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# The Opportunity Bargain: The Hard Choices Britain Can't Duck on NEETs

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# Executive Summary

Britain's bargain with young people should be simple: if you can work, learn or train, you should be expected and supported to do so. In return, the country should ensure that a meaningful first opportunity is available.

Today, that bargain is breaking down. Almost 1 million 16- to 24-year-olds are neither earning nor learning – around one in eight of their generation. Six in ten are economically inactive rather than unemployed, and slightly more than that have never had a job. Britain has gone from being around the European average for youth disengagement a decade ago to being one of the continent's worst performers.

The government is right to have made the issue of young people not in education, employment or training (NEET) a political priority. Alan Milburn's landmark review has transformed understanding of the crisis, particularly the need to focus on what young people can do rather than defining them by what they cannot. The Youth Guarantee, Jobs Guarantee, Youth Jobs Grant, apprenticeship reforms and investment in mental-health and employment support provide important foundations for action.

But these interventions do not address two deeper structural problems. First, the welfare system can make inactivity a more secure and straightforward destination than treatment, training or work for young people with conditions compatible with employment. Second, the rising cost and risk of employment – through minimum-wage rises, employer taxes and regulation – can make businesses less willing to take a chance on someone with little experience.

The result is a contradiction. Government is spending more to reconnect young people to opportunity even as aspects of the welfare system risk reinforcing their detachment. It is subsidising firms to hire young people even as wider policy choices make entry-level employment more expensive and risky to provide. Each policy may be well-intentioned, but their combined effect can exacerbate the NEET crisis rather than resolve it.

The next phase of the government's agenda must therefore move beyond programmes that compensate for these pressures and reform the systems creating them. This does not mean abandoning immediate support. Young people already being left behind cannot wait. But short-term interventions should be a bridge to structural reform, not a substitute for it.

Government should act on both sides of the opportunity equation. On the demand side, it must ensure young people are willing and able to take opportunities. On the supply side, it must ensure employers are willing and able to provide them.

On the demand side it should:

- **Reform welfare so that support leads towards participation.** Young people with conditions compatible with work should receive treatment, training and employment support, with resources directed towards helping them participate rather than reinforcing long-term inactivity.
- **Extend the Youth Guarantee to economically inactive young people.** Young people receiving the health element of Universal Credit should be offered help early, before temporary barriers become prolonged detachment.
- **Make preparing young people for work an explicit objective of education.** Alongside academic attainment, schools and colleges should help young people develop the confidence, resilience and practical skills needed at work, provide meaningful workplace experience and give them personalised guidance connecting their interests to credible career pathways.

On the supply side, it should:

- **Pause further convergence of youth and adult minimum wages.** Future increases should depend on evidence that they are consistent with improving youth-employment outcomes.
- **Phase in employer National Insurance contributions through workers' early 20s.** This would replace the sharp increase in employment costs at the age of 21 with a more gradual ladder into the adult labour market.
- **Reduce the cumulative risk and complexity of hiring young people.** Government should review the effect of employment regulation on entry-level recruitment, consolidate employer support and make apprenticeship funding more flexible for introductory training.

There is good reason for optimism. Despite their growing detachment from the labour market, 84 per cent of NEET young people say they want a job, education or training. Britain has also shown before, through the New Deal for Young People launched in 1998, that sustained support, clear expectations and meaningful routes into work can reconnect young people to opportunity. Young people have not given up on opportunity. The task is to rebuild the systems that help them turn ambition into a credible route to work.

This does not mean weakening support for young people or fair treatment at work. It means ensuring that good intentions produce good outcomes – equipping and expecting young people to pursue opportunity, while creating the conditions enabling businesses to provide it.

That is the opportunity bargain Britain needs: meaningful opportunities for every young person, proper support to take them and a clear expectation that those who can participate should do so.

01

# The Opportunity Crisis

Britain is failing to give young people a first chance. An estimated 981,000 young people aged 16 to 24 are now neither earning nor learning[1] – 13 per cent of their generation, or roughly one in eight. At the same time, Britain has gone from being around the European average for youth disengagement a decade ago to being one of the continent's worst performers – by 2025, only Romania had a higher NEET rate.

Our headline NEET rate is not historically unprecedented. It peaked at 16.9 per cent following the financial crisis and was higher still during the early 1990s recession. But those episodes were largely cyclical and driven by general unemployment – rising as the economy contracted and falling as it recovered and demand for labour returned.

Today's crisis looks different. Six in ten NEET young people are economically inactive: they are not simply out of work but are outside the labour market altogether, and more than six in ten have never had a job, compared with 42 per cent 20 years ago. What was once predominantly a problem of young people struggling to find work is increasingly one of young people who do not appear to be looking in the first place.

What makes today's crisis more difficult to understand and solve is that, despite their apparent detachment from the labour market, young people overwhelmingly say they want to participate. A survey commissioned for the Milburn Review found that 84 per cent of NEET young people want to find a job, education or training.[2] This is the paradox at the heart of Britain's opportunity crisis – young people want opportunity, but too many are not pursuing it.

Understanding that paradox requires looking at failures running in both directions. Young people must be able and willing to pursue opportunity, but there must also be enough opportunities for them to pursue. Today, neither side is working as it should. The result is a paralysis in which young people want to work but too often they feel they cannot access a route in.

The paralysis is particularly damaging because it falls hardest on young people with the most to gain from opportunity. Young people from lower working-class backgrounds have a NEET rate of 22 per cent, compared with just 9 per cent among those from higher professional backgrounds.[3] Almost 30 per cent of young people who lived in a household where nobody was earning when they were 14 are themselves NEET.[4] Unless both sides of the equation are addressed, Britain risks allowing disadvantage at the start of life to become detachment from work in adulthood.

But there is hope. Britain has tackled a youth-employment crisis before. The New Deal for Young People introduced from 1998 combined intensive advisor support with a clear expectation that young people would move into work, education, training or another structured form of participation. Evaluations found that, in its first two years, it reduced youth unemployment by between 25,000 and 45,000, and increased youth employment by between 8,000 and 20,000.[5]

The lesson is not that the New Deal can simply be recreated. It was designed primarily for young people claiming unemployment benefits, whereas most NEET young people today are economically inactive and many have no contact with the benefits system. But it demonstrated that sustained political focus, personalised support and reciprocal obligations can reconnect young people to work.

Today's failure is therefore neither inevitable nor beyond the capacity of government to address. Britain has allowed institutions that once actively connected young people to opportunity to weaken, while the incentives facing young people and employers have moved in the wrong direction. Reconnecting young people to opportunity is an urgent but achievable task.

