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Unemployment: The Coming Storm, Who Gets Hit, Who Gets Hurt, and Policy Remedies

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Highlights

- The COVID-19 pandemic has already caused a significant employment shock in the UK, while millions of jobs are currently being protected by the Coronavirus Job Retention Scheme (CJRS). The plans to introduce and progressively increase employer contributions from August are likely to lead to substantial job losses given the current financial distress that firms are facing.
- These job losses will disproportionately affect young people, those in deprived areas, from deprived families, from ethnic minorities, and those with low levels of education.
- Evidence shows that there are long-term costs to spells out of work, not only reducing employment opportunities and wages many years later, but also affecting individuals' health, job satisfaction, and future happiness.
- There are a number of approaches that should be considered to protect individuals from these negative impacts. Macroeconomic policy responses could include targeted cuts to National Insurance contributions, and changes to the incentives in the CJRS to encourage retention of more short-time or part-time workers.
- Education and skills policy, and active labour market policy, should be targeted at helping individuals who will be particularly affected by job loss. This should include broader support for technical and vocational education and re-skilling; university access courses; and job search alongside high-quality work experience in the labour market.

Why does this matter?

Contrary to some current thinking, the Covid-19 recession is likely to be far worse than the 2008/09 recession. Unemployment could increase to more than 10%. We need to consider a broad range of policy interventions at the macro and micro level to prevent long-term scarring effects.

Unemployment: The Coming Storm, Who Gets Hit, Who Gets Hurt and Policy Remedies

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Abstract

While recent forecasts have pointed to an employment shock of a similar magnitude to that seen in the previous Great Recession, many of the circumstances this time round suggest we may be facing a more severe experience. This is likely to disproportionately affect young people, those from deprived families both in adulthood and in childhood, ethnic minorities, and those with low levels of education. Evidence shows that there are long-term costs to spells out of work, including reduced employment opportunities and wages, alongside lower job satisfaction, health and happiness. A combined response of macro-level interventions, alongside individually-targeted education, skills and active labour market policy responses are required. Targeted cuts to National Insurance, changing the incentives of the Coronavirus Job Retention Scheme (CJRS), increasing access courses to higher education, funding further education routes, and combined interventions including targeted job support schemes and high quality work placements are all policies that can aid recovery and minimise the costs of scarring.

The Covid-19 Recession

The Covid-19 pandemic has already produced a dramatic shock to the labour market. Unemployment Benefit claims in the United Kingdom rose by 1.4 million since February to 2.8 million in May 2020 and HMRC records suggesting that employee numbers have fallen 1.7%. The claimant unemployment rate stands at 7.5% – the highest since 1996; the regular unemployment rate measure is in the region of 1.5 times higher during recessions as not all unemployed people claim benefits although this relationship in the current lockdown situation is not clear. But the CJRS is holding back a much larger surge in job losses. The question is: What do we now face for the second half of this year? To answer this we need to look at what drives employment and GDP contractions historically. We begin by summarising the experiences in past recessions before assessing similarities and differences with this time round. In order to understand the implications of this recession, we need to look at who will be affected, and what the evidence shows about the longer-term costs of this. Finally, we ask: what can we do about it?

What can we learn from recent recessions?

Historically, the strength of the relationship between GDP and employment contractions has varied substantially during recessions. In the 2008/09 recession, job loss was small relative to the large reduction in economic activity. At a decline of over 6% of GDP, it was a severe recession. But the employment rate shrank by just over 2.8 percentage points (73.0% to 70.2% of working age population in work) and unemployment peaked at 8.5%. The claimant unemployment rate was just 5.1% at its peak. (The current level is already above this.) By contrast, in the 1990s recession, a GDP contraction of just 3% saw employment fall by 4.5 percentage points. The 1980s recession saw a 5% GDP decline and a 6-percentage point decline in the employment rate. There is therefore huge variation in the extent to which employment falls relative to GDP declines in each recession, from employment falls being half the size of GDP decline in 2008/09 to 50% larger in the 1990s.

Predicting what's to come is hard. The UK economy contracted by 20% in April (after 5% in March) but this is driven by lockdown rules and does not reflect the underlying economic position. It will be clear how things look after lockdown from July and through the second half of the year. The Bank of England suggests that over the year as a whole, the contraction will be 14% – more than twice as severe as the 2008/09 recession. The OECD is a bit more optimistic, predicting a contraction of just under 12%, with activity around this level in the second half of the year and still 4 to 5% down in the first half of next year. Both organisations suggest unemployment will rise to just over 9% at the end of this year, a rise of just over 5 percentage points. They, and most other forecasters, therefore, expect this to be like the last recession with the employment fall (unemployment rise) around half that of the GDP fall. However, this raises the key questions of a) what mediates the relationship between employment and economic activity through recessions? and b) how should this inform forecasts this time around? We begin with the first of these.

