people are encouraged to buy 'actively managed' funds instead of passive index funds, despite the evidence showing there are few gains, but a lot more fees. Retirees lose more of their pensions than financiers gain in fees, and society as a whole is worse off due to the opportunity cost of people moving to work on Wall Street (to make high fees), and not working in engineering, building, science, etc;[45]

- (4) **privatisation**: GDP misleadingly inflates the economies of countries with more privatised services over countries that have (more efficient) publicly funded services.[46] For example, if the UK privatised the NHS and provided worse health care, even as life expectancy fell, GDP would go up, because transactions with prices would now be recorded;

- (5) **externalities**: GDP measures activity that is damaging, such as using asbestos at work that causes deadly diseases which kill people; or fossil fuel production that causes climate damage; or water company profits from sewage discharged into every river and beach; or gun production that leads to massacres of school children;[47]

- (6) **inequality**: GDP does not account for inequality.[48] If all the gains of GDP growth go the wealthiest 1% of people, who may even take a larger share while 99% of people become poorer, GDP can still go up. This has been the approximate situation in the US since 1980, and in the UK since 2008.[49]

Put simply, none of these examples can sensibly be regarded as 'economic growth', rather than economic damage - damage to household wealth. Yet they would result in GDP growth. GDP is a perverse, even deadly construct.

There are several different alternatives to GDP as it exists today. The first group of alternatives would be to amend the prevailing rules to address the problems above. For example, adjustments could be made to:

- (1) **leisure:** include leisure time at the value of income foregone, so as to measure increases or decreases in leisure like another factor in wealth;[50]

- (2) **voluntary work**: adjust GDP by imputing a price for free production, based on the labour cost of their provision, similar to the imputation of unit prices for free

public services;[51]

- (5) **externalities**: adjust GDP for unlawful or quasi-unlawful activity, such as revenue from asbestos production that would violate the Health and Safety at Work etc. Act 1974, sewage pollution that would violate the Urban Waste Water Regulations 1994, or for fossil fuel production that is inconsistent with the Climate Change Act 2008 and the UN Framework Convention on Climate Change.[52] The legal definition of GDP already excludes revenue from theft based on a political judgement, and so excluding revenue from other unlawful conduct where parties are 'not willing participants' is a consistent step;[53]

- (6) **inequality**: adjust GDP by the Gini co-efficient, so that all countries are required to report 'real GDP'.

These changes may be subject to some debate, yet the problems are not credibly disputed. These changes would not tackle the (3) rent-seeking and (4) the privatisation problems, where firm judgements are required.[54] Incremental changes to GDP calculation could be mandated in law at any time.

The second group of alternatives would be to replace GDP entirely. One step towards this was the creation by the United Nations of the Human Development Index (HDI) in 1990, a metric combining average years in education, life expectancy, and GDP per capita, adjusted by purchasing power parity, for each country. From 2010, the UN added an adjustment by the Gini co-efficient. The resulting Inequality-Adjusted HDI (IHDI), according to the UN, is the 'actual level of human development' while raw HDI is 'potential' human development.[55] Of course, this adds to, and adjusts, but does not replace GDP.

A second step was the 2009 EU Commission Report chaired by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi. This recommended GDP is replaced with a 'dashboard' of 'quality of life' or 'well-being' indicators. The report said these should shift to include household income, consumption and wealth (not production), health, education, work, political governance, social relationships, environment, and physical or economic security.[56] It noted that while this is a 'plurality of indicators, there are strong demands to develop a single summary measure'.[57] (In fact, GDP is itself a 'plurality of indicators', since it combines market sales data with government cost data.) The Report did not give a blueprint for the alternative index, and by 2026, the European Union still had not devised or legislated upon one, despite updating the GNI Regulation in 2019.[58] Since 2018, the New Zealand Treasury has published a 'Living Standards Framework' with 22 indicators in three groups of well-being, institutions, and social and environmental wealth.[59] There is not much else. The solution is to require action in law with structured guidance, that leaves details to statistical experts, as a new Act or Regulation as follows:

Economic growth and well-being to be measured by objective criteria

(1) All public bodies shall replace Gross Domestic Product, and related measures of growth, with criteria that objectively measure real household wealth, including –

(a) real wages, pensions or other income,
(b) leisure time and the progressive reduction of working time,
(c) the receipt of services or goods free at the point of use,
(d) life expectancy and health,
(e) years in and quality of education,

and in so doing take into account any inequality in the distribution of those criteria.

(2) The objective criteria in subsection (1) shall not include any income or revenue from the production of goods or services that damages safety, health, the environment, the climate, education, or other human right within the meaning of the Universal Declaration of Human Rights.

Until such a plan for a statistically robust index is passed, the best alternative is to simply ignore or stop reporting GDP, and focus on existing proxies for household wealth and growth, such as real wages and capital formation. Real wages statistics still have problems of not counting the value of leisure, voluntary work, and counting rent-seeking work or externalities. Yet they reduce the problems of privatisation and inequality (which comes more from capital), they have fewer of the distortions created by profit, and they directly impact most people's material welfare: the real wealth of most households. In addition, statistics on capital formation are a strong indicator of likely capacity for economic growth, even though standard measures do not discount for fossil fuel investment, gun production, and so on. If we look at the UK data for these, real economic and political issues are clear.

Figure 1: UK real wage stagnation from 2008 to 2022[60]

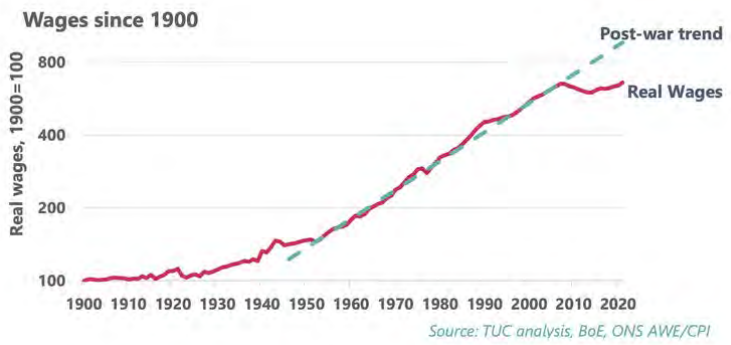


Figure 1 shows that since the global bank crash in 2009 British wages have fallen or halted. This is the longest collapse in wages since the Industrial Revolution. Moreover, UK capital formation has cratered since 1979, from around 25% to 19% or less of GDP (compared to China's 40%, India's 33%, France's 22%, Germany's 21%, and the US's 22%).[61] Households are poorer. Investment is historically low. So the effect of labour

rights matter.