02

# The Opportunity Equation

Doing this requires action on both sides of the opportunity equation: young people must be willing and able to pursue opportunity, while employers must be willing and able to provide it. Today, neither side is working as it should.

## Demand for Opportunity

Demand for opportunity rests on young people's willingness and ability to access opportunities. Weakness on either front manifests in economic inactivity.

The defining shift in the NEET challenge from earlier decades to today is the sheer volume of young people who are outside the labour market. Since the pandemic, NEET numbers have risen by 200,000, with more than three-quarters of that increase accounted for by rising economic inactivity rather than unemployment.[6] Tackling weak demand therefore means confronting what is driving young people out of the labour market.

Three factors shape demand for opportunity:

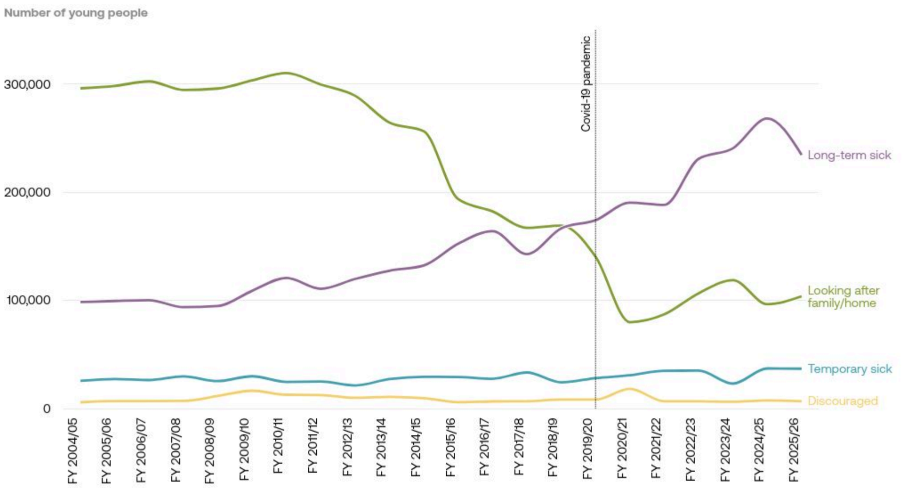
1. Whether young people's health allows them to participate
2. Whether young people have the skills, experience and confidence to enter work
3. Whether young people have the motivation and sense of agency to pursue opportunities and persist when they encounter setbacks

**1. ILL HEALTH**

Drivers of economic inactivity in young people have changed significantly over recent decades.

FIGURE 1

# Long-term sickness is now the primary reason for economic inactivity among young people who are NEET




Source: Annual Population Survey (APS) for economically inactive 16- to 24-year-olds[7]

There has been a striking shift in why young people are outside the labour market. Twenty years ago, looking after family or the home was by far the most common reason for economic inactivity, accounting for around 300,000 young people, while roughly 100,000 were inactive because of long-term sickness. Since then, those trends have almost completely reversed, with the pandemic marking a clear turning point. The number looking after family or home has fallen by around two-thirds, while long-term sickness has more than doubled and is now the dominant reason for inactivity.

The main driver of this rise in ill-health-related inactivity is mental health. One in five NEET young people now reports a mental-health condition, up from fewer than one in 12 in 2012.[8] The growth is concentrated in general mental-health conditions such as anxiety and depression, alongside a sharp rise in neurodevelopmental conditions. Learning difficulties or autism spectrum conditions are now the primary health condition for 12 per cent of all NEET young people.[9]

The problem is not simply that more young people are becoming inactive because of ill health, but that they are staying inactive. Nearly eight in ten young people who became economically inactive because of ill health were still NEET more than two years later.[10] What may begin as a period of poor health can become prolonged detachment from work and education.

Yet there is nothing inevitable about that relationship. Anxiety, depression and neurodevelopmental conditions can be severely limiting, but they also vary substantially in severity and fluctuate over time. Crucially, they do not necessarily prevent participation. Work, though it may feel difficult, can itself be supportive of recovery. A recent meta-analysis found that people moving from unemployment into work had a 34 per cent lower risk of mental-health problems than those who remained unemployed.[11]

Young people themselves seem to understand the benefits of work. But, as the paradox illustrates, wanting to participate is not the same as taking the steps needed to do so. Among NEET young people taking no steps towards their preferred work, education or training opportunity, 28 per cent cite their health as the reason.[12] For some, ill health will make participation extremely difficult. But for others, a health condition need not prevent them from engaging, and work will be protective of their wellbeing.

Young people retain agency over whether they withdraw when participation becomes difficult, or continue to engage with work, education and support. But the system does not clearly create either the right expectations or support. As the interim report of the Milburn Review has identified, when a young person struggling with their mental health encounters public services, the system tends to focus on their diagnosis rather than their potential.[13] Health services offer predominantly clinical treatment, while the benefits system largely provides income support. Neither is sufficiently geared towards helping young people build capability and remain connected to work. The result is a pathway that too often manages inactivity rather than supporting recovery and participation.

Fundamentally, the systems surrounding young people have not caught up with the changing profile of ill health. As we set out in *An Emergency Handbrake for UK Welfare: Stabilising Spending, Supporting People*, the health and welfare system creates routes out of work rather than towards participation for people with mental-health problems.

Faced with a young person struggling with their mental health, the fit-note system too readily defaults to signing them off rather than asking what participation might still be possible. Across the population, 93 per cent of fit notes issued in general practice declare someone "not fit for work", rather than identifying adjustments that could enable them to remain in or return to work.[14] This is problematic across age breakdowns, but such a blunt tool is especially damaging to young people with common mental-health conditions that are treatable and where scarring effects of long-term unemployment are most pronounced.

