



## The Costs of a Four-Day Week to the Public Sector

- *Labour have proposed moving to a 32-hour week over the coming decade, with no loss of pay*
- *There is limited evidence that compressing hours raises productivity*
- *We estimate that the cost to the public sector would be £45 billion at existing staffing, salary and productivity levels, falling to £17 billion if we assume generous productivity gains from shorter hours*
- *The four-day week would therefore require significant tax rises or spending cuts - or see productivity gains channeled towards cutting workers' hours rather than improving public sector performance*

### Introduction

At its recent party conference, the Labour Party committed to reducing the average number of hours worked per week to 32 over the coming decade, with no loss of pay.<sup>1</sup> This briefing note seeks to establish what that would mean in terms of additional costs for the public sector (though there would obviously be an impact on the private sector as well).

It is obviously hard to make confident predictions about the state of the labour market in a decade's time. However, it is certainly possible to extrapolate from today's situation to make plausible estimates.

### Do fewer hours pay for themselves?

One of the key arguments in favour of the four-day week is that it will pay for itself as staff work smarter, rather than harder. In other words, reducing hours will increase productivity across the public sector.

However, it is hard to find data that supports the idea of major public sector productivity gains following large-scale reductions in hours. Most of the existing work has focused on the private sector - and even there the picture is mixed, with little evidence of gains in productivity sufficient to justify such a drop in hours.

Labour's own paper on this - a report by Lord Skidelsky for the Progressive Economy Forum, commissioned by John McDonnell - argues that because the public sector has been more backward about introducing automation than the private, there is scope for productivity gains from automating back office functions.<sup>2</sup> But more broadly, while the paper claims that 'falling hours are associated with high measured productivity growth', it does not actually produce any figures - indeed, its argument is explicitly that 'in the past, shorter hours have been justified by increases in productivity' rather than that curtailing hours can cause productivity increases in the first place.

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<sup>1</sup> TUC, 'The four-day week campaign - Labour's pledge brings it closer to reality', [Link](#).

<sup>2</sup> Lord Skidelsky, 'How to achieve shorter working hours', page 9, [Link](#).



In general, most economists assume that as productivity rises, hours worked decline. This appeared to hold true throughout the 20<sup>th</sup> century. But there is much less evidence for the opposite argument – that if you reduce hours, productivity automatically increases.

It is true that in recent years there has been a stabilisation in hours worked, with the average UK worker putting in 38.1 hours in 1992 and 37.3 in 2019, with the average weekly hours total fluctuating around this level throughout this period.<sup>3</sup> This is despite rising incomes in general between 1992 and 2017. Other data, however, suggests that the full-time working week is substantially longer. For example, Lord Skidelsky's paper, *How to Achieve Shorter Working Hours*, referenced Eurostat data showing an average full time working week of 42.5 hours.

In general, if we simply reduce the hours worked by each public sector worker, this will impose a cost as you have to expand the workforce to obtain the same results. The total compensation paid to public sector workers was £183.8 billion in 2017 (the latest year available).<sup>4</sup> If you assume a simple increase in costs due to lower hours and no increase in productivity, meaning more staff must be hired, the costs of bringing in a four-day work would at present be either £45 billion (assuming we go from 42.5 to 32 hours a week on average) or £26 billion (assuming we go from 37.3 hours to 32 hours a week on average).

However, let us assume that through a version of compressed hours, smarter working, and higher motivation, you might make significant productivity gains. This is incredibly optimistic, given the lack of formal evidence for such a sharp rise in productivity due to simply having lower hours. But if we adopt as our central estimate a 6% gain in productivity, worth half the hours lost, this could (on such heroic assumptions), be worth around a £9 billion increase in productivity, which could partly cancel out the cost of lower hours.

Even under this scenario, however, the shift to a 32-hour working week would mean a £17 billion hit to the public sector on today's numbers.