2.3 Labour rights' effect on real economic growth

Now that we have established the real meaning of economic growth (growth in household wealth, not GDP) we can assess the evidence of how labour rights affect growth. Behavioural and quantitative research is the most illuminating for economic growth, though qualitative research can provide valuable practical insights.[62] Empirical research gives us evidence of what labour rights do, and points to credible theoretical explanations that make sense of how labour law affects the economy.[63]

First, there is evidence on wage regulation - minimum wages, union bargaining, and worker directors. Reasonable minimum wage laws are consistently found to raise pay, and employment, not create unemployment.[64] Unions raise pay by around 3 to 6% in the UK,[65] while weak unions lead to a declining share of labour income.[66] At the same time, stronger collective bargaining rights may even reduce unemployment, or have no impact, due to the 'positive effects' of worker representation law 'on employee motivation and morale',[67] and the effect of this on productivity. Workers directors on company boards are estimated to lead to an average 1.5% rise in pay, as well as fewer redundancies and higher job satisfaction.[68] Higher pay also leads to more pension savings, which raises the available pool of capital for investment. Crucially, fair pay leads to more investment in capital, including upgrading technology, as firms seek to make pricier labour more productive: a capital-labour substitution effect.[69] Much depends on the arrangements of each country, but it is also true that low pay economies suffer from lower investment.[70] Economy-wide, fair pay (which is higher than pay stunted by unequal bargaining power) leads to workers spending more (raising aggregate demand), resulting in more business, which enables higher pay: a virtuous growth cycle.[71] In short, fair pay at levels that match production boosts capital formation and economic growth.

Another aspect of the same phenomenon is that fair working hours and more paid leave from work (due to minimum standards in law, or bargaining) raise productivity because when people are rested they work better.[72] People have better physical and mental health.[73] Rested people also tend to consume less unnecessary junk, less 'retail therapy', channelling economic resources into things people really value.[74]

Second, there is evidence on worker directors and work councils. The 'participation hypothesis', according to Herbert Simon, was that when workers play a part in workplace governance, they are motivated to contribute more.[75] This was borne out in behavioural experiments dating back to 1933 showing significant positive effects when workers are informed, consulted, and have decision-making autonomy over work issues.[76] There are significant productivity gains if workers have control over wage-setting.[77] By contrast, productivity falls if workers are subject to unilateral decisions,

that are perceived to be very unfair or unequal.[78] There are more strikes without worker voice.[79] Together with other employment rights, worker directors have significant positive effects on both productivity,[80] and innovation.[81] Worker directors (and unions) may temper returns to shareholders,[82] but not only is there a 1.5% worker wage premium, there will be greater long-term capital investment.[83] Put the other way, shareholder monopolisation of governance enriches a tiny elite, cuts worker pay, and results in lower growth.

Third, there is a good body of evidence on job security laws. Laws on notice before dismissal, dismissal only for fair reasons, a fair process, redundancy pay, and consultation duties, raise employment and decrease unemployment.[84] Claims that making it harder to fire means employers do not hire are empirically false.[85] This is relevant for 'day one' rights, and 'zero hour contracts' alike. Job security laws are closely related to rising innovation (for instance measured by the number of patent filings).[86] The explanation for this is that when people have security at work, they are more likely to experiment with new methods of working, including development of new technology. Rather than seeing unemployment as a useful device to discipline workers into better work,[87] the credible view is that unemployment is a market failure,[88] requiring positive state action to guarantee jobs for all.

Fourth, equal treatment rules make it more likely that better suited people are hired and retained in appropriate jobs. Sex discrimination and the gender pay gap are widely estimated to cost the UK economy billions every year. For instance, a 2023 estimate argued the cost was as high £88.7 billion a year based on the rate of economic inactivity of women compared to men,[89] and a 2018 estimate argued the cost was £123bn due to sex discrimination, £2.6bn due to race, and £2bn due to sexual orientation discrimination. Whatever the right method of calculation, a leading factor in these billions is the unequal paid family leave laws, which incentivise women to be out of the workforce longer than men, and so raise the pay gap. Similarly, the absence of free, public childcare for under 3 year olds (which keeps parents at home longer than they want) before 2024 was estimated to cost the economy between £27bn and £38bn a year in lost output from women staying at home when they wanted to work.[90] In other words, equal treatment laws raise productivity and therefore growth.

Labour rights are not the only factors for growth. The main factor is undoubtedly technology, and its distribution - a universal human right.[91] Better tech does come from better labour rights,[92] but also research investment at universities, investing in schools and nurseries (mostly smaller class sizes and higher teacher pay), plus public investment in infrastructure, such as clean energy, transport, communications, and quality media. Added to this are stable legal and governmental institutions, such as independent courts, an accountable legislature, and a rational executive (all collapsing in the US).[93] By contrast, cutting university research and teaching pay, restricting public investment in infrastructure, plus measures that raise taxes on labour instead of

unearned wealth and income, are among the most anti-growth things that can be done. Sadly, these have been the consistent choices of UK governments, including in Rachel Reeves' Treasury,[94] even before the Employment Rights Act 2025 itself.

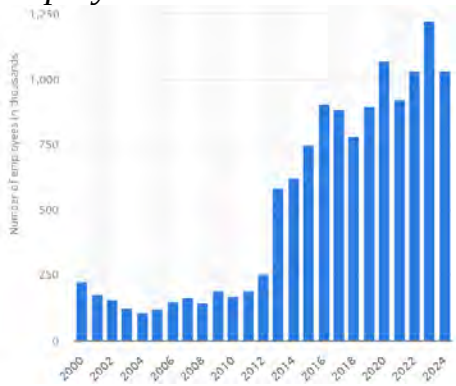
3. Economic consequences of the Employment Rights Act 2025

The Employment Rights Act 2025's modest economic consequences are disguised by its voluminous prose. To understand the impact of different rules we need to know (i) what international standards of good labour rights are, (ii) the extent to which wealthy democracies live up to those standards, and (iii) where the UK fits. This can be assessed through universal human rights treaties and International Labour Organisation Conventions, plus statistical data, particularly from the Centre for Business Research's *Labour Regulation Index* (2023). The CBR-LRI covers all 38 OECD countries, which are the world's wealthy democracies, plus the US and Israel. It tracks how 40 types of labour rights have changed since 1970. We then summarise the Act's key changes in turn.

3.1 Zero hours contracts

The Act's first 29 pages, and a further 43 pages in Schedules 1 and 2, limit zero hours contracts. Fair working time, and fair pay, are universal human rights,[95] and both are threatened if employers reserve a contractual power to unilaterally vary hours, potentially down to zero.[96] The economic impact is that employers are able to externalise the costs of fluctuating business demand onto workers, even where employers (by virtue of being larger, and capable of planning) are likely to be the cheapest cost avoiders. This means private gains are likely to be less than the social costs: a negative impact on economic growth. Moreover, zero hours contracts are often used for disguised dismissals, and act as a regulatory subsidy for inefficient sackings by managers with personal conflicts of interest.[97] Until 2014, there were under 250,000 people on zero hours contracts. But then the Conservative-Liberal coalition government required JobCentres to sanction benefits if jobseekers turned down work with no guaranteed hours.[98] This made zero hours contracts soar by around a million within 10 years (Figure 2).

Figure 2: *Number of employees on a zero hours contract* (2024) Statistia



The new Employment Rights Act 1996 section 27BA requires employers to make a 'guaranteed hours offer' to workers, but section 27BB(2) leaves it to the Secretary of State to write more Regulations on whether 'an offer by an employer to a qualifying worker is a guaranteed hours offer'. It is only once those Regulations are written that we can assess the impact (if any). Agency workers are among the most vulnerable, subject to domination by two or more employers. But instead of treating agency workers equally,[99] there are separate rules in a new ERA 1996 Schedule A1, paragraph 2(2) requiring more Regulations to be written on when 'an offer by a hirer to a qualifying agency worker is a guaranteed hours offer'. All these Regulations are being delayed until 2027,[100] and so instead of banning zero hours contracts, the law has zero predictable impact.

