EMERGENCY EXIT: HOW WE GET BRITAIN BACK TO WORK

Stephen Evans and Joe Dromey
June 2020

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Executive summary

The sharpest ever rises are taking unemployment to historic highs. The impact is uneven with young people and the least prosperous areas hardest hit. We need to act now to prevent long-term damage to our economy and society.

The sharpest ever rises in unemployment have wiped out years of job growth

Around five million people worked in ‘lockdown’ sectors, though many more businesses shut up shop temporarily, and 11 million key workers in health, social care, retail and logistics. In the early stages of the pandemic, Universal Credit claims spiked to seven times their pre-crisis levels and more than eight million employees were furloughed.

As a result, one in three working-age adults is either unemployed, furloughed or receiving income support for the self-employed. Five years of employment growth was wiped out in one month. We saw the sharpest rises in unemployment on records dating back a century.

We risk a second spike in unemployment as emergency support is withdrawn, with some social distancing likely to remain in place and consumer demand uncertain. There is also the risk of a resurgence in the virus and adjustment to new trading relationships with the EU. This suggests the need for action to prevent the economic fallout having long-term, damaging effects on people and businesses.

Unemployment could rise to its highest since 1938 and take years to recover

Our analysis suggests unemployment could rise above 10% in the second half of 2020, perhaps reaching levels last seen in 1938, following the Great Depression. This would mean in excess of four million people out-of-work.

Even if the economic recovery is rapid, experience suggests that employment could take five years to recover. Employment took three years to recover from the 2008 financial crisis and over five and seven years respectively after the recessions of the 80s and 90s.

As a result, long-term unemployment (the number of people out of work for more than a year) may more than double to 650,000 by spring 2021. By late 2021, it may have trebled to one million, exceeding the 900,000 seen in the last recession.

A speedier recovery, or action to link people to the jobs still available even in recessions, could limit this rise. A second wave of the virus, or challenges adjusting to a new trading relationship with the EU from January 2021, could add to the employment challenge.

Young people and poorer areas face larger rises in unemployment

Young people face a higher risk of unemployment during recessions. During the last recession, youth unemployment reached four times the level of unemployment for those aged 25 and over, and the aftereffects of that crisis meant they were already earning less at this stage than previous generations.

Now, along with 600,000 young people due to enter the labour market after full-time education, they face a double whammy of disrupted education and weaker labour market. Based on previous recessions, **the number of 18-24 year olds not in education, employment or training could treble to one million in the next year**. Without action, we risk a 'pandemic generation' with long lasting damage to their pay and job prospects.

In addition, the crisis is having different impacts across the country. At the start of the crisis, unemployment rose most rapidly where it was already highest. In other places, employment is higher in sectors where furloughing is most prevalent, potentially putting them at rise of a second spike in unemployment. London had both the highest proportion of people working in lockdown sectors and those most able to work from home.

Taken together, the crisis risks increasing existing inequalities between groups and areas. This 'splitting apart' puts the government's plans for 'levelling up'.

We need an ambitious plan for jobs

We need an ambitious plan for jobs, building on the proposals that Learning and Work Institute set out jointly with eight other organisations in our Help Wanted report. We estimate we need more than £5 billion new investment in a plan jointly owned by central and local government, employers, unions and civic society.

1. Investment and incentives to create jobs

We should create ring-fenced jobs for young people and those out-of-work through 'shovel ready, job rich' public investment, and introduce incentives to create jobs and ensure they are filled by those hardest hit by the crisis.

The Government is likely to accelerate and increase its plans for public investment including in broadband and infrastructure. These are welcome, but unlikely to create substantial numbers of jobs in the short-term. The Government should identify 'shovel ready, job rich' schemes and require the creation of apprenticeships, particularly for young people, and jobs ring-fenced for those who are out-of-work in their delivery.

The impact of cuts to employer taxes such as National Insurance is likely to be limited: the demand for a company's services or products is the main determinant of their demand for labour. Instead, the Government should focus on demand-side measures that will create jobs, such as car and boiler scrappage schemes. It should require firms taking part in these schemes to engage with employment services and consider time-limited hiring incentives for employers taking on people who are long-term unemployed. This is not, however, a substitute for high quality employment services.

2. A Youth Guarantee to improve young people's opportunities

We should introduce a Youth Guarantee to ensure young people can access either a job, an apprenticeship, or an education or training opportunity.

First, we should support more young people to stay in education and study to level 3. That means a £900 million investment in extra education places, a new Youth Training Allowance for 18-19 year olds, and support through Universal Credit for other young people studying up to level 3.

Second, we should support out-of-work young people to find work. That requires high quality employment support, backed by a job creation fund granting employers £8,500 to create additional six month jobs paid at minimum wage.

Third, we should increase apprenticeships for young people. For the next year, we should allow levy funds to pay up to half of the wage costs of 16-24 year old apprentices and introduce a £4,000 apprenticeship grant for SMEs who recruit apprentices aged 16-24.

3. Help people find work.

We should invest in employment support, including furloughed workers, increasing support the longer someone is out of work and underpinned by a Job Guarantee.

Given the scale of unemployment already seen, and the likelihood of further increase, we need to rapidly scale up employment support. We should do this by:

- **Investing up to £800 million in redundancy, retraining and reemployment support.** Building on the proven rapid response to redundancy approach for those losing their jobs, including support from the recruitment industry, and recruiting at least 10,000 extra Jobcentre Plus Work Coaches; and
- **Investing up to £2.4 billion in high quality support for those out of work longer.** We should link furloughed workers at risk of losing their jobs to other vacancies, including apprenticeships, and provide financial support to retrain.

This should be underpinned by a Jobs Guarantee for those who do not find and sustain work, building on previous intermediate labour market schemes and the Future Jobs Fund. This could cost up to £1 billion, depending on how it is designed and targeted.

Delivering a plan for jobs

The scale of the economic challenge demands a level of ambition in our response. High quality employment and skills support will pay for itself by helping people back to work, improving their skills and building our future economy.

We need a plan for jobs that guarantees opportunity and delivers prosperity.

Introduction

Coronavirus is first and foremost a public health emergency, but it is also a developing economic crisis.

The Government acted with speed and at unprecedented scale to protect businesses, jobs and incomes during the crisis, and to minimise the long-term economic damage.

Nonetheless, the pandemic is clearly having a seismic impact on the labour market. The lockdown introduced in late March was necessary to slow the spread of the virus, but it has had a significant impact on the economy, leading to a sharp increase in unemployment. There were 2.5 million applications for Universal Credit during March and April alone, and more than 8 million workers have been furloughed.

As the spread of the virus has slowed, attention has now turned to how we can get the economy going again. This will not be like flicking a switch, and some restrictions and social distancing are likely to need to remain in place for many months at least.

This raises questions about how best to get Britain back to work: investing to create jobs, withdrawing emergency economic support gradually, and helping those out-of-work to find new jobs.

All evidence and experience makes clear we must act quickly to help people get back to work where they can, find new work if their jobs are unlikely to return, and make sure those who were already out of work before the crisis are not left further behind. We should do so in a way that builds a bridge to a future, promoting more widespread opportunity and prosperity and preparing us for the economic changes ahead.

This report sets out the impact of coronavirus on the labour market impact, the potential scale of the challenge we may face, and identifies policy priorities to get Britain back to work.

The impact of the crisis so far

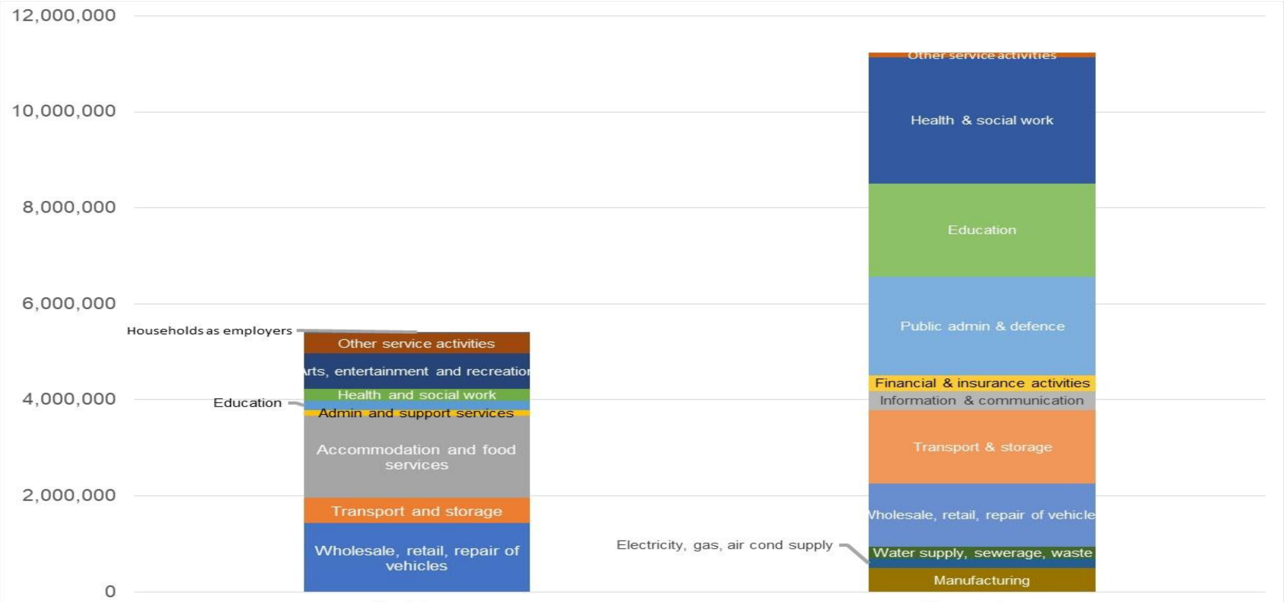
Coronavirus – and the measures taken to tackle the pandemic – have had a seismic economic impact. The Government has introduced unprecedented economic measures in response to the crisis, aiming to mitigate the immediate impact and limit long-term economic damage.

Five million workers in shutdown sectors and 11 million key workers were most immediately affected, with sharp rises in home working

The coronavirus crisis has led to dramatic changes in the way we work and live our lives. The lockdown led to significant reductions in economic activity. Around 5.4 million people worked in 'shutdown sectors', which were required to close, such as non-food retail and hospitality.

While some sectors were required to close, millions of key workers have had to continue working through the crisis to keep essential services going. We estimate that around 11 million people are key workers, with the largest numbers working in health and social work (2.6 million), education (1.9 million), transport and storage (1.5 million) and retail (1.3 million).

Figure 1: Key workers and shutdown sectors



Source:ONS, L&W analysis

Around 15 million people are employed outside of shutdown sectors and key workers. In the early stage of the crisis, many firms not required by law to close, nevertheless chose to do so. Many workers at these employers were laid off, with others being furloughed.

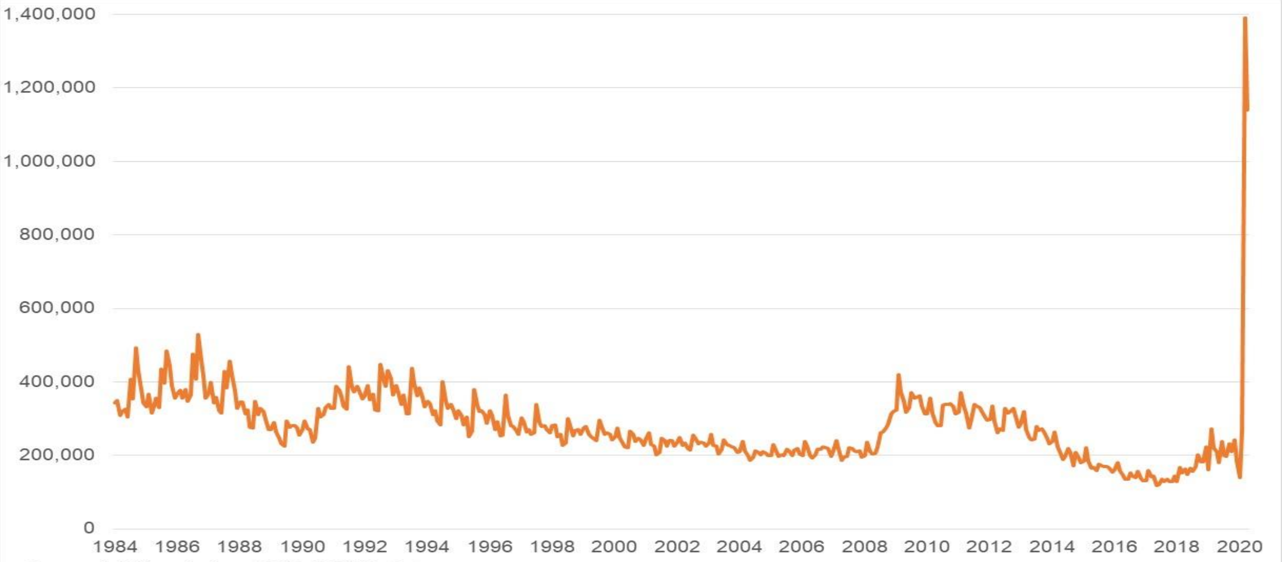
The crisis has led to a significant increase in working from home. Almost one in two workers (44%) were working remotely in early May 2020, compared to 12% before the crisis.[1] Many have faced increased challenges balancing work with childcare as education providers have been closed for all but the children of key workers.

