LEARNING AND WORK INSTITUTE

MISSING MILLIONS: WHERE WILL THE JOBS COME FROM?

Stephen Evans
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Executive summary

Employment is likely to take years to recover from the coronavirus crisis and it may never return to pre-crisis levels in some sectors. This report argues for action to speed up employment growth and support existing jobs in crisis-affected sectors.

After a profound shock, the labour market faces a transition phase to an uncertain new normal

Employment has likely fallen by around one million, though this is not yet clear from official figures. The claimant count has more than doubled since March. More than nine million jobs have been furloughed under the Coronavirus Job Retention Scheme, and up to 6.8 million jobs were still furloughed at the end of June.

We are now in a transition phase: the economy is reopening but social distancing remains in place. This will limit employment in labour-intensive sectors like hospitality and non-food retail: in France and Germany, footfall in these sectors was 15-20% below pre-crisis levels. In addition, it has taken 3-7 years for employment to recover after previous recessions and some sectors may never return to pre-crisis employment levels.

One of our challenges is that we do not know what our new normal will be or when it will arrive. Some of the changes seen during lockdown, including some of the increased remote working and online shopping, are likely to persist. Others will not. It is difficult for policymakers to distinguish between the two, or to know when medical advances such as vaccine development will mean all current restrictions can be lifted.

This suggests that we could face a jobs gap of more than one million jobs. The nature of the current crisis means that, alongside employment support, we need to understand the jobs gap and plan how to fill it.

High unemployment areas, city centres and tourism destinations face different jobs gaps

Some of the highest increases in claimant unemployment have been in parts of the country where unemployment was already highest. Use of the furlough scheme has been widespread, with around one in three eligible jobs furloughed at some point. Areas more reliant on tourism and manufacturing have generally seen higher take-up: take up varies from 40% in South Lakeland to 20% in Boston.

London has seen some of the biggest increases in claimant unemployment and substantial use of the furlough scheme. This is likely to reflect the high number of jobs in lockdown sectors such as hospitality, and the large number of people able to work from home which continues to affect demand for city centre retail and hospitality.

Use of the scheme is a success and has helped to limit the rise in unemployment, but these variations in take-up suggest different risks of a second spike in unemployment as the furlough scheme is withdrawn in the Autumn across the country.

All told, the size and nature of the jobs gap following the crisis varies significantly. This differential and uncertain impact means that policy must reflect local economic circumstance. For example, while there is huge uncertainty, it is feasible that:

- Hospitality and non-food retail jobs may be harder hit in London than elsewhere as international tourism remains limited and more people continue to work from home
- Manufacturing employment in places such as the West Midlands and North East may return from furlough, but be affected by a new trading relationship with the EU from January 2021 (as will other sectors and areas)
- Tourism jobs may return more quickly in coastal resorts as more people stay in the UK for their holidays, but local lockdowns could hit harder if the virus spreads.

Investment and incentives can help to tackle the jobs gap

The economy is unlikely to create sufficient jobs quickly enough given both past experience and the nature of this crisis. But we cannot simply freeze the economy in its pre-crisis state through never-ending extensions of the furlough scheme.

We propose a three-part plan for employment growth:

- **invest to create jobs.** Create 50,000 new jobs by linking accelerated public investment to back-to-work help and apprenticeships. Increase employment by 270,000 by investing £7.6 billion more in social care, childcare and adult learning.
- **stimulate job growth.** Create 150,000 green jobs by investing £3 billion in home energy efficiency, £1 billion more than planned. Support up to 450,000 job placements through the £2 billion Kickstart scheme, with an extra £1 billion to expand opportunities to adults.
- **support existing jobs.** Support 300,000 to 500,000 jobs in sectors like hospitality and non-food retail, through a £4 billion Job Support Scheme covering 20% of the wages of jobs in these sectors and other strategically important industries. Extend wider support to businesses most affected by future local lockdowns.

None of this is a substitute for good employment support that helps people look for work, and effective social security that supports people’s incomes. In previous reports we have recommended doubling the number of Jobcentre Plus Work Coaches, making sure everyone out-of-work has an individual action plan and support to find a new job, and guaranteeing young people a job, apprenticeship or training place. This is all vital, but the specific nature of this crisis means it needs to be alongside action to promote job growth.

Introduction

The coronavirus crisis has had a profound impact on the labour market. There have been more than two million new claims for Universal Credit, the sharpest annual rise in the claimant count on record, and more than nine million jobs have been furloughed through the Coronavirus Job Retention Scheme.

The economy is now reopening, and the number of jobs furloughed reducing. However, restrictions and altered consumer behaviour (as fewer people choose to go to bars or restaurants, or cannot afford to) are likely to continue, perhaps for at least six to 12 months as work on a vaccine and treatments continues. Beyond this, there will be an uncertain 'new normal' – life is unlikely to go back completely to its pre-crisis patterns and this will alter the types of jobs available in the economy.

The Office for Budget Responsibility's central projection assumes 1.25 million (15%) of furloughed workers may not have jobs to return to, causing a second spike in unemployment. In addition, in the last three recessions it has taken the employment rate 3-7 years to recover.

It could be different this time if we get a V-shaped economic recovery back to close to pre-crisis patterns. But, while there is likely to be at least some rebound, its degree and nature are likely to be affected by restrictions in place while we wait for a vaccine or treatment and as the economy adjusts to its new normal.

High quality education and employment support are essential but will not be enough if we do not also promote faster job growth. This report focuses on the potential size of the jobs gap and how to fill it.

The scale of the jobs gap

An initial economic shock followed lockdown: there was a mass switch to home working in many sectors; employment fell; and millions were furloughed under the Coronavirus Job Retention Scheme. Since then, economic activity and employment have remained subdued, with signs of an increase in activity from June.

We are now in a transition phase. The economy is beginning to reopen but finding new ways to operate. Many people are still working from home most or all the time; and businesses that have reopened need to ensure their premises are covid-secure for both employees and customers. Further spikes in the virus may require stricter measures or additional local lockdowns.

The restrictions on business will mean reduced capacity in some sectors, particularly non-food retail and hospitality. But there is likely to be reduced demand too: some people will be put off by the restrictions in place, others concerned about safety, and others will have reduced incomes due to job loss or hours reductions, or lower levels of confidence due to fear of future job loss. There may be geographical variations, with city centres perhaps harder hit by falls in demand due to increased homeworking reducing footfall.

This transition phase will be of unknown length, dependent on the success of treatments and vaccines in development, but likely to last six to 12 months.

Eventually we will move to a new normal: the new equilibrium the economy reaches once a vaccine is in place (or not, if we simply have to live with it). Its timing and nature are highly uncertain, but it is likely to involve some of the changes seen during this crisis, like increased remote working and online shopping, staying to some extent. Some of these are accelerations of pre-crisis trends, such as automation.

This will change the pattern and levels of employment across sectors and occupations but in uncertain ways. Some of the shifts in consumer behaviour and working patterns will be permanent, but the extent to which changes will be limited to the transition phase or will become a more permanent feature of our new normal is not known.

We must both minimise unemployment and support people’s incomes during the transition phase, and help people and businesses make the most of the new opportunities that will emerge.

Employment has likely fallen more sharply than in previous recessions

Employment fell sharply after lockdown measures were imposed: new Universal Credit claims spiked to seven times their pre-crisis levels; HMRC data shows a 730,000 fall in payroll employment in the four months since March; and the claimant count has risen by 1.4 million in this time (though around 15% of claimants have some employment income).

This is not yet fully showing up in headline Labour Force Survey (LFS) data due to both timing (the latest LFS data cover April-June, whereas more timely indicators are available for July) and survey challenges (during the crisis it is difficult for a survey to truly capture the nature of employment, particularly with the introduction of the furlough scheme – for example, 300,000 people say they are in work, but have not worked or had any income during the last month).

