LEARNING AND WORK INSTITUTE

One year on

The labour market impacts of coronavirus and priorities for the years ahead

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Contents

Executive summary

The pandemic led to a sharp rise in unemployment with groups like young people harder hit. The Government's actions are welcome, but it should go further to tackle unemployment, increase employment, and support incomes.

A strong but unequal labour market has been hit by the pandemic

The number of people claiming unemployment-related benefits doubled to 2.6 million between March and May 2020 and payroll employment fell 700,000. There were two thirds fewer vacancies advertised only compared to 2019, with non-essential retail and hospitality seeing the largest falls.

Employment would have fallen by a further 2.5 million if it had matched the drop in economic output over 2020. The Coronavirus Job Retention Scheme (CJRS) helped to protect millions of jobs, with total hours worked falling 20% instead. However, the late extension of the CJRS in winter 2020 contributed to a spike in redundancies.

Nonetheless, we have higher unemployment than in March 2020, rising long-term unemployment, vacancies still 20% down, and millions of people still on furlough.

The effects of the crisis have been unequal

The pandemic has created new inequalities and exposed existing ones. Young people account for one half of the fall in employment, five times their share of total employment. Those on lower incomes, single parents, disabled people and people from BAME backgrounds have seen some of the largest drops in incomes and jobs.

Cities like London, affected by falls in commuting and tourism, and areas of already-high unemployment have seen large rises in unemployment. The number of people claiming unemployment-related benefits has risen three times faster in areas with the highest pre-crisis unemployment than in areas which had lower unemployment.

The Government's Plan for Jobs contains many of the right actions

The Government's July 2020 Plan for Jobs included £3.6 billion for Kickstart (funding jobs for six months for young people at risk of long-term unemployment) and expanded employment support, including doubling the number of Jobcentre Plus Work Coaches. It also announced funding for extra traineeships and employers taking on apprentices in England, and for job creation. The Spending Review announced a £2.9 billion Restart programme for long-term unemployed people.

Most of these actions are the right ones. In a recession, it is important to get help to find work quickly to those that lose their jobs, to support job placements for young people to minimise the damage youth unemployment causes, and to promote job creation including through public investment.

The challenge is in the speed and coherence of delivery. On speed, the Government processed most of the sevenfold increase in Universal Credit claims on time, and got the furlough scheme and support for people newly unemployed up and running relatively quickly. However, it took seven months for delivery of the scaled up traineeship programme to even begin and Restart goes live three months after the initial spike in long-term unemployment expected in March to May 2021.

On coherence, some people may miss out on support unless we actively engage them. Plus, we want a coherent offer for people rather than a long list of initiatives with support offered based on the service accessed rather than what people need.

The Government needs to go further to secure recovery

To make sure we recover fully and rapidly from the crisis, and that everyone shares in that recovery, we recommend five areas where the Government should focus.

1. **Match furlough and other support to the impact of restrictions.** The Government was right to extend furlough to September 2021. It should commit to bringing back furlough if further restrictions are required.

2. **Introduce a Youth Guarantee of a job, apprenticeship or training offer for all young people.** This means engaging the 500,000 16-18 year olds leaving full-time education in summer 2021, and supporting those not claiming benefits too.

3. **Support incomes by making the £20 per week Universal Credit uplift permanent and cutting National Insurance for the lowest earners.** This means not cutting the incomes of the poorest 10% of households by 5%, and bringing National Insurance thresholds more into line with income tax.

4. **Help people back to work as quickly as possible.** We should focus expanded employment support capacity on those already out of work before the pandemic if unemployment rises less than previously expected, including introducing a Job Guarantee for people who are long-term unemployed.

5. **Promote employment growth and good work.** Including by raising the threshold for paying National Insurance to give a tax cut to low paid workers and help employers adapt to increases in the minimum wage.

The crisis has had a stark effect. We are now focused on recovery. The Government has taken many of the right steps, but needs to go further and focus on delivery and a vision of the future. An unprecedented crisis demands an unprecedented recovery.

Lockdowns and furlough

The Prime Minister announced the first lockdown would begin in England on 23 March, with similar measures in Northern Ireland, Scotland and Wales. People were required to stay at home except for specific reasons, and asked to work at home if they could, while non-essential businesses were required to close. In practice, many businesses had begun to shut or shift to homeworking where possible in the preceding weeks as the virus spread and the death toll rose.

The lockdown was accompanied by significant economic support. A centrepiece was the Coronavirus Job Retention Scheme (CJRS), covering 80% of furloughed workers wages. A similar scheme supported the incomes of many self-employed people (though ongoing campaigns highlighted those that missed out on support) and a temporary £20 per week uplift to Universal Credit introduced. This was on top of other support for businesses, including grants, loans and deferrals of tax payments.

We identify five key features of the labour market impact of the crisis.

Feature 1: Sharp initial shock to employment

Despite the significant economic support rapidly announced by the Government, there was a significant drop in employment during March to May 2020. New claims for Universal Credit spiked to seven times their pre-crisis levels, with Jobcentre Plus staff doing an excellent job of ensuring most of these claims were paid on time.[1]

Not all of these will be people losing their jobs: Universal Credit is an in-work as well as out-of-work benefit. However, the Labour Force Survey shows a fall in employment of 340,000 between January to March 2020 and May to July 2020.

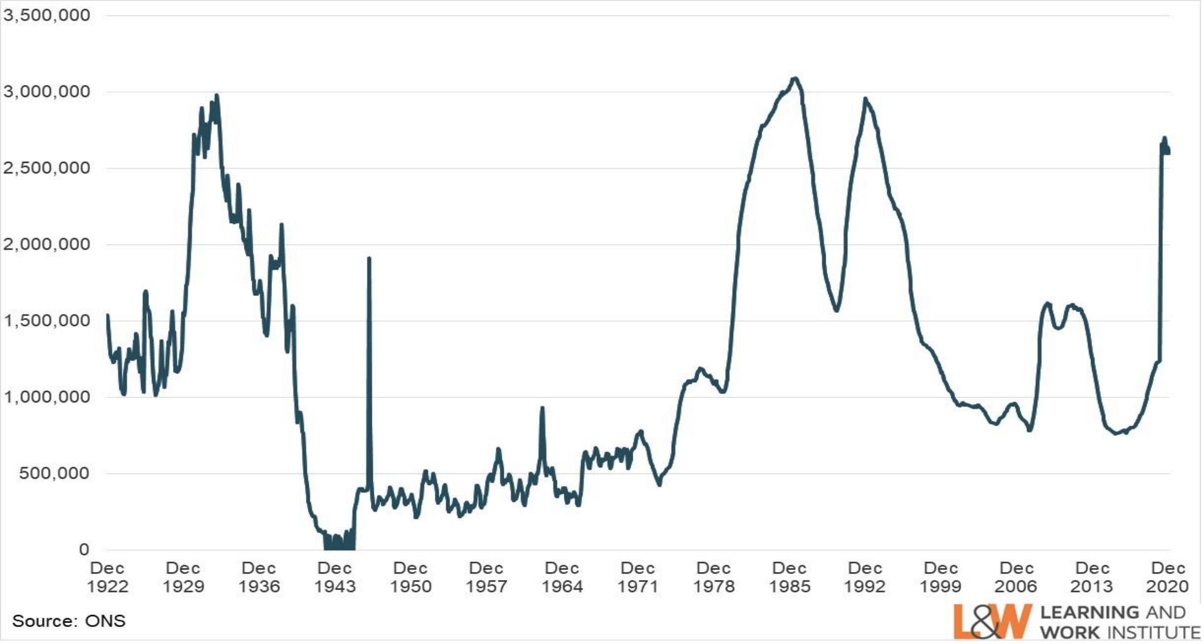
The ONS notes that the shift to an online survey plus measures like the CJRS may have affected people's responses.[2] Response rates from those in private rented accommodation fell and some said they were employed but had not worked any hours or received any pay. Others suggest the changes in response rates may partly reflect a fall in population as some EU migrants returned home due to lack of work.[3]

HMRC data suggest a larger fall in payroll employment of 700,000 between March and July 2020. However, this data only covers payroll employment and, while it is an administrative dataset, it may be subject to later revisions.