The crisis led to a spike in unemployment and 8 million furloughed workers

Early data suggest the virus led to one of the sharpest spikes in unemployment on record:

- The number of people unemployed and claiming benefits rose by 850,000 in April 2020 to 2.1 million, the largest monthly increase since the 1940s;
- There were around 2.5 million claims for Universal Credit in March and April 2020, around seven times the usual level of claims and a much sharper spike than seen in the last recession. Daily claims are still running above their pre-crisis levels;[2]
- More than 8 million workers have been furloughed at a monthly cost of around £14 billion and 2.3 million claims costing £6.8 billion have been paid through the self-employment income support scheme;[3] and
- Estimates suggest that the economy is running at roughly two thirds its previous rate, while advertised vacancies in the economy had halved by late April 2020.[4]

Figure 2: Claims for unemployment benefits and Universal Credit



Source: L&W analysis of ONS & DWP data
Data includes new claims to Universal Credit, Jobseeker's Allowance and Unemployment Benefit. Eligibility for these benefits is different and has varied over time. Data runs until end April 2020.

[1] Business impacts of coronavirus survey, ONS, 2020; Coronavirus and home working in the UK labour market: 2019, ONS, 2020.

[2] Coronavirus and the labour market: impacts and challenges, Evans and Dromey, L&W, 2020.

[3] Business impact of coronavirus survey, ONS, 2020.

[4] Coronavirus reference scenario, OBR, 2020; Estimates of daily economic impact of the UK's lockdown by sector, CEBR, 2020; Weekly vacancy analysis: vacancy trends in week ending 19th April 2020, IES, 2020.

The economic impact would have been worse without emergency support

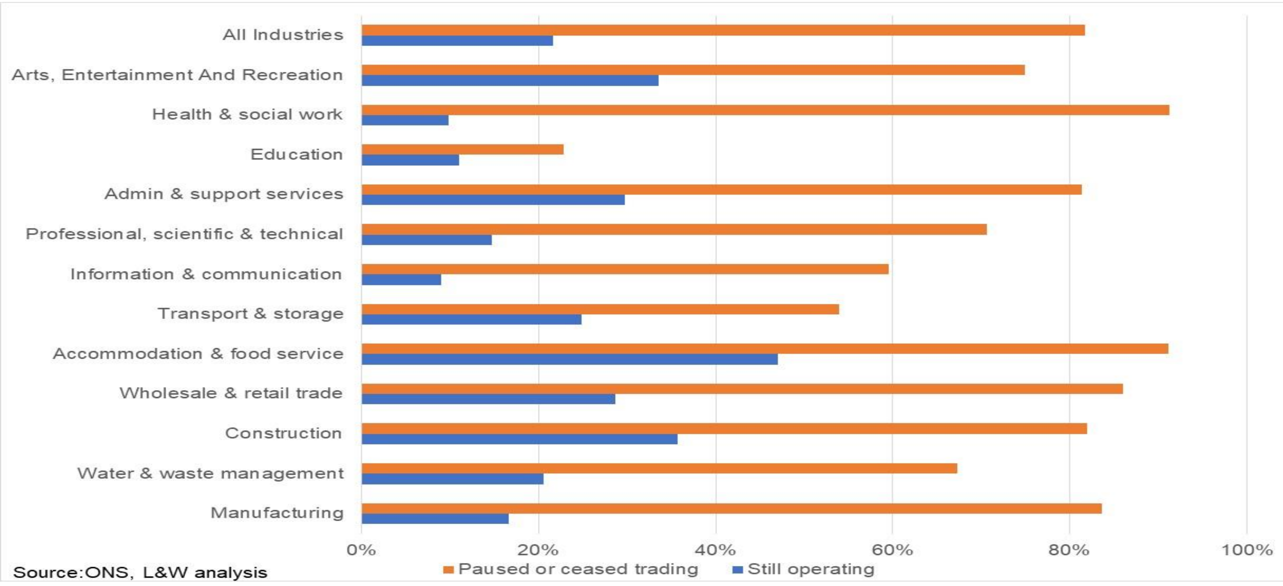
The UK Government introduced a range of measures to support businesses, jobs and incomes during the crisis:

- **Support for employers** including grants, loan guarantees, cuts in business rates, and additional time to pay some tax bills;

- **Support to keep people in work** including a Coronavirus Job Retention Scheme (CJRS) to cover 80% of the wages of furloughed workers up to £2,500 per month; and
- **Support for those losing their job** including a £20 weekly increase in Universal Credit and redeploying 10,000 DWP staff to help process Universal Credit claims.

Around 8 million people (one in five workers) have been furloughed through the CJRS at a monthly cost of around £14 billion. Take-up varied from significantly more than 50% in accommodation and food service to fewer than 20% in education.[5]

Figure 3: Proportion of employees furloughed by sector



Without the CJRS, many of those currently furloughed would have been made redundant. This would have led to a far larger spike in unemployment, and based on conservative assumptions, the **out-of-work benefits bill could have risen by a further £3-5 billion per month** as well as reducing demand in the economy and risking long-term damage.[6]

[5] Business impacts of coronavirus survey (9th April), ONS, 2020.

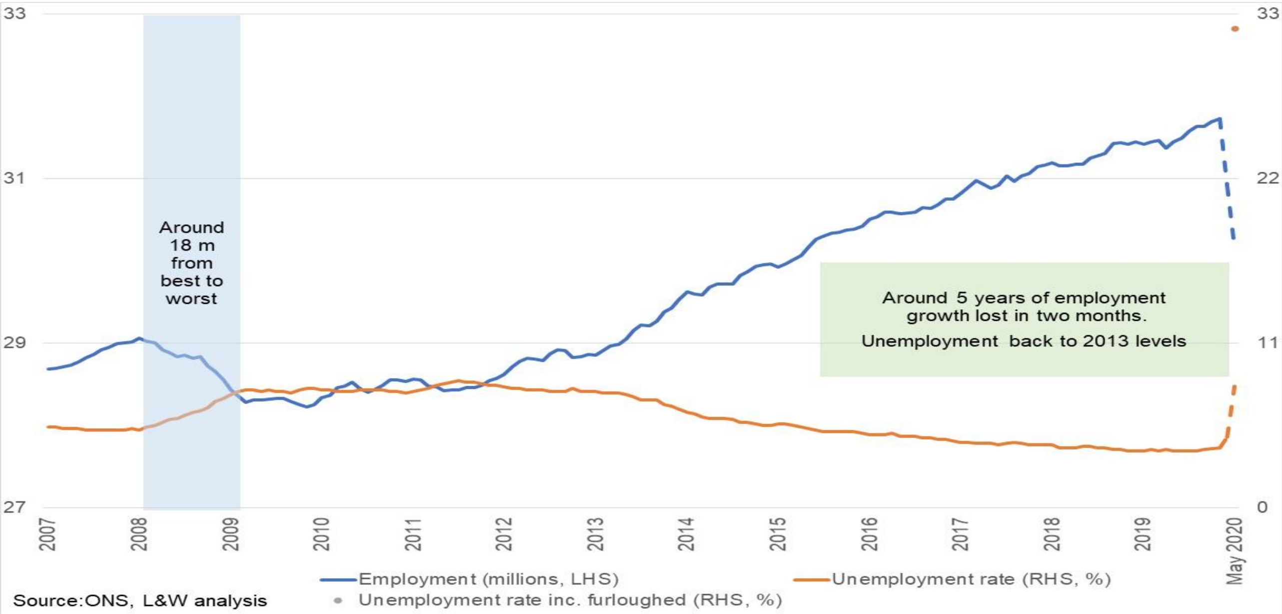
[6] Using an average of single and couple rates for Universal Credit as a lower bound, and assuming one half of households have one child and one half are entitled to support with housing costs in line with the Local Housing Allowance.

The Chancellor has confirmed that the CJRS will continue until the end of October 2020. From August, employers will have to contribute toward furloughed workers salaries and short-time working will be allowed. This is in line with our proposals for a targeted and tapered extension, though we argued a sector-by-sector approach may be necessary if some social distancing restrictions remain in place.[7] We need to balance the risk of significant job loss if employers do not have the income to contribute to workers' salaries, with the need for people to find new jobs if their previous roles are unlikely to return.

One in three adults is either out-of-work or furloughed

For the UK, we estimate that **more than five years of employment growth were wiped out in two months**, with the unemployment rate having spiked back to 2013 levels.

Figure 4: Actual and estimated changes in employment and unemployment



Around **one in three working-age adults – more than 13 million people - are either unemployed, furloughed or registered on the self-employment income support scheme**. This is in line with our previous analysis which suggested that 5-10 million jobs were in the most at risk categories, with a further 1.3 million already unemployed before the crisis began.[8]

[7] Next steps for the Coronavirus Job Retention Scheme, Evans and Dromey, L&W, 2020.

[8] Coronavirus and the labour market: impacts and challenges, Evans and Dromey, L&W, 2020.

The scale of the employment challenge

We face a profound and stark employment challenge on a scale not seen for decades.

The timing and nature of plans to ease social distancing is uncertain and depends on the spread of the virus and developments in therapeutics and vaccines.

The process of reopening the economy will be a gradual one and it is not certain what our 'new normal' will look like. Even if social distancing rules are eased, employees may not wish to return to work and people may not immediately come back to shops, restaurants and cafes in the same numbers as before. One survey found that, if the lockdown measures ended in the next month, only 21% would feel comfortable taking public transport, 29% would feel comfortable going to bars and restaurants, and 49% would feel comfortable going to their place of work.[9]

The restrictions that remain in place will also affect the number of staff businesses need and even the viability of some businesses. For example, some cafes and restaurants will need fewer staff if they have to operate with less capacity in order to maintain social distancing, while other businesses may need more staff to slow the flow of customers on to their premises and to increase cleaning. The impact of this might vary across the country and between sectors.

Finally, the crisis may also accelerate some previous trends, such as the shift to online shopping and to flexible and remote working. But there may be some pent up demand with people keen to socialise once more and go shopping again.

This could have profound implications both for people's employment prospects, for support to retrain, and for employment support more generally. Changes to, and the eventual withdrawal of, the Coronavirus Job Retention Scheme may accelerate decision-making by businesses too. Adding to the challenge, policy and delivery are unlikely to be able to accurately distinguish between businesses that are suffering due to short-term impacts of the virus and those that are no longer viable long-term.