The fit note can then become a gateway onto out-of-work incapacity benefits. Four in five young people receiving the health element of Universal Credit (UC health) with a recorded condition have a mental-health or neurodevelopmental condition.[15] Yet once assessed as having Limited Capability for Work and Work-Related Activity (LCWRA), job-search requirements and employment support largely fall away. Rather than maintaining a route back towards participation, the system effectively asks little of young people until their circumstances change. The consequences can become deeply entrenched: just one in 100 young people with LCWRA moves into work each month.[16]

While the Personal Independence Payment (PIP) is available whether someone works or not, it offers no support towards employment. By age 24, only one in four young people receiving PIP is in work, and employment among continuous recipients falls with age even as it rises among their peers.[17]

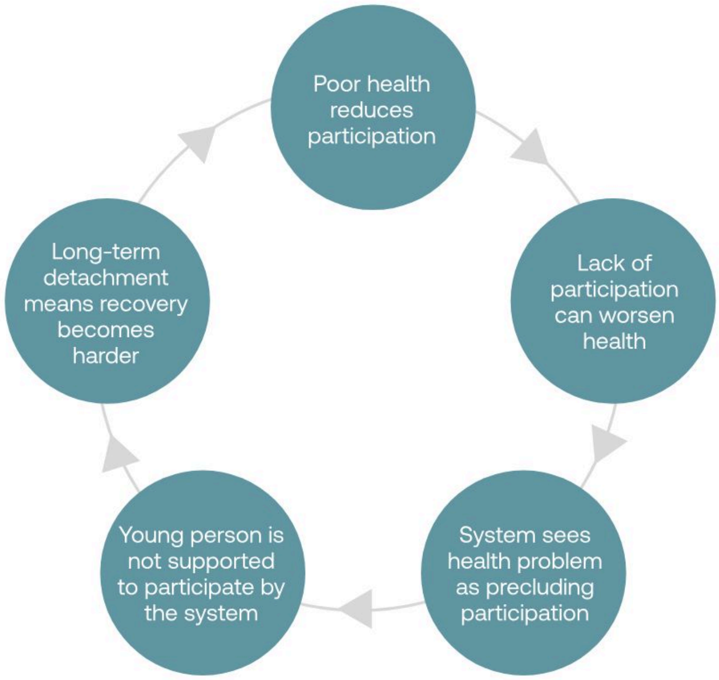
Taken together, the welfare system is much better at paying for inactivity than helping young people escape it. For every £25 the Department for Work & Pensions (DWP) spends on benefits for young people, just £1 is spent on employment support.[18]

This was not inevitable. Other countries experienced similarly sharp rises in depression during the pandemic without seeing the same growth in incapacity-benefit spending: between 2019 and 2023, spending rose by 19 per cent in the UK, compared with 6 per cent in France, while falling in Australia, Canada, Ireland and the United States.[19] What distinguishes Britain is a system that too readily turns mental-health problems into a route onto long-term benefits, rather than supporting young people to remain engaged in work.

Too often, Britain's welfare system asks whether a young person is ill enough to qualify for support, rather than what could be done to help them do more.

FIGURE 2

# The welfare system creates a cycle that encourages young people with mental-health conditions to remain out of work




Source: TBI analysis

## 2. EDUCATION AND TRAINING

Too many young people are also reaching the labour market without the skills, confidence and experience they need to succeed. This starts in school. Two-thirds of NEET young people say the curriculum did not prepare them for work.[20] This is not because working life is entirely absent from education – elements of employability are covered through PSHE (personal, social, health and economic education), careers education and across individual subjects. But often this can feel generic and disconnected from the reality of work and the opportunities available not just now but in the future workforce, limiting both its value and young people's willingness to engage with it.

Work experience is a critical part of the solution and government is right to focus on this. It gives young people the practical experience, confidence and workplace skills that employers value, while helping them demonstrate those capabilities when applying for their first job. Yet only 58 per cent of Key Stage 4 (ages 14 to 16) complete any work experience[21] and who has access is highly unequal. Just over 80 per cent of work placements are arranged by young people or their families, and more than three-quarters of school staff said family connections are the main reason some young people benefit more than others.[22] Geography, disadvantage, travel costs, limited employer capacity and stretched school resources widen the gap further.

Once young people leave school, this experience gap can grow even more. Those who go to university gain access to a more structured bridge into employment, through careers services, internships and established graduate recruitment. Graduates are more than three times as likely as non-graduates to have completed an internship before entering work.[23] For many young people leaving school or college directly, there is no equivalent route to acquiring workplace experience.

By the time young people enter the labour market, these differences have accumulated, and those without workplace experience start from further behind. More than a quarter of employers cite a lack of work experience as a barrier to hiring young people, rising to half of large employers.[24]

### 3. WILLINGNESS AND AGENCY

Behind both the health and work-readiness problems lies something deeper – a growing detachment from the labour market. This is not simply about whether young people want to work – as the paradox at the heart of this paper shows, most do. But wanting a job in the abstract is different from having the motivation, confidence and sense of possibility to pursue one, and persist when doing so is difficult or the incentives to stay out of work are great. That requires young people to see opportunities they value, believe those opportunities are within reach and understand how the steps they take today can lead somewhere better. Understanding the growing detachment from work therefore means asking what is shaping – and too often weakening – that sense of agency.

Part of the explanation lies with young people themselves. Wanting a good job is not the same as being willing to start at the bottom, persist when work is difficult or accept that progress can take time. The *Inside the Mind of a Young NEET* report found a recurring pattern of young people struggling to sustain work or education when it became difficult or unrewarding. Some had cycled through several courses or jobs, leaving because they were bored, disliked a manager or found the work difficult, before spending long periods out of either.[25] There is reason to think this challenge has a distinctly generational dimension. The authors of the report argue that, compared with previous generations, today's young people can retreat into a digital environment that makes prolonged disengagement easier: the bedroom, phone and games provide constant stimulation even as routines and motivation erode. Social media can compound this by presenting success as rapid and effortless, making the ordinary boredom, persistence and setbacks involved in building a career feel like failure or falling behind. This is not an argument that young people are lazy, but that resilience, patience and the habits of work cannot be assumed – they have to be built, practised and expected.

Expectations of work have also changed. Young people are not simply asking whether they can get a job, but whether the jobs available will deliver a life they value. In the Milburn research, 41 per cent of NEET young people ranked interesting or fulfilling work as their top priority. This is potentially compounded by the fact many of the traditional rewards for starting at the bottom look increasingly distant – young people spoke about insecure housing and a fading expectation that working hard would eventually allow them to own a home. In that context, the slow accumulation of skills and experience can look less compelling, while highly visible alternative routes to autonomy and success online can appear more attractive. It is a damning indictment of the current state of play that almost a third of young people now think they will fail in life, rising to 44 per cent among young people who are NEET.[26]

The interim report of the Milburn Review found that young people with clear talents and interests had often gone unnoticed or unsupported. The danger is that young people are encountering an unambitious environment which gradually teaches them to expect less of themselves and of the future. Academic achievement and university remain powerful routes to opportunity for many young people, but they cannot be the only ways in which schools cultivate ambition. Three-quarters of teachers say the curriculum places too much emphasis on passing exams and too little on preparing young people for employment, while 73 per cent believe it could be broadened without sacrificing academic standards.[27] Among NEET young people themselves, 81 per cent say education focuses too much on exams and 55 per cent feel the system does not suit people like them.[28] Education should help young people discover what they are good at, understand where those strengths could lead and develop ambitions.