The result is that it is likely the LFS is underestimating the labour market impact of the crisis and the claimant count is overestimating it. Learning and Work Institute analysis suggests employment has probably fallen by about one million so far.[1] These falls in employment have so far resulted more from a reduction in hiring (vacancies are down at least 60% on pre-crisis levels and flows into employment from unemployment and inactivity have dropped sharply) and less from an increase in job loss.[2]

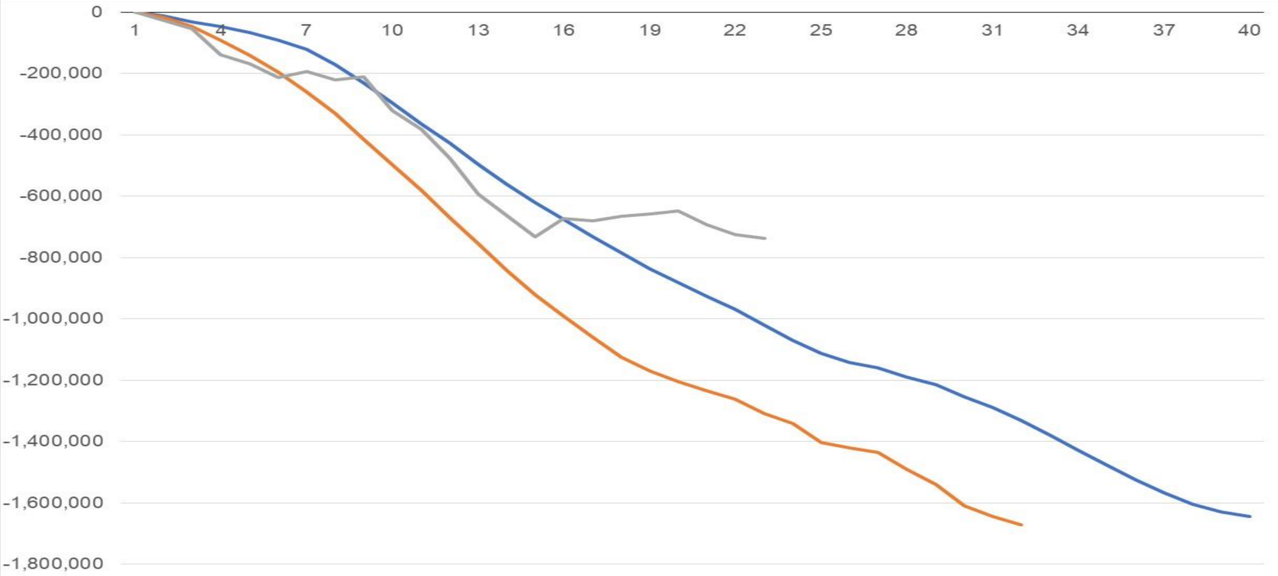
The reason is that more than nine million jobs have been furloughed at some point under the Coronavirus Job Retention Scheme (CJRS) – people were still in employment, but not working and with the Government supporting their wages. At the end of June, 6.8 million jobs were furloughed. Surveys suggest the number of jobs furloughed is likely to have fallen substantially during July and August, likely around four million currently.[3]

We do not yet know how many previously-furloughed workers lost their jobs (rather than returning to them) or how many still-furloughed workers will lose their jobs as the scheme unwinds. The Office for Budget Responsibility’s central projection assumes that 15% furloughed workers will lose their jobs. This could mean the previous hiring crunch is followed by a spike in job loss, leading to a 'second wave’ of unemployment.

Put together, this would mean employment falling by more than two million over the nine months since the start of the crisis. This would be a larger fall than in the recessions of the 1980s, 1990s and after the global financial crisis and happening at three times the speed: a sharper and harder hit to employment than seen in the last three recessions.

[1] What’s going on in the labour market?, L&W, 2020.
[2] Labour market statistics, ONS, 2020.
[3] Based on an ONS survey which suggested 12% of employees were furloughed, as well as other survey measures.

Figure 1: Employment falls by month from pre-recession peak



Source: L&W analysis of ONS data

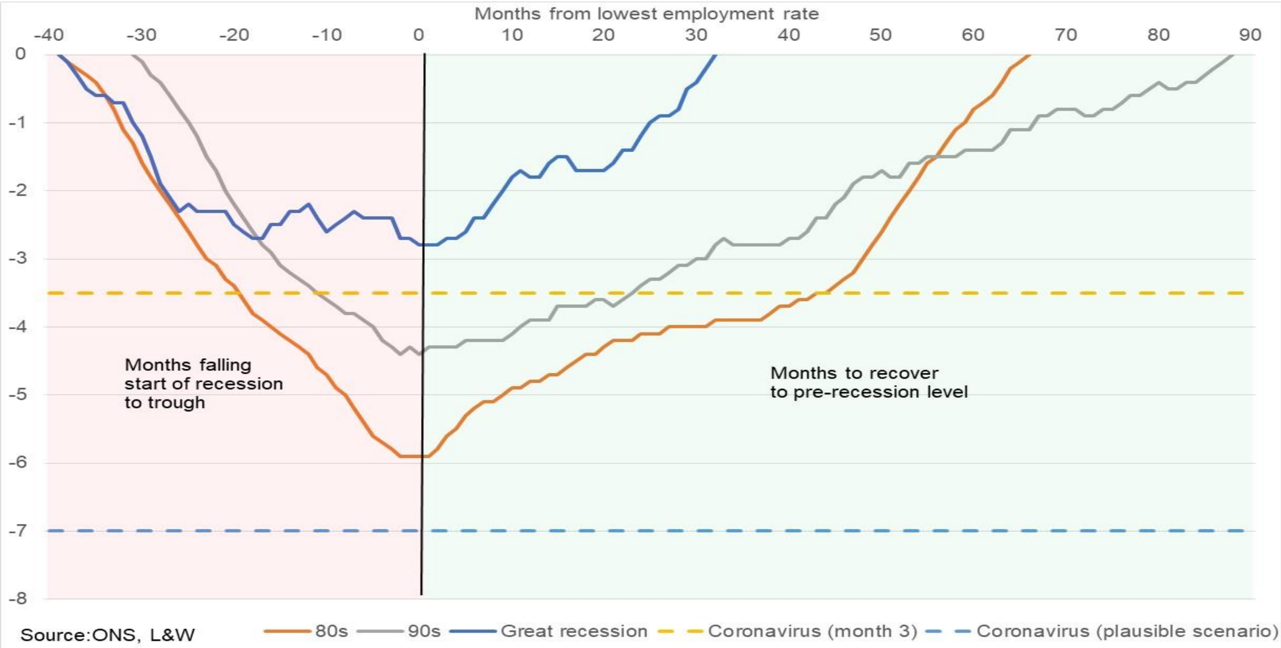
Employment recovery is likely to take time, to be uneven, and to fall short

Employment will eventually grow as the economy recovers, though its path is likely to be uneven given the uncertainty ahead and planned end of the furlough scheme.

Independent forecasters, such as the Bank of England and Office for Budget Responsibility, project a relatively rapid fall in unemployment through 2021, though with it remaining significantly above pre-crisis levels for several years. We should aim to do better than this, and there is a risk that these forecasts prove too optimistic both because some sectors, such as retail and hospitality, will remain constrained and because it takes time for the economy to adjust to new opportunities. We define these risks to employment growth as an adjustment gap and a transition gap.