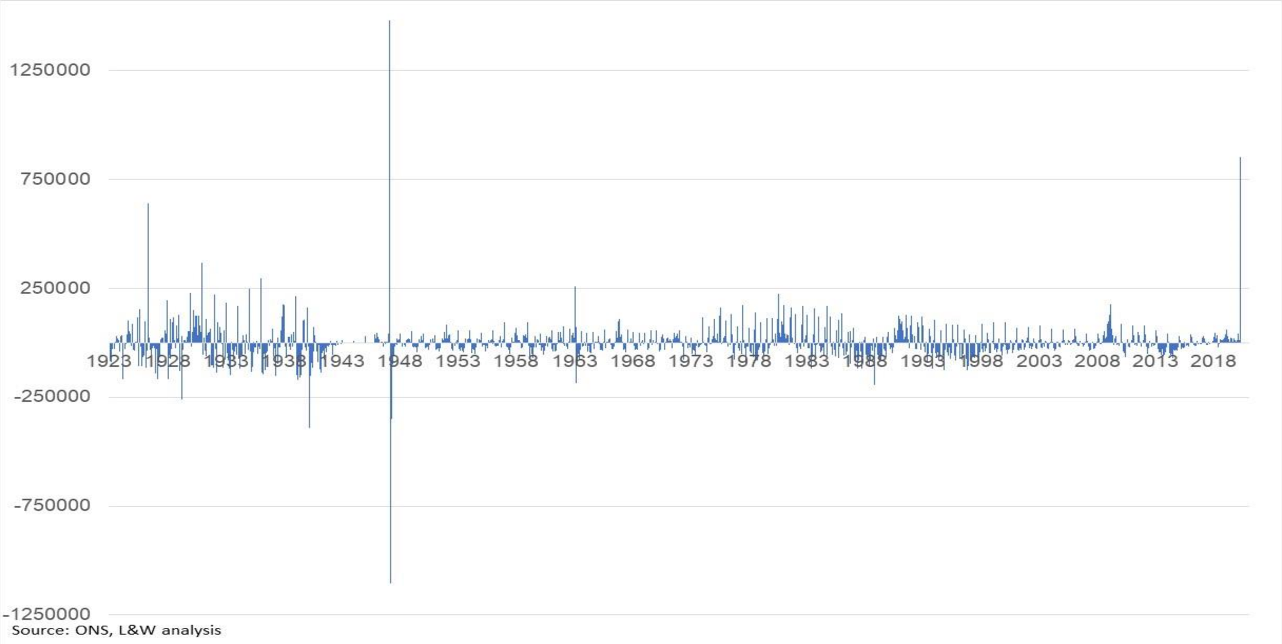
All of this makes it difficult to project a potential path for employment and challenging to plan an effective policy response. However, previous experience tells us that under any scenario it is likely to take years for employment to fully recover. This means that higher unemployment and greater long-term unemployment are likely to be ongoing challenges.

[9] Coronavirus polling, Ipsos Mori, 2020.

We have seen the sharpest rises in unemployment in a century

April 2020 saw the second highest increase in unemployment since records began in 1922. The largest rise (1.5 million) was in February 1947 and much of this rise (1.1 million) was reversed the following month. It is highly likely that this period will see the sharpest two-month rise in unemployment on record, given there have been more than two million new claims for Universal Credit during April and May 2020.

Figure 5: Increase in unemployment by month



This means that unemployment is likely to have already risen to 8-9% (up to three million people), up from 4% in March 2020 before the crisis hit, an unprecedented scale of increase.

Unemployment could rise up to four million people, or even higher

How much higher might unemployment go?

This depends on:

- **Withdrawal of Government support.** We may see a sharp spike in unemployment as firms are required to contribute to the wages of furloughed and the CJRS is withdrawn. Particularly if economic demand has not picked up;
- **Temporary constraints in operations.** Including social distancing requirements limiting the number of customers to lower numbers than previously; and
- **Permanent shifts in consumer behaviour.** Even without social distancing constraints, it is unlikely that people will fully return to pre-crisis behaviour: e.g. there is likely to have been a permanent shift in home working and online shopping.

This means there is a higher than usual level of uncertainty about the path of employment and unemployment. Box 1 shows how we have estimated the potential range of impacts on the labour market.

Box 1: Modelling employment and unemployment

Models of the labour market are generally underpinned by assumptions or models of the macroeconomy.

Our approach has been to model:

- **People becoming unemployed.** This is based on the timeliest claimant unemployment data, assuming that two thirds of new Universal Credit claims are for unemployment (mirroring the current pattern of UC claims). We use an 'excess claims' measure, based on how high claims are compared to the 12 months before the crisis; and
- **People finding work.** In previous recessions, the proportion of unemployed people finding work has fallen but the absolute number finding work has risen. We use an 'deficient demand' measure, using the steepness of the fall in vacancies compared to that following the 2008 recession to estimate flows.

On people becoming unemployed, our base case assumes that Universal Credit claims, currently double pre-crisis levels, recover back to 'normal' levels over the next four months. However, from July-October, as the Coronavirus Job Retention Scheme (CJRS) changes and then is withdrawn the base case assumes 20% of furloughed workers and those in receipt of the self-employment income support scheme become unemployed. This is just a projection, and is based on a proportion of furloughed jobs in non-food retail and hospitality, the sectors most directly affected.

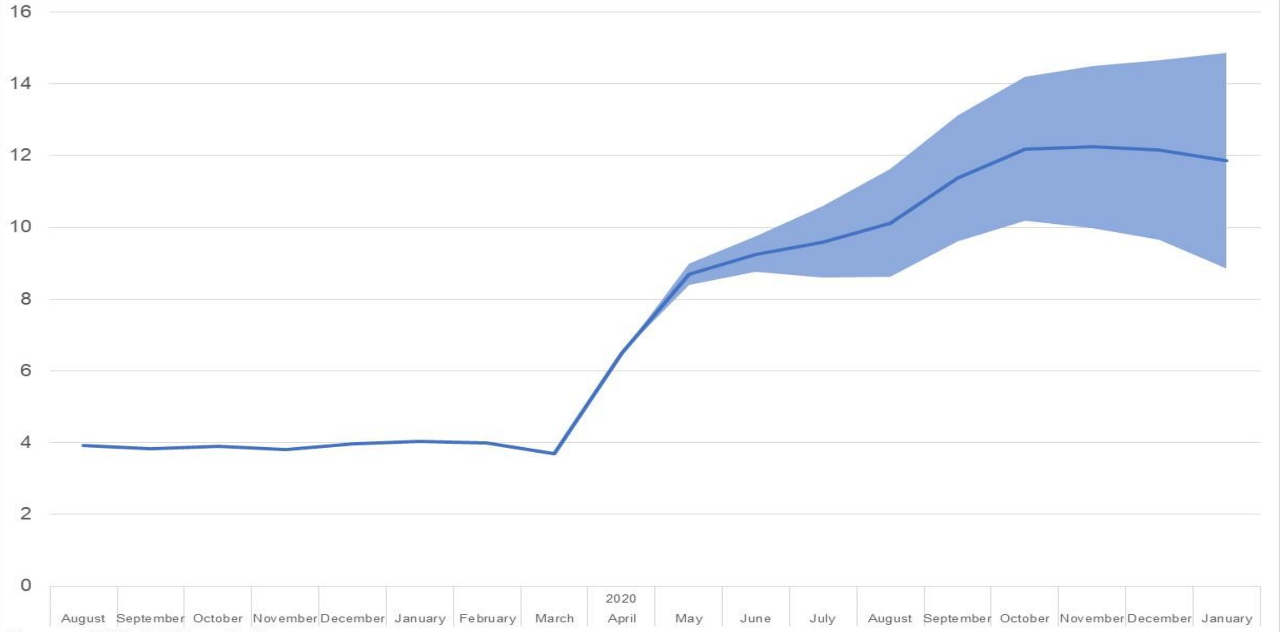
On people finding work, our base case assumes vacancies recover back to the 2008 path over the next four months, with similar implications for flows into work. This is in line with vacancy data indicating a sharper fall than in 2008, but now bottoming out.

There are huge uncertainties about how the economy will perform and, related to this, what will happen as the CJRS unwinds. To reflect this, we have built a better and worse scenario, with the proportion of furloughed workers losing their jobs in the four months to October 2020 varying from 5% to 40% to give a broad illustration of the impact of a strong bounceback or hard landing. These scenarios, and a central projection, are presented as a fan chart.

Our findings are dependent on the assumptions made and include a high degree of uncertainty. Rather than providing a very precise set of projections, they are intended to give a direction of travel and potential scale of challenge.

The results of this modelling are shown in Figure 6, which show the potential scale and speed of increases in unemployment up to December 2020.

Figure 6: Actual and projected unemployment rates, per cent



Source: ONS, L&W analysis

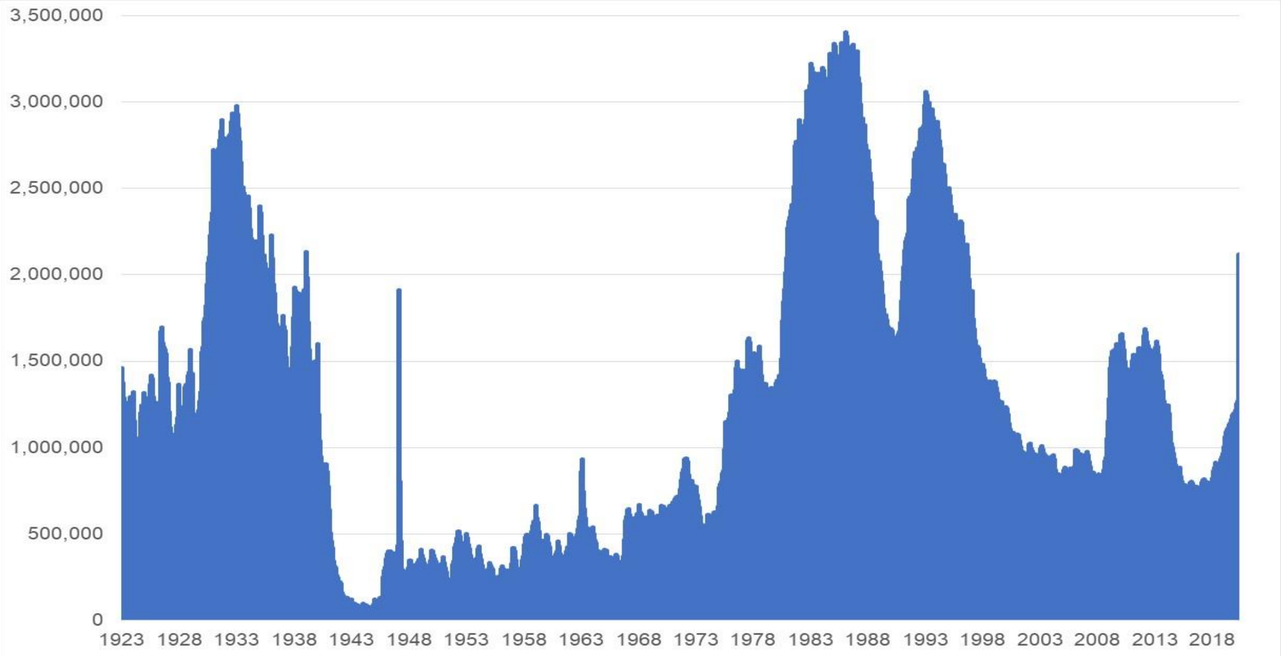
The short-term projections are in line with a number of other forecasts: the Bank of England and OBR have both projected unemployment could be 10% by June.[10] Beyond this, some forecasters envisage a swifter fall in unemployment, though most assume a fairly rapid economic recovery with few if any long-term impacts and do not build in the potential for significant redundancies from ending of the CJRS.

This could mean unemployment at its highest since the Great Depression

If the unemployment rate hits 10% by June 2020, then 3.5 million people will be unemployed. This would be the highest number of unemployed people on record, dating back to 1922, higher than the peaks seen in the recession of the early 1980s. It may then go higher, perhaps surpassing four million as the Coronavirus Job Retention Scheme changes and is wound down.

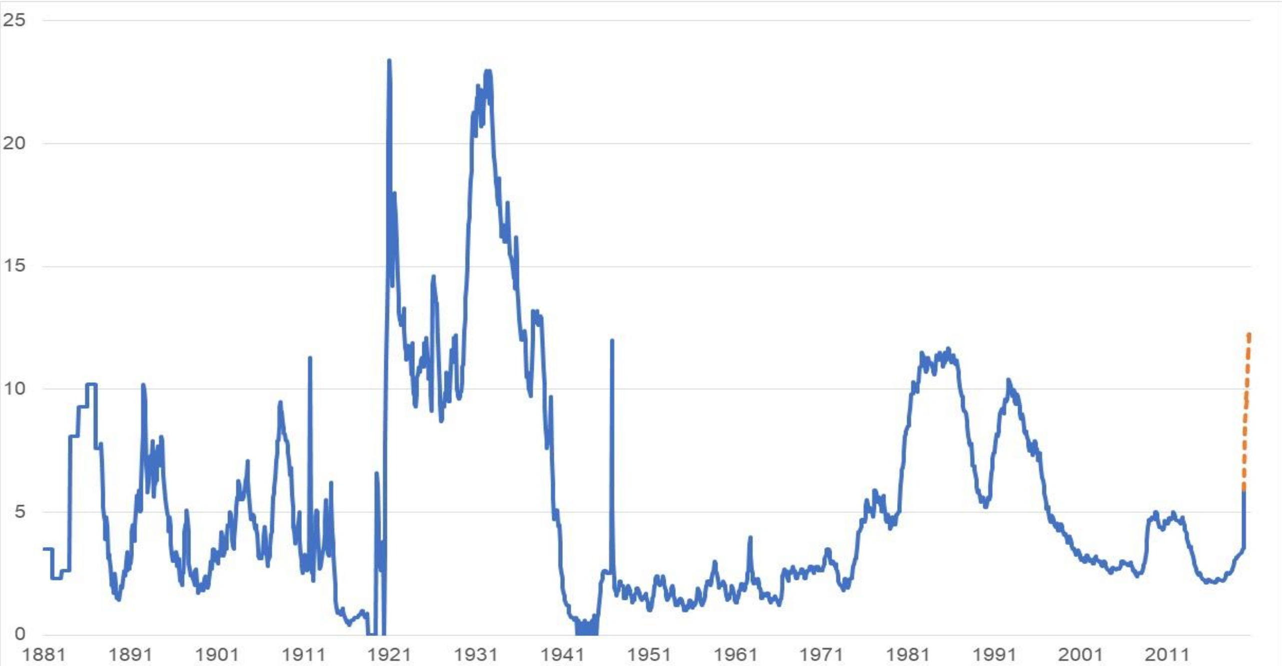
[10] Coronavirus reference scenario, OBR, 2020; Monetary policy report, Bank of England, 2020.