It is also worth noting that, unless the transition to a four-day week was very carefully planned, there would be an additional cost over and above the headline salary estimates in areas such as GP services or other 'bottleneck' areas, where it takes time to hire people or train them to the required level. Having the additional staff ready to enter the workforce at the appropriate time would be an additional cost on top of the long-run figure we've estimated, and might also depress productivity in the short term due to the influx of less experienced staff.

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<sup>3</sup> ONS, 'Average actual weekly hours of work full-time workers (seasonally adjusted)', [Link](#). [Link](#).

<sup>4</sup> ONS, 'GG: Total compensation of employees, paid (D1)', [Link](#).



### **Could this be paid for by wider gains in public sector productivity?**

Labour's other argument in favour of the policy, alluded to above, is that by moving to a four-day week over a decade, the cost to the public sector could be absorbed by higher productivity more widely - i.e. not the effect of moving from five days to four, but from taking advantage of increased efficiencies in the public sector. But this does not actually make sense.

Between 1997 and 2017, public sector productivity grew by an average of just 0.2% a year.<sup>5</sup> That is nowhere near enough to absorb the costs of the four-day week outlined above.

Labour's counter-argument is that their economic programme would act as a drastic stimulus to productivity, above and beyond existing trend growth. This argument is unproven to say the least. It is also worth pointing out that Centre for Policy Studies analysis of the NHS found that productivity growth was inversely correlated to spending increases - in other words, that as more money went in, efficiency tended to fall rather than rise.<sup>6</sup>

Indeed, the Skidelsky paper on which Labour's policy is based explicitly acknowledges that in France, the introduction of a 35-hour working week 'in hospitals caused particular problems because it was done without proportional job creation, and productivity gains cannot easily be made in hospitals'. More widely, Skidelsky notes that many public sector jobs - including in health and social care - are more resistant to automation, meaning that productivity gains in these sectors will be harder to come by than in the wider economy.

But even if Labour manage to combine significant spending increases and higher public sector productivity, it does not make the case for a four-day week. The only way for such a reduction in hours to pay for itself is if the benefits of increased productivity in the public sector are channelled into cutting hours for workers rather than increasing output. In other words, if a nurse or teacher becomes 10% more efficient and productive over that decade, they will be enabled to reduce their hours by 10% while keeping output static. This does not seem like a good deal for the taxpayer, to put it mildly.

Of course, it may be that the public sector under a Labour Government becomes so much more efficient that it can absorb the costs of moving to a four-day week while simultaneously delivering better services for the public, without the need to hire extra staff. But such a scenario is well beyond the scope of this briefing note.

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<sup>5</sup> ONS, 'Public Service Productivity, Total, UK, 2016.' [Link](#).

<sup>6</sup> CPS, 'Why the Health of the NHS Depends on Growth and Reform, May 2018.' [Link](#).



## Conclusion

Predicting the state of the labour market a decade in advance is always going to be difficult. But in the absence of Herculean productivity gains, the cost to the public sector of moving to a four-day week would be £45 billion if attempted immediately, falling to £17 billion if you make extremely generous assumptions about the scale of productivity benefits from compressing workers' hours. Given stagnant public sector productivity growth over decades, it is highly unlikely that this picture will change significantly.

Such costs would, obviously, require either spending cuts or tax rises. As a way of illustrating their scale, the lower figure of £17 billion is roughly equivalent to the combined budget for the Ministry of Justice (£7.5 billion) and Home Office (£11.9 billion), while the higher figure is more than the entire defence budget (£39.5 billion).<sup>7</sup> Alternatively, if you raised taxes to pay for it, it would represent the equivalent of between 4p and 10p on the basic rate of income tax, taking it to 24p or 30p in the £1, since each 1p on income tax raises around £4.5 billion.<sup>8</sup>

In short, implementing this approach would mean delivering either cuts to wider government or a huge increase in taxes - or accepting a lower standard of public services as a quid pro quo for lowering the hours of public sector workers.

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<sup>7</sup> HM Treasury, 'Spending Round 2019', pages 16 – 18, [Link](#).

<sup>8</sup> HMRC, 'Direct effects of illustrative tax changes', page 4, [Link](#).