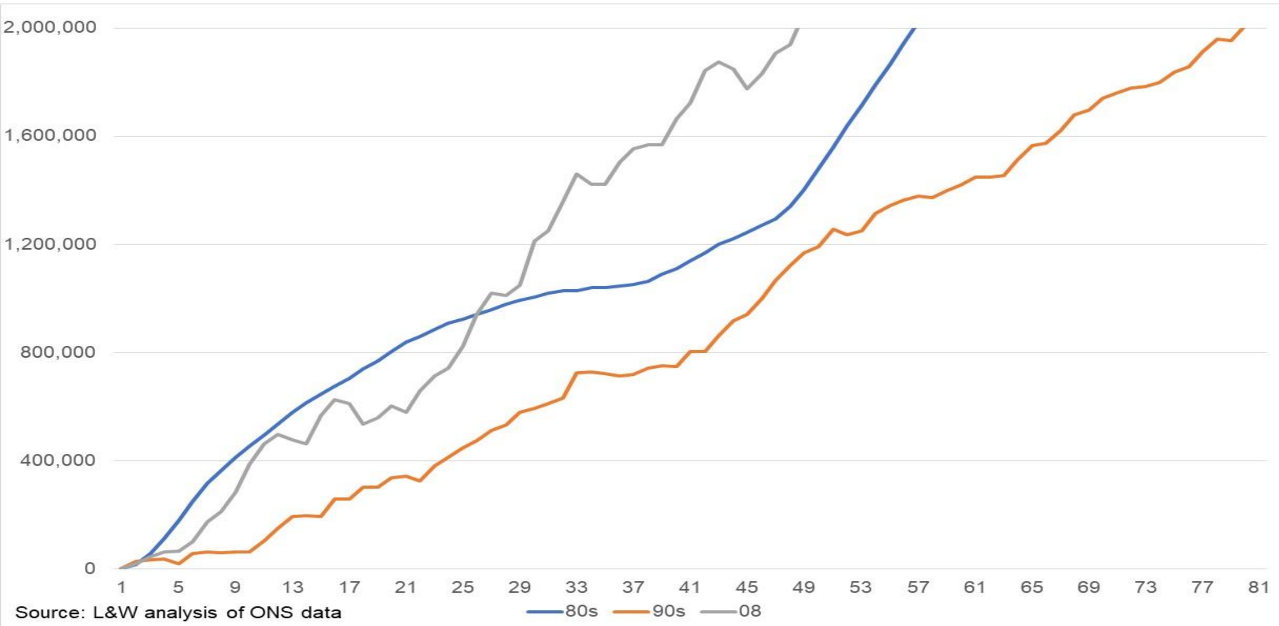
The **adjustment gap** arises because it may take several years for employment to fully recover as the economy starts to grow again. It takes time both for new business opportunities to emerge, for new and existing businesses to make the most of these, and for this to lead to employment growth. In previous recessions, it has taken 3-7 years for the employment rate to recover back to its pre-recession levels.

Figure 2: Months for employment to fall to post-recession low and recover



It has taken 3-6 years for employment to rise by two million (the potential size of the fall in employment by the end of 2020) following the last three recessions. Employment levels (as opposed to rates) are affected by population growth (due to net migration and natural change) as well as the strength of the economy and labour market. However, this gives an indication of the scale of the challenge and the time taken to recover without action over and above that seen after previous downturns.

Figure 3: Employment rises by month from post-recession low

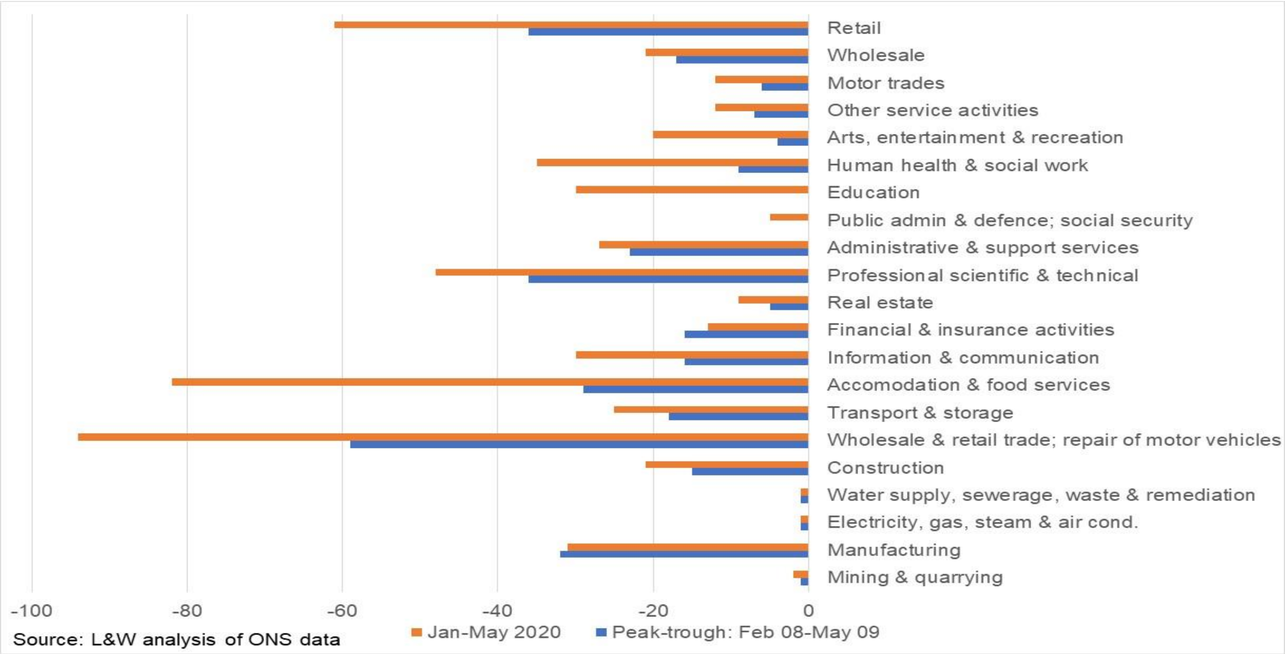


Employment would grow by about 500,000 in the year following its lowest point if it followed the path seen in recent recessions. The size of increase in long-term unemployment implied by this, if employment does fall by up to two million, would cause significant damage to our economy and to people's career prospects.

The **transition gap** arises because businesses in jobs-rich sectors like hospitality will need to operate below their pre-crisis capacity while vaccines and effective treatments are being developed. We estimated that 5.4 million people worked in lockdown sectors: if these sectors are only able to operate at 80-90% capacity during the transition phase, then up to one million jobs may no longer be needed.[4] This proportion will depend on the nature of social distancing restrictions and consumer behaviour.

Vacancy data illustrate this. Vacancies fell by 485,000, with some recent recovery. This is larger than the 269,000 fall seen after the last recession. Shutdown sectors, like retail and hospitality, account for most of this greater reduction in vacancies (though there are declines across the board, with perhaps surprisingly large drops in education and health).

Figure 4: Changes in vacancies by sector, thousands



Employment would have to grow faster in other sectors to compensate for constrained demand in sectors like retail and hospitality, just to match previous rates of recovery in overall employment, let alone to exceed it.

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

The rate of employment growth this would require, coupled with the number of people that would need to move to work in a different sector needed to fill these new jobs, would both be unprecedented.

Over the last decade, the Resolution Foundation found that three quarters of people losing their jobs have returned to work in the same sector.[5] The same analysis argued that, if retail and hospitality remained 10% smaller during the transition phase, rates of moving into new sectors would need to be 50-100% higher than following the last three recessions to fully fill the gap. This suggests that, of the potential two million fall in employment, maybe 0.5-1 million people could switch sectors based on past rates of change. This would leave a gap of 1-1.5 million: people losing their jobs but not able to return to the same sector or switch to new sectors.

There is also a risk that employment recovery might be weaker in the transition phase due to a greater difficulty matching people with jobs resulting from limits on people's ability to look for jobs, reduced support for people to look for work (including from Jobcentre Plus, at least until more Work Coaches are recruited), and changes or reductions in employers' recruitment activity. This brings the risk of greater frictional unemployment, which could lead to increased structural unemployment over time. In other words, if we do not tackle increased unemployment now, it may make it more difficult to make a successful transition to our 'new normal' as the pandemic passes.

Things may turn out better than this. But, given the damage that unemployment causes, it is better to over-react with hindsight than under-react.

Taken together, we risk a total fall in employment of around two million. Natural growth in employment may fill half of this gap over the next two years as the economy recovers. However, constraints in some sectors while we await a vaccine will hold employment growth back, while the rates of employment growth and sector-switching needed to fully compensate would be historically unprecedented. This means we could face a total jobs gap of around one million.