The workplace itself can make those possibilities real. Young people with the highest levels of employer engagement before the age of 16 were more likely to have clear plans and had 80 per cent lower odds of subsequently becoming NEET.[29] While not necessarily causal, this suggests that early exposure to work can strengthen young people's sense of where they are going and how to get there.

But effort also needs to feel worthwhile. Milburn found young people applying for dozens, sometimes hundreds, of jobs and apprenticeships without success. Nearly one in five NEET young people report applying for jobs every day.[30] Repeated rejection risks weakening the very motivation and persistence young people are being asked to exercise.

Rebuilding demand for opportunity therefore requires both championing agency and opportunity. Young people need to pursue opportunities and persist through setbacks, while schools should broaden young people's ambition and help them see where those efforts could lead. But individual agency can only go so far – employers must be willing to give young people a first chance, and the economy must create enough good opportunities for them to pursue.

## Supply of Opportunity

Britain is not creating enough good opportunities for young people. This is fundamentally an economic problem, rooted in the conditions for businesses to grow, hire and invest in young talent.

This is evident when looking at the numbers. Overall entry-level recruitment among employers surveyed by the Institute of Student Employers fell by 5 per cent last year, and an 8 per cent increase in school- and college-leaver hiring was outweighed by an 8 per cent fall in the larger graduate market.[31] More broadly, 32 per cent of employers say they are less likely to hire an under-25 than an older worker.[32]

Traditional entry-level routes into work are also changing. Hospitality vacancies have halved in four years,[33] and apprenticeship starts among young people have fallen by 40 per cent over the past decade.[34] Jobs that once offered relatively straightforward entry now demand more: customer service involves more complex digital interactions and retail has reorganised around fewer staff doing more. Artificial intelligence now risks accelerating a longer-term hollowing out of entry-level work.

The consequences of weaker hiring today can persist long into the future. Young people become progressively harder to reconnect the longer they remain detached from work. Sixty-five per cent of those who have been NEET for less than a year return to participation the following year, compared with just 25 per cent of those who have been NEET for longer.[35]

The problem is clear, but the question is why employers are creating too few opportunities for young people. Three barriers stand out:

1. The cost of employing someone inexperienced
2. The risk involved in taking a chance on someone without a track record

3. Whether employers and young people are able to find each other in the first place

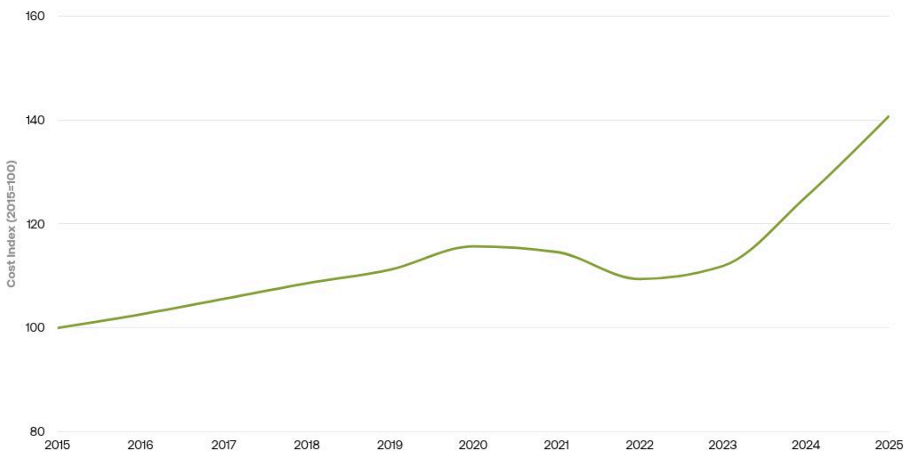
### 1. THE COST OF EMPLOYMENT

The cost of employing young people has risen sharply over recent years. This is primarily driven by minimum-wage increases, which have progressively narrowed the gap between youth and adult wage floors.

TBI analysis shows that the real statutory cost of employing an 18-year-old is around 40 per cent higher in 2025 than it was in 2015, with much of that increase concentrated in recent years even though economic growth has stagnated.

FIGURE 3

## The real statutory cost of employing an 18-year-old has risen significantly in recent years




Source: TBI analysis

Note: Cost is the statutory minimum wage for an 18-year-old, because the under-21 employer National Insurance contribution is 0 per cent below the Upper Secondary Threshold and automatic enrolment to pension does not apply before the age of 22. Consumer Prices Index annual average (2015=100) deflates nominal hourly cost.

FIGURE 4

# The youth minimum wage has risen even as economic growth has stagnated


Source: TBI analysis of GOV.UK and Office for National Statistics data

Note: Minimum wage shows the statutory rate for an 18-year-old, adjusted for inflation using the Consumer Prices Index (CPI). GDP per capita is real UK GDP per head in chained-volume measures. Both series are indexed to 2015 = 100.

This increase has come as employers face wider pressure on employment costs. The British Chambers of Commerce's 2026 modelling finds that domestic-policy-driven costs faced by a typical small or medium-sized enterprise (SME) have risen by more than 70 per cent since 2016.[36] Following the 2024 Budget, 32 per cent of employers expecting higher employment costs planned to reduce headcount through redundancies or recruiting fewer workers.[37] This is happening against an already weak hiring backdrop. Only 23 per cent of firms expect to increase their workforce over the coming months, while 11 per cent expect to cut it.[38] These pressures are particularly significant in sectors such as hospitality and retail, which traditionally provide large numbers of first jobs.