Figure 7: Levels of unemployment



Unemployment rates allow better comparison, as population growth affects the total number of people out of work. The unemployment rate is likely to be at levels last seen in the 1990s recession by June 2020. By autumn 2020, unemployment could rise above 12%, its highest rate since 1938 following the Great Depression.

Figure 8: Unemployment rates, historic and projected



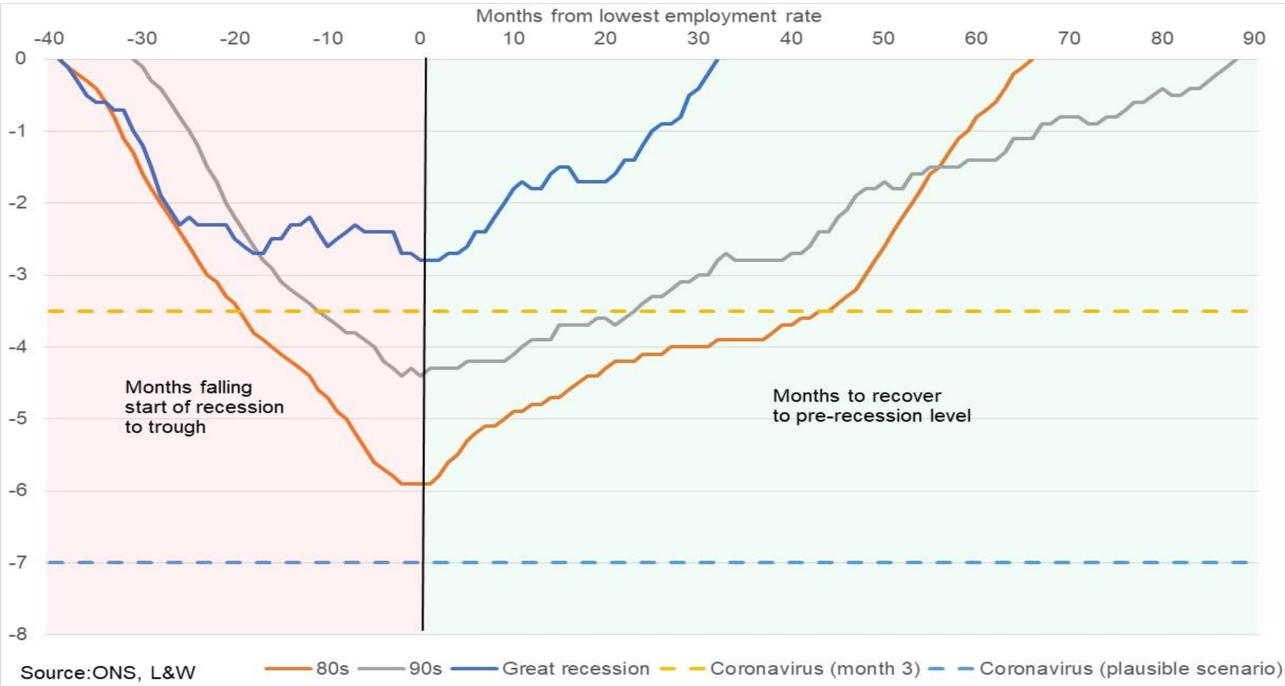
Source: ONS, L&W analysis

This is likely to be a long haul: employment could take five years to recover

All recessions and recoveries are different, but the fall in the employment rate is already at least as big as the fall following the Great Recession. A plausible scenario (detailed above) would mean a sharper fall in the employment rate than that seen in the 1980s recession.

Following previous downturns, it took many years for employment to return to pre-recession levels. Figure 9 shows how far the employment rate fell in recent recessions, the time taken to fall to this low, and how long it took to recover. In the Great Recession it took almost three years for employment to recover. This compares to more than five years in the 1980s and more than seven years in the 1990s.

Figure 9: Months for employment to fall to post-recession low and recover



This recession is different in that both supply and demand in the economy have been deliberately constrained through social distancing measures. Some form of social distancing is likely to remain in place for some time and the economy will take time to adapt to a new normal beyond this.

Combined with changes in our behaviour and the fall in employment and incomes, this has led many to suggest that our economic recovery will not be a sharp V-shape. Rather that it will take time to recover. That means that previous recessions may provide a guide to the time it will take for employment to recover to pre-recession levels.

It could take until at least 2025 for employment to recover, meaning we need a five year back to work plan.

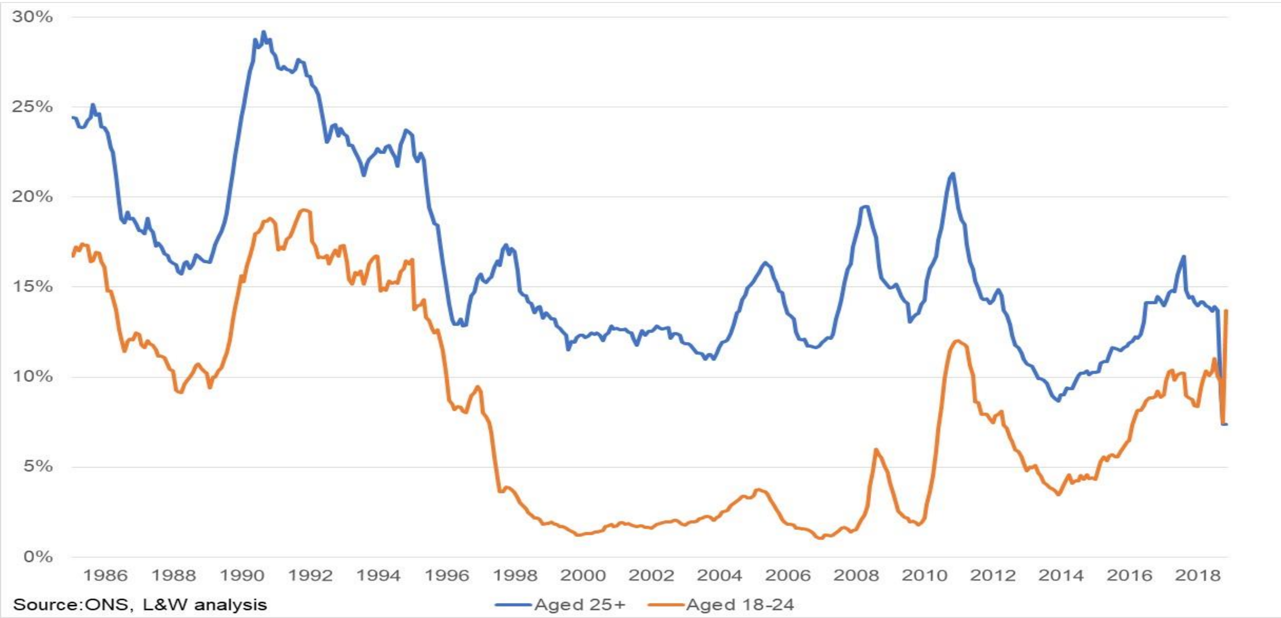
Long-term unemployment could triple to one million without urgent action

Long-term unemployment, defined here as being out of work for at least one year, always rises after a recession in part because employment usually takes a significant time to recover which affects the skills and likelihood of job search success of both the newly unemployed and already long-term unemployed.

Long-term unemployment has significant, ongoing impacts on people's career prospects and the health of the labour market. For young people in particular, the evidence shows unemployment can have a permanent scarring effect on employment and pay prospects.[11] Economic inactivity may rise too, with discouraged workers no longer looking for work.

Figure 10 shows the proportion of unemployed young people still out of work after a year varies from 5-10%, compared to 10-30% for over 25s (though the figures for 18-24 year olds are affected by administrative changes after 1998).

Figure 10: Proportion of claimants out of work for one year or more



The past can be a guide to the future, but not a prediction. Long-term unemployment may rise less rapidly this time if the economy recovers quickly and if policy is successful at helping people back to work. However, experience can illustrate the potential scale of the challenge and the imperative for policy action to prevent this.

Given that unemployment is already over two million, long-term unemployment could more than double to 650,000 (from 300,000 before the crisis) by early 2021.[12] Unemployment

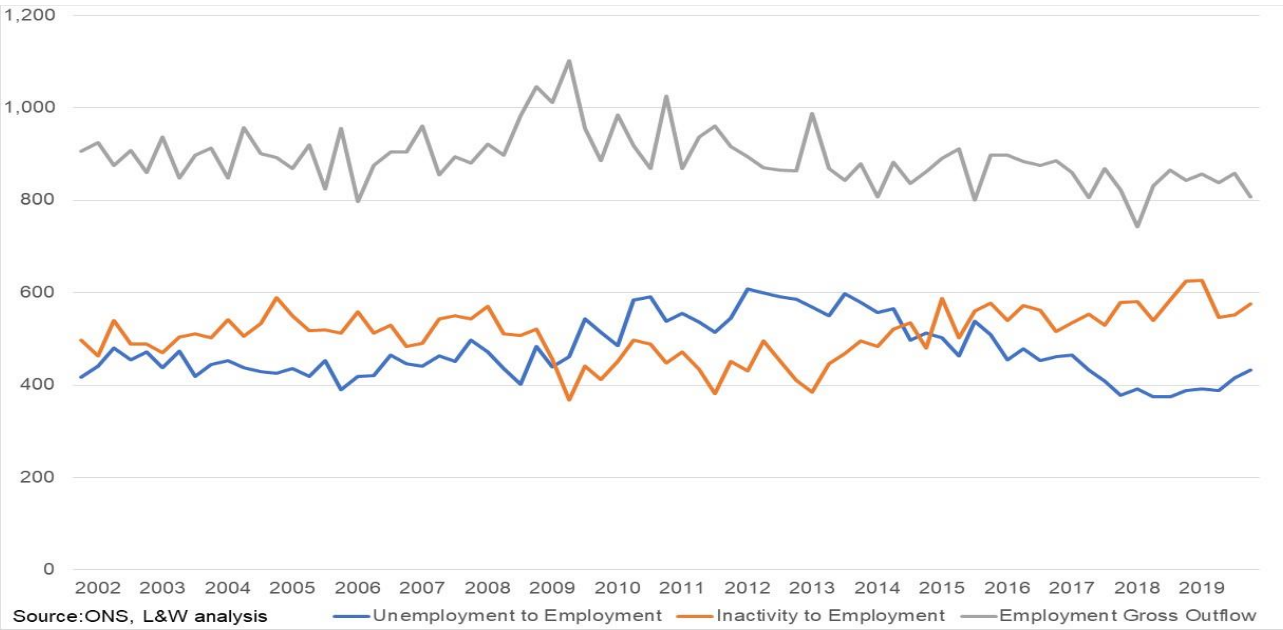
[11] The impact of youth unemployment on adult unemployment in the NCDS, Gregg, Bristol University, 2008.
[12] Defined as looking for work and available to start work, but having been out of work for 12 months or more.

could rise as high as four million, depending on economic conditions and the impact of the withdrawal of the furlough scheme. By mid-2021, this could mean long-term unemployment as high as one million, compared to 900,000 after the last recession. Either way, long-term unemployment is likely to rise steeply with damaging effects.

Large numbers of people will still move into work despite the downturn

Inflows to unemployment rise significantly during recessions as people lose their jobs. DWP need to prepare for a further peak in unemployment claims as the furlough scheme unwinds, as well as helping those out-of-work to find new jobs.