[5] The full Monty: facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, 2020.

How does the jobs gap vary?

The nature of the employment challenge varies around the country, depending on an area's starting point and pattern of employment. In general, those groups and areas with fewer employment opportunities before the crisis have been hardest hit by the crisis so far.

Local labour markets varied significantly before the crisis

Before the coronavirus crisis, employment rates and local labour markets varied significantly across the UK. Debate increasingly talked about divides between prosperous cities and left-behind towns, in part leading to the Government's commitments to 'level up'. There were also large inequalities by demographic group.

However, the data suggested that pre-crisis labour markets were not a simple north-south divide or case of cities versus towns versus rural areas. Instead, the largest variations are often found within regions and geographical areas: for example, London is the wealthiest area of the country, but contains some of the poorest areas too.

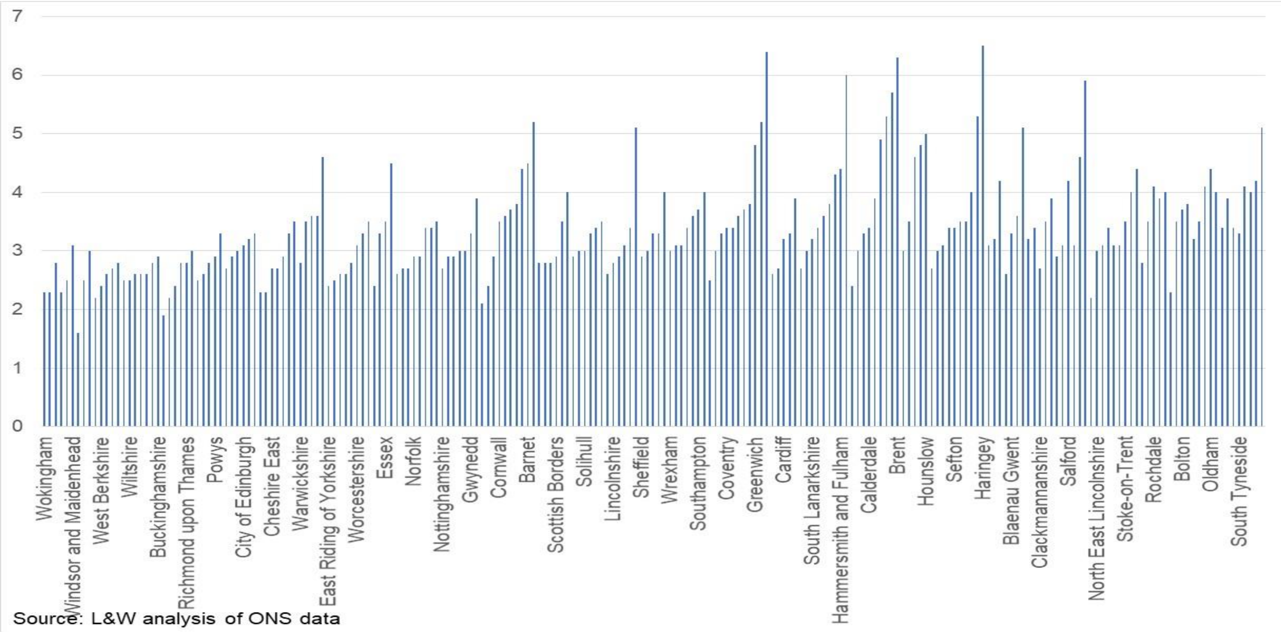
In March 2020, the areas with the highest proportion of the population claiming unemployment-related benefits were Blackpool (7.2%), Birmingham (6.7%) and Wolverhampton (6.4%). The lowest claimant count rates were found in Wokingham (1.1%), Surrey and Rutland (both 1.2%).

The crisis has hit high unemployment areas hardest so far

As the previous chapter discussed, data on the employment impacts of the crisis so far is relatively limited and needs to be carefully analysed. The claimant count provides the timeliest measure at local level: it includes those on unemployment-related benefits, but some people are out-of-work and do not claim benefits and around 15% of claimants have some income from employment.

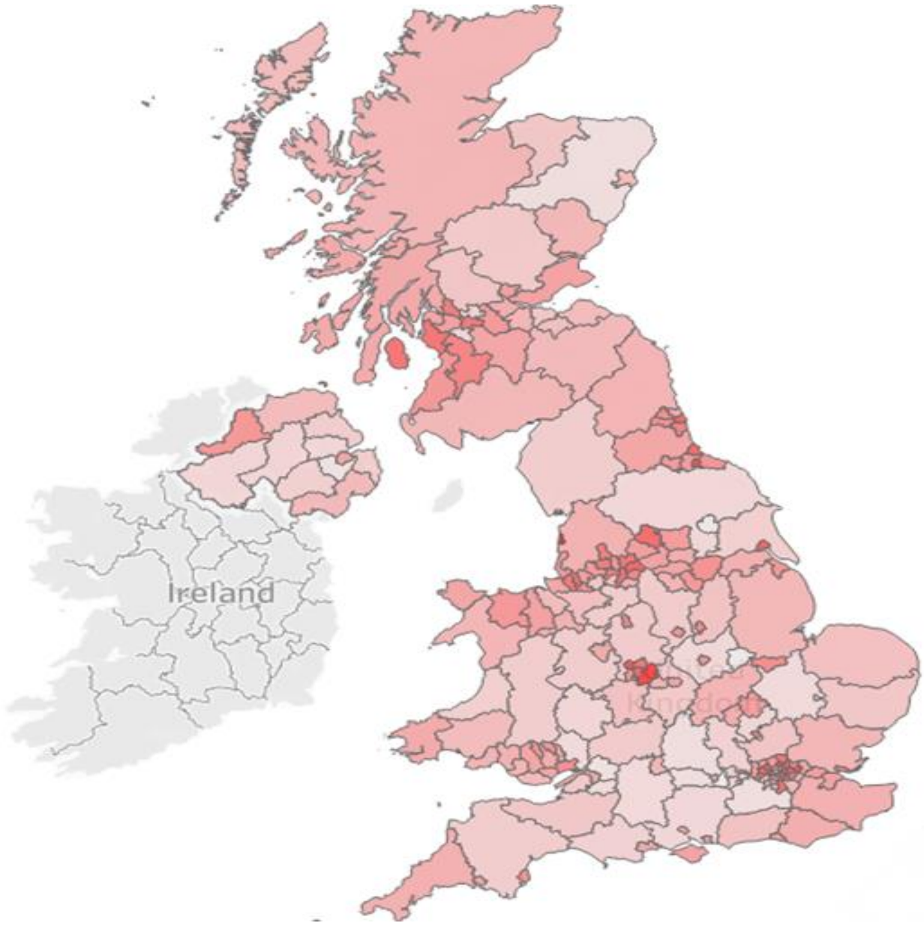
In general, the claimant count has risen fastest in areas it was highest before the crisis, with cities and coastal areas having the highest rates. Blackpool had the highest claimant count rate in March 2020, by July this had risen by 5.1 percentage points as a proportion of the working-age population; Wokingham had the lowest claimant count in March, and this has now risen by 2.2 percentage points. The ten areas with the lowest claimant count rate in March 2020 saw an average 2.5 percentage rise in the four months since; the ten highest claimant count rate areas saw an average 4 percentage point rise.

Figure 5: Percentage point rise in the claimant count March-July 2020, ranked by March claimant count rate (lowest to highest)



Source: L&W analysis of ONS data

Figure 6: Claimant count as a proportion of working-age population, July 2020



Employment in lockdown and furloughed workers is widespread but varies

Around 5.4 million people were employed in shutdown sectors before the coronavirus crisis.[6] The nature of these sectors, such as non-food retail and hospitality, means these jobs are geographically widely distributed. However, there are variations: the proportion of employment accounted for by shutdown sectors was highest in Greater Manchester, Inner and Outer London, and Wales. These areas are likely to be more vulnerable to potential job losses as the impact of social distancing constraints and any effects on consumer confidence continues and the furlough scheme winds down.