There could have been an economic impact if the UK had just followed any number of good models abroad. For instance, German employers must specify regular hours in a contract. These hours may be varied no more than 25% up, or 20% down, in a week, with reasonable notice.[101] UK law could easily adapt this model, and also deal with the problem of exclusivity clauses, in 88 words, instead of 72 pages. An example is as follows:

> **Right to regular hours**
> (1) Every worker has the right to a written statement in their contract of the regular hours they agree to work.
> (2) If there is no written statement of regular hours, the contract shall be deemed to be for 32 hours per week.
> (3) A worker and employer may agree to vary the hours by a maximum of 25% in each week.
> (4) Any term of a contract that restricts the right of a worker to provide their services to others shall be void.

The Act also fails to address the central problem, that Jobcentres impose benefit sanctions if people refuse a zero hours contract.[102] If there were a clear right to receive regular hours, this would mean that refusal to take a zero hours contract would be for

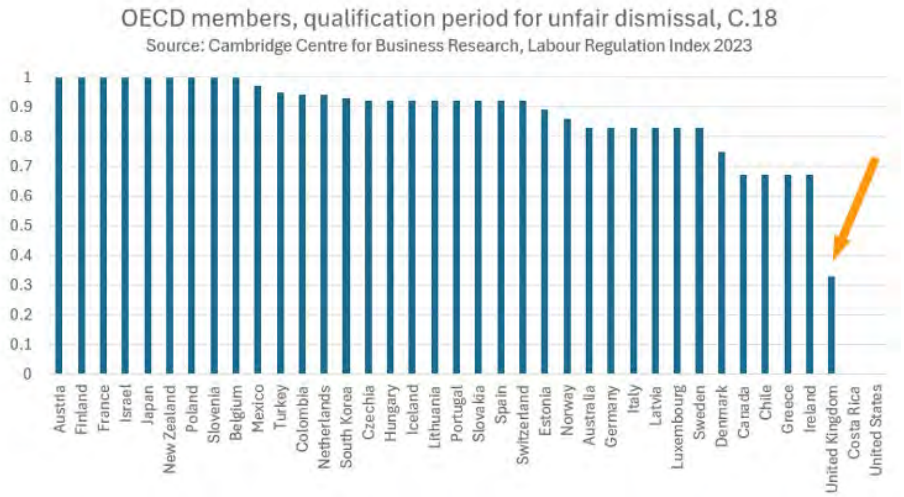
a ‘good cause’ for not taking a job, so that benefits could not be sanctioned.[103] However, because section 27BB says that an employer must offer guaranteed hours at the end of some undefined ‘reference period’, it is unclear that Jobcentres will change.

3.2 Day one rights

A second group of reforms concern reducing qualifying periods for rights. The rights to job security, equal treatment, and paid leave for child care are universal rights for ‘everyone’,[104] but qualifying periods can exclude much of the workforce. For instance, a two year qualifying period is estimated to exclude 28% of the UK workforce, and a 6 month period around 7%.[105] This is likely to have proportionately negative effects on economic growth as job insecurity and unequal treatment do. However, unfair dismissal qualifying periods have even wider effects, because if employers can dismiss at will, employees will be deterred from enforcing any rights at all.

Unlike the original *New Deal* pledges for ‘day one’ rights across the board, the Act has only created day one rights for sick pay (down from a 3 day waiting period), and for parental and paternity leave (down from a 6 month qualification).[106] Section 25 reduces the two year qualification for unfair dismissal to 6 months, and removes the limits on compensation for unfair dismissal (due in January 2027). This period is no longer subject to government discretion,[107] ending the political ping-pong of putting unfair dismissal qualifications up or down whenever the Conservatives or Labour came to power.[108] However moving from 2 years to 6 months means that the UK merely crawls from being the 3rd worst in the OECD to joint 8th worst, out of 38 countries.[109]

Figure 3: The UK’s extreme lack of unfair dismissal protection



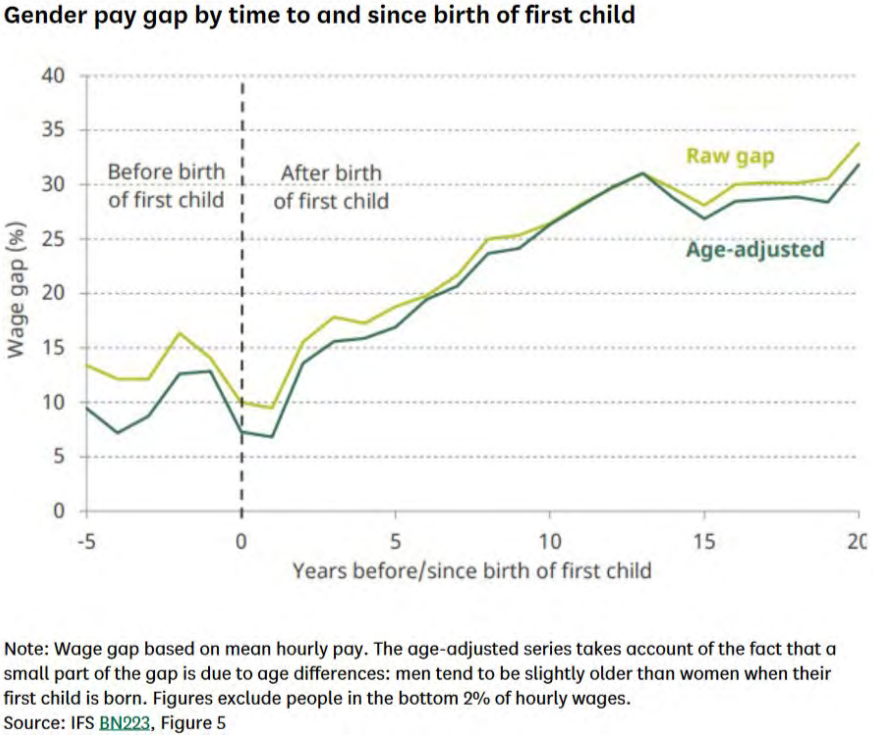
There are many more gaps. The Act does not abolish the 26 week qualifying periods for pay during parental or paternity leave (let alone paid maternity leave), even though government funds that pay.[110] This discourages precarious workers from having children, and makes it more likely that those children grow up in poverty. The Act does not abolish the two year qualifying period for redundancy protection, which accrues at (just) 1.5 weeks’ pay per year worked from age 41,[111] or the one month qualifying

period for notice before dismissal.[112] Nor does the Act abolish the 12 week qualifying period for agency workers to be treated equally to direct workers.[113] Finally, nothing is done to address employers opting out of employee rights altogether by classifying people as self-employed in appeal to contract-based legal tests (part 4(1) below).

3.3 Equality action plans

A third group of reforms concern equal treatment. The right to equal pay for equal work is a universal right,[114] and yet 50 years after the Equal Pay Act 1970 came into force, the UK gender pay gap was still 12.8% in 2025. The three leading causes of the gender pay gap have been identified by the Diversity Council of Australia. First, women shoulder most child care, because men take very little paternity leave, and so women on average advance in their jobs, and pay, less than men. As Figure 4 shows, the pay gap increases dramatically after birth of a first child.