Figure 11: Flows between work and worklessness, 000s per quarter



The number of people moving into work can increase following recessions, even though the proportion of unemployed people finding work falls due to reduced opportunities. Research shows that two thirds of volatility in unemployment is due to increased numbers of people losing their jobs, decreased job finding accounts for around one quarter, and the remainder is due to unemployed people becoming economically inactive.[13]

In other words, while the proportion of unemployed people finding work after a recession does fall, large numbers of unemployed people do find work even during this time. While not minimising the scale of the employment challenge, there are still job opportunities available even during recessions. A focus on flows into and out of work may matter at least as much for policy and delivery as the total number of people unemployed.

[13] The role of worker flows in the dynamics and distribution of UK unemployment, Elsby, Smith and Wadsworth, 2011.

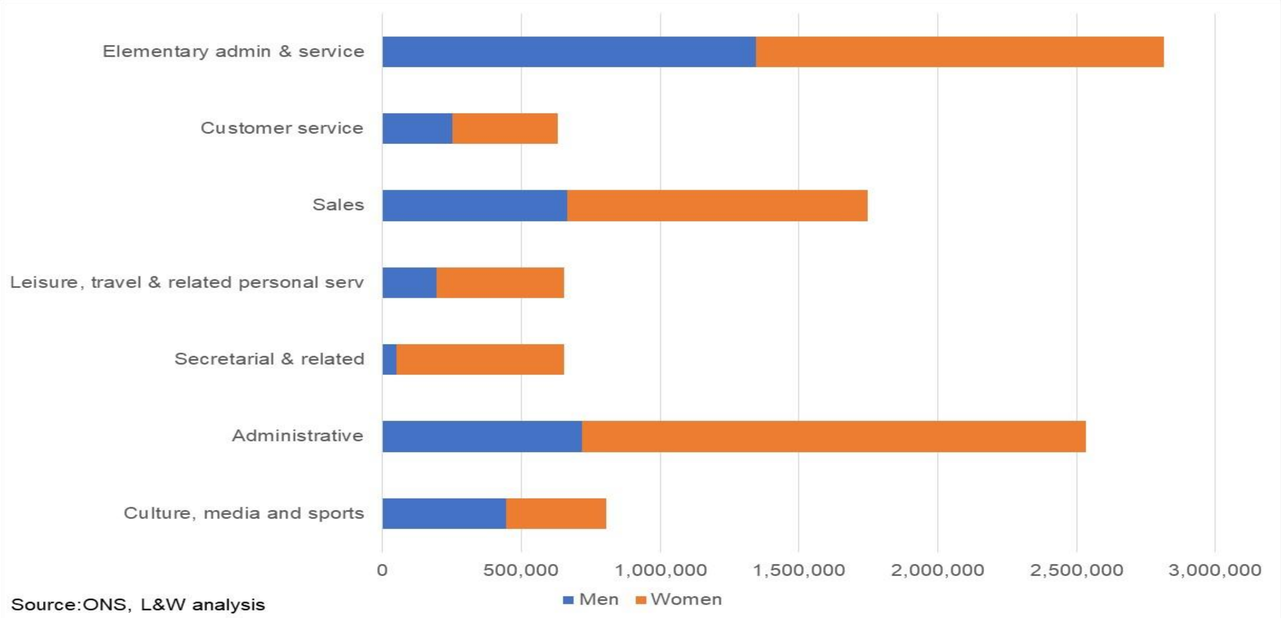
Which groups and areas are likely to be most affected?

The lockdown and other social distancing measures have already had a disproportionate effect on some groups and areas of the country. The employment crisis is likely to have a similarly unequal impact.

The lockdown disproportionately affected young people and the north of England

Learning and Work Institute's analysis suggested almost **10 million people were employed in the occupations most directly affected by the lockdown**.[14] The Institute for Fiscal Studies estimated that 15% (4.8 million) of employees work in sectors largely or fully shut down.[15] Together this suggests 5-10 million jobs were affected, supported the fact that more than 8 million workers were furloughed.

Figure 12: Employment in occupations most at risk



Source:ONS, L&W analysis

We found that young people were most directly affected by constraints on economic activity: those in their early 20s were 2.5 times more likely to work in a shutdown sector than other workers.[16]

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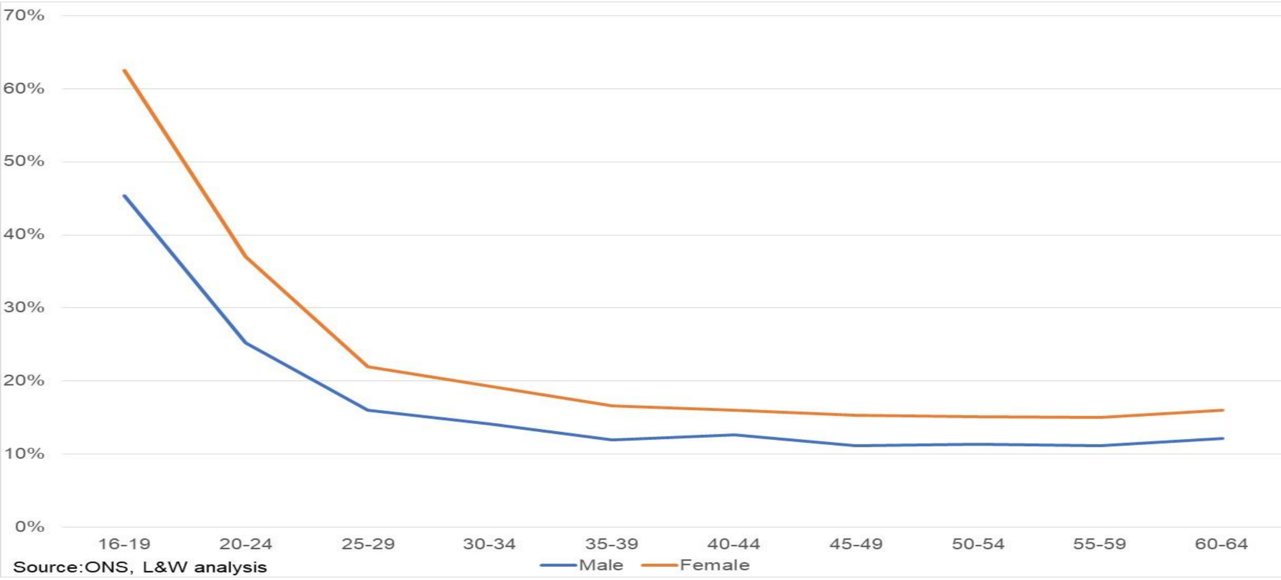
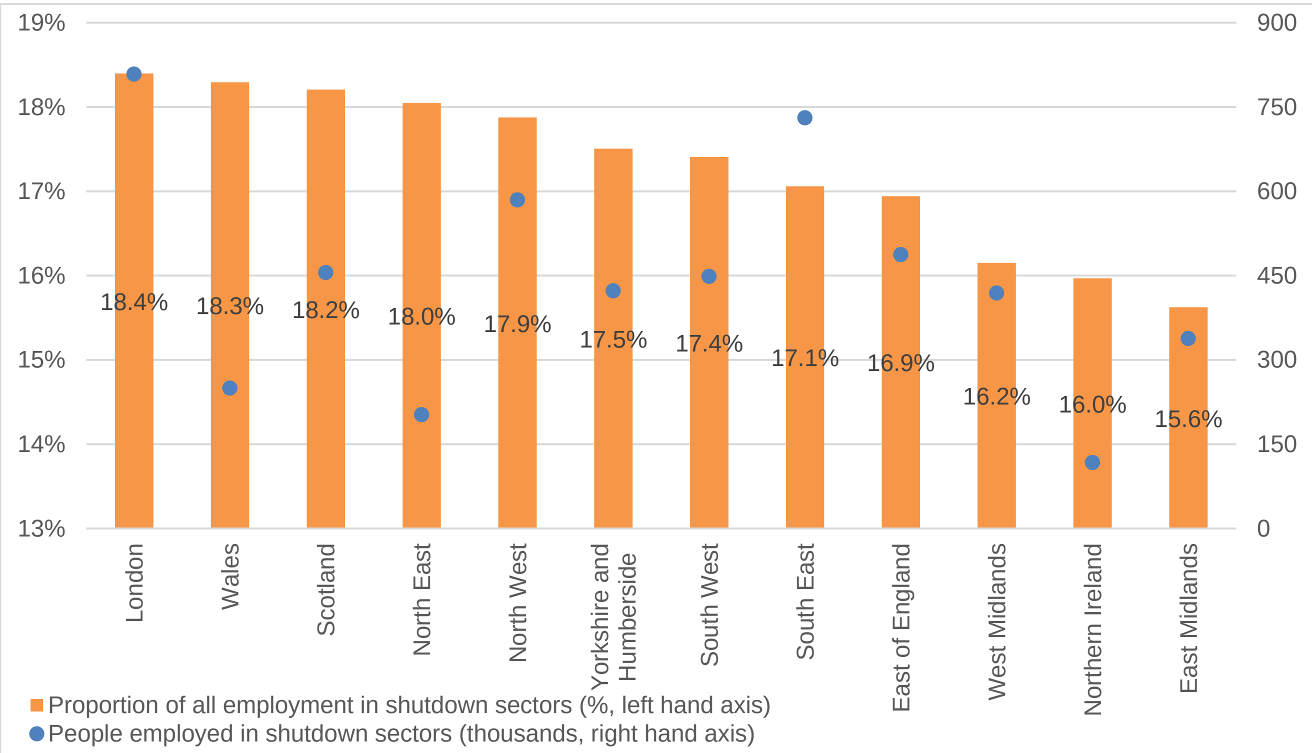
[14] Coronavirus and the labour market: impacts and challenges, Evans and Dromey, L&W, 2020.
[15] Sector shutdowns during the coronavirus crisis: which workers are most exposed, IFS, 2020.
[16] Sector shutdowns during the coronavirus crisis: which workers are most exposed, IFS, 2020. We have used this methodology of identifying sectors most affected and pooled eight waves of LFS data to assess.

Figure 13: Proportion of jobs in 'lockdown' sectors by age



Looking at it geographically, London had the highest proportion of people working in shutdown sectors and also the highest proportion working in occupations most able to work at home.

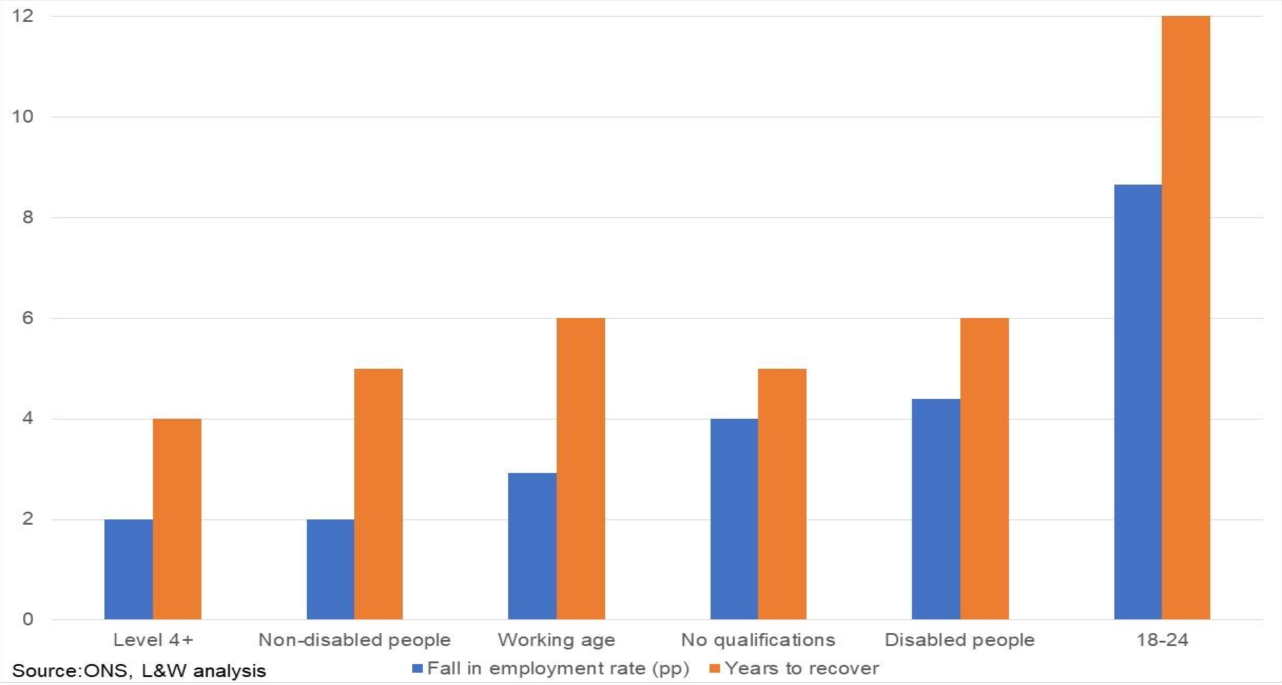
Figure 14: Proportion of jobs in shut down sectors



Young people were still facing the effects of the financial crisis as coronavirus hit…

Young people often face a sharper fall in employment rates following recessions, and it usually takes several years for this to fully recover. Figure 15 shows that the employment rate of young people fell almost four times more than the average following the 2008 recession, and that their employment rate had still not recovered by the time the coronavirus crisis hit.