Figure 7: Shutdown sector employment by geography

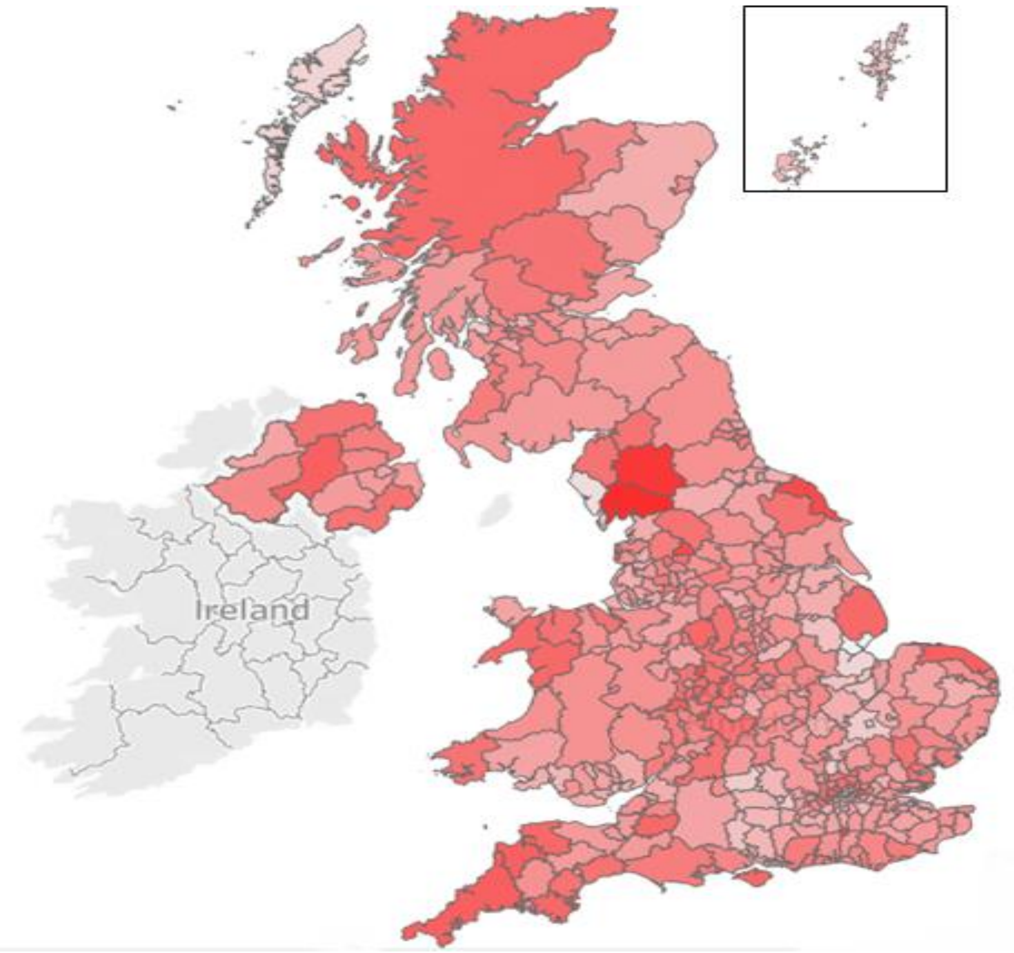
Geography	Jobs	% of total jobs
Tyne & Wear	90,683	17.9%
Rest of North East	120,435	18.2%
Greater Manchester	242,321	18.4%
Liverpool City Region	112,951	17.5%
Rest of North West	244,724	17.5%
Sheffield City Region	107,515	17.1%
Leeds City Region	182,318	17.2%
Rest of Yorkshire & the Humber	145,220	18.2%
East Midlands	349,284	15.6%
West Midlands MCA	213,664	16.7%
Rest of West Midlands	218,256	15.6%
Eastern	501,049	16.9%
Inner London	352,040	18.4%
Outer London	478,417	18.4%
South East	748,433	17.1%
South West	461,590	17.4%
Wales	259,875	18.3%
Scotland	469,043	18.2%
Northern Ireland	121,667	16.0%
Source: L&W analysis of ONS data		

HMRC data show the cumulative number of jobs furloughed by local authority.[7] Their data suggest that the number of furloughed jobs is about 22% below its peak. However, as set out earlier, it is likely to be lower than this now. For this analysis, we therefore assume that the number of furloughed workers is one third below its peak in each local authority area, though this will vary in practice.

[6] Coronavirus and the labour market: impacts and challenges, L&W, 2020.
[7] Coronavirus Job Retention Scheme statistics: July 2020, HMRC, 2020. Data is based on employee's place of residence, rather than place of work.

Figure 8 shows how the proportion of workers likely to be currently furloughed varies by local authority. It shows the take-up the furlough scheme has been relatively high across the country. However, use of the furlough scheme is highest in areas, such as South Lakeland (40%), which are more reliant on tourism, retail and manufacturing.

Figure 8: Likely furloughed workers as a proportion of total employment

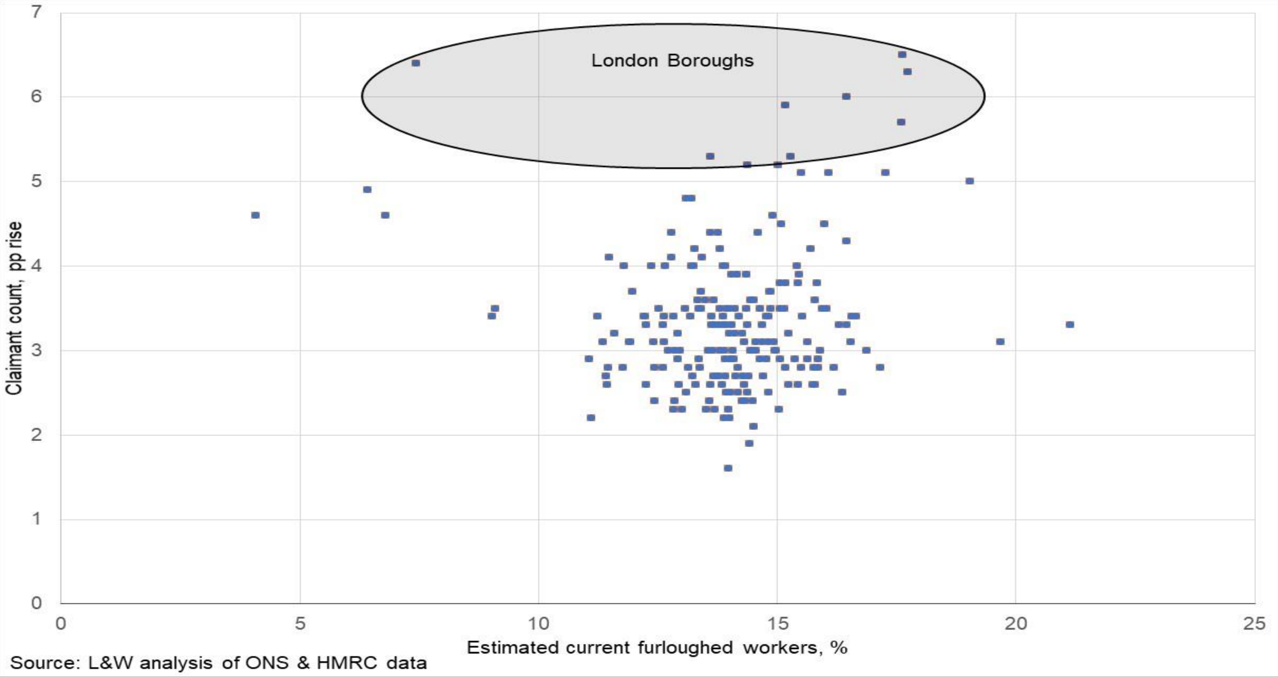


The correlation between use of the furlough scheme and increases in the claimant count is quite mixed. This shows the importance of understanding local economies to identify potential risks and opportunities and plan an effective employment response.