[1] Coronavirus and the labour market: impacts and challenges, L&W, 2020.
[2] Coronavirus and its impact on the Labour Force Survey, ONS, 2020.
[3] Estimating the UK population during the pandemic, O'Connor and Portes, 2021.

Further evidence for a large fall in employment comes from the claimant count, the number of people claiming unemployment-related benefits.[4] This more than doubled between March and May 2020, with an extra 1.4 million claimants. This was the sharpest rise since the Great Freeze of 1947 and took the claimant count to 2.6 million, the highest since the early 1990s.

Figure 1: Claimant count



There was clearly a significant fall in employment and rises in unemployment and economic inactivity during the first lockdown. The only question is the scale.

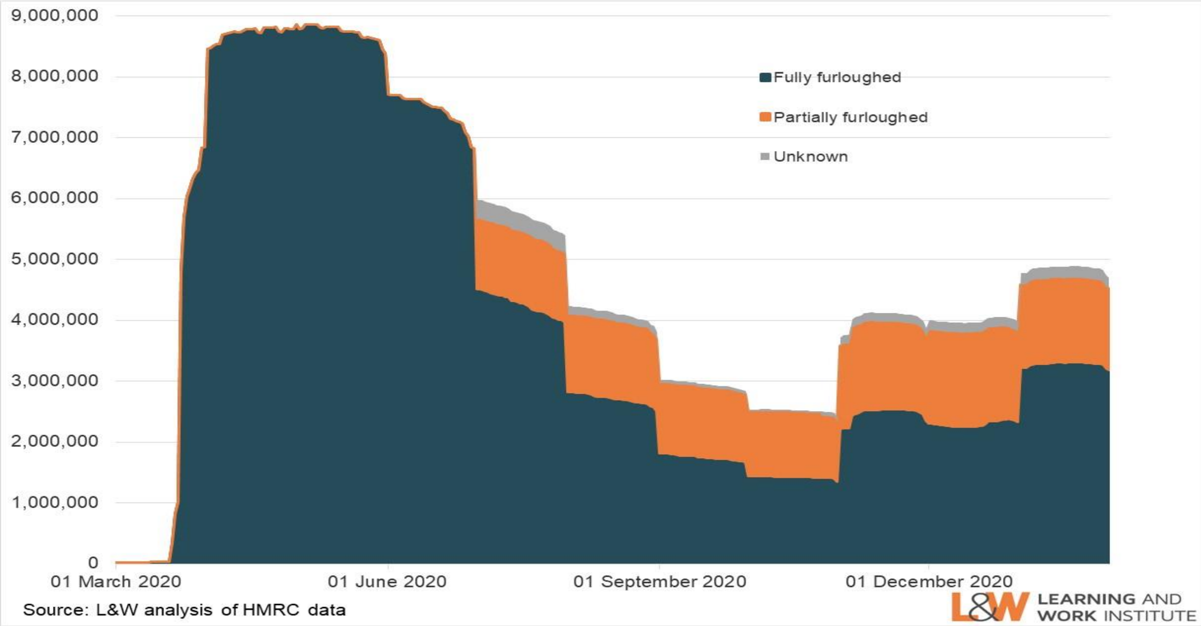
Feature 2: Furlough (broadly) doing its job

At its peak almost nine million employments were furloughed under the CJRS and more than 2.7 million people helped through the self-employment scheme. The numbers furloughed ramped up quickly after the scheme's introduction and gradually reduced over time as restrictions were eased, falling to 2.3 million by October 2020.

From July 2020, employers were able to partially furlough staff, with employees able to work part-time. Since then more than one million people have been partially furloughed at any one time. The numbers of employments furloughed fell during the summer as the economy partially reopened, before rising again in autumn and winter as restrictions tightened. This was a sign of the policy doing its job.

[4] Although around 15% of people in the claimant count have some (relatively low) income from work as benefit rules allow this.

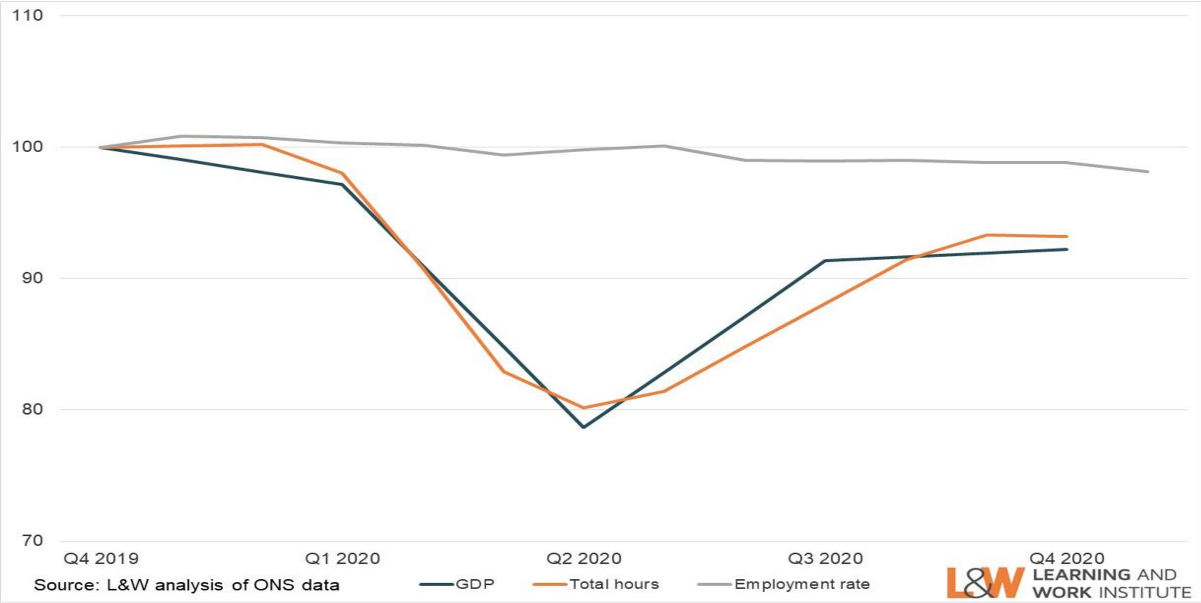
Figure 2: Number of employments furloughed



If employment had fallen 10% over the year in line with economic output, 3.2 million more people would have been out of work, around 2.5 million more than the actual fall in employment.

Instead, a reduction in total hours worked (due to the furlough scheme plus the fall in employment) helped to cushion the impact of the record fall in economic output. This is clearly a much preferable outcome in the circumstances.

Figure 3: GDP, employment and total hours worked, 2019Q4=100



The furlough scheme and increase in Universal Credit helped to limit the impact of this fall in total hours worked. Nonetheless, many people faced a significant fall in income that was challenging to manage, as the next chapter shows.

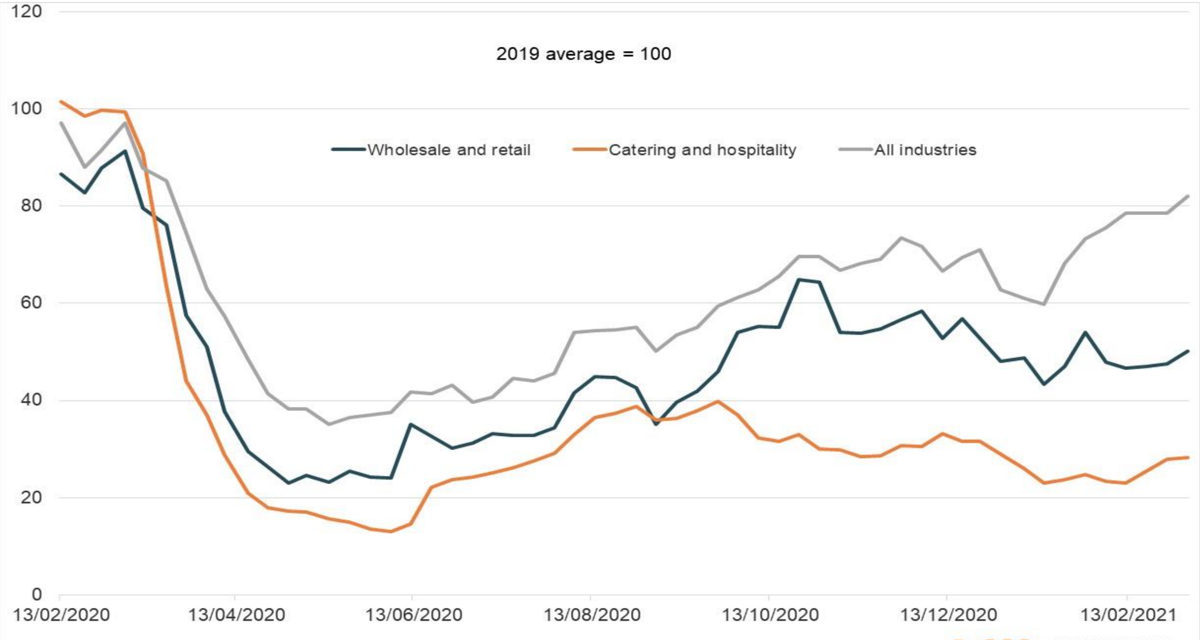
Feature 3: The labour market stabilised during easings of restrictions and further lockdowns