Figure 15: Employment rate changes and time to recover following Great Recession



Source:ONS, L&W analysis

In addition, research by Learning and Work Institute's Youth Commission has shown that a lower proportion of young people have good basic skills and level 3 qualifications compared to other countries.[17] Other analysis has shown the ongoing impact on employment prospects, pay and quality of work of those young people entering the labour market following the 2008 global financial crisis.[18]

This means young people entered this crisis with longstanding weakness in employment and education outcomes, and the ongoing hangover effects of the financial crisis.

[17] Fit for purpose? Education and employment support for young people: Youth Commission report 5, L&W, 2020.

[18] Class of 2020: education leavers in the current crisis, Resolution Foundation, 2020.

…and now face a double whammy of disrupted education and a weaker labour market…

Many young people, whether at school, college, university or in an apprenticeship, have had their learning and education disrupted. Many have argued it risks widening existing inequalities in education.[19]

Young people, whether they are leaving education or have already done so, now also face a weaker labour market. As well as overall falls in employment, some of the starkest economic impacts so far are in sectors such as retail and hospitality that young people tend to work in either alongside their studies or early in their careers.

The result is likely to be a large rise in youth unemployment and the numbers not in education, employment or training. We could also see increased inequalities, with young people from lower income backgrounds and qualified below degree level hardest hit.

The proportion of young people staying in education often rises in recessions. There was a 4% rise in the proportion of 16-17 and 18-20 year olds in education between 2008 and 2009, and a rise of 7% for 21-24 year olds.[20] This is a rational response to reduced employment opportunities in the short-term, and the potential long-term benefits of good quality learning. That may also happen during this crisis, though a lack of careers services, disruption to education, and uncertainty about how education will operate from the autumn (e.g. the amount of teaching online versus face-to-face) may limit this.

… meaning one in five 18-24 year olds, more than one million, could be NEET

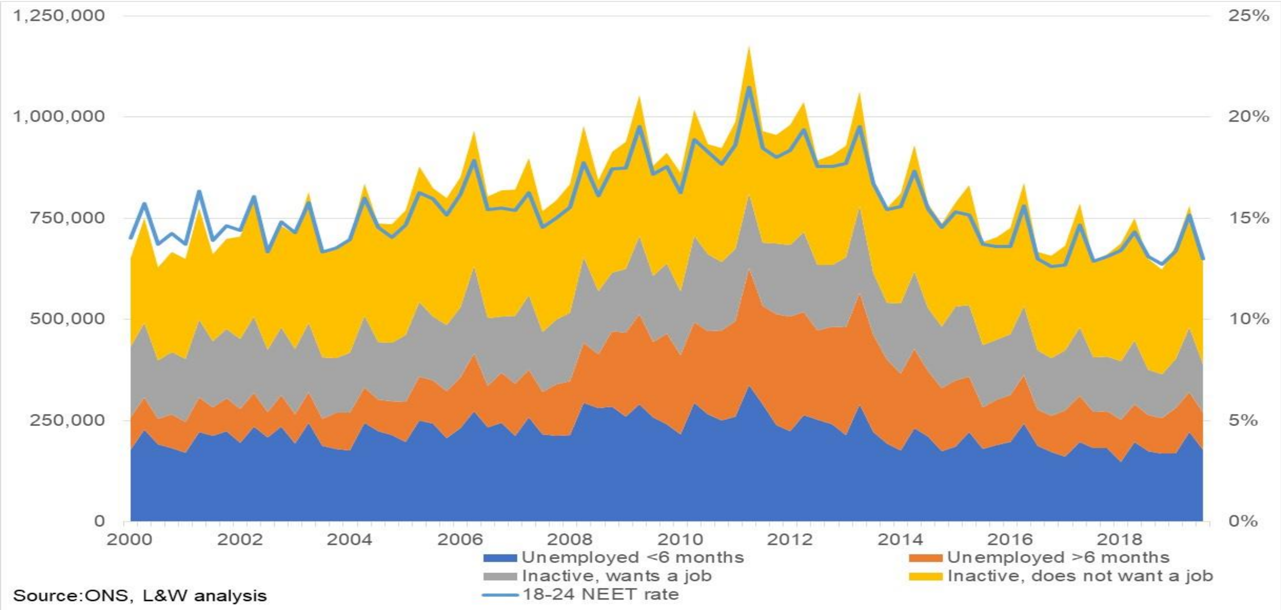
The proportion of 18-24 year olds who were not in education, employment or training (NEET) rose from 14% in 2001 to 21% in 2011, but had fallen back to 11% by the end of 2019. Before the coronavirus crisis, there were 120,000 18-24 year olds who had been out of work for six months or more. Only around 5% of 16-17 year olds were NEET before the crisis (reflecting the rise in the education participation age), but employment rates for those not in full-time education are low and previous Learning and Work Institute Youth Commission reports have highlighted the missing support that often leaves this group significantly disadvantaged.[21]

Each year there is a rise in NEETs in the autumn as young people leave education. This year we would expect around 800,000 young people aged 18-24 to enter the labour market (a demographic dip means this is a smaller number than in future years). The rise is likely to be sharper as a result of the disruption to education and risk of careers advice services and others losing contact with young people coupled with the fall in employment

[19] Class of 2020: education leavers in the current crisis, Resolution Foundation, 2020.
[20] Ibid.
[21] Opportunity knocks? Youth Commission report 1, L&W, 2018.

opportunities. This makes it plausible that the numbers of young people NEET could rise higher than in 2011.

Figure 16: NEET rates and unemployment among NEETs in England



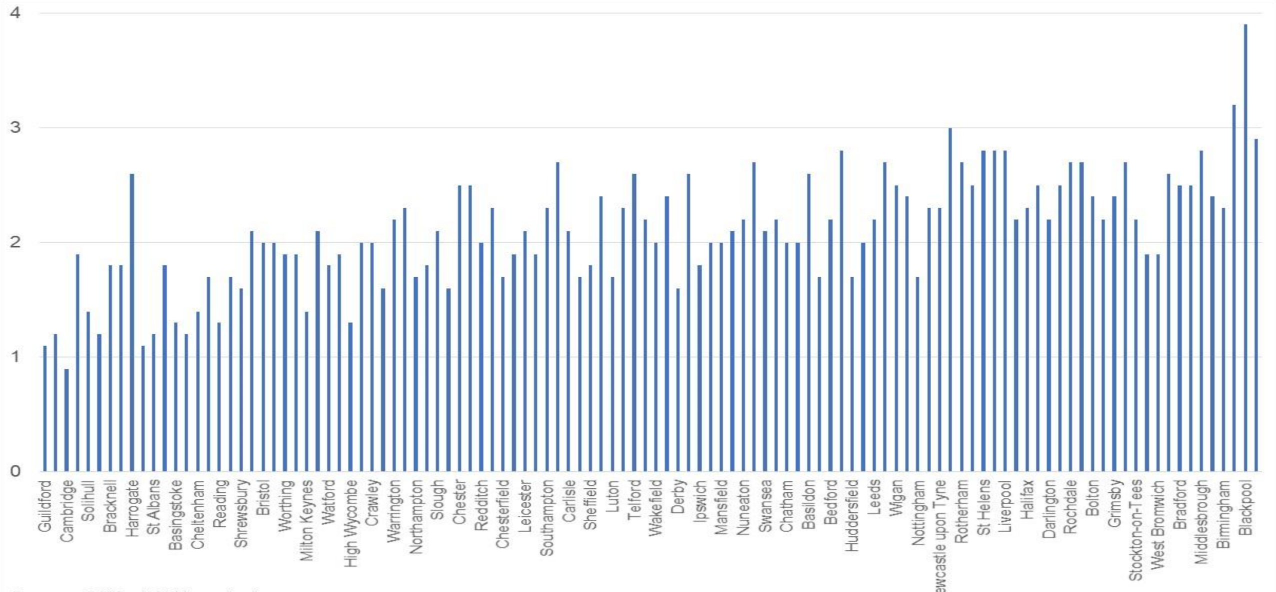
It is plausible that one in five 18-24 year olds, some one million, may be NEET in the next year. Long-term youth unemployment could rise as much as fourfold to 200-500,000, compared to a peak of 420,000 after both the 1990s and 2008 recession.

Unemployment has risen most sharply in places where it was highest before the crisis…

In April 2020, as the crisis took hold, the areas of the country that had the highest pre-crisis unemployment rates saw the largest percentage point rises in unemployment. For example, the claimant count rate in Blackpool rose from 7% to 10.9%, whereas in Guildford it rose from 1.1% to 2.2%.

In some parts of the country, greater use of the Coronavirus Job Retention Scheme may have particularly held down rises in unemployment. For example, Derby had a smaller unemployment rise than areas with similar pre-crisis unemployment rates. This could reflect greater use of furloughing by local engineering manufacturers than other places more reliant on other sectors, but data is not available to test this hypothesis.

Figure 17: Percentage point rises in the claimant count ranked by starting unemployment rate, April 2020



Source:ONS, L&W analysis

…and this might be exacerbated by pre-crisis challenges and structures…

Our previous analysis showed that the proportion of people employed in ‘lockdown’ sectors most affected by social distancing rules varies significantly across the UK, as does the proportion of people in jobs that allow working from home. There is also likely to be a differential response across the country as restrictions begin to be eased.

For example, the higher proportion in London of people able to work from home coupled with concerns about the safety of public transport, could mean less of a bounce back of retail and hospitality in the capital than elsewhere. This would have a significant impact on the viability of businesses that have been running on low margins due to the high costs of running a business in London.

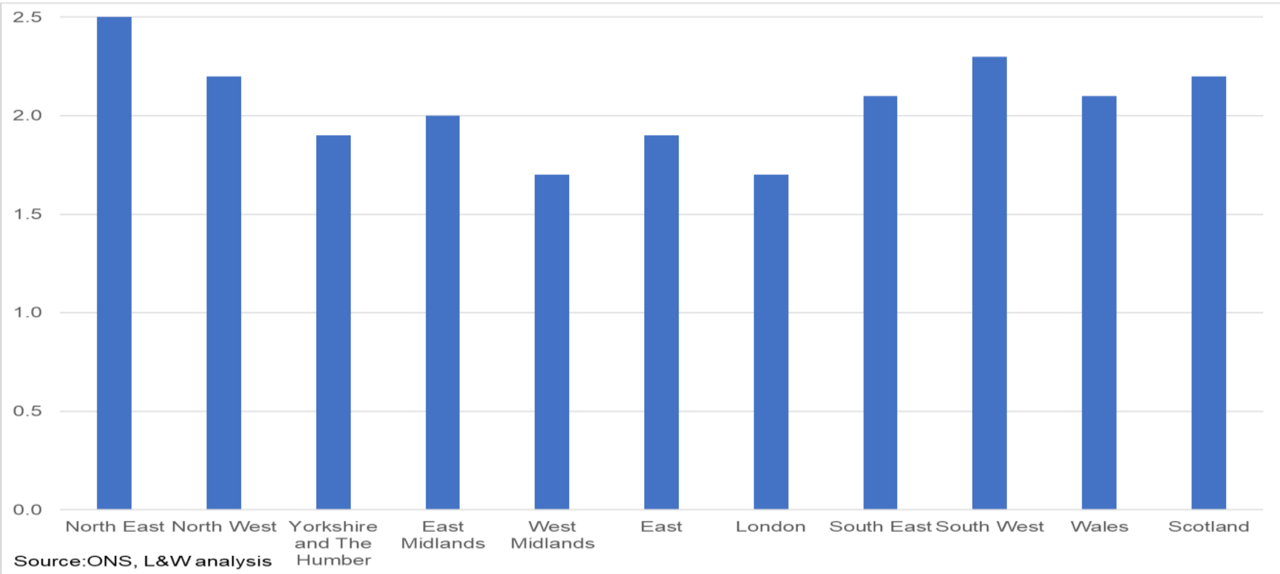
On the other hand, if unemployment continues to rise most rapidly in places that had the highest pre-crisis unemployment rates, this could have a cumulative effect on local economies, leading to a spiralling impact.