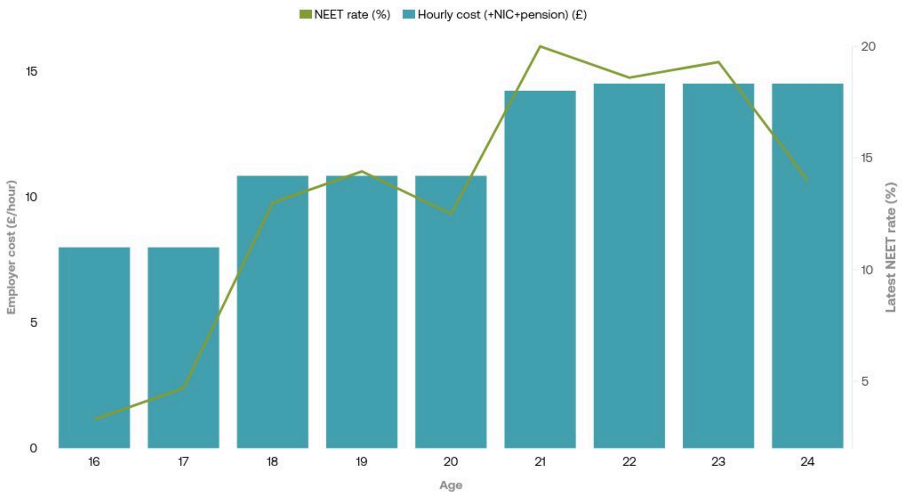
It cannot explicitly be established that higher costs have driven the NEET rate. The rise in the cost of hiring young people has not moved consistently with a higher NEET rate. And, as pointed out by Milburn, youth inactivity was already rising before the most recent increase in employer NICs, while workers under 21 are exempt from employer NICs.

But that exemption does not insulate youth hiring from higher costs across the rest of a business: an employer facing a larger overall wage and NIC bill has less headroom to recruit. The relevant question is therefore not whether employment costs caused the crisis, but whether they make it harder to solve. As the cost of hiring rises, employers have less reason to take a chance on someone with little experience or track record.

This challenge becomes particularly acute at the age of 21, when the NIC exemption ends and the minimum wage jumps. Under the rates in force since 2026, the statutory wage floor jumps from £10.85 at the age of 20 to £12.71 at 21 – an increase of 17 per cent. For a minimum-wage employee working 37.5 hours a week, the combined effect of the wage rise and the end of the NIC exemption raises the direct statutory cost to an employer by around 31 per cent between ages 20 and 21. At the same time, the NEET rate is 12.5 per cent at age 20 and climbs to around 20 per cent at 21.

FIGURE 5

# NEET risk jumps as compulsory participation ends at 18 and peaks as employment protections fall away at 21




Notes: Single-year NEET rates are not published within a single unified source. Figures for ages 16 to 17 and age 18 are derived from the Department for Education's 2025 England academic-age records; rates for ages 19 to 20 and 22 to 23 utilise the DWP's "Hidden NEET" cross-reference study tracking economic inactivity alongside Universal Credit claims;[39] and rates for age 21 and age 24 are sourced from localised regional analysis within the Milburn report for England.
Employer costs assume a minimum-wage employee working 37.5 paid hours a week for 52 weeks. Under-21 employees attract a zero employer-NIC rate below the Upper Secondary Threshold. From age 21 standard employer NIC applies; from age 22 the calculation also includes the statutory minimum employer pension contribution for an eligible automatically enrolled worker. Figures show the standard statutory cost before Employment Allowance.

Again, the relationship should not be overstated. The under-21 NIC relief has existed since 2015, and inactivity was already rising before the latest changes. But it does expose an important tension in the system: at 18, the institutional protection keeping young people connected falls away and at 21, the cost protection encouraging employers to hire them falls away too. Neither cliff is inevitable; they are the product of policy choices.

### 2. THE RISK OF EMPLOYMENT

Cost is only part of the calculation. An employer taking on someone with little or no employment history also has less information about how they will perform and may need to invest more time in training and supervision before that person becomes fully productive. The challenge is particularly acute for smaller businesses, which have less capacity to absorb the cost of training or an unsuccessful hire.

Some of this risk is inherent in giving someone their first job. But employment-rights reforms have increased the perceived risk associated with hiring. The reforms add around £1 billion in annual direct business costs once fully implemented, but concerns raised by employers are broader than this.[40] Reforms affecting probation, zero-hours contracts and statutory sick pay can also change the perceived consequences of making the wrong hire. A 2026 CIPD survey of more than 2,000 employers found that 37 per cent planned to reduce recruitment of permanent staff because of at least one of the Employment Rights Act's key reforms.[41]

The change to unfair-dismissal protection is particularly relevant to employers taking a chance on inexperienced workers. From January 2027, the qualifying period for ordinary unfair-dismissal protection will fall from two years to six months.[42] Employers will therefore have a much shorter period in which to assess whether a new recruit is suitable before those protections apply.

Apprenticeships can help manage some of this risk by combining employment with structured training and external support. Yet this route has weakened substantially: under-19 apprenticeship starts in England fell from around 130,000 in 2014/15 to around 75,000 in 2024/25. Over the same period, the share of starts going to under-25s fell from more than 57 per cent to just 49 per cent.[43]

### 3. MATCHING EMPLOYERS WITH YOUNG PEOPLE

Even when an employer is willing to create an opportunity and a young person is ready to take it up, the two still need to find one another.

For many employers, particularly smaller businesses without dedicated HR teams, there is a challenge in identifying suitable young people for opportunities. The latest DWP employer research finds that four in ten employers have no engagement with any education or employment-support provider, while more than a third say they have not been approached by one at all. Engagement also varies sharply by size: 92 per cent of large employers engage with providers, compared with 51 per cent of micro businesses. Among employers engaging with education or employment-support providers, 41 per cent cite the staff time required to manage the relationship as a challenge.[44]

Apprenticeships illustrate the same problem. The government has already piloted dedicated brokerage for SMEs after identifying that smaller employers often do not know where to begin, struggle to navigate the apprenticeship system, and lack the information and support needed to take someone on. The evaluation found that micro-businesses without dedicated HR capacity struggled with administration, finding the right training provider and identifying suitable candidates.

CASE STUDY

## The Netherlands shows what happens when the first rung works

The Netherlands has historically maintained a much steeper youth wage ladder than Britain. Since July 2026, the statutory minimum has been €7.50 at 18, compared with €14.99 for workers aged 21 and over. Even after Dutch holiday pay and employer social contributions are included, our analysis suggests that an 18-year-old has a wage floor equal to 50 per cent of the adult rate, compared with 76 per cent in Britain (£10.85 against £12.71 + £1.52 NIC).

This sits alongside exceptionally strong youth participation. The Netherlands has one of the lowest NEET rates in Europe – around 4 per cent, compared with around 13 per cent in the UK. That does not establish that lower youth wages cause lower NEET rates, but it shows that a large entry-cost differential can coexist with strong worker protections and very high youth employment.

There is also evidence that these cost differences matter to employers. A study of Dutch administrative data explores the wage increases triggered by birthdays and finds that job separations rise when affected workers become more expensive, with corresponding changes in hiring.[45] Employers do respond to age-related labour costs at the margin.