The economy gradually reopened from June 2020, with efforts to boost hospitality including Eat Out To Help Out during August 2020. Through autumn 2020 most governments in the UK increased restrictions on a regional basis based on their assessments of where the virus was most prevalent or growing most rapidly. Ultimately each nation then had a national lockdown, albeit of less severity than in March 2020 (and less severe than the early 2021 lockdowns).

During this time claimant unemployment remained relatively flat at its increased level, although payroll employment fell by a further 150,000 from July to December 2020, leaving it 870,000 lower than in March 2020, and LFS unemployment rose 200,000 in the same period to leave it 400,000 higher than in March 2020.

Online vacancies also reflect this picture. They fell 60% in the first lockdown compared with the previous year, recovering through the summer and flattening over autumn 2020. In early 2021, they had recovered but remained 20% below 2019 levels. Throughout, retail and hospitality have been disproportionately affected.

Figure 4: Online job adverts, Adzuna



Source: ONS

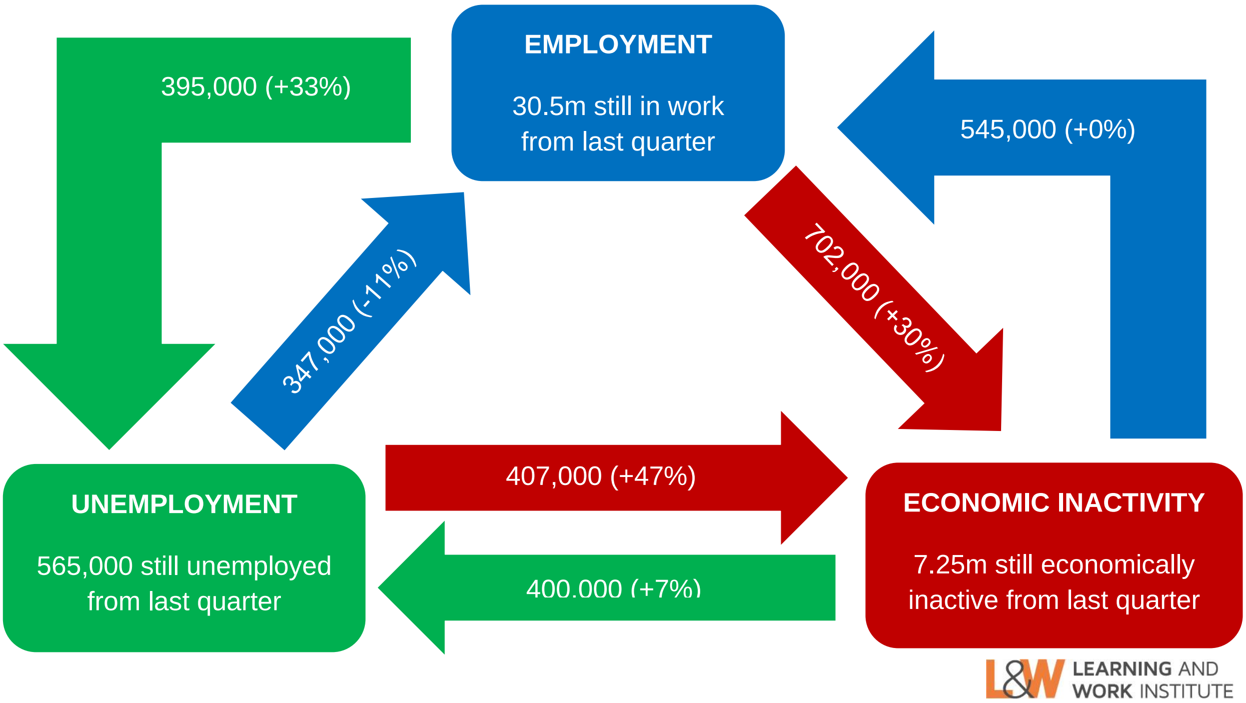
In part, this relative stasis in the labour market despite restrictions easing over the summer and then tightening in the autumn was because the restrictions remained looser than in spring 2020. In addition, more employers had closed during the first lockdown than had been required to – that was less the case as the year went on. Plus, economic support remained broadly in place and protected jobs too.

Feature 4: People continued to start work, though in reduced numbers

Flows (the total number of people who change employment status each period) show the dynamics of the labour market, while stocks (the total number employed or out-of-work) give a picture of the overall labour market at any one time.

The number of people moving into work from either unemployment or economic inactivity fell during the first lockdown (down 40,000 compared to a year earlier). But the biggest changes were almost 1.1 million people moving out of employment, a one third rise on a year earlier, and increased economic inactivity as the lockdown reduced employment opportunities and people's chances to search for work.

Figure 5: Labour market flows, April-June 2020 and compared to previous year



However, even in the first lockdown lots of people started new jobs. Some 892,000 people moved from unemployment or economic inactivity into employment during April-June 2020, only a little down on the 935,000 seen a year earlier. A further 625,000 people moved from job to job. In total, that means around 1.5 million people found work or changed jobs during the first lockdown.

The latest flows data show some recovery in the number of people moving into work (941,000 in October to December 2020, compared to 1.08 million the year before).[5] However, the number of people leaving employment remained higher at 1.01 million, up from 807,000 the year before and mirroring the rise in redundancies.

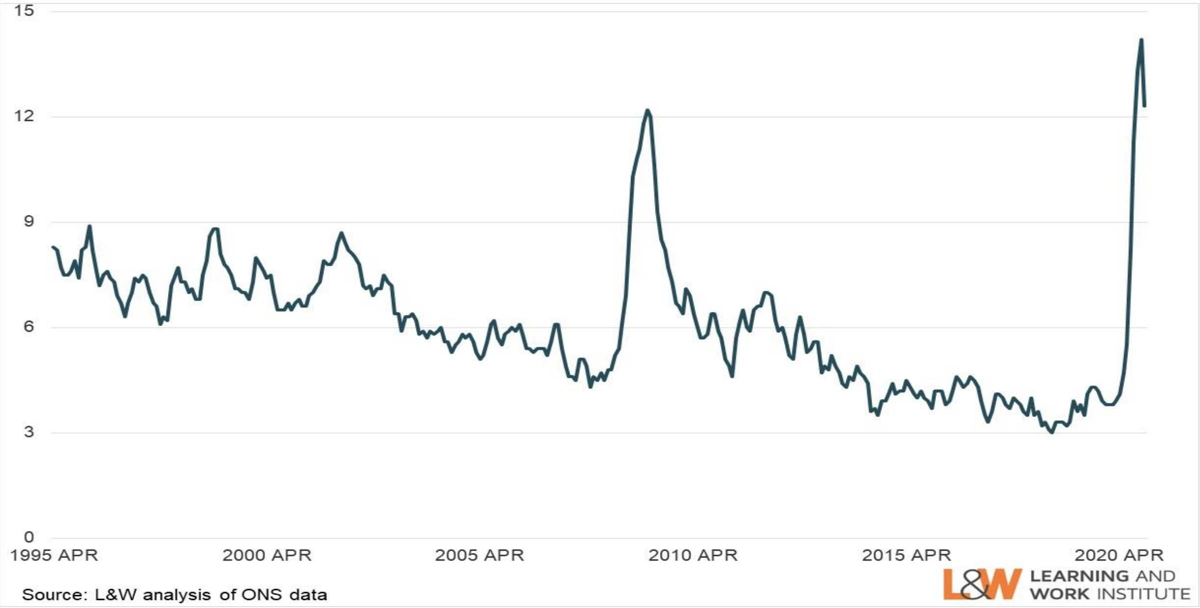
Feature 5: Redundancies spiked in winter 2020, partly due to uncertainty

The furlough scheme was due to end in October 2020. However, the increased spread of the virus meant an increasing number of areas across the UK were placed under tougher economic restrictions. This meant the end of October would be a cliff edge reduction of economic support as restrictions were tightening.