Future economic changes, such as the adjustment to a new trading relationship with the EU from January 2021, could have a disproportionate impact on manufacturing, leading to knock on consequences for those parts of the country most reliant on international trade. If the trend toward greater home working accelerates, that could reduce demand for housing and services in city centres and perhaps help to revive towns (though it is more likely that people commute in less often than that a high proportion of people will permanently work from home).

…leading to unequal rises in unemployment across the country…

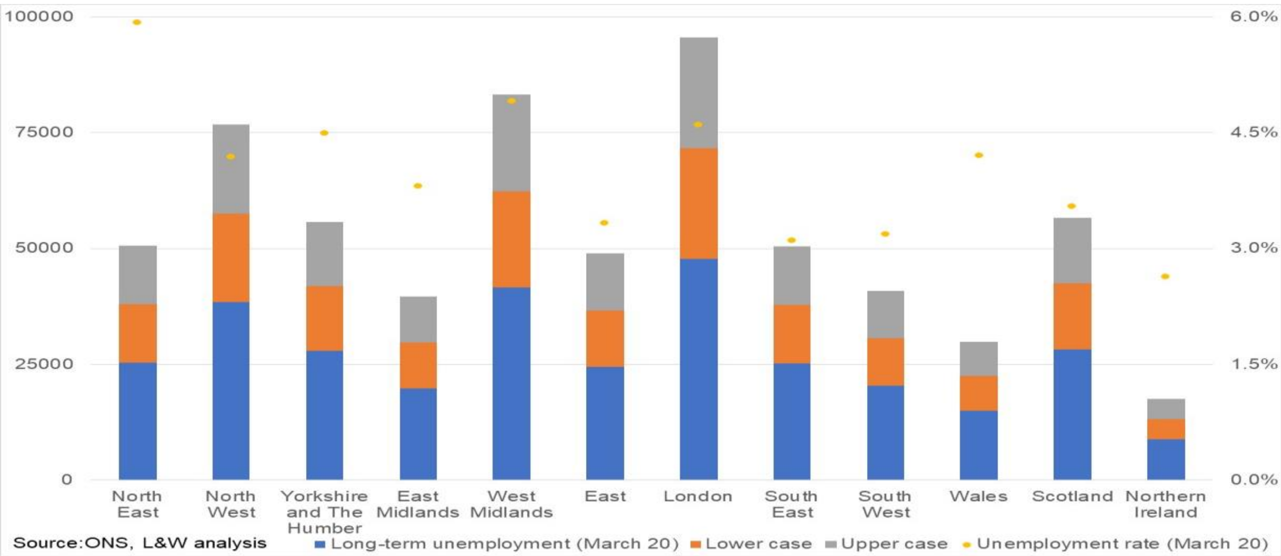
Early signs suggest unemployment is rising more rapidly in some parts of the country. The North East saw a 2.5 percentage point in the claimant count in April 2020 compared to March, compared to a 1.7 percentage point rise in London and the West Midlands.

Figure 18: Percentage point rise in claimant count, March to April 2020



Long-term unemployment can be particularly damaging to people's career prospects, and varied across the country as the crisis began. To illustrate the potential scale of increase by region and country, we have applied the high and low scenario for UK unemployment described in the previous chapter and a range for the proportion of those who will become long-term unemployed from pre-crisis to an increase in line with that seen after 2008.

Figure 19: Actual and potential long-term unemployment



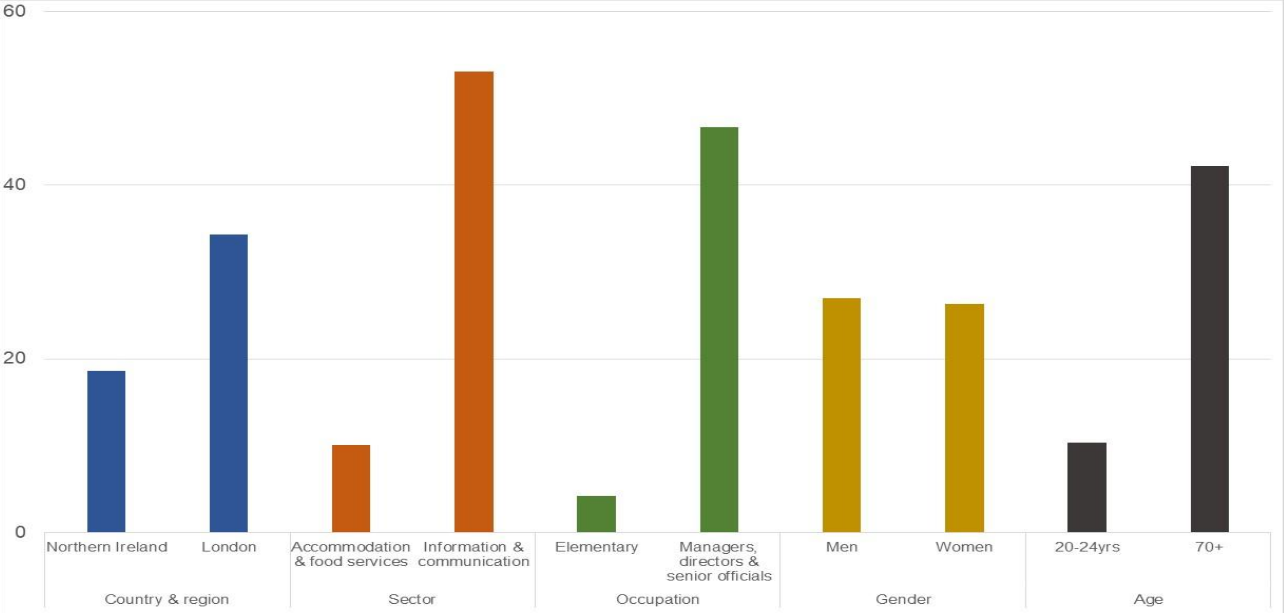
…which could mean more 'splitting apart' than 'levelling up'

The Government has talked about wanting to 'level up' opportunity across the country. This was challenging before the crisis hit – it has been a goal of many governments. It is likely to be even more challenging now.

First because the initial wave of economic impacts from the crisis appears to have affected some groups and areas more than others, and generally these are the groups and areas that could most benefit from levelling up.

Second because the next phase of the crisis will require some ongoing social distancing, which could increase inequalities. For example, those on higher salaries and based in London and the south east are most likely to be able to work from home. Similarly, those most likely to lose their jobs as the furlough scheme unwinds (such as sectors still subject to lockdown or significant constraints on customer numbers) are those working in retail and hospitality and on relatively low wages.

Figure 20: Proportion of people who ever work at home, lowest and highest



Source:ONS, L&W analysis

In addition, the Government's 'track and trace' system will require people to self-isolate for 14 days each time they come into contact with someone confirmed to have contracted coronavirus. Again, this will be easier to do if you are a well-paid professional able to work from home than if you are a self-employed worker or on a zero hours contract relying on Universal Credit or Statutory Sick Pay.

Policy can help to mitigate the risk of increased inequalities and set a brighter course for the future. To get back to a focus on 'levelling up' the Government needs to act to limit the risk of us 'splitting apart'.

A plan for jobs

We need an ambitious plan for getting Britain back to work and increasing employment, which matches the scale and nature of the challenge we face.

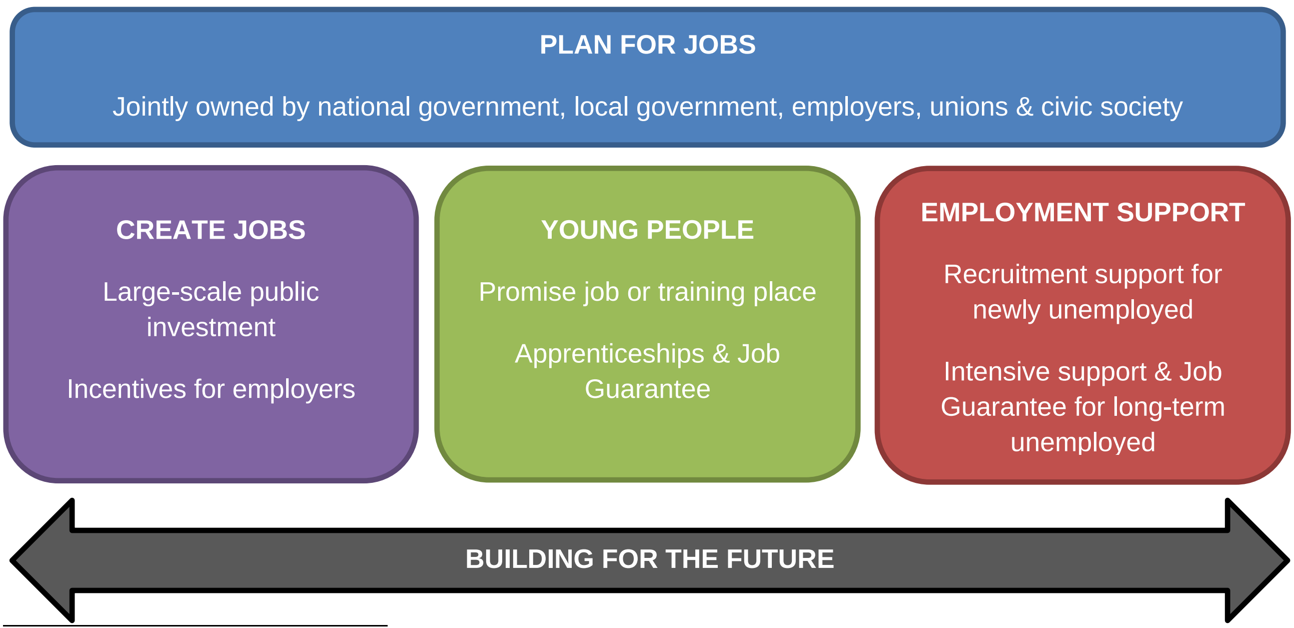
Learning and Work Institute worked with eight other organisations, including the Institute for Employment Studies, Association of Colleges and Reform, to set out proposals to this in Help Wanted.[22] This called for urgent action at scale to help those who had lost work to find new jobs quickly, maintain and expand support for the long-term unemployed, and make sure young people have good education and employment options. This chapter sets out that thinking, giving further details of what a plan for jobs should include.

A plan to create and fill jobs as a bridge to a low carbon, inclusive future

The plan for jobs should be co-produced by national government, local government, employers, unions and civic society. Its delivery needs to be jointly owned, with shared monitoring of its impact and consideration of additional steps needed. Local ownership can be achieved through existing mechanisms, such as local government, Local Enterprise Partnerships and Skills Advisory Panels.

The plan for jobs should be targeted and focused, with three elements: investment and incentives to create jobs; employment and training for young people; and employment support for those newly unemployed and long-term unemployed. All of this should be underpinned by a focus on the future: acting as a bridge to a better future of good quality work, an inclusive society, and low carbon economy.

Figure 21: A plan for jobs



[22] Help wanted: getting Britain back to work, L&W, IES et al, 2020.

1. Investment and incentives to create jobs

We should create ring-fenced jobs for young people and those out-of-work through 'shovel ready, jobs rich' public investment, and introduce incentives to create jobs and ensure they are filled by those hardest hit by the crisis.

It is not clear how sharp the recovery will be as social distancing restrictions are eased. However, the economy is likely to need further stimulus to recover, and there is also the risk of a 'second wave' of infection and the economic impacts of adjusting to a new trading relationship with the EU. We should ensure any such stimulus is 'jobs rich' and improves our long-term growth potential.

The Government had already announced substantial increases in public investment, such as broadband and high-speed rail, and is expected to go further or pull some of this spending forward. This makes sense for our future growth prospects, but is unlikely to create significant numbers of jobs in the short-term.

So in addition to long-term public investment, the Government should seek out and fund 'shovel ready, jobs rich' schemes. Contracts to deliver these projects should require the creation of apprenticeships, particularly for young people, and ring-fence a proportion of jobs created for those who are out-of-work. There is a long history of doing this, including large-scale programmes like the 2012 Olympics and local development such as agreed by Local Authorities through Section 106 agreements.