Figure 4: Gender pay gap and unequal parenting (2018) IFS[115]



Note: Wage gap based on mean hourly pay. The age-adjusted series takes account of the fact that a small part of the gap is due to age differences: men tend to be slightly older than women when their first child is born. Figures exclude people in the bottom 2% of hourly wages.
Source: IFS BN223, Figure 5

A second main cause of the pay gap is outright discrimination. A third cause is occupational segregation. That is, "women's jobs" tend to be systematically undervalued by markets and governments.[116] To rectify these problems logically, first, there should be equal paid family leave, regardless of gender,[117] non-transferable on a use it or lose it basis[118] (plus fully funded, free, public nurseries). Second, there should be stronger enforcement of anti-discrimination laws, especially by strengthening unions and worker voice in every workplace. Third, there should be sector-wide bargaining with fair pay scales that cut across traditionally segregated work, such as care homes, nurseries, council services or delivery work.

The ERA 2025 does not rectify these problems. Section 33 may require that firms with over 250 employees produce 'equality action plans', 'showing the steps that the employers are taking... with regard to prescribed matters related to gender equality', but only if the Secretary of State writes regulations of an unknown type.[119] Nothing yet requires employers to take action to raise and equalise paid child care leave, even though leading employers do provide at least 26 weeks equal paid leave.[120] Nothing requires action plans to strengthen internal anti-discrimination controls, and recognise and bargain with independent trade unions. There is a new requirement for facility time for equality representatives of trade unions, but this will not assist 73% of workers, who are not covered by a collective agreement (part 3(5) below). Because the plans cover individual employers, not sectors, they will not tackle the problem of occupational segregation. Section 34 might require outsourced workers to be included, but this depends on as yet unwritten Regulations.[121]

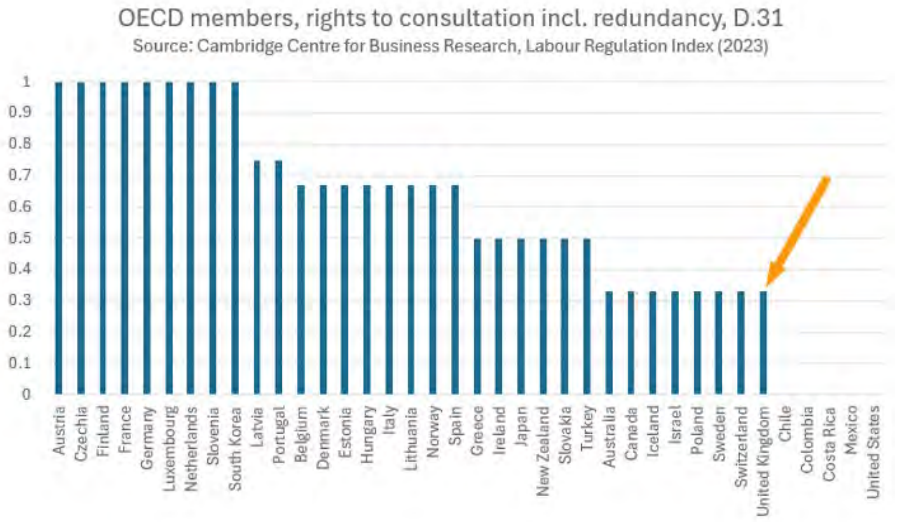
There are four important new changes that will limit outright discrimination. First, sections 21 and 22 require that employers take 'reasonable steps' to prevent harassment by third parties. However, Regulations must still define what 'reasonable steps' are.[122] Second, sections 23 and 24 ban gagging contracts (often called 'confidentiality clauses in settlement agreements' in HR and legal euphemism) that prevent people talking about harassment and discrimination that they have suffered. But, Regulations may create exceptions from what counts as an unlawful gagging contract.[123] Third, sections 26 and 27 make it explicitly unlawful to dismiss someone during pregnancy or 'after' returning from maternity, paternity, parental or adoption leave. This should end the virulent practice of telling (usually) a pregnant woman or new mother, often on a fixed-term contract, that she will be redundant when maternity leave has expired.[124] Fourth, section 152 and Schedule 12, paragraph 18 increase the time limits for discrimination claims from 3 to 6 months, removing a major difference to equal pay claims. However, an equal pay claim time limit is still non-extendable, and it requires a real comparator, whereas another discrimination claim (including sex, but not on pay) is extendable if just and equitable.[125] These differences make equal pay claims based on sex harder than other discrimination claims, and make no sense.

Finally, the government is currently undertaking a review of parental, maternity, and paternity leave, but its limited mandate is focused on 'identifying options with low or no cost to business and the exchequer'. This 'review' is not due to complete until 2027, pushing 'any potential reforms' far further away.[126] This suggests that the Treasury has little or no intention of allowing reform, or interest in international evidence on the obvious steps needed: to raise and equalise paid family leave for each worker as a universal right.

3.4 Fire and rehire

A fourth group of reforms concern redundancies. ‘Everyone, as a member of society, has the right to social security’,[127] and this includes job security, to not be arbitrarily dismissed or have pay and working conditions unilateral changed.[128] ‘Fire and rehire’ has become a major problem, highlighted by P&O ferries illegally firing 800 workers by Zoom call without notice or consultation.[129] Although contracts may not be changed without consent,[130] lawyers advise employers they can fire and rehire (or replace) staff on worse terms at lower cost. Nothing is done by the courts to stop it.[131] The best way to address this is ensure that workers codetermine dismissal decisions, so that capital cannot externalise the social costs onto labour and the public.[132] As Figure 5 shows, the UK has among the weakest duties, ranking joint 6th worst in the OECD.

Figure 5: Weak consultation duties of UK employers



Instead of changing the structural insecurity of UK workers, the ERA 2025 changes contract and consultation procedures. Section 28 of the Act prevents a ‘restricted variation’ of contracts without employee consent regarding pay, pensions, hours, time off and other items that the Secretary of State may define.[133] Moreover a dismissal will be unfair if the reason is ‘to enable the employer to replace the employee’ with someone new.[134] However, this does not apply if the employer shows they were aiming to ‘reduce, or significantly mitigate the effect of, any financial difficulties’ that affected the enterprise’s ability to stay as a going concern or carry out statutory functions, and ‘the employer could not reasonably have avoided the need to replace the employee’.[135] The effect is that, instead of diversified shareholders and banks bearing the cost of management failure, the costs can be shifted onto workers, their families, and taxpayers. This is very far from banning fire and rehire.