The first factor is the conditions required for firms to lay off large numbers of workers. Firms first respond to economic shocks by hiring freezes and not renewing temporary contracts. They

are more reluctant to sack experienced and knowledgeable workers. They only shed labour heavily when they are in acute financial distress to avoid bankruptcy. Some, of course, don't survive. The crucial issue is how much financial distress are firms in and how long will they need to get back to near normal trading conditions. If this distress is acute and persistent, then employment will be hit hard.

The second factor is which sectors are hardest hit. If it's highly labour-intensive sectors (such as retail, hospitality and leisure) then we would expect to see a larger shock to employment than GDP.

In the 2008/09 recession, the first factor had little impact. We saw corporate profitability fall by less than a fifth. Corporate profitability was sustained in large part by the very large currency devaluation which meant exporting firms and those competing with overseas firms in domestic markets were able to maintain profitability.[1] Plus the large fiscal stimulus package from the government meant relatively few firms, beyond the banks, got into acute financial distress.

The 1990s recession was driven by Norman Lamont rapidly and unexpectedly hiking up interest rates to defend the value of sterling. Consumer spending fell sharply, and corporate profitability fell by a third from the high levels witnessed in the Lawson boom. It was expanding firms who had recently taken on debt who were hardest hit and those most reliant on consumer spending – labour intensive services. So both factors led to a large employment shock. The 1980s recession saw a large hike in interest rates and a rise in the value of the Pound hitting manufacturing hard, rather than services. Importantly, though, profitability was already low and a further 20% decline pushed many firms to or over the edge. So it saw firms in acute distress but focused on manufacturing rather than (low productivity) labour intensive service sectors.

What do we face this time?

The answer is that, contrary to some current thinking, 2008/09 is not a good guide. Rather the 1980s and 1990s recessions seem closer to the mark. This then suggests that the employment contraction will be similar in magnitude to (or potentially larger than) the GDP contraction. Even before the crisis, corporate profitability had fallen 20% compared with its level in the first half of 2017; the baseline level for this crisis was already similar to that at the height of the 2008/09 recession. The UK had narrowly missed recession at the end of 2019, before Covid-19 struck. We are starting this recession with firm profitability at levels seen at the worst period of 2008/09.

Current forecasts predict that GDP will be 8-10% below its peak as we emerge from lockdown in July and still 4% lower than peak by the first half of next year. The absence of, or very limited, trading for some months will have pushed many firms to the brink. Combined with this, firms do not know their current trading position nor that which will emerge after lockdown.

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[1] Sterling has fallen by 8% through this crisis against the Euro – which will help ease the pressure on firms, as will the large fall in the oil price.

The CJRS has covered wage costs but, even so, no revenue means firms have no slack. With no financial buffers, firms will cut jobs heavily to protect the firm until clarity about their trading position emerges from September. The risk for the firm is that holding onto too many workers will push them into bankruptcy, so firms will err on the side of caution by laying off workers. We are starting to see this already. This will be compounded by the sectors who have, and will continue to be, hardest hit by lockdown and social distancing: the labour intensive sectors of retail, hospitality, leisure and tourism.

The US is maintaining incomes by putting people on greatly enhanced Unemployment Benefits (UB) rather than keeping people attached to firms by subsidising wages. It, thus, provides a reasonable guide of what we face here (before the hit to consumption from widespread income falls bites): open unemployment in the US has risen from 3.5% to 13.3% in three months. Firms there may rehire the same workers using UB as a temporary layoff. This has started to happen as social distancing eases with a more limited lockdown, so the effects of the economic shock on jobs is more apparent there.

Therefore, given a) the huge economic shock and b) the US evidence of its effects on jobs even with major support for demand in the economy, it is reasonable to assume that the employment rate will fall by 8 to 10%pts from its recent all time high of nearly 77% (it has fallen by between 3 and 4% so far when the self-employed are included). Open unemployment would have been likely to rise from 4% pre-Covid-19, to 14% without further policy intervention. The recent relaxation of the 2 metre rule, which will help pubs, restaurants and leisure services to trade more effectively, and a plan to bring forward infrastructure spending may protect against this somewhat. These two measures may well limit the GDP fall (to say 6-7%) and hence we may instead see an increase in unemployment to something closer to 12%.