Eventually, the Government extended the furlough scheme to the end of March 2021. But this was not before it had announced several planned changes to the scheme. Employers must consult with their staff for a period of time (depending in part on the number of redundancies proposed) on potential redundancies. This meant some employers had already begun the redundancy process by the time the furlough scheme was extended in a form with limited employer contributions.

This policy uncertainty was coupled with uncertainty over the type and duration of restrictions the pandemic would continue to require. Taken together, these range of uncertainties likely contributed to a spike in redundances in late 2020, with redundancy rates the highest on records dating back to 1995.

Figure 6: Redundancies per 1,000 employees



[5] Labour market statistics: February 2021, ONS, 2021.

The increased restrictions, including renewed lockdowns (albeit less restrictive than in spring 2020) across each UK nation from November 2020 on, also led to an increased use of the furlough scheme: 3.8 million employments were furloughed on 31 December 2020, up 50% from a low of 2.4 million at the end of October 2020.

The impact of these increased restrictions was more muted than in spring 2020, partly as they were less strict lockdowns, with more businesses open and adaptations in place, and partly as the furlough scheme and other support helped to cushion the impact.

It seems likely the stricter lockdowns in early 2021 have also had a muted impact on the labour market. The number of potential redundancies notified to the Insolvency Service has fallen, vacancy levels have risen, and the claimant count is flat. In part, the furlough scheme has again (rightly) taken up the slack: by the end of January 2021, 4.5 million employments were furloughed, up by 700,000 on December 2020.

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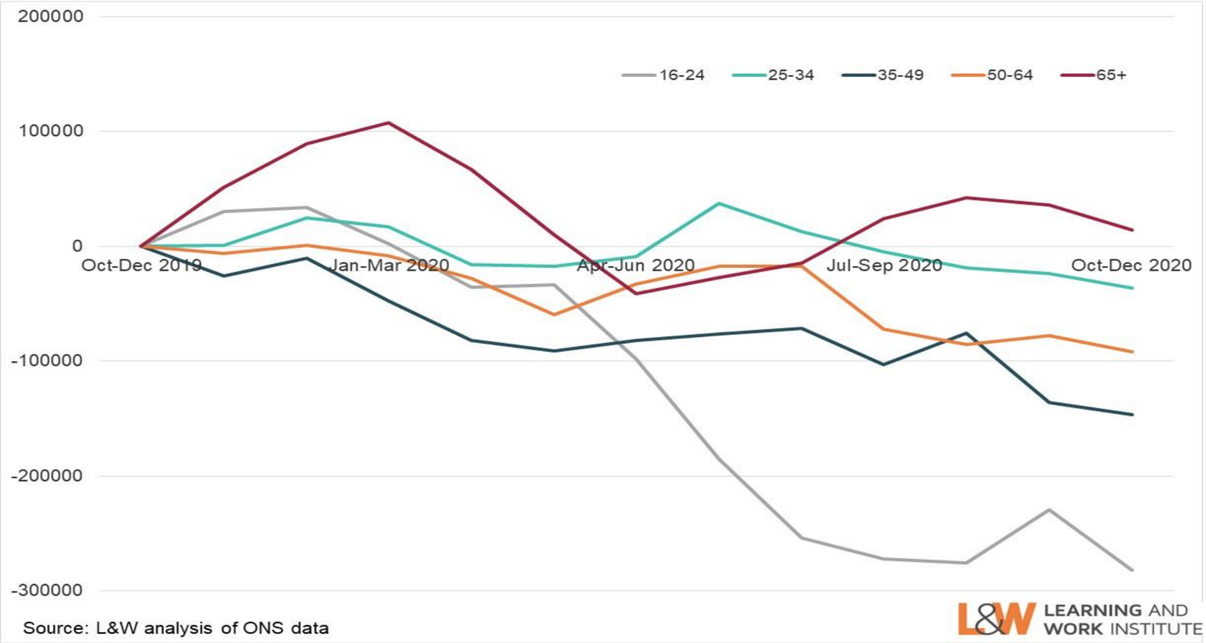
Unequal impacts

The economic impacts of the pandemic have been unequal, creating new inequalities and exacerbating existing ones. Groups including young people and those on lower incomes, as well as particular parts of the country, have been more likely to face job losses or reductions in incomes.

Age

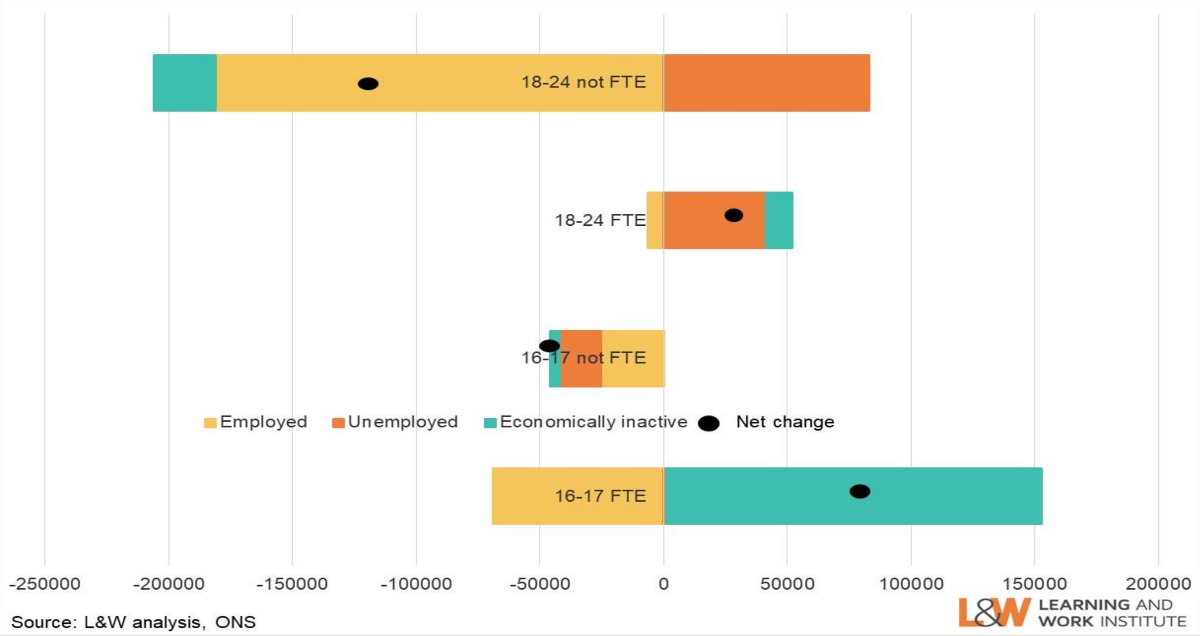
Employment among young people has fallen faster than for other age groups: 16-24 year olds accounted for one half of the fall in employment in the year from October to December 2019, five times bigger than their 12% share of total employment would suggest. The number of young people claiming unemployment-related benefits has more than doubled since March 2020 to more than 400,000.