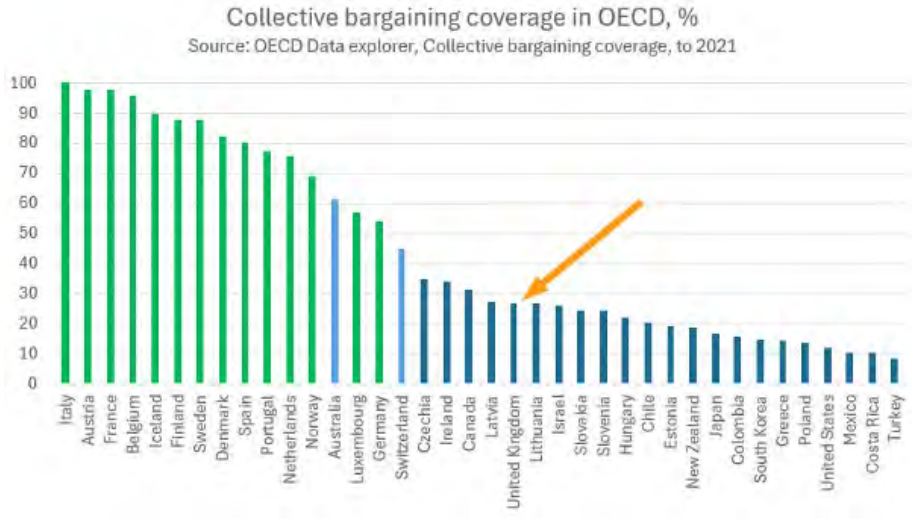
Section 29 addresses part of the failure in consultation rules for collective redundancy, where employers propose to dismiss over 20 employees within 90 days. It extends consultation duties to cover redundancies across the employers’ establishments, not

just one.[136] However the Secretary of State, in regulations not yet written, may also change the threshold to involve percentages of employees, but not lower than 20 in number.[137] Section 30 extends Employment Tribunal powers to make an award of 180 days' pay (i.e. about half a year), up from 90.[138] It is unclear why there is any cap at all (recalling the cap is gone for unfair dismissal), and not specific minimum awards, plus a requirement that employers compensate enough to internalise the social costs of redundancies. Unfortunately, none of these changes make a material difference to the UK's relative position in the OECD: it will remain in joint-6th worst place.

3.5 Fair pay agreement(s)

The fifth group of reforms concern collective bargaining. 'Everyone who works has the right to just and favourable remuneration' to ensure 'human dignity' for oneself and their family.[139] But in Britain, workers have suffered the longest wage cuts since the Industrial Revolution from 2008 to 2025.[140] This followed the global bank crash, and Conservative-Liberal 'austerity', including real pay cuts ('freezes') for public sector and university staff.[141] Reduced pay reduces aggregate demand, so you cannot cut your way to economic growth. In the private sector, collective bargaining coverage is just 13.4%, largely because the UK still adheres to a model of 'enterprise bargaining', with no right to take sector-wide collective action, and no union right to recognition outside a single 'bargaining unit' of an enterprise.[142] Overall, collective bargaining coverage is 27%. Recently, official statisticians have said that the level of cover could be 40%, but this higher estimate depends on surveys of employers about whether wages are set 'collectively' including by a 'workers' committee'.[143] This does not count as collective bargaining. Figure 6 shows that the UK remains in the bottom half of OECD countries by coverage, with sector-bargaining systems are green, enterprise-bargaining in dark blue, and hybrid in light blue.

Figure 6: The UK's low collective bargaining coverage



The Act makes changes in just two sectors. Section 38 and Schedule 4 create a 'School Support Staff Negotiating Body' with a remit for pay and conditions. The Secretary of

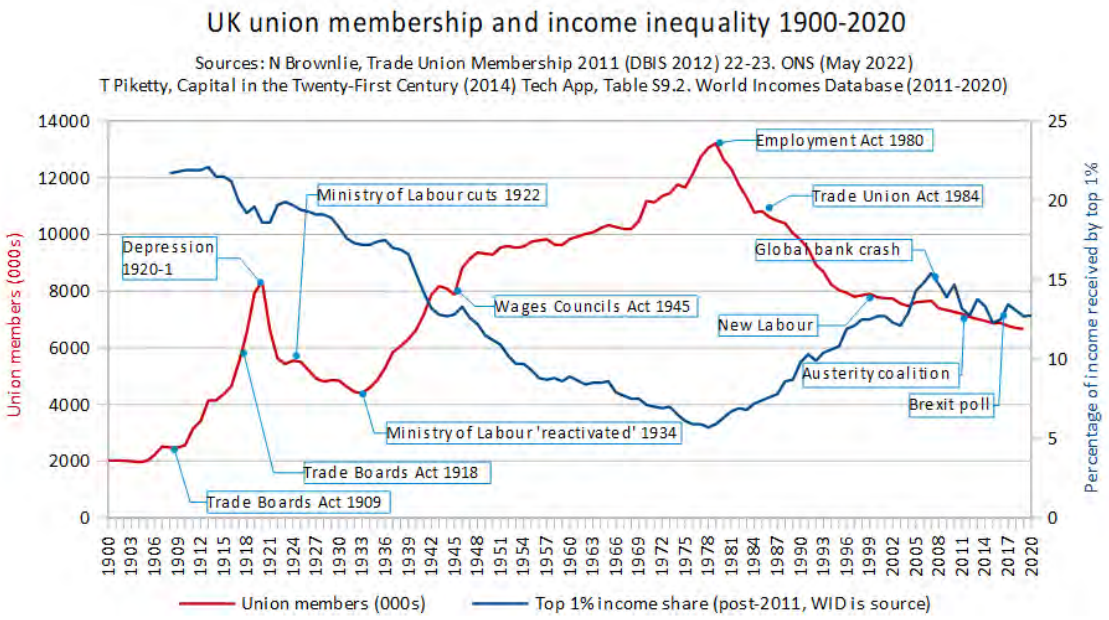
State may write further regulations to provide that an item of pay or conditions 'is, or is not' covered.[144] Section 39 gives power to the Secretary of State to write regulations for an 'Adult Social Care Negotiating Body for England', and section 40 enables regulations to specify the body's membership and procedures. The Secretary of State (or Welsh or Scottish Ministers) may break any deadlock and decide terms, and extend the agreement across the sector.[145] This is not true collective bargaining since the government controls the body's procedures and members. Section 54 makes this explicit by letting the Secretary of State specify that nothing the body does is collective bargaining.[146]

While this may benefit 2.4 million school and care staff, it misses the other 24 millions people the *New Deal* promised to cover with fair pay agreements. Rolling out sectoral bargaining simply requires us to (1) map the relevant sectors, (2) identify a related union to negotiate with the relevant employers, and (3) the Secretary of State to set terms according to a model collective agreement if the parties fail to do so. For example, in the Netherlands there are just under 200 sector-wide collective agreements, listed and downloadable on the website of the Dutch union federation, FNV.[147] The EU Adequate Minimum Wage Directive 2022 article 4 now requires all member states to implement action plans to reach 80% cover, which essentially requires sector bargaining.[148] This means that if the UK stands still, it is very likely to be overtaken, and fall in its relative OECD ranking.