Is there anything to be positive about? There are some glimmers of hope: the recovery is already underway and firms just need to get through to the New Year for a more normal recession situation (output down 4% or so). In addition, tax credits enable families to survive on just a part-time wage in a way that wasn't viable in the 1980s and 90s. So we will see a lot of involuntary part-time working until the recovery matures. This is underemployment but it is less severe financially (and in other ways) than unemployment and household joblessness. Finally, oil prices have fallen sharply in a way they didn't in 2008/09 which has some positive effects on spending on other goods and services.

The central point here is that the government has ploughed huge amounts of money into preserving firms and, especially, jobs. A large part of this will be wasted if the CJRS ends abruptly after lockdown ends. Furthermore, the fallout will be massive and the recession risks being more severe and sustained if there is a collapse of demand in the economy from widespread job losses and, even more importantly, widespread fear of job loss. The pressure for further macro-economic stimulus is growing and the policy options are assessed later.

Who Suffers Long-term Unemployment

This catastrophic shock to employment will come about through a number of different routes. While there is always churn in the labour market from firms expanding and contracting and the start-up and death of firms, the lockdown and the recession will delay start-up and expansion, as firms wait to assess the state of the economy, whilst contraction and death are accelerated. This is normal in a recession but now the contraction and firm closures will be intensely concentrated. If this creates widespread fear of job loss the result will be a deeper, more protracted recession, which will lead to the failure of a lot of otherwise viable firms, while others will be pushed to point of existential threat where they sack workers. This will play out through four main routes, which are listed in the order that they bite as a recession hits:

1. Recruitment Freeze: Firms in general will already have stopped hiring new workers. Real time vacancies data from recruitment websites says that vacancy levels are 65% down on same period last year.[2] They will also let go of a high proportion of temporary and agency workers.
2. Delayed Start-up: New firms starting up will delay entry until later this year or next because of the huge uncertainty around the state of the economy.
3. Financial Distress: A large number of businesses will face closure, and, more widely, firms facing acute financial distress will shed workers to reduce costs (see Gregg & Geroski, 1997, for detailed surveying of firms through the 1990s recession and how they responded). Many self-employed contractor workers will not be able to start-up again after lockdown.
4. Strategic Planning: Over time firms assess the likelihood for demand for the goods and services returning and adjust employment accordingly. There are examples of firms doing this already, such as the aviation industry.

In terms of the labour market, this will hit a lot of workers. However, based on experience of previous recessions we can predict that some groups will be especially hard hit.

The Young

The young are always hardest hit by the combination of limited hiring, and temporary and recent starters being let go. Youth (18-24) NEET rates will generally increase dramatically but this summer's crop of school, college and university leavers will be the hardest hit. New graduates will have lower employment but also move extensively into lower paying occupations (see next section). New school and college leavers (18/19 year olds) will see a collapse in employment opportunities in July to August. This exclusion from the labour market will damage future wages and employment prospects (scarring) and is discussed in the next section.

Youth unemployment rates are currently 2.5 times that for the whole population. In part this reflects lower employment among students, but even adjusting for this, it is still twice as high. In the last recession, there was a similar picture (18% compared to 8%) and in the 1990s

[2] https://www.employment-studies.co.uk/resource/weekly-vacancy-analysis-vacancy-trends-week-ending-31-may-2020.

recession this multiple was slightly less than twice as high. This suggests that, broadly, we can expect these relatively higher rates of youth unemployment this time, too. If the overall unemployment rate reaches 14%, as we suggest, then youth unemployment will reach around 25%. If unemployment is lower thanks to the recent announcements on social distancing and other government action and peaks at 12%, then we would still expect youth unemployment will be above 20%.

Among those aged 18-20 who are not in full-time education, joblessness will reach 50%, although some will give up looking for work (and, hence, be regarded as economically inactive instead). Unemployment among young people from ethnic minorities is about 1.5 times that for the White population and twice as high for Black and those with Pakistani or Bangladeshi heritage. As youth unemployment becomes widespread in the autumn, these relative differences will come down a little. However, this still implies around a third of young people from ethnic minorities being unemployed, and higher still for Black, Pakistani, and Bangladeshi heritage youth. With the Black Lives Matter calls for justice, this economic injustice will feature heavily by the end of the year.