Figure 7: Changes in employment by age since October to December 2019



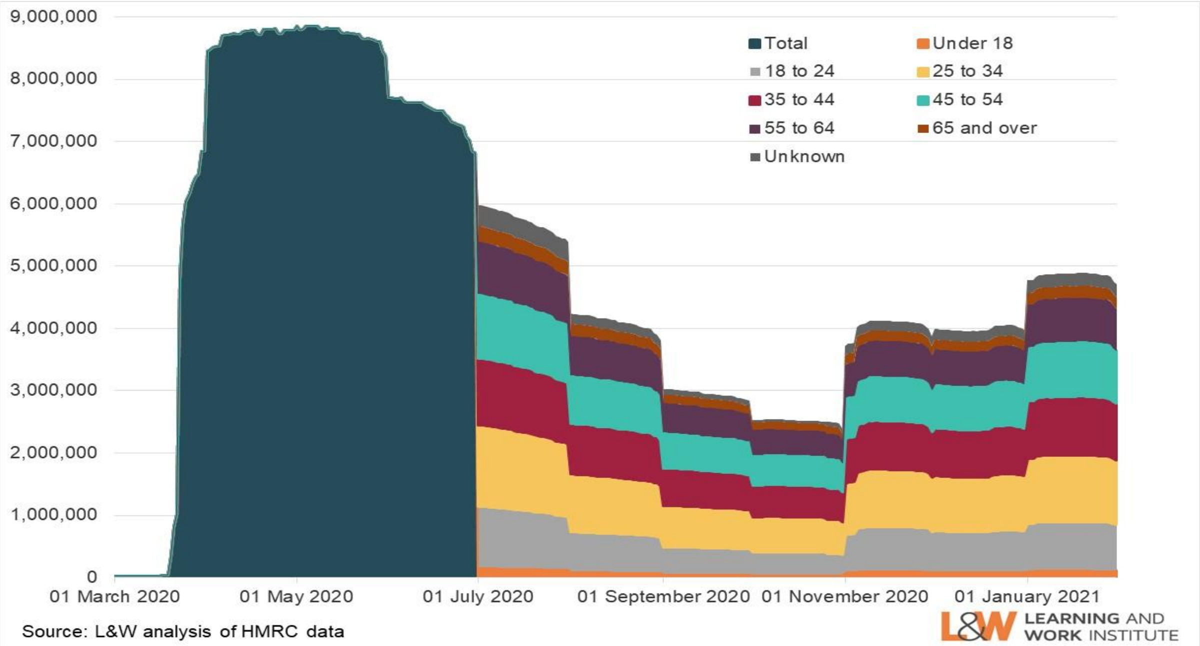
Overall, more young people are staying in full-time education: an extra 83,000 16-17 year olds and 45,000 18-24 year olds were in full-time education in October to December 2020 compared to a year earlier. This is sensible (assuming high quality, well matched education options) given labour market conditions and the UK's lower staying on rates compared to other countries. However, 75,000 fewer 16-24 year olds in full-time education are employed, meaning they risk leaving education with less work experience, and employment has also fallen for young people not in full-time education.

Figure 8: Change in education and employment status, year to October to December 2020



Young people are also more likely to have been furloughed. Age breakdowns are available from July 2020 and show 16-24 year olds consistently account for around one in five people furloughed but 12% of total employment. In other words, they are twice as likely to be furloughed than their share of total employment would suggest.

Figure 9: Furlough by age



These results are in large part due to young people being more likely to work in sectors most affected by the crisis such as retail and hospitality. Those entering the labour market from education have also faced the double whammy of a disrupted education and weaker labour market.

A period out-of-work when young can have a long-term scarring impact on young people's pay and job prospects.[6] Limiting the numbers out of work, the time spent out of work, and disruption to education and learning is of fundamental importance.

It is not just young people that are affected or at risk of long-term impacts. For example, 29% of unemployed over 50s have been unemployed for 12 months or more compared to 16% of unemployed 18-24 year olds.[7] Previous employment programmes have worked less well for this age group, so it is important tailored and effective support is put in place that learns lessons from previous approaches.[8]

Incomes

The crisis has been a tale of two recessions. Some, generally higher paid and in professional occupations, have been able to work from home. This has brought its own challenges, but has often meant reduced costs of travel to work and leisure while incomes have stayed the same. The result has been a build-up in savings.[9]

Others, including millions of key workers, have continued working as before. Many have faced falls in income either due to job loss, reduced hours, or, for furloughed workers, if their employer was unable or unwilling to top up their wages beyond the 80% Government contribution.

The results are financial strains as people struggle to pay their bills and have to budget even more carefully than usual. While Universal Credit was increased at the start of the crisis, this came after a five year freeze in working-age benefits which were already low compared to average earnings and other countries.[10]

For example, we found that single parents saw their working hours fall by 7.6 hours per week (26%), more than other groups.[11] Linked to this, 11% of single parents said it was difficult to manage financially during the pandemic, higher than both couples with children (7%) and couples without children (4%).

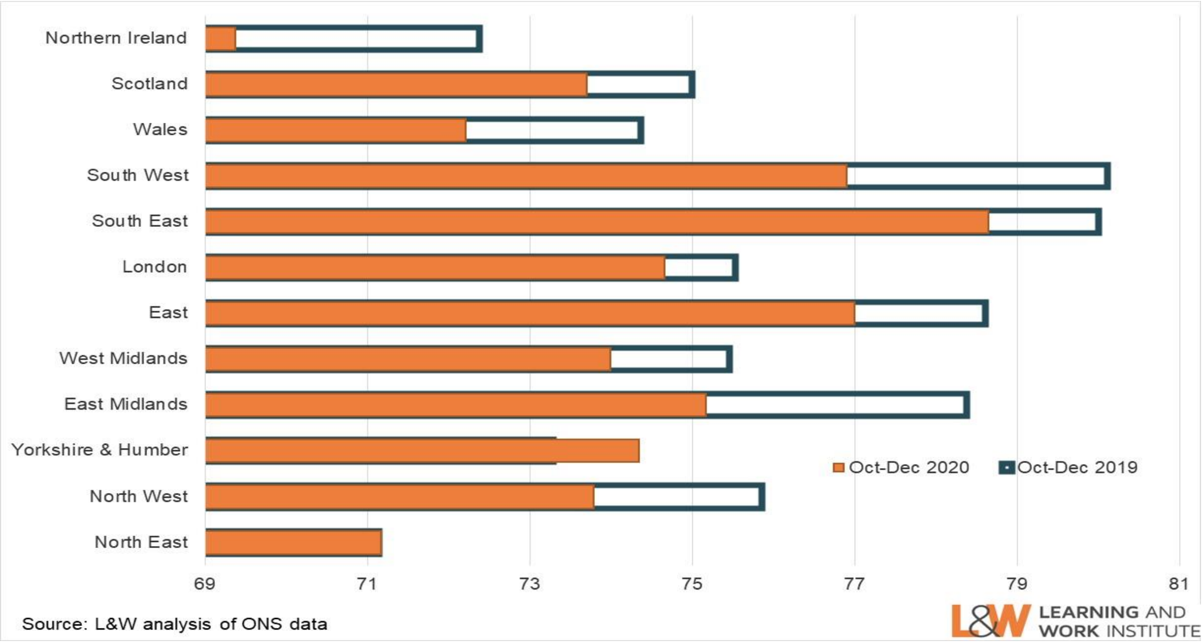
[6] Young people & the Great Recession, Bell & Blanchflower, Oxford Review of Ec. Policy, 2011.
[7] Labour market statistics, ONS, 2021.
[8] A mid-life employment crisis, L&W, 2020.
[9] Rainy days, Resolution Foundation, 2020.
[10] The temporary benefit increases beyond 2020-21, IFS, 2021.
[11] Tackling single parent poverty after coronavirus, L&W and Gingerbread, 2020.

Similarly, low paid workers were more likely to face reductions in their incomes: we found that 33% of low paid Londoners said their incomes had reduced, compared to 19% of other workers.[12] As a result, almost two fifths (39%) of low paid Londoners said they were worried about their finances, while 13% had accessed support through Universal Credit and 4% said they had accessed food banks or other charitable support. Importantly, these low paid workers were more likely to be women (83% in our research on London), have lower qualifications (56%), young (42% were aged 25-29), and from a black (16%) or Asian (17%) ethnic group.