But the Dutch evidence also shows why this is not simply a cost story.[46] Employers frequently pay above the legal youth minimum: government analysis suggests that average earnings for 15- to 18-year-olds are around 35 to 37 per cent above their applicable floor, implying that an average

18-year-old earns closer to 68 per cent of the adult minimum than the statutory 50 per cent. And when youth minimum wages were increased in 2017 and 2019, employment and hours changed little in the short run.[47] The government is now narrowing the gap further: from 2027, the rate for 18-year-olds will rise from 50 to 62.5 per cent of the adult minimum.

There is also a wider lesson from the Dutch system. Lower entry costs sit alongside high education participation, widespread part-time work and vocational routes that combine employment with learning. This creates a system where 68 per cent of 15- to 19-year-olds are already in paid work, more than nine in ten of those who work do so part-time, while around 83 per cent of 15- to 21-year-olds remain in formal education.[48] The wage differential helps create the first foothold; the wider system helps turn that foothold into sustained participation.

The Netherlands has built a labour market in which gaining work experience while young is normal. Young people reach adulthood with more of a track record, reducing the risk employers face in taking them on, while education and employment operate alongside one another rather than as separate stages.

03

# Solving the Equation: Our Recommendations

The government has rightly made tackling the NEET crisis a political priority and has announced a substantial package of interventions. The Youth Guarantee, Jobs Guarantee, Youth Jobs Grant and apprenticeship reforms are intended to create routes back into work, alongside new investment in mental-health and employment support.

These interventions can help young people today, but they cannot solve a crisis that is fundamentally structural. Too often, policy is compensating for underlying systems and incentives that continue to work in the wrong direction. On demand, government is adding programmes to support young people once they become detached without fundamentally reforming the health, welfare and education systems that contribute to that detachment. On supply, government is paying firms to create individual jobs while making it costlier and riskier to employ them.

Young people already being left behind cannot wait for structural reform to deliver, so the immediate actions the government is implementing remain necessary. But short-term interventions should be a bridge to reform, not a substitute for it. Alongside action now, government must tackle the conditions producing the crisis in the first place.

That means restoring the opportunity bargain. Government should ensure that young people have a credible route into work, education or training and the support to overcome genuine barriers. In return, young people who are able to participate should be required to work, learn or train. Opportunity must come with responsibility.

## Rebuilding Demand for Opportunity

Discourse on the NEET crisis has understandably focused on rising ill health and inactivity, as it raises difficult questions about vulnerability and support. But in focusing on what young people cannot do, the system risks losing sight of what they can do. Young people should not be treated simply as recipients of support, but as capable individuals with agency over their futures.

For those who can participate, work should be the destination. Government should provide the support needed to overcome genuine barriers, while expecting young people to remain active participants in their recovery and take steps towards work, education or training. Rebuilding demand for opportunity therefore requires welfare that keeps young people connected to opportunity, education that prepares them to take it and earlier action to build their ambition.

### REFORM WELFARE TO KEEP YOUNG PEOPLE CONNECTED

A period of poor health should not lead unnecessarily to long-term inactivity. The welfare system should protect people when they cannot work and help them regain independence when they can.

**Recommendation:** *Pull the Emergency Handbrake.*

As we have argued in *An Emergency Handbrake for UK Welfare: Stabilising Spending, Supporting People*, illness does not automatically mean incapacity. For many common conditions, appropriate work is compatible with recovery and can itself support better health. Welfare should therefore start from what a young person can do, provide treatment and support to keep them participating wherever possible, and create a rapid route back when poor health interrupts employment.

The system should protect those with severe and enduring conditions. But where a condition is treatable and compatible with work, the system's purpose should be to build capability and independence: treat what can be treated, manage what can be managed and keep young people moving towards work.

Full system reform is needed, but in the short term TBI has previously proposed an Emergency Handbrake. At its heart is a simple principle: having a health condition should not automatically mean being treated as unable to participate. Government should identify conditions that are typically compatible with work and introduce a rebuttable presumption that these conditions alone do not justify long-term incapacity or additional cash support. Those with severe or atypical presentations would remain protected where supported by clinical evidence.

For young people with non-work-limiting conditions, the alternative should be active support. Instead of additional PIP cash support, they should receive treatment targeted at the underlying health need. Instead of additional incapacity support through UC health, resources should be redirected towards the treatment, training and employment support needed to move towards work.

In the short term, the Youth Guarantee provides an obvious vehicle for this alternative. Its main employment offers are geared towards young people already looking for work, risking the exclusion of those on UC health who are economically inactive and face no job-search requirement. The guarantee should be extended and adapted for this group, with young people whose conditions do not prevent work prioritised for early treatment, training, work experience and employment support. This would make it a genuine early-intervention alternative to inactivity, supporting young people before a temporary period out of work hardens into long-term detachment from the labour market.

**Recommendation:** *In the longer term, young people need a new welfare settlement designed for the beginning of working life.*

Rather than assessing incapacity and replacing income, the system should identify what is preventing a young person from participating and progressively build their capability to overcome it. This should be organised around a pathway of treatment, training and work experience:

- **Treatment:** Where health is the immediate barrier, the first priority should be to address it. Identifying a treatable condition should trigger access to treatment, with welfare and health services working together to support recovery.

- **Training:** Once treatment has begun to restore a young person's ability to participate, the system should assess what they need to become ready for work – whether qualifications, technical skills, basic skills or work-readiness skills – and begin building those capabilities. Treatment should continue alongside training where needed.
- **Work experience:** As those capabilities develop, the next step should be meaningful exposure to work, matched to the young person's skills and employment goals. Training and treatment can continue alongside it, but workplace experience should provide the bridge into sustained employment.

These stages should overlap as young people progress, rather than operating as separate and sequential programmes.

Success here ultimately depends on knowing who is falling through the gaps. Of the nearly 1 million young people currently NEET, 44 per cent have no contact with the benefits system at all. The Hague offers a model: the municipality links data to track which young people have dropped out of education or work, then follows up with targeted intervention – part of the approach Peter Hyman has termed "one place, one person, one plan".[49]

The UK should develop an equivalent capability using linked records to identify young people who have disengaged and coordinate targeted support across education, welfare, health and employment services. This will require shared infrastructure for linking records across services, of the kind a national digital-identity system was designed to provide. A separate but related route to that infrastructure would be reform of the Digital Economy Act, which TBI proposed previously to enable data linkage through the National Data Library.