Putting this together, London Boroughs have generally seen the highest combined increases in claimant unemployment and use of the furlough scheme reflecting:

- a high number of people employed in shutdown sectors like non-food retail and hospitality as well as tourism; and
- a high proportion of people able to work from home – this has meant reduced demand for city centre retail and hospitality even as the economy has reopened.

Figure 9: Claimant unemployment & likely furloughed workers by local authority, %



Source: L&W analysis of ONS & HMRC data

The varying impact of the crisis so far has implications for recovery. London may face a larger jobs gap given ongoing international travel restrictions will limit tourism, coupled with higher ongoing working from home hitting the city centre economy.

Areas of the country reliant on tourism could see a quicker bounce back with more people taking holidays in the UK, but risk being affected by local lockdowns if this increases the prevalence or spread of the virus.

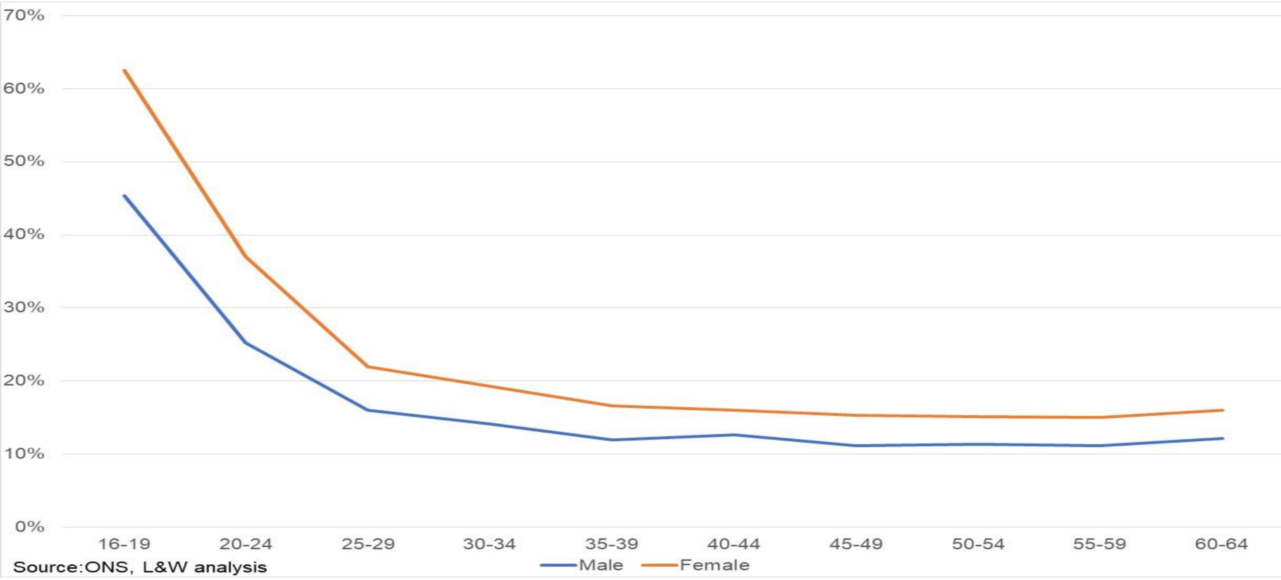
Places with larger manufacturing sectors could see a steady return to work as the furlough scheme ends, but with an uncertain impact from the adjustment to a new trading relationship with the EU from January 2021.

Groups such as young people were more likely to be furloughed

Previous Learning and Work Institute analysis showed that young people, women, and the lower paid were over-represented in the five million people who worked in lockdown sectors.[8] We also showed that 11 million people can be defined as key workers, and that the higher paid and those in professional occupations are most likely to be able to work at home.[9] This shows the unequal impact of the crisis so far: women and the lowest paid were more likely to be key workers or working in shutdown sectors, while professionals and the higher paid were more likely to be able to work remotely.

[8] Coronavirus and the labour market: impacts and challenges, L&W, 2020.
[9] Emergency exit: how we get Britain back to work, L&W, 2020.

Figure 10: Proportion of jobs in 'lockdown' sectors by age

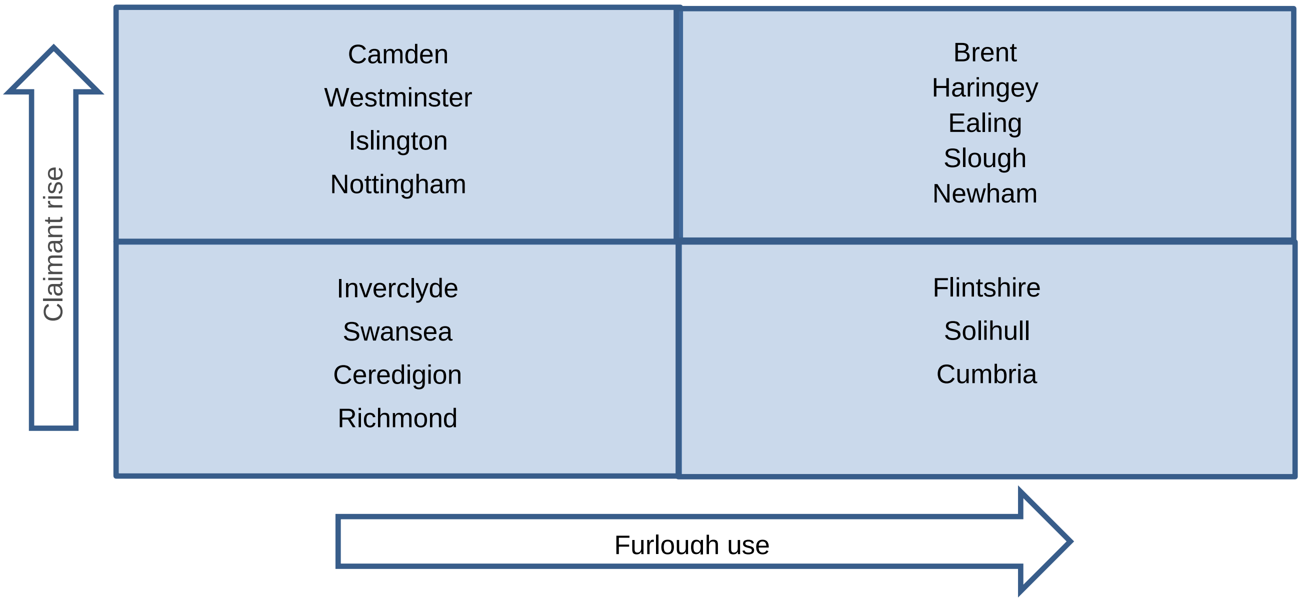


Together this means the jobs gap varies across the country

The UK may face an overall jobs gap of one million or more, but the scale and nature of the jobs gap varies significantly across the UK as a result of both pre-existing inequalities and the unequal economic impact of the virus.

The potential jobs challenge faced by an area can be measured by a combination of its starting claimant unemployment rate (levelling up challenge), increase in claimant unemployment during the crisis (current challenge), and prevalence of furlough (future challenge). Some examples are illustrated in Figure 11.

Figure 11: Examples of unemployment and furlough variations by local authority



Some areas had higher unemployment before the crisis, and have seen sharper rises in claimant unemployment during the crisis as well as widespread use of the furlough scheme. This will add to the Government's challenge in meeting its aim of levelling up. Of course, behind the statistics are varying economic geographies which will affect both the nature of the challenge and the most effective response.

The employment and economic response must reflect both pre-crisis inequalities and the unequal economic impacts of the virus. For example, while there will be some return to city centre office working, it is likely that there will be a permanent increase in the amount of remote working. This could mean that some city centre businesses will no longer be viable. Policy needs to both help city centres adjust (as they have to previous societal and economic shifts) and businesses to make the most of the opportunities that new ways of working bring.