Country, region and local area

The falls in employment have been unequal across the UK. The largest falls in the employment rate have been in East Midlands (3.2 percentage points), South West (3.2pp), Northern Ireland (3pp), and Wales (2.2pp). The employment rate has barely fallen or risen slightly in the North East and Yorkshire and the Humber.

Figure 10: Employment rate by region and country



Differences are more pronounced at a local level, illustrated by the claimant count showing the number of people claiming unemployment-related benefits.[13]

London had an average claimant count rate before the crisis. But it has seen the sharpest rises since then as its economy has a high proportion of hospitality and

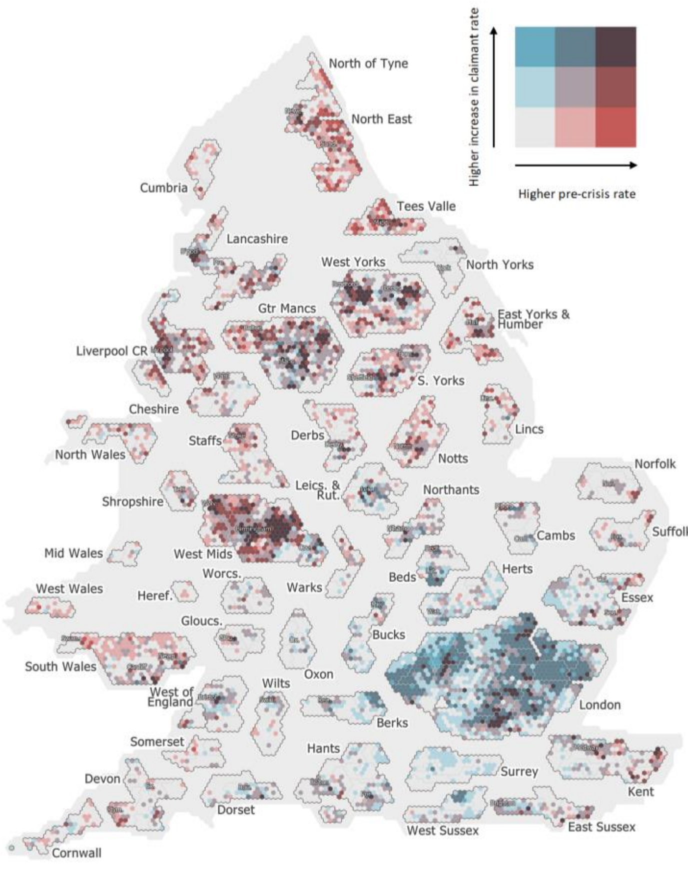
[12] The impact of the coronavirus outbreak on London's low paid workers, L&W, 2020.
[13] Chapter one discussed the differences between measures of unemployment, and how they may be affected by the pandemic.

retail jobs and is heavily reliant on commuters (which have been reduced as many professionals have worked at home) and tourism (reduced for obvious reasons).

Other cities have seen significant rises for similar reasons, for example Greater Manchester had the highest proportion of jobs in lockdown sectors ahead of the first lockdown in March 2020.[14] Coastal areas like Blackpool have also seen larger rises.

The proportion of people claiming unemployment-related benefits (the claimant rate) has risen three times as fast in areas with the highest rates prior to the pandemic. The claimant rate in has risen by an average of 3.9 percentage points in the top 10% of small areas[15] with the highest rates in March 2020, compared to 1.3 percentage points in the 10% of small areas with the lowest starting rates.

Figure 11: Claimant count in March 2020 and rises to January 2021[16]



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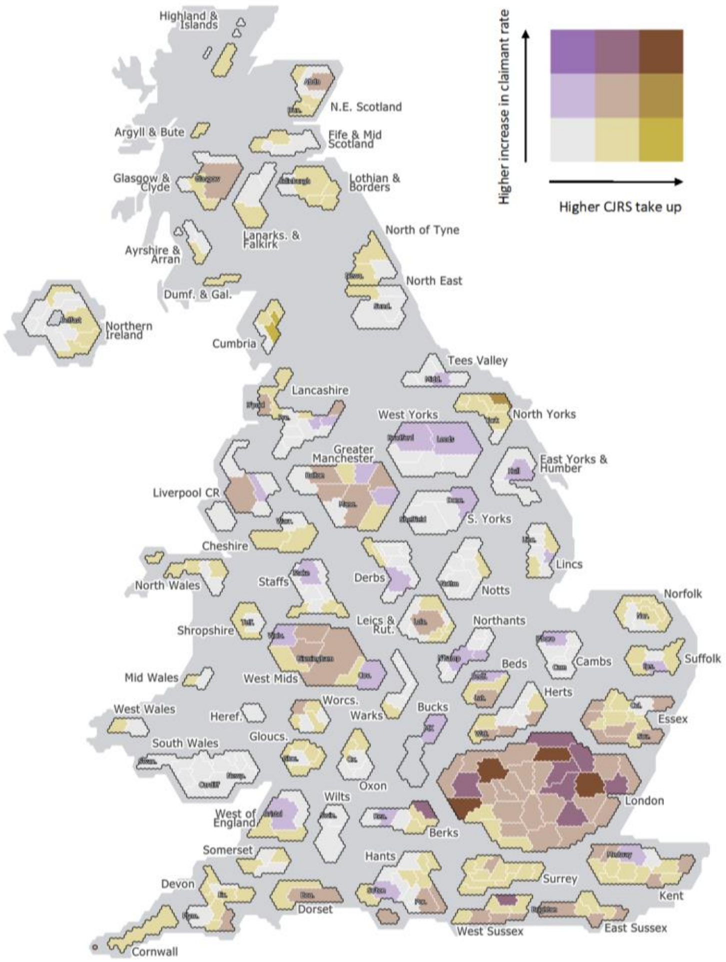
[14] Coronavirus and the labour market: impacts and challenges, L&W, 2020.

[15] Middle Layer Super Output Areas (MSOAs)

[16] This is a bivariate map. It shows both the March 2020 claimant rate and rises since then. For example, the darker brown areas had a high claimant rate in March and high rises since then. The darker blue areas had lower claimant rates in March but high rises since then.

Many areas with sharp growth in claimant unemployment also have high CJRS take up rates. Parts of north London, including Haringey, Newham and Brent, have seen some of the largest increases in claimant rates and over one fifth of employments were furloughed at the end of January. More rural areas tend to have high CJRS rates, including South Lakeland where over one quarter of employments were furloughed in January, while increases in claimant rates have been relatively small.

Figure 12: CJRS take up and change in claimant count rate by local authority[17]



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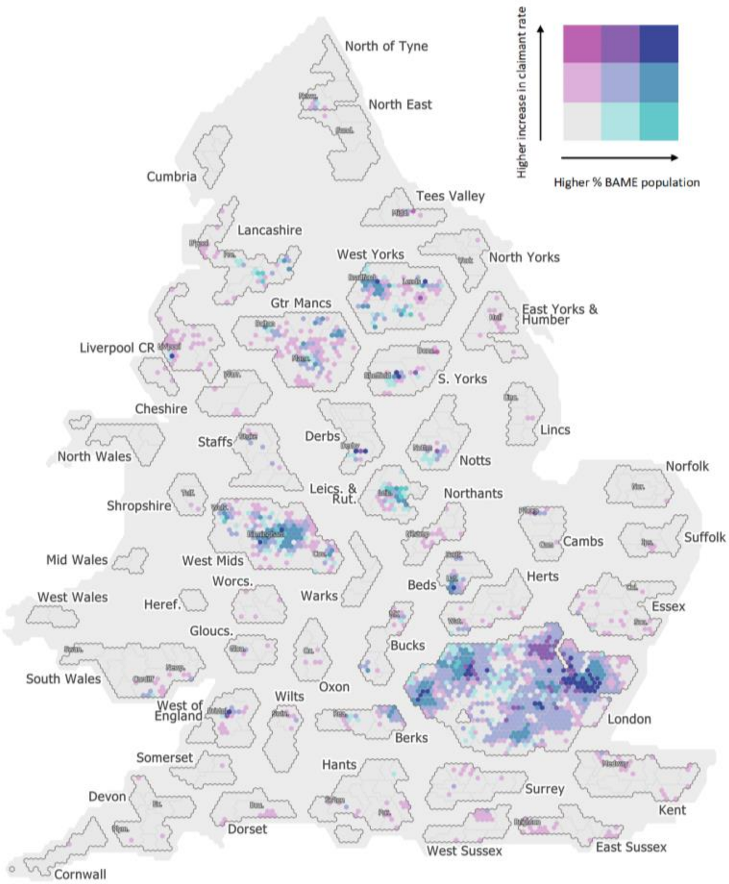
[17] This bivariate map shows two variables at once by local authority. The brown colours show places where there is high CJRS take up and a high growth in the claimant count since March 2020. The lighter colours show places where CJRS take up and growth in the claimant count were both lower.