#### PREPARE YOUNG PEOPLE FOR OPPORTUNITY

Young people need to leave education with the skills, confidence and experience to succeed at work. But as the interim Milburn report found, an education system geared heavily towards academic attainment has not consistently delivered this. Employers themselves point less to deficiencies in technical knowledge than to work-readiness: recent research found that soft skills and work-readiness – such as communication, confidence, reliability, resilience and teamwork – were the most commonly cited challenge when employing young people, alongside a lack of experience and resilience.[50]

**Recommendation:** *Make readiness for work an explicit objective of education, alongside academic attainment.*

The government's new technical offer from age 14 should give young people earlier access to technical education, work experience and employers, with clearer routes into skilled local jobs. But better preparation cannot depend simply on choosing a vocational subject – it is not right to assume that choosing a vocational subject will itself make a young person work-ready. Work-readiness should be developed across academic and technical pathways through meaningful workplace experience and sustained opportunities to build the capabilities employers value. These capabilities are likely to become more important as AI changes the technical content of jobs.

This requires stronger intermediaries between schools and employers: Careers Hubs and Local Skills Improvement Plans should help schools understand the opportunities in their local economy and make it easier for employers to provide meaningful exposure to work.

Further education also needs to become much more responsive to changes in the labour market. At present, developing a new qualification, alongside the teaching materials and assessment needed to deliver it, can be a slow and laborious process. That creates a particular problem in fast-moving sectors, where the skills employers need can change more quickly than the qualifications system can respond. Government should rapidly prototype the use of AI to design, develop and test new qualifications and accompanying teaching and assessment materials, significantly shortening the time between an emerging skills need being identified and training becoming available. Technical Excellence Colleges would be a natural place to test this approach, working with employers in priority sectors to ensure that technical education keeps pace with the jobs being created in the economy.

### BUILD YOUNG PEOPLE'S AMBITION

Being able to take up an opportunity does not mean a young person will pursue it. Much more should be done to give young people a sense of what is possible, connect their interests to real careers and give them a credible route to get there. That needs to start long before someone becomes NEET.

**Recommendation:** *Start building ambition earlier.*

Primary school is where children begin forming ideas about what the world looks like and where they might fit within it. Schools should help them see the possibilities available in working life by connecting existing curriculum content to real occupations – for example, using lessons about electricity to introduce engineering or rivers to explore conservation and flood management.

This should be supported by a compact between business and schools. Rather than requiring every primary school to organise workplace visits, employers should bring the world of work into schools through talks, demonstrations and age-appropriate projects. Mayors and Careers Hubs should coordinate participation through a single route, with major employers receiving public grants or contracts expected to contribute. At secondary school, that broad exposure should develop into practical guidance and meaningful workplace experience.

**Recommendation:** *Give every young person a personal AI agent.*

Many young people do not know which careers could provide the sense of purpose they seek, or how an imperfect first job could build towards one that does. Without a destination in sight, starting at the bottom and persisting through the early stages of working life can feel less worthwhile.

Government should therefore give every young person access to a personal AI careers agent. It should start with what matters to them – their interests, strengths and ambitions – and expand these into careers they may never have considered, before working backwards to show the qualifications, skills and experience needed to get there. It should also identify relevant courses, apprenticeships, work experience and vacancies, prompt young people when opportunities arise and help them prepare applications and interviews. Tools such as Career Dreamer demonstrate the potential of this approach.[51]

The aim is not simply better careers advice, but greater agency. Human advisers would remain essential for those with complex barriers, but an AI agent could provide continuous, personalised support at a scale the current system cannot. Government should use an open competition to stimulate a domestic market for these tools, under clear standards for accuracy, safety and data protection.

## Creating the Supply of Opportunity

Increasing the supply of opportunity means making it easier and more attractive for employers to give young people their first chance.

As TBI has set out, the biggest determinant of opportunity is ultimately the strength and dynamism of the economy. A growing economy creates more vacancies, more new firms and greater scope for employers to take risks on inexperienced workers. If the government is serious about addressing the NEETs crisis, economic dynamism must be the number one priority.

Government has also misunderstood its role in creating opportunity. Faced with too few jobs for young people, its instinct has been to spend more public money creating, guaranteeing or subsidising individual opportunities. But jobs are ultimately created in the private sector, by employers with the confidence, capacity and incentive to hire. Government's primary task should be to create those conditions.

Instead, policy is working against that objective: government's wider decisions have made employing people more expensive and, in some cases, riskier.

The result is a perverse cycle: government raises the cost of employment, businesses have less room to hire and government then spends more to compensate for the opportunities that are no longer being created. Wage subsidies illustrate the limits of the approach. In recent DWP research, only 17 per cent of employers said a wage subsidy would cause them to hire more young people than they otherwise would, while almost half said it would make no difference.[52]

Government cannot subsidise its way to a dynamic youth labour market. Its objective should be to give businesses the room and incentives to create opportunities themselves. That means reducing both the cost and risk of giving someone their first chance, making it easier for employers and young people to find one another, and using the state's own role as an employer and purchaser to open up routes to work.

### REDUCE THE COST OF PROVIDING OPPORTUNITY

The government is committed to eliminating the 18-to-20 minimum-wage rate and ultimately extending the adult National Living Wage to all workers aged 18 and over. The Low Pay Commission's (LPC) current remit gives it full flexibility over the pace and timing of that alignment and asks it to prioritise younger workers' employment prospects. The LPC has already used that flexibility. It rejected moving 20-year-olds onto the adult rate in 2026 because doing so would have required an increase of more than 25 per cent in their wage floor, which it judged too risky given conditions in the youth labour market. Its current indicative pathway would instead move 20-year-olds onto the adult rate in 2027, followed by 18- and 19-year-olds in 2028 or 2029.

Britain has already gone further than some countries with the strongest youth-employment outcomes. The minimum wage for an 18-year-old is now 85 per cent of the adult rate in Britain, compared with 50 per cent in the Netherlands.[53]

**Recommendation:** *Pause further convergence of the youth minimum wage and make future increases conditional on youth-employment outcomes.*

In the short term, government should pause further convergence pending publication of the final Milburn Review. Given the current circumstances, government should not further narrow the remaining cost differential until the evidence on the youth labour market and the economics of hiring young people has been fully assessed.

In the longer term, government should rewrite the remit of the LPC so that future convergence is explicitly conditional on youth-employment outcomes. Currently, government determines the destination – eventual alignment – while giving the LPC flexibility over the pace. Instead, the LPC should be required to assess whether further convergence is consistent with improving youth employment and reducing NEET rates, alongside its existing consideration of pay and wider conditions.