3.6 E-balloting and union organising

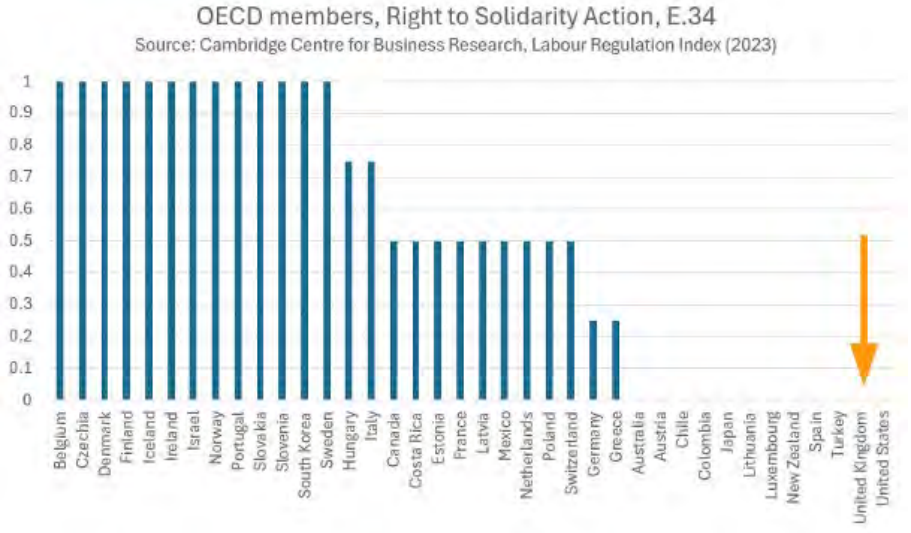
The sixth group of reforms concern union rights to organise and take action. The universal right to fair pay depends on the right to take collective action, including strike action. Otherwise, collective bargaining is reduced to collective begging.[149] This fact is vivid in the UK, where destruction of trade union rights from 1979 correlated closely with an inverse rise in inequality, measured by the share of income taken by the top 1% earners (Figure 7).

Figure 7: The inverse relationship between inequality and union membership



Unlike every other wealthy democracy, UK law currently mandates that union ballots (including for strikes and elections) are done by post,[150] costing a lot of money, and guaranteeing lower turnouts than if votes could be done by email. Then, it requires a 50% turnout for strike ballots to be valid.[151] Even if strike ballots meet this threshold, workers can only strike against their contractual employer, and cannot take action in solidarity against other employers, even if they affect their terms at work.[152] To organise, union representatives must be able to talk to their co-workers, against the efforts of employers to isolate them, and union members cannot be subject to any detriment or dismissal for organising or taking action.[153] To fulfil union duties, union representatives need paid time off work. As Tony Blair put it, this leaves 'British law the most restrictive on trade unions in the Western world.'[154] This is shown, for example, in Figure 8.

Figure 8: The UK's weak rights to collective action



The Act makes several important changes. One group concerns ballots. Section 73 repeats that the Secretary of State has the power in the Employment Relations Act 2004 section 54 to allow electronic balloting by order. Of course, the Labour government could have made an order on 4 July 2024, or it could have written the freedom to use e-ballots into the Act (not remind us there was already a law), or indeed any government could have changed the rules after 16 September 2004. Instead, unions will wait until August 2026. Section 68 may eliminate the requirement for 50% turnout in strike ballots, but the government has not said when this will take effect.[155] Section 69 has removed the requirement for 40% support among all union members in important public services. Section 78 repeals the minimum service rules, which were unenforceable, and offensive in a free society.[156]

A second group of changes concern organising. Section 58 creates a right of workers to get a written statement of their right to join a union. However, the content of this statement is left for the Secretary of State to prescribe in further rules.[157] Section 59 creates a so called right 'of trade unions to access workplaces', but in fact this is really a right to make an 'access agreement' with an employer (which unions can do anyway), save that the Central Arbitration Committee can make a determination on the terms of access if employers do not agree.[158] It is unclear on what basis the CAC will give unions 'access'. Sections 64 to 66 improve union representative rights to paid time off for union duties ('facility time'), enabling complaints if time-off is unreasonable, and creating time off for equality representatives. However there is still no standard on how much facility time employers of different sizes should actually give. Section 76 provides that workers cannot be subject to detriment for taking industrial action. Section 77 requires that employees' existing right against dismissal continues however long strike action lasts, not just 12 weeks. However the Act fails to say that everyone is protected from detriment for union activities - not just employees, not just workers, but everyone - as international standards require.[159]

A third group of rules concern recognition. Section 60 and Schedule 6 amend the statutory procedure for employers to 'recognise' unions to bargain. There is a power for the Secretary of State to write regulations allowing unions with 2% membership (rather than 10%) in a bargaining unit to start a recognition procedure.[160] However the fact is, it is quicker and more effective for a union to simply organise a strike, instead of using Schedule A1, which may simply delay unions getting a deal. Workers have a better shot at organising a strike against employers who refuse to bargain, to get them to the table. This includes the delivery staff that the UK Supreme Court has capriciously, and in violation of international law, denied worker status.[161] A negotiated collective agreement, backed by the threat of a strike, can cover any terms and conditions, not just pay and working time as Schedule A1 envisages. Strikes can also target multiple enterprises, to get a sector-wide deal, unlike Schedule A1.

The result is that, while e-ballots and eliminating thresholds will be positive if enacted, these will not make any change to the UK's position as 'the most restrictive on trade unions in the Western world'.

3.7 Fair Work Agency

Rights without a remedy are not really rights at all, and that is why in international law there is a right that rights are enforced.[162] The best ways to enforce labour rights are through enterprise managers being accountable to a board of directors that includes workers, and through trade unions being empowered on the shop floor. But the reality is that, even in workplaces with both, British managers do as they please, regardless of law. If faced with a challenge, they pay for lawyers who will argue that nearly any conduct is actually lawful, and will not budge until faced with serious negative publicity, litigation costs, or strike consequences. Even workplaces that one might expect would be better will systematically underpay their staff, unfairly dismiss, defend discrimination, and break the law with impunity. If taken to court, the process is slow, adversarial, and stacked against claimants. Most judges are unsympathetic to labour rights because most are privately schooled, and have only worked as self-employed barristers, being paid by employers or large corporations.[163] This means there are gaps an active government regulator could fill. The problem is, any regulator's effectiveness depends on government in charge to make good appointments, and it risks being captured, or defunded.

The approach of the Employment Rights Act 2025, Part 5, section 90, is to give the Secretary of State 'the function of enforcing labour market legislation' in Schedule 7. Under section 92, this function is delegated to a 'Fair Work Agency' that combines the National Minimum Wage Unit of HMRC, the Gangmasters and Labour Abuse Authority and the Employment Agency Standards Inspectorate. Section 93 creates an Advisory Board with worker, employer and independent representatives. Section 94 requires the Secretary of State to set out an enforcement strategy. Sections 96 to 129 give the Fair Work Agency powers to enter premises, seize documents, accept undertakings, give notices about underpayment of wages, apply to court for orders in relation to a 'labour market offence' and for a 'labour market enforcement order'. 'Labour market legislation' has a narrow definition of laws listed in Schedule 7.[164] Under paragraph 35 the Secretary of State can add or subtract to them if both Houses of Parliament agree (the 'affirmative resolution procedure'). Section 116 lets the Secretary of State bring proceedings for any civil right at a Tribunal if 'it appears... the worker is not going to bring proceedings'.

The main problem is that the FWA appears to be dead on arrival. Following the political maxim that 'personnel is policy', the current government's policy appears to ensure that the FWA is completely ineffective by appointing Matthew Taylor. Taylor, while employed by the Conservatives to write a Review, advocated keeping rights away from

the most vulnerable workers,[165] and destroying paid holidays through rolled-up pay.[166] Taylor has no legal expertise. Taylor's first action was to announce that FWA priorities would be 'reducing regulatory burdens', and 'thought leadership'. The FWA will have no new funding, and 600 inspectors for 1,400,000 employers, meaning it cannot tackle systemic problems.[167] The Competition and Markets Authority was also stifled, and its international credibility undermined, by appointing an unqualified Amazon executive as its chair.[168] This FWA head believes in labour market 'flexibility', so his 'thought leadership' will probably work against the interests of labour. A serious agency would set measurable targets for removing labour rights violations, and prioritise litigation and enforcement that has high impact, for systemic change. This is very unlikely to happen.