As set out above, the response will need also need to vary according to the jobs most prevalent in an area. This includes providing extra support for businesses and workers affected by any local lockdowns; supporting manufacturing and other sectors to adapt to a new trading relationship with the EU; and enabling workers and businesses reliant on airlines or airports to adapt to structural economic changes if these jobs do not return in the same numbers.

One of the challenges is to distinguish between economic and employment challenges that are temporary and linked to the virus, and those that represent longer-term trends. To an extent, policy can help to shape which are which – our response should be based on a vision for our future economy and society. For example, extending access to faster broadband and training in digital skills can help to widen access to remote working.

Where could the jobs come from?

In the longer-term, the Industrial Strategy sets out the Government's plans to increase economic growth across the UK. This is supported by local industrial strategies in England, and the approaches of the Wales, Scotland and Northern Ireland governments.

Taking a long-term approach is important, but we also need to tackle the jobs gap now. As previous chapters showed, some jobs growth will happen naturally as the economy reopens and adjusts. Many furloughed jobs will return, new jobs will be created as businesses identify new opportunities (such as increased home delivery from restaurants and further growth in online shopping), and demand for other goods and services will rise as consumer preferences change (for example, to support the increased number of home workers).

However, we face a shortfall in jobs due to constraints during the transition period and do not know how long this will last (this depends on the speed at which a vaccine or effective treatments are discovered). In addition, the natural pace of employment growth during economic recovery would risk high levels of unemployment for years to come.

There is a clear case for trying to speed up job growth as well as addressing the shortfall caused by temporary constraints on sectors like retail and hospitality. We need to do this in ways that tackle the underlying challenges we had before the pandemic and work toward a positive vision of the future. The fundamental forces affecting our economy and labour market – in particular, advances in technology, changing demography and consumer preferences, altering patterns of global trade, and the climate emergency – have not gone away. In many cases, their impacts may well have been accelerated.

We will also need to be flexible, given we do not know the future path of the virus, the length of the transition phase where we are living with constraints to contain the virus, or the extent to which changes in consumer behaviour will be permanent or limited to the transition phase. Our response needs to reflect differences in local economies and job prospects. However, given the damage that long-term unemployment does, it is better to over-react in supporting people than to under-react.

We propose three strands to tackle the gaps gap, underpinned by increased employment support and support for people's incomes and delivered by a partnership between national and local government:

- **invest:** create jobs through public investment and expanding public services
- **stimulate:** create jobs through targeted stimulation of economic demand
- **support:** maintain potentially viable jobs through the transition phase.

Box 1: What not to do

1. Try to generally stimulate the economy
Cuts to VAT are generally viewed to have helped the economy during the last recession. However, similar measures are unlikely to have the same effect this time because social distancing and concerns, rather than price, are holding people back from high streets and restaurants. The particular sectoral nature of the crisis suggests a sectoral response based on how people will respond in practice is needed.

2. Look to employer tax cuts to create jobs
Cuts to National Insurance are unlikely to encourage employers to retain staff and create new jobs to a significant degree. It is lack of, or constrained, demand that is holding back employment in the most affected sectors, so we need to look at how we can either support those sectors or raise demand (which in turn will lead to new jobs being created). A cut in National Insurance is more likely to lead to higher wages over time, a good outcome but not assisting with increasing employment immediately.

3. Consider job growth and employment support in isolation
The economy will naturally create jobs, but those out of work will be less likely to find those jobs without high quality employment support. Similarly, efforts to increase employment need to include active efforts and requirements to ensure young people and those out-of-work can access them. In this crisis we need both job growth and employment support and they must be linked.

4. Protect all jobs indefinitely and prevent structural change
The economy will not return exactly to its pre-crisis state. This inevitably means that not all furloughed jobs will return. For workers in this position, it is better to help them find new jobs and change career where appropriate. The challenge is distinguishing between jobs that can return and those where businesses are no longer viable.

Each recession is different, and our response needs to reflect the particular causes and impacts of this recession. That means recognising the particular sectoral impacts and that the path of the virus will help to condition people’s response.

Figure 12: Where could the jobs come from?

Where could the jobs come from?		
Invest	**Stimulate**	**Support**
50k jobs. Link accelerated public investment to back-to-work help & apprenticeships	**150k** green jobs by investing £3bn in home energy efficiency	**300-500k jobs** in sectors like retail & hospitality through up to £4bn for new Job Support Scheme
270k jobs by investing £7.6bn in social care, childcare & adult learning	**450k placements** through £2bn Kickstart & additional £1bn to expand for adults	

Invest: create jobs through public investment and expanded public services

Public investment. The Government has already announced substantial increases in public investment to improve infrastructure like transport and broadband, and said it wants to accelerate over £5 billion of investment out of £640 billion planned over the next five years.[10] This is important for long-term growth prospects and will create jobs. Experience tells us that most projects tend to be less shovel ready and job rich than hoped: they are unlikely to create significant numbers of jobs quickly. However, the acceleration of capital spending could accelerate the creation of 50,000 jobs.[11]

The Government should prioritise ‘shovel ready’ projects, including those submitted by Local Enterprise Partnerships, which will both help long-term growth prospects and create jobs quickly. Funding agreements should set out how many jobs they will create and how ring-fencing some of these for apprenticeships and the long-term unemployed will be built into contracts to deliver these projects. There is a long history of doing this, including through social value in planning and procurement, the 2012 Olympics and Crossrail.

Public services. Around 1.6 million people work in **social care**, but an aging population means we need to invest more and the current service is underfunded, with concentrations of low pay and insecure forms of work. The Resolution Foundation estimated that an extra £5 billion investment per year to employ an extra 180,000 people would bring the ratio of workers to the over 70s population back into line with 2014 levels.[12]

Similar arguments could be made for other public services. More than 700,000 people work in **childcare**. Good quality childcare can both aid children’s development and support

[10] Plan for jobs, HM Treasury, 2020.
[11] Assuming an average salary including employment costs of £30,000 per year and that labour costs amount to 30% of the cost of a project.
[12] The full Monty: facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, 2020.

parents to work, but existing Government subsidies and entitlements can be complex and leave gaps, while many childcare providers reporting insufficient funding for entitlements. In 2011, IPPR estimated that provision of universal childcare would cost an additional £7 billion per year.[13] As a stepping stone, the Government could invest an additional £700 million, potentially creating 30,000 jobs.[14]

We previously argued for an additional £1.9 billion investment in **adult learning** in England, to reverse declines over the last decade.[15] This could directly create an additional 60,000 jobs, with more resulting from further efforts to increase the number of young people staying in education and attaining level 3 qualifications, another shortfall compared to other countries.[16]

Ultimately any expansion of public services needs to be paid for by increased taxation (or other funding) or cuts in spending elsewhere, once the current crisis is passed and the economy has recovered, unless they also boost economic growth. However, these are expansions in public services that we need in any case, so we should act now.

Stimulate: promote job growth through targeted increases in demand

Beyond direct investment, the Government can support and accelerate job growth in two ways.

The first is to stimulate demand, with a focus on **green jobs** to support our transition to a low carbon economy. The Government has announced a £2 billion Green Homes Grant in England.[17] This will provide grants of up to £5,000 to cover at least two thirds of the cost (£10,000 for the lowest income households to fully fund measures) of green improvements to people’s homes, such as insulation and other energy efficiency measures.

The Chancellor said this could create 100,000 jobs, though demand is uncertain: people may not be prepared to cover one third of the costs of recommended measures, and the funding may cover some measures that households would have invested in anyway.

The Government should go further given the scale of both the environmental and jobs challenges. A fund of £3 billion could potentially create 150,000 jobs and support more households. The Government should also consider whether fully funding measures for all households would increase take-up and hence employment growth.

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[13] Making the case for universal childcare, IPPR, 2011.
[14] Assuming an average employment cost per worker of £25,000 per year.
[15] Time for action: learning and skills for economic growth and social justice, Evans and Egglestone, L&W, 2019.
[16] Fit for purpose? Education and employment support for young people, Youth Commission report 5, L&W, 2019.
[17] Plan for jobs, HM Treasury, 2020.