Ethnicity

Overall, areas with the largest increases in claimant rates tend to have higher BAME populations, higher rates of child poverty, lower healthy life expectancies, and higher levels of unemployment prior to the pandemic.

Areas that have higher BAME populations have seen claimant rates rise more than three times faster than areas with lower BAME populations and two times the national average. The claimant rate increased by 5 percentage points in the top 10% of areas with the largest BAME populations, compared to 1.5 percentage points in the bottom 10% and an overall average of 2.4 percentage points.

Figure 13: Change in claimant count rate and BAME population



These trends reflect that BAME people are more likely to be in sectors affected by restrictions, less secure jobs[18] and the cities hit hardest. Further analysis is needed but policy and delivery should tackle all of inequalities in work and skills.

[18] Jobs and Recession Monitor – BME Workers, TUC, 2021

What next?

We need economic support to continue for as long as restrictions have a substantial impact, and a more ambitious and joined-up approach to recovery and renewal over the decade ahead.

The rapid rollout of vaccines offers hope that the economy can be significantly reopened during spring and summer 2021. The Prime Minister set out a roadmap for doing so in England, with the other UK nations setting out their approaches too.[19]

However, significant uncertainties remain. We don't know how rapidly and fully the economy can safely reopen; nor whether further virus variants or the onset of winter might require ongoing or additional social distancing restrictions; nor to what extent changes such as increased homeworking and online shopping will persist; nor the potential impact of the UK's changing trading relationships.

That makes it challenging to balance protecting jobs that may be viable as restrictions ease with supporting people to make the most of new opportunities – not trying to hold back inevitable change.

In addition, we have built up new challenges during the pandemic (such as higher unemployment and young people with disrupted education) and will be living with the aftereffects of the crisis for years to come. Plus we still need to tackle the challenges we had before the crisis, such as inequalities between groups and areas, lower skill levels than other countries, and weaker economic growth over the last decade.

Two key principles should underpin policy. The first principle is that support for jobs should match economic restrictions. The Government should be clear that the CJRS and other support will remain in place while restrictions are having a material impact. If this requires the furlough scheme to be reintroduced for a time during winter 2021, then so be it. But the furlough scheme should end once restrictions are eased and not having a significant impact on businesses.

The second principle is that we should empower people and employers to make decisions. The Government cannot determine which jobs or businesses are viable or which sectors in which areas people should look to retrain into. Instead, we should give people and employers options, support and advice to make informed decisions. This is common sense in a large, complex economy which consists of millions of decisions made each day by people and employers.

[19] Covid-19 response: spring 2021, HM Government, 2021.

Box 1: The Government's Plan for Jobs

The Government announced a Plan for Jobs in July 2020. This followed the initial phase of the crisis, when emergency business support, a £20 per week uplift to Universal Credit, and support such as the Coronavirus Job Retention Scheme and Self Employment Income Support Scheme were introduced.

The Plan for Jobs was aimed at supporting recovery. Perhaps its flagship policy was the £2 billion Kickstart scheme, funding jobs for six months for young people claiming Universal Credit and at risk of long-term unemployment. A further £1.6 billion was announced to scale up employment and skills support, including:

- Giving businesses £2,000 for each apprentice they take on, increased in Budget 2021 to £3,000
- £111 million to create more Traineeships in 2020-21, with a further £126 million in Budget 2021 to extend this increase through 2021-22
- £900 million to double the number of Jobcentre Plus Work Coaches to 27,000
- Funding extra sector-based work academy placements and National Careers Service support

In addition, £8.8 billion was to be invested in job creation, including by increasing and bringing forward investment and a £2 billion Green Homes Grant in England.

Since July, further measures have been announced, most notably the £2.9 billion three year Restart programme for long-term unemployed people announced in the November 2020 Spending Review, due to start in summer 2021.

The Government's Plan for Jobs contains lots of welcome measures. There are five areas where we think further focus is needed.

1. Protecting jobs: matching furlough to the impact of restrictions

The latest extension means the furlough scheme will remain in place until September 2021. This is the right thing to do, given the Government's roadmap suggests large parts of the economy will be largely open by the summer, meaning this extension gives firms time to judge how far demand has bounced back before needing to take decisions on whether to reduce staffing.

Some have argued for a longer taper for the furlough scheme, even as restrictions are substantially eased. The risk is this could hold back necessary adjustment, the creation of new opportunities, and mean that people's skills deteriorate while they are employed in (but not working) jobs that are no longer viable. On balance, we think the Government has got its current plan about right.

We need to give people and businesses certainty and protection while substantial restrictions are in place, and then sufficient help (see below) to find work for those whose jobs do not return. The Government should also be clear that the furlough scheme and other support will be brought back if restrictions are reintroduced.

2. Support for young people: a Youth Guarantee

Around 500,000 young people will leave full-time education in summer 2021.[20] After a disrupted education they will enter a tougher labour market than previous cohorts. Some are likely have missed out on support to look for work or choose their next learning option.

This new cohort of education leavers will be joining those young people already in the labour market and facing an increased risk of worklessness. Together, this raises the risk of a spike in the numbers not in education, employment or training (NEET).

The Government have introduced a range of initiatives to support young people, from Kickstart to employer incentives for apprenticeships. However, we risk some young people missing out on support and also that support may be based on which part of the system you engage with rather than what you need.

For example, who is proactively tracking and engaging 16-17 year olds who are NEET? Why can’t they access a Kickstart job if that would benefit them? How many young people will Jobcentre Plus refer to Traineeships? What focus will DWP-funded support have on apprenticeships? Will young people accessing training be referred to Jobcentre Plus or Kickstart if that would best suit them?

Our proposal is a Youth Guarantee, so every young person is offered a job, apprenticeship or training place and we make sure no young person misses out.[21]

That would require partnership working between national and local government, with employers, trades unions and civic society, and over a sustained period of time. It also requires a focus on delivery on the ground: the Government has announced many of the necessary components of a Youth Guarantee, but some are not yet fully up and running and they need to be delivered in a tailored, engaging, joined up way.

[20] Assuming 12% of the 760,000 16 year olds and 49% of the 730,000 18 year olds leave full time education, in line with pre-pandemic patterns. Source: Mid year population projections, ONS, 2018; Participation in education, training and employment, DfE, 2019.
[21] Emergency exit: how we get Britain back to work, L&W, 2020.