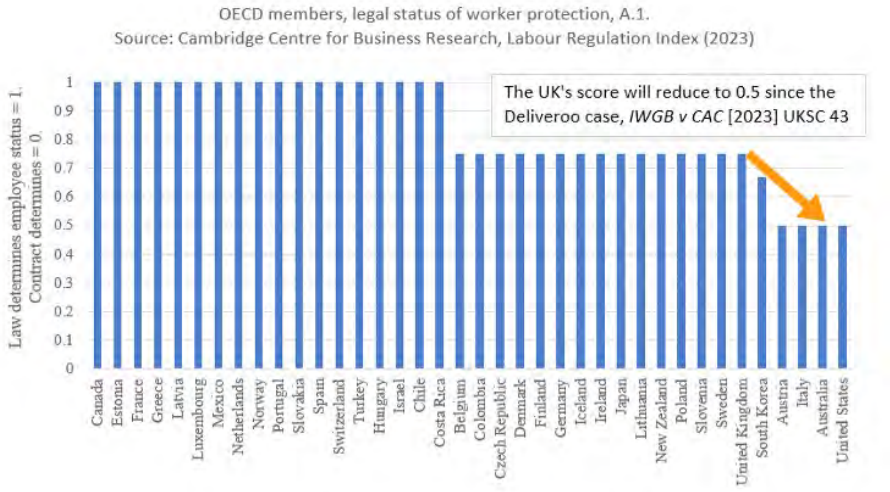
4. The essential elements of successful economies

The Employment Rights Act 2025 has made a host of important changes, yet the hard legal analysis, matched with comparative data, shows the UK's position relative to wealthier democracies is nearly unmoved. Four main reforms are essential elements in successful economies: (1) a single worker status, (2) sector collective bargaining, (3) worker directors in companies and in control of pension funds, and (4) a duty to realise full employment.

4.1 Single worker status

First, the test for who is a worker/employee must be based on law, not contracts that employers write. British court cases on employment status contradict each other at least back to 1983,[169] leaving systematic uncertainty. As Figure 9 shows, after *IWGB v CAC*, the UK ranks at the bottom of the OECD.

Figure 9: The UK's bottom ranking for scope of rights protection in the OECD



The EU Platform Work Directive 2024 article 4 provides an elegant solution, saying that Member States must have 'effective procedures in place to verify... employment

status', 'guided primarily by the facts relating to the actual performance of work' that are judged 'irrespective of how the relationship is designated in any contractual arrangement that may have been agreed between the parties involved'. Law, not contract, must say who is a worker/employee. This must be driven by the purpose of protecting those who have weaker bargaining power.[170] In UK law, this means there is no place for a 'mutuality of obligation' test.[171] There is no place for a 'substitution clause' or 'personal performance of work' test. There is no place for any other test that 'armies or lawyers' or judges invent to let employers contract out of rights.[172] The test must be clear, as courts have a systemic bias against workers, because most judges went to private school, and had careers as self-employed barristers paid for by employers and corporations, not workers.[173] An example of how law could be simply changed is this:

> **230. Scope of rights protection.**
> (1) In this Act, an "employee" or "worker" means any person who works for another, taking into account the relative bargaining power of the parties, and the purpose of conferring rights.
> (2) The principles in subsection (1), not the terms of any contract, shall be decisive.
> (3) The burden of proof shall be upon the purported employer to show that someone who provides work for a wage is genuinely working on their own account as self-employed, or as a volunteer, and not an employee or worker.
> (4) In this Act, an "employer" means any person, enterprise, or group of enterprises, regardless of legal form, which exercises one or more of the following functions –
>
> (a) receiving the benefits of labour,
> (b) determining pay,
> (c) giving instructions of work or exercising control,
> (d) setting or supervising standards of work,
> (e) imposing any restrictions on the worker's freedom,
>
> taking into account the relative bargaining power of the parties, the purpose of conferring rights, and disregarding the terms of any contract.

4.2 80% sector bargaining cover

Second, the UK must move to a system of sector-wide collective bargaining cover. The EU Adequate Minimum Wage Directive 2022 article 4 requires Member States to develop an 'action plan' that raises cover to 80% if they are below.[174] The UK must similarly roll out 'fair pay agreements' through a pro-active state that sets the default for pay and conditions. To make change swiftly, there should be a model collective agreement, and model employment contracts, just as there are model companies articles. An example law is as follows:

Schedule A1. Sectoral Collective Bargaining

1. (1) The Secretary of State shall have the duty to organise collective bargaining across the entire United Kingdom workforce, according to suitable sectors through National Joint Councils.
(2) A National Joint Council may be called by –
(a) one or more trade unions,
(b) one or more employers, or
(c) the Secretary of State.
(3) The Secretary of State shall give special consideration to calling a National Joint Council where –
(a) a significant number of workers are in households receiving benefits,
(b) wages are low or have been in historic decline,
(c) a significant number of employers receive subsidies of any kind or public contracts,
(d) the proportion of workers covered by a collective agreement is low, or
(e) it would in their opinion be conducive to good labour relations.

2. (1) The identification of suitable sectors shall be made by the Secretary of State after consultation with trade unions, employers and other parties they consider to have a sufficient interest.
(2) The Secretary of State shall have regard to –
(a) the need to have organised scales for fair pay and conditions,
(b) the relationship of workforces to government departments,
(c) the existing structure of collective agreements, trade unions and employer associations,
(d) the desirability of preserving long-standing collective arrangements, and
(e) job classifications in the Labour Force Survey and Annual Survey of Hours and Earnings.

3. (1) Employers and trade unions shall be under a duty to negotiate in good faith, with a view to agreement on fair pay, conditions and governance of work, and "fair pay agreements" shall be defined accordingly.
(2) A National Joint Council shall ensure that fair pay agreements include all of the following –
(a) pay, working time and holidays,
(b) the equitable sharing of the benefits from improvements in productivity and technology,
(c) job security,
(d) equal treatment,
(e) pension benefits, and the governance of funds and shareholder voting rights,

(f) workplace governance,
(g) use of workplace technology that may affect worker data, privacy and freedom of expression,
(h) health and safety,
(i) any other items agreed by the parties.

(3) Fair pay agreements shall be submitted to the Secretary of State, and made public on a website register.
(4) The Secretary of State shall have the power by Order to extend a fair pay agreement to workers and employers of a defined sector.

4. (1) The Secretary of State shall by regulations prescribe model collective agreements, and model employment contracts.
(2) Different model collective agreements and model employment contracts may be prescribed for different sectors or enterprises.
(3) A National Joint Council or any other party may adopt some or all of a model collective agreement or model employment contract.
(4) If a different collective agreement and employment contract is not registered with the Secretary of State, the relevant model collective agreement and employment contract shall apply to all enterprises and workers in the relevant sector.