We could take a similar approach in other areas: in the last recession a car scrappage scheme offered £2,000 (jointly funded by the Government and the car industry) for people trading in an old car for a new one. There is already a subsidy for electric cars, but a case for extending this to encourage people to trade in their cars for more efficient vehicles.

The second way the Government can stimulate employment growth is through **employer incentives, including a Job Guarantee.** As Box 1 set out, measures need to be based on understanding how employers make decisions, the demand for their goods and services, and the incidence of taxation. Taken together, this means our assessment is that general cuts to National Insurance would likely be expensive but have little effect on job creation.[18]

However, hiring subsidies, set at a level which will make a difference and targeted on those who would benefit most, can increase employment among groups who often miss out. For this reason, we think it unlikely that the £2,000 incentive for each young apprentice employed will make a significant difference. Instead, we argued that large employers should be able to use part of their apprenticeship levy funds to cover the wages of young apprentices, with an equivalent grant for SMEs.[19] Incentives could also be put in place to encourage employers to take on people who have been long-term unemployed.

We argued for a Job Guarantee to provide funding to create jobs for people who are long-term unemployed.[20] The Government's £2 billion Kickstart scheme will provide £6,500 to employers to cover the wage costs of an unemployed young person for 25 hours per week for six months. This will improve the employment prospects of up to 300,000 young people, as the Future Jobs Fund did in the last recession.[21] The Kickstart scheme should be extended to adults who have been out of work for more than one year: an additional £1 billion would support 150,000 placements. We should also ensure sufficient support for training and jobsearch in Kickstart placements, and integration with apprenticeships.

Support: support existing jobs during the transition phase

Even with extra action to create new jobs, it would require unprecedented rates of employment growth in other sectors and sector-switching for employment to swiftly recover to pre-crisis levels.[22] In addition, the length of the transition phase and degree to which

[18] 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.
[19] Emergency exit: how we get Britain back to work, L&W, 2020.
[20] Emergency exit: how we get Britain back to work, L&W, 2020.
[21] Impacts and costs and benefits of the Future Jobs Fund, DWP, 2012.
[22] The full Monty: facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, 2020.

reductions in high street hospitality and retail jobs are permanent are both highly uncertain, as is the likelihood of further local lockdowns to respond to new spikes in the virus.

For this reason, we should support jobs in the most at-risk sectors beyond the planned end of the Coronavirus Job Retention Scheme in October – many will be viable after the transition phase. But we should not do so simply by extending the current furlough scheme. Keeping parts of the economy in deep freeze would prevent transition to new ways of working and ultimately not succeed. But some of these jobs will be viable once restrictions are lifted. That suggests we need a different form of support.

The Government's £1,000 bonus for employers for each employee brought back from furlough and employed continuously to the end of January 2021, will cost up to £9.4 billion.[23] However, it risks being expensive, poorly targeted and ineffective: too little for employers facing reduced demand, but still paid to employers who were going to bring employees back anyway, leading to high levels of deadweight.

We argue for a revised form of wage support beyond October for sectors still affected by restrictions or reduced demand, as well as in areas with local lockdowns.[24] The CJRS covered 80% of someone's wages up to £2,500 for the proportion of time they are furloughed and not working. The scheme has now been closed to new employees and employers' will be asked to contribute more, but with more flexibility to furlough staff part-time, before the scheme ends at the end of October 2020.

An evolution would be a new Job Support Scheme paying a proportion – perhaps 20% - of the wages of employees in affected sectors, primarily non-food retail and hospitality. This could initially be for six months but committing to extend further if required. It could also cover strategically important industries where skills risk being lost, such as aerospace. Wage support should cover 80% of wage costs in sectors shutdown by any local lockdowns, like the current CJRS. In other words, support needs to be linked to the response to the virus, rather than time-limited.

This should be more effective than a general cut in employment-related taxes for because it directly ties the subsidy to job retention, rather than applying regardless of what employers do. Given the risk of one million job losses among furloughed workers, this could provide support of £416 per month per employee, potentially help to protect 300-500,000 jobs at a cost of £500-830 million per month.[25] If needed for six months, this would cost £3-4.15 billion. This would be half the cost of the Job Retention Bonus,

[23] Plan for jobs, HM Treasury, 2020.

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

[25] Assuming an average wage of £25,000, including pension contributions and National Insurance, and deadweight of 75% (that is, employers enrol more staff than they would otherwise have laid off).

providing greater support for those jobs covered but targeted on the most affected sectors, though the impacts are highly uncertain.[26]

Increase employment support

This report focuses on job growth rather than job search. However, there is no point supporting employment growth if we do not also help people to look for work and effectively match them with vacancies on offer.

In previous reports we have set out proposals to:

- **Help furloughed workers.** A Universal Support Offer of online learning and careers advice, and more in-depth support including employer-led training programmes and maintenance support;[27]
- **Get people back to work quickly.** A £1 billion investment in an Into Work service including support from recruitment agencies and doubling the number of Jobcentre Plus Work Coaches;[28]
- **Support people who are long-term unemployed.** Increasing support the longer someone is out of work via Jobcentre Plus and employment programmes, underpinned by a Job Guarantee;[29] and
- **Deliver for young people through a Youth Guarantee.** Guaranteeing every 16-24 year old a job, apprenticeship or training place.[30]

Supporting incomes

The Government increased Universal Credit at the start of the crisis to support people's incomes, in part recognising that people would not easily be able to find a new job during lockdown. This followed a long period during which benefits for people of working-age were reduced in real-terms, including through a five-year freeze in the cash value of benefits. This has left working-age benefits low compared to average earnings by both historic and international standards.

Given this and the likelihood that unemployment will be higher for years to come, the increase in benefits should be maintained and working-age benefits should be increased at least in line with inflation from now on. We should also review other social security support, including Statutory Sick Pay, to ensure people have sufficient support including for potential requirements to self-isolate through contact tracing.

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[26] The Job Retention Bonus is equivalent to around 13% wage support for jobs paid at the upper end of the wage cap of £2,500 per month, though many furloughed employees are paid less than this.
[27] When furlough has to stop: next steps to prevent long-term unemployment, L&W and Reform, 2020.
[28] No time to lose: getting people into work quickly, L&W et al, 2020.
[29] Emergency exit: how we get Britain back to work, Evans and Dromey, L&W, 2020.
[30] Help wanted: getting Britain back to work, L&W et al, 2020.

Next steps

After the initial economic shock caused by the coronavirus crisis, we are now into a phase of reopening the economy and planning for the future.

That future is highly uncertain: the paths of the virus and economy are intertwined; the UK will have a new, as yet unknown, trading relationship with the EU from January 2021; and bigger pre-crisis trends like automation will continue to have an impact.

The Government's plan for jobs contains much that is welcome, including an expansion in Jobcentre Plus support and a new Kickstart scheme subsiding wages for young people.

But such is the scale of the challenge and economic risks from under-reacting that more is needed. That includes further action on helping people to look for work and build their skills. We also need greater action to create more jobs and make sure all parts of the country benefit – otherwise we risk a jobs gap of at least one million as a result of both the recession and ongoing impact of the virus.

This report argues we should act now to create jobs by investing in public services, encouraging employers to create jobs, and protecting jobs through targeted wage support in sectors and areas most affected by public health measures.

This is not something the Government can do on its own. It needs a partnership approach with local government, employers, trades unions and civic society. This could be through local economic recovery partnerships: building on the Local Government Association's Work Local proposals which could look at ways of pooling budgets and aligning services to improve outcomes.[31]

Flexibility will also be important: tailoring measures to respond to changes in the virus and economic conditions. If vaccines or treatments are developed more swiftly, then it would make more sense to err on the side of protecting existing jobs and vice versa.

Coronavirus is the second once in a lifetime event in the last 15 years, following on from the global financial crisis. Our focus must be on protecting public health, mitigating the immediate economic impacts, and building a brighter future.

[31] Work local: our vision for employment and skills, LGA, 2018.