Alongside its annual recommendations, the LPC should publish a "Cost of the First Job" assessment. This should show the cumulative statutory cost to an employer of hiring a young person at each age – including the minimum wage, employer National Insurance and pension contributions – and assess how proposed changes are likely to affect entry-level hiring.

**Recommendation:** *Phase in employer NICs for young workers rather than imposing the full rate at 21.*

The government faced difficult choices at the 2024 Budget, and given its manifesto commitments, it chose to raise revenue partly through employer National Insurance contributions. But that decision has increased the cost of employment at a time when many businesses are already cautious about hiring.

Government should reform employer NICs so that the full adult rate no longer applies immediately when a young person turns 21. The existing exemption for under-21s should be retained, with employer NICs then phased in gradually through a worker's early 20s until the full rate applies.

At the moment, the employer-NIC exemption ends just as the worker moves onto the higher adult minimum wage, creating a sharp increase in employment costs. There is little rationale for such an abrupt change. A

21-year-old does not suddenly become substantially more experienced or productive on their birthday. Yet the tax system makes them considerably more expensive to employ overnight. For young people who have struggled to establish themselves in work, the cliff edge comes at precisely the wrong point.

Cutting employer NICs for under-25s, as suggested by others, would only relocate the cliff edge.[54] Instead, the government should smooth the transition. For example, employers could continue to pay no NICs for under-21s, face a reduced rate for workers aged 21 to 22 and a higher reduced rate for those aged 23 to 24, before the full adult rate is applied from 25. The precise rates should be set following Treasury modelling to balance the effect on hiring against the fiscal cost.

Resolution Foundation argues that broad NIC reductions offer poor value for money, because much of the tax cut would go to employers for young people they would have employed anyway. It estimates that raising the employer NI threshold back to its 2024 level for under-25s would create just over 7,000 additional jobs per year at a gross fiscal cost equivalent to £137,000 per additional job.[55] The high cost reflects the fact that employers would receive the tax cut for millions of existing jobs, as well as for any additional jobs it helped create.

That is an important objection. But judging the value of the policy primarily by its fiscal cost per additional job misses some of its wider effects.

Employers do not plan their workforces as a series of isolated calculations about the cost of each individual hire. Businesses decide whether to expand, freeze recruitment or reduce headcount based on their overall costs, confidence and expectations about the future.

This matters because the objective is broader than generating a discrete number of new jobs. Britain needs employers to keep creating and sustaining opportunities for young people to enter the labour market. Some of the benefit of lower NICs will inevitably go to employment that would have existed anyway. But the cost-per-job calculation may not capture every way in which lower employment costs affect the number and type of opportunities employers provide.

### REDUCE THE RISK OF PROVIDING OPPORTUNITY

For an employer, particularly a small business, taking on someone with little or no employment history carries risk. Recent employment reforms have strengthened protections for workers, but government also needs to understand their effect on businesses deciding whether to create entry-level jobs.

**Recommendation:** *Rapidly review the burden of risk and complexity when hiring young workers, and aim to streamline and reduce requirements where feasible.*

Government should commission an early assessment of how the Employment Rights Act is affecting recruitment of under-25s, focusing particularly on sectors that traditionally provide large numbers of first jobs. Where implementation is creating disproportionate barriers, government should be prepared to adjust its approach.

This should be combined with a broader assessment of the regulatory frameworks around hiring new workers. Government currently makes decisions on wages, employer taxes and employment regulation through different parts of the state. Each decision can be justified individually, but their cumulative effect can mean employers are less likely to take on someone inexperienced.

To address this, the government should rapidly review the cumulative burden on business, and amend the regulations accordingly. Future changes that materially affect the cost and risk of employing people should also be subject to an explicit assessment of their likely effect on youth employment. The test should look particularly at entry-level roles and at sectors that employ large numbers of people.

**Recommendation:** *Government should consolidate the existing support available for firms into a single, clearly branded offer with one visible point of access.*

Much of the risk and complexity of employing a young person comes from employers not knowing what support is available. An employer taking on a young person can currently draw on the Youth Jobs Grant, Foundation Apprenticeship incentives, apprenticeship hiring payments, training-cost support, under-21 employer NIC relief and the Employment Allowance. Some of these can be combined and some cannot, and few employers understand how they fit together. Support like this is not doing its job if employers do not know it exists or how to harness it.

**Recommendation:** *Make the apprenticeship and training system more flexible to support entry-level roles.*

The reduction in apprenticeships for under-19s and under-25s over recent years has been partially caused by changes to the system. The shift from frameworks to standards removed some common Level 2 apprenticeships, programmes became longer and more demanding, and off-the-job training requirements tightened. The introduction of the Apprenticeship Levy in 2017 – now being replaced by the Growth and Skills Levy – also coincided with a sharp decline in apprenticeship starts among SMEs. This has created a system increasingly weighted towards higher-level training and older workers than young people.

The government has recognised this problem. Its latest reforms include fully funded apprenticeship training for eligible under-25s, additional support of up to £8,000 for SMEs taking on young apprentices, Foundation Apprenticeships – shorter, entry-level programmes designed to give young people a route into work and further training – and a target of 50,000 additional youth apprenticeships.

The government could go further. In the short term, employers need more flexibility to use Growth and Skills Levy funding for pre-apprenticeship, modular and non-apprenticeship training aimed at less experienced candidates. This would help shift funding away from higher-level apprenticeships for existing, older employees, towards opportunities for young people early in their careers.

In the longer term, the goal should be a more tightly connected system built around Foundation Apprenticeships, in which employers' evolving skills needs feed directly back into what colleges, training providers and universities teach. This is closer to the German, Swiss and Austrian models of shared employer and training-provider governance than to the UK's current arm's-length relationship between the two. As others have proposed, this should be accompanied by greater local control, giving regional leaders and employers more influence over apprenticeship funding and provision.[56] This would fit naturally with the government's wider devolution agenda, while allowing training to respond more closely to the needs of local economies.

04

# Conclusion

The NEET crisis is a serious challenge, but it is not insurmountable. Many NEET young people want to work, learn or train, and businesses have much to gain from bringing a new generation into the workforce.

Turning this around means fixing both sides of the opportunity equation. Government needs to help young people build the health, skills and confidence to pursue opportunity, while creating an economy in which businesses have the confidence and incentives to provide it. That means tackling the reasons young people become detached and businesses create too few opportunities in the first place.

The prize is significant. A generation of young people would have a better chance to contribute and progress, while Britain would benefit from their talent, ambition and potential.

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