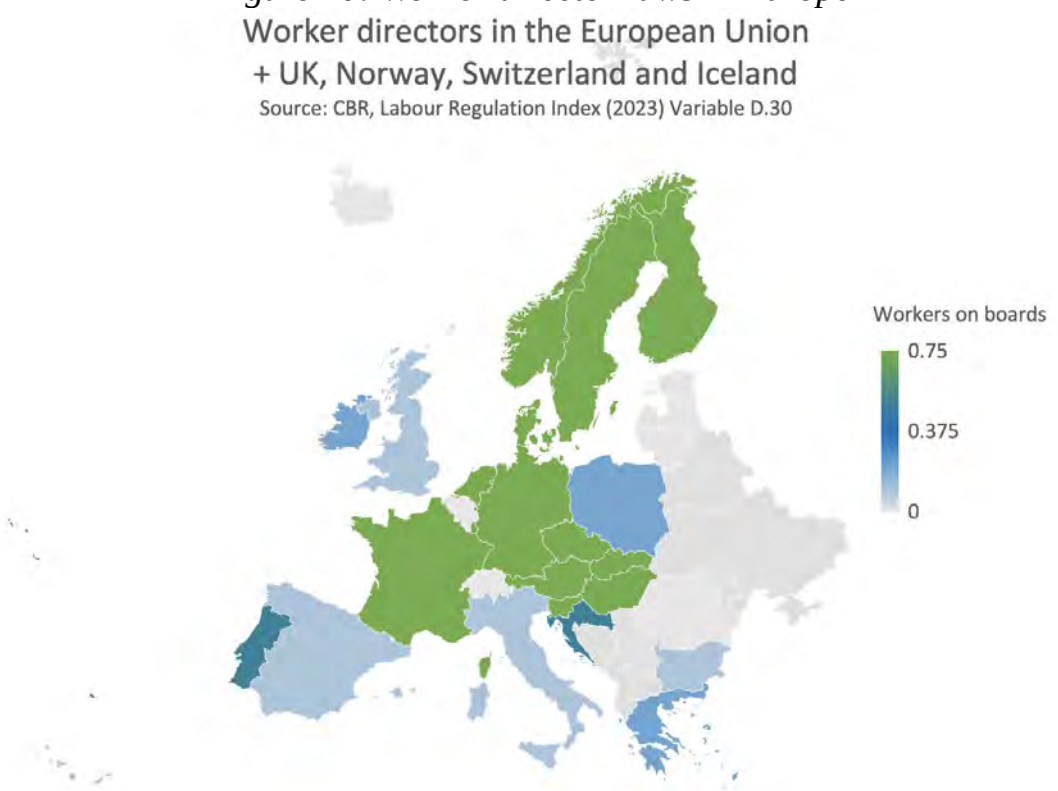
5. (1) A sectoral collective agreement shall not fall below the standards of any labour law, the European Social Charter or International Labour Organization Convention ratified by the United Kingdom.
(2) An enterprise collective agreement shall not fall below the standards of the relevant sectoral collective agreement.
(3) Collective agreements shall form part of the terms of all employment contracts within that enterprise or sector.
(4) An affected National Joint Council, trade union, employer, worker or Labour Inspector may bring proceedings to the High Court or Employment Tribunal for the enforcement of any term of a collective agreement.

4.3 Worker directors and pensions

Third, the crowning achievement of collective bargaining is codetermination.[175] There is a fundamental ‘right to take part in the determination and improvement of the working conditions and working environment’,[176] and that includes workers on boards of directors. Worker directors reduce strikes, [177] increase innovation, [178] raise productivity, increase employment, and raise labour’s share of income.[179] Specifically, it appears that worker directors lead to up to 1.5% increases in wages, fewer redundancies, and increased job satisfaction.[180] The UK already has a few laws for worker directors in universities, schools, and NHS trusts,[181] while the UK Corporate Governance Code 2024 requires listed companies to ‘comply or explain’ with three

worker ‘engagement’ options, which may include a worker-director. But only a handful of companies have done it.[182] As Figure 10 shows, the UK is in a minority of European countries without any general law for worker directors.

Figure 10: Worker director laws in Europe



A new section 155A of the Companies Act 2006 could be as follows:

> **155A. Right of workers to elect directors**
> (1) Every worker has the right to be entered on the register of members of their company, and is entitled to one vote in the meetings of companies.
> (2) At least one-third of the total number of directors of a company with 21 workers or more shall be elected by the workers. The Secretary of State may raise this threshold by order, up to and including one-half.
> (3) Where a company controls another company, workers shall be entitled to be entered onto the register, to vote, and have board representation on a proportionate basis in the controlling company and their own.
> (4) Subsections (1)-(3) shall apply with the necessary modifications to all other forms of enterprise.

In addition, there needs to be democracy in workers' capital. The Pensions Act 2004 requires that at least one-third of pension trustees or directors are union or beneficiary/worker elected. The Secretary of State may raise this threshold to one-half and remove exemptions for multi-employer plans, contract pensions, and the National Employment Savings Trust. This should be done. In addition, pension funds need to have a positive right to determine the shareholder voting policies if investment services are outsourced to asset managers or banks.[183]

4.4 Full employment

Fourth, the UK government has a positive duty to create full employment.[184] Full employment was defined by William Beveridge to be around 1 to 2% unemployment, with full hours and fair wages.[185] But since 1979, the UK's unemployment rate has been 4% or more, with under-employment even worse.[186] This is because the Treasury and Bank of England adopted theories of Friedrich von Hayek and Milton Friedman that there is a 'natural rate of unemployment', so if government pursues full employment 'inflation accelerates' beyond control.[187] The Welfare Reform and Work Act 2016 created a duty on government to report progress to full employment, but this lapsed at the 2017 election.[188] It should be restored as a first step, before welfare is reformed to provide a job guarantee in a frame of auto-enrolled universal social security.[189] Then there is the Bank of England Act 1998 section 11, which prioritises 'price stability' in monetary policy over goals for employment and growth. Even the US Federal Reserve pursues stable prices, maximum employment, and production on an equal foot.[190] A new law could be as follows:

> **11. Objectives**
> In relation to monetary policy, the objectives of the Bank of England shall be —
> (a) to maintain full employment and stable prices (where stable prices include housing and mortgage costs, the reduction of inequality, and the phasing out of fossil fuel use),
> (b) subject to that, to support the economic policy of His Majesty's Government, including its objectives for sustainable growth and human development.

5. Conclusions

While the UK government boasts that the Employment Rights Act 2025 is the 'biggest single upgrade of employment rights in a generation',[191] the economic reality is that its overall impact is marginal. The Act leaves the UK's position mostly unchanged, far behind wealthier democracies. Without a single worker status, fair pay agreements, raised and equalised paid family leave, worker directors, and a duty for full employment, Britain's relative decline will continue. Pay will continue to stagnate or fall, inequality will grow, and the economic power of capital will augment. This raises the risk of an extremist political takeover, and a government that picks up where the Conservatives left off, tearing up the Act's modest gains, abolishing the Equality Act 2010, exiting the European Convention, and destroying British social rights on a scale not yet seen. Authoritarian economic power is projecting its model into a new authoritarian politics, so politics must respond by making the economy democratic.[192]

This is the alternative, to follow the evidence of what real economic growth requires, and take seriously what wealthier democracies do. This entails a shift of vision, from seeing labour rights as a cost to shareholder-monopolised business, to seeing labour

rights as an investment in stakeholder-led enterprise. When we do, the real economy will grow, and as a society we will have grown up.

Notes

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