Beyond this, there have been calls for financial incentives for employers to create jobs. This could include cuts to National Insurance, whether cutting employer contributions or increasing the Employment Allowance. However, these sort of tax cuts are unlikely to lead to largescale job creation. First, because National Insurance contributions are only part of the costs of taking someone on: employers need to know there is sufficient economic demand to bring income into their business to cover the costs of additional employees. Second, because the impact of National Insurance is generally (depending on the nature of the labour market and timing and nature of the National Insurance change) on wages: it is more a wages tax than a jobs tax.[23]

Given this, it would be better to introduce measures to stimulate demand in the economy in a way that is most likely to create jobs. That could include scrappage schemes such as for cars and boilers, or investment in green retrofitting schemes such as home insulation. These could be matched with linked action to support new workers into the roles created as a result. For example, in the last recession, the London Development Agency ran a

[23] For example: Employment effects of a payroll tax cut – evidence from a regional tax exemption experiment, Korkeamaki and Uusitalo, 2006; Estimating the impacts of payroll taxes – evidence from Canadian employer-employee tax data, Deslauriers, Dostie, Gagne and Pare, 2018.

Retrofit Employer Accord to train workers in fitting domestic environmental measures, and required firms accessing public funds for these measures to engage with the scheme.

Financial incentives for employment can play a role where they are direct, simple, targeted and time-limited. In Sweden a cut to payroll taxes for firms employing young people led to an increase in youth employment, albeit at an expensive cost per job. It did so because it was time-limited and targeted: it is likely that firms wanted to keep wage differentials between more and less experienced workers for this time-limited period, and so created more jobs rather than increasing the pay of those subsidised.[24]

The most impactful incentives tend to be hiring incentives (rather than general wage subsidies) that are time-limited and focused on people who are long-term unemployed or at risk of being so (in order to limit deadweight – that is, spending on people who would have found jobs anyway).

That suggests a potential role for a time-limited hiring subsidy for employers who take on long-term unemployed people, but only alongside high quality employment support and action to stimulate the economy in ways most likely to create jobs.

2. Guarantee young people a job or training offer.

We should introduce a Youth Guarantee to ensure all 16-24 year olds can access a job, an apprenticeship, or an education or training opportunity.

Young people are often more at risk of unemployment during recessions. In the last recession, unemployment among 16-24 year old peaked at 21%, nearly four times the rate of adults aged 25 and above (5.7%).[25] Long periods of unemployment while young can cause lasting ‘scarring’ impacts to young people’s future employment rates, earnings and mental health and wellbeing.[26] In this crisis, young people are more likely to work in ‘shutdown sectors’: improving youth employment, and the qualifications profile of young people must be a priority.

The central element of the response should be a **Youth Guarantee** which ensures that every young person has access to a job, an apprenticeship or an education or training opportunity. It should have three elements: keeping more young people in education and training; high quality employment support, including a targeted job creation scheme; and re-focusing investment in apprenticeships.

Supporting young people to stay in education

Young people leaving education and training this autumn will face a challenging labour market. There are likely to be significantly fewer job vacancies – particularly in sectors

[24] Do payroll taxes raise youth employment? Egebark and Kaunitz, 2014.
[25] L&W analysis of ONS Annual Population Survey
[26] See for example Bell and Blanchflower (2011) and Strandh et al (2014)

which traditionally employ a large number of young people – and many more unemployed people looking for work. In these circumstances many young people, and particularly those with lower levels of qualifications, may struggle to complete.

One way to limit the rise in youth unemployment is to encourage and support more young people to remain in education. In most recessions, participation in education among young people increases. This offers an opportunity to improve the skills of young people, particularly at level 3, narrowing the gap with other countries and between groups of young people.

First, in order to enable young people to continue in education, government should allow 16-19 year olds to undertake a further level 2 or 3 qualification, where their provider agrees that is appropriate and ending the drop off in per student funding currently seen at age 18. For the next two years, this would entitle all young people leaving education at 18, the opportunity to take a year long accredited course at an FE college, university, or other provider. Assuming an additional 100,000 young people stay on in education for an additional year, this would cost an additional £500 million per year.

Second, to support and incentivise young people to continue in education, the government should introduce a time-limited **Youth Training Allowance.** Running for two years from September, the Youth Training Allowance could be focused on young people aged 18-19 who continue to study an accredited course at an FE college, a university, or other provider, and who are either from disadvantaged backgrounds or who lack a level 3 qualification. In normal times, this group would be less likely to continue in education, and during a recession, this group would be more likely to suffer from unemployment if they enter the labour market.

Evaluations of previous similar schemes have shown that this kind of financial support can increase participation in education, particularly for those from lower income households, and those who were low or moderate achievers in education.[27]

The Youth Training Allowance could be set at the rate of Universal Credit for this group, and paid by DWP through the Universal Credit system. Assuming 100,000 young people access the allowance, this would cost a total of £411 million per year. However, the net cost would be significantly below this, given many potential recipients might otherwise end up unemployed and on Universal Credit.

[27] Introduced from 1999, the Education Maintenance Allowance is a means-tested benefit for 16-19 year olds who continue in education and training. The scheme was scrapped in England in 2010, but it continues to be paid in Scotland, Wales and Northern Ireland. Evaluations of the EMA have shown it had a positive impact on supporting participation in education and training, particularly for young people from lower socio-economic groups, those who were low or moderate achievers during compulsory education, and those who would otherwise have been expected to enter employment, or become NEET (see for example DfES 2005, Welsh Government 2014)

High quality employment support and a job creation scheme

We need to ensure that young people who are out of work get high quality employment support from day one. That should mean access to a personal advisor and rapid support to look for work, with a focus on high quality work and apprenticeships as well as signposting to education opportunities and careers advice. The next section provides further details on the need for employment support.

Not all young people will be able to find work through this support. To underpin this, we need a Job Guarantee. This would create ring-fenced for young people out of work for more than 9 months and adults (25+) out of work for more than one year. It would provide grants of up to £8,500 per job created, which would cover employee wage costs, employer NICs, and a contribution towards indirect costs such as management. The fund should seek to create additional employment opportunities at businesses, local authorities and charities, and to deliver some form of community benefit. Assuming 100,000 participants in the next 19 months, the scheme would cost £850 million.

The evidence shows that both intermediate labour market schemes and job creation schemes can work. For example, the Future Jobs Fund had positive impacts on young people's employment prospects during the last recession and more than paid for itself.[28]

Boosting apprenticeship opportunities

Apprenticeships can offer opportunities for young people to develop their skills and experience, and to take their first steps in a career. However, the number of entry-level opportunities for young people joining the labour market has declined. Last year, 16-18 year olds accounted for just a quarter of apprenticeship starts. The coronavirus crisis has accelerated this decline, with the number of apprenticeship starts for young people in April being 74% down on the previous year.

The Government should take action to stimulate apprenticeship opportunities for young people. This should include:

- **Supporting levy-paying employers to focus on young apprentices** by fully-funding apprenticeships for 16-18 year olds from government funding, rather than levy payers accounts at a cost of £450 million. The Government should allow levy-paying employers to use their levy funds to cover half of the salary costs at minimum wage for apprentices aged 16-24 for the next year; and

[28] The Future Jobs Fund aimed to help disadvantaged young people to build their skills and work experience, so that they could move on to unsubsidised employment in the future. Employers were provided with a subsidy of up to £6,500 to create ring-fenced employment opportunities, lasting a minimum of six months, and paying at least the minimum wage. Jobs were required to be 'additional' posts, and the work had to benefit local communities. Evaluation (DWP 2012) found that two years after the scheme, participants were significantly more likely to be in unsubsidised employment, and significantly less likely to be on benefits.

- **Support SMEs to recruit young apprentices** by providing an apprenticeship grant to non-levy paying employers worth £4,000 for each apprentice aged 16-24 for the next year, covering half the wage cost of an apprentice on the minimum wage, and waiving the requirement to contribute 5% of training and assessment costs. This could be paid via a direct grant, or negative National Insurance grant.

3. Help people find work.

We should invest in employment support, including for people who are furloughed, increasing support the longer someone is out of work and underpinned by a Job Guarantee.

The Coronavirus Job Retention Scheme (CJRS) has helped protect jobs, and limit the increase in unemployment. However, given the ongoing impact of social distancing requirements, and changed consumer behaviour, a significant number of the more than eight million furloughed workers are unlikely to be able to return to their previous jobs. This risks leading to a second wave in unemployment.

The Government should urgently develop a **Back to Work Support Scheme** to limit the number of furloughed workers who fall into unemployment and support those who have already lost their jobs to find new work. This should include:

- **Rapid redundancy support.** Employers should be required to notify the Government if they plan 5 or more redundancies, compared to 20 or more today. Jobcentre Plus and local government should coordinate local outplacement support and links to current vacancies; and
- **Improved retraining support.** We should more proactively target retraining support for those who are furloughed, including linking them with apprenticeship vacancies at other firms to allow them to learn on the job. The Government should introduce financial support for people to switch careers, whether through an increase in Universal Credit or a retraining allowance.

Given how damaging long-term unemployment is, we need to help people everyone who loses their job back to work as quickly as possible. Given the scale of the increase in unemployment, we will need to recruit at least an additional 10,000 Work Coaches on top of the current 11,000.[29]

However, this will take time and people need help now. During the 2008 recession, additional support was provided by employment support providers and the recruitment industry. We should repeat that model now, particularly given many people working in recruitment are currently furloughed – instead of paying them not to work, we should pay them to help other people into work.

[29] Ibid.

This could be done quickly, for example through the ‘accelerated open procedure’ procurement process, which could mean new provision in place in two months, and relatively cheaply, for around £300-400 per person, meaning a total cost of £500-800 million.[30] Given the likely need for social distancing for some time, this support will need to be delivered in new ways, including through the use of digital technology.

For those who do not find work quickly, or who were already long-term unemployed when the crisis hit, we need to ramp up support. That should include providing funding for existing high quality employment support to increase the numbers of people they can support.

It is likely that additional employment support programmes will be required. When long-term unemployment rose to 900,000 after the Great Recession, the Government planned to invest £2.8 billion over nine years in the Work Programme. This gives a sense of the scale of potential investment that might be needed.

We should not, however, simply replicate the Work Programme: we should learn from it and other previous programmes. Help Wanted suggested a total cost over two years of up to £2.4 billion, based on an average cost per person of £1,500-2,000. The key elements should include:

- **Eligibility.** Access focused on those who have not found work through support from Jobcentre Plus or the recruitment industry. This could be after six months for young people and 12 months for those aged 25 and over, with flexibility for Jobcentre Plus to refer others they think would benefit most;
- **Customer service standards.** Clear, nationally set customer service standards that show the minimum expectations people can have, such as amount of contact time with an advisor, regardless of who provides the service;
- **Personal advisor support.** A well-trained personal advisor with whom each customer agrees an action plan for finding work;
- **Effective provision.** Access to a wide range of job support, from CV writing, training provision, volunteering etc that draws in the best of what is available locally; and
- **Focus on outcomes.** The ultimate aim is to help people into good quality work, including through apprenticeships and ensuring all participants reach a good standard of basic skills.

Not everyone will find and sustain work, even with a high quality programme and strengthening economy. That is why we argued for a Jobs Guarantee, as detailed above, for those who are still out of work beyond a certain point.

[30] Ibid.

Next steps

The impact of the coronavirus crisis has been stark and immediate. Despite the unprecedented measures put in place to protect businesses and jobs, we have seen the sharpest ever rises in unemployment.

The impact is unequal; young people and areas of the country with lower pre-crisis employment have been hit the hardest. This risks creating greater inequalities and putting at risk the government's ambition to 'level up' opportunities.

This challenge is likely to be with us for years to come: even with a rapid economic recovery, the experience of past recessions says it could take five years or more for employment to fully recover. This brings the risk of long-term unemployment and its damaging effects on our economy, on people's career prospects, and on wellbeing.

There is lots we can to minimise the damage and build for the future.

First, we need a clear and ambitious plan for jobs. This needs to be a shared endeavor between national and local government, employers and civic society. It must include investing to create jobs and preparing for the risk of a second spike in unemployment as emergency support is withdrawn.

Second, we need to make sure all young people are guaranteed a job or training offer. That requires a partnership between the employment and skills systems, support to stay in education, and reinvigorating apprenticeships for young people.

Third, we need to get back to the business of helping people find work. That means harnessing help from the recruitment industry and elsewhere for those who have recently lost their jobs. It also means expanding existing good quality support for those already long-term unemployed and underpinning this with a Job Guarantee for those who cannot find work.

Throughout, we should have an eye to the future, focusing on the jobs of the future including in low carbon industries and making sure young people get the skills and education they need.

This is a big challenge. But it is one we can rise to.

We can work together to build a better future.