3. Help for people who are long-term unemployed

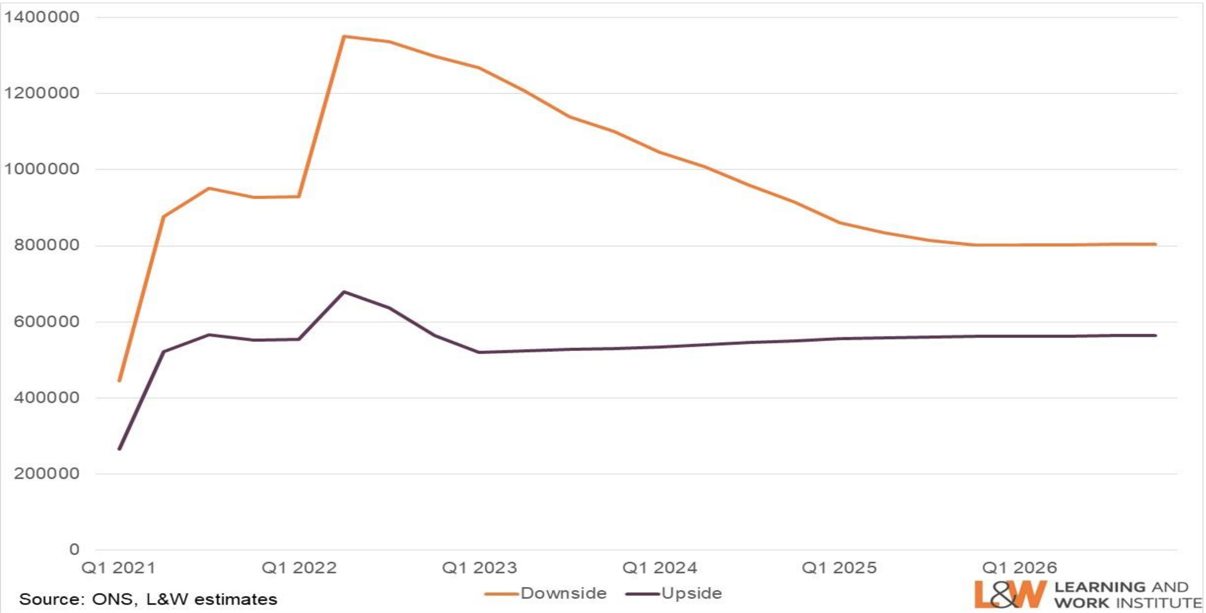
The Office for Budget Responsibility (OBR) projects unemployment is likely to peak at 6.5% (2.2 million) in late 2021.[22] This is 900,000 higher than before the pandemic, but 350,000 lower than it projected in November 2020 and coming later in 2021, the result of the extension of the furlough scheme and success of the vaccine rollout.

However, the nature of the peak will depend on the path of the virus and economic restrictions. In addition, the OBR expects unemployment in 2025 to still be higher than in 2019, matching our findings that employment has taken 3-7 years to recover after previous recessions. Increasing employment is likely to be a five year mission.[23]

As a result, the number of people unemployed for 12 months or more is likely to rise significantly. Long-term unemployment is particularly damaging: you are less likely to find work the longer you are out of work, and it can affect health and wellbeing.

Long-term unemployment has already risen by 25% in the last year to 469,000, with the sharpest rises among 16-24 year olds (up 36% to 196,000).[24] Based on the November 2020 OBR forecasts we suggested long-term unemployment could increase two or three fold. The latest OBR forecasts suggest a slightly lower and later peak, but with long-term unemployment potentially still reaching one million.

Figure 14: Projections for long-term unemployment, UK



[22] Economic and fiscal outlook, OBR, 2021.
[23] Emergency exit, L&W, 2020.
[24] Labour market statistics: February 2021, ONS, 2021.

The Government's approach is to minimise the number of people becoming long-term unemployed through increased employment support (like increased numbers of Jobcentre Plus Work Coaches) and to put in place a new contracted-out Restart programme to help people who become long-term unemployed to find work.

This is broadly the right approach, but with two missing elements. The first is the lack of join up between initiatives – this risks creating a list of programmes rather a coherent offer. The second is a Job Guarantee for those who don't find work through support like Restart – this could build on Kickstart, but extended to all adults who have been out of work for a longer period of time (e.g. 18 months).[25]

Even if unemployment turns out lower than initially anticipated when the Plan for Jobs was launched, we should not roll back the expansion of employment support underway. There may be growth in underemployment as people return from furlough on reduced hours – Work Coaches can help this group.

And there were large numbers out of work before the pandemic who were offered relatively little support – let's repurpose expanded employment support to engage this group and not just reverse the declines in employment during the pandemic, but aim for a higher employment rate.

4. Support incomes

The Government increased Universal Credit by £20 per week at the start of the pandemic. That increase was due to end at the end of March 2021, but has now been extended to September 2021.

Although most restrictions should be eased by then, the labour market has taken 3-7 years to recover after the last three recessions, so the effects of the pandemic on employment are likely to be long lasting. In addition, benefit levels in the UK were relatively low compared to earnings both historically and compared to other countries, particularly after five years of a working age benefit freeze.[26] As a result of this, slow growth in incomes and rises in unemployment, the Resolution Foundation project one in three children will be living in relative child poverty by 2024-25.[27]

The Universal Credit uplift should be made permanent, at a cost of around £6.6 billion per year and equates to 5% of incomes for the poorest 10% of households.[28] The Government should also look at the generosity and coverage of sick pay and

[25] Emergency exit: how we get Britain back to work, L&W, 2020.
[26] The temporary benefit increases beyond 2020-21, IFS, 2020.
[27] Living standards outlook 2021, Resolution Foundation, 2021.
[28] The temporary benefit increases beyond 2020-21, IFS, 2020.

other aspects of Universal Credit including Work Allowances, the taper rate and the two child limit. Each of these needs to be examined in terms of a judgment about what the right thing to do it, the cost of changes, and the impacts these would have on employment, incomes and relative child poverty.

In addition, there is a strong case for cutting tax for the lowest earners by increasing the threshold at which people and employers pay National Insurance, moving toward aligning it with the income tax personal allowance. This move could be made more progressive and part-funded by other changes in taxation, including better aligning National Insurance rates and rules for the self-employed with those for employees.

5. Employment growth and good work

There are likely to be increased employment opportunities from the second half of 2021 as the economy reopens. We need to ensure employment grows as rapidly as possible and make sure those out of work are supported to find work (see above). We also should not lose sight of the quality of work and opportunities for progression – issues that policy and practice were increasingly focused on before the pandemic.

We previously argued for £11.6 billion investment to create 200,000 jobs in low carbon sectors, social care, childcare and adult learning.[29] The Government plans increases in public investment as well as a number of funds, including the Levelling Up Fund, and needs to hardwire requirements to take on local unemployed people and create apprenticeships into these programmes.

The Government plans to increase the minimum wage to two thirds of median wages by 2025. It should stick to this goal, with the Low Pay Commission advising on whether the planned path needs to be adjusted according to economic conditions. Cutting the non-wage costs of employers, such as through the reductions in National Insurance proposed above, would help to cushion the effects of this and support employers.[30] In addition, because household circumstances vary substantially, increasing the minimum wage will need to be accompanied by tax and benefit changes (such as those outlined above) to improve living standards for all.

In addition, we need a renewed focus on good work, so all work has opportunities for progression and development. This can include building on the good work charters introduced by devolved administrations and Mayors across England.

[29] Missing millions: where will the jobs come from, L&W, 2020.
[30] Future of the minimum wage, L&W, 2021.

Conclusion

The pandemic and associated restrictions had a profound economic impact. There was an immediate increase in unemployment and new claims for Universal Credit rose sevenfold.

The immediate policy response, while having gaps and limitations, was swift and helped to save millions of jobs. In particular, the Coronavirus Job Retention Scheme and Self Employment Income Support Scheme helped ensure the labour market adjusted more through falls in hours worked rather than falls in employment. Had employment followed the path of GDP, 2.5 million fewer people would have been in work by the end of 2020.

These schemes, underpinned by a flexible labour market, continued to limit the damage to employment through 2020 and into 2021. A hint of what could have happened is seen in the spike in redundancies when the CJRS was planned to end in October 2020, with only a last minute extension.

However, the pain, while more limited than it might have been, was felt unequally. Young people, older people, single parents, disabled people, those from a BAME background, cities, and areas of the country with already high unemployment have all been harder hit. New inequalities have been created and existing ones exposed.

The Government has done the right thing to protect jobs and incomes by extending the furlough scheme and Universal Credit uplift to the end of September 2021. Though it needs to make clear that any resurgence of the virus requiring further restrictions will be met by a further extension of support.

It has also introduced welcome support to help people back to work, including employer incentives for apprenticeships, Kickstart, Restart, and Traineeships.

However, there are still issues with the design and delivery of policy. Too often schemes are taking time to get up and running and are disjointed. This risks leaving people behind or not getting the right support for them.

There is still time to fix this, including through a Youth Guarantee for young people. With unemployment likely to be lower than anticipated when the Plan for Jobs was created, we should repurpose expanded employment support to attack inequalities in access to work and level up employment opportunities across the country.

We will be living with the effects of the pandemic for years to come. But we have a chance to heal some of its economic impacts and build back better and bolder.