Prime Age

Prime-aged workers will be less severely affected than young people as firms will wish to hold on to experienced and productive workers. Even so, employment rates will contract sharply before recovering. Within this population, the focus will be on a number of groups who are generally less advantaged in the labour market. The less well-educated, those in severely affected industries such as retail, leisure and tourism, those from ethnic minorities, and those with disabilities will be far more at risk of long-term unemployment. Those with recent unemployment spells, or already in the low pay–no pay cycle, will be hardest hit.

Somewhat less obvious is that those from poorer families in childhood are far more at risk of experiencing unemployment, and not just when young (Gregg and Macmillan, 2020). This is true even for those with the same levels of education and living in the same local labour market. However, worst of all is multiple disadvantages (or intersectionalities) of growing up poor, living in a depressed local labour market and having lower levels of education. The cumulative effects of multiple disadvantage grow when work disappears (Wilson, 1997). Gregg and Macmillan (2020) show how the UK (along with Ireland, Belgium and Italy) is particularly bad in seeing those from poorer families suffering more in downturns. As such, the downturn will harm social mobility.

Older Workers 55+

Older workers are less commonly affected, as firms now use early retirement less frequently to shed workers because of its high cost. However, those who do become jobless will struggle to regain a foothold in the labour market and face long-term exclusion and low incomes even into retirement. Those with health problems are at higher risk here.

The Covid-19 recession will have differential effects across groups then, with the young, and those from disadvantaged circumstances, both now and from childhood, and with low levels of

education, most at risk from long-term exposure to spells out of work. In the next section, we consider the implications of these types of exposures, summarising the vast evidence base on the longer-term impact of unemployment, and entering the labour market during a recession.

The Unequal Impact and Scarring Effects of Unemployment

A substantial literature attempts to quantify the causal effect of experiencing spells of unemployment on later outcomes. This has primarily focused on wages and further unemployment years later but also includes wider outcomes such as mental health. These legacy effects of unemployment are called ‘scarring’. They result from “depreciation of human capital, or because employers use an individual's previous labour market history as a signal of productivity” (Arulampalam et al., 2000), although this latter ‘signalling’ effect may be less marked where it is evidently due to a large economic shock such as Covid-19. Understanding this relationship is important in the current climate because it implies that there are likely to be significant costs associated with unemployment caused by external shocks, such as the Covid-19 recession.

In terms of future employment, Gregg (2001) finds that “men who experience an extra three months unemployed before age 23 go onto experience another extra two months out of work (inactive or unemployed) between ages 28 and 33”. Using variation from local labour market conditions, this is shown to be a causal effect of early labour market unemployment experiences.

In terms of wages, Arulampalam (2001) found for young people that a spell of unemployment carries a wage penalty “of about 6% on re-entry in Britain, and after three years, they are earning 14% less compared to what they would have received in the absence of the unemployment”; Gregg & Tominey (2005) document similar findings and note that those who have sustained employment reverse more the wage penalty. Nickell et al. (2002) highlight that the wage decline after job loss for men of all ages is around 10% plus just under an additional 1% for every month spent out of work. The initial impact is regained over the next three years but the duration penalties are not recouped. It is longer durations that do the sustained damage. The picture here is that lower job stability and lower wages are connected and both result from unemployment exposure.

Oreopoulos et al. (2012) suggest that graduating in a recession makes it more likely for workers to begin their careers at lower paying employers; they catch-up over subsequent years with their peers who graduated during more prosperous times by moving to higher paying firms. However, advantaged college graduates are much better placed to makes these moves: as such, “less advantaged graduates recover at much slower speeds, if they recover at all”. Clarke (2019) highlights that graduates in recessions start in occupations with slower wage growth and opportunities for promotions. There are also pay growth penalties for working part-time.

Looking beyond wages and employment, Bell & Blanchflower (2012) find “that spells of youth unemployment have harmful impacts on a number of outcomes, such as happiness, health, and job satisfaction, many years later”. The timing of the unemployment appears to be crucial, however with youth unemployment being key – “spells of unemployment experienced after

age 23 have little bearing on later well-being" (Bell & Blanchflower, 2012) – again highlighting the importance of considering differential effects of the Covid-19 shock on different generations. These findings appear consistently in many contexts, too, with similar findings of long-lasting effects of unemployment on well-being in a German context (Clark et al., 2001) and evidence from Tumino (2015) that scarring effects have occurred in the early 1990s, the early 2000s and the 'Great Recession' period.

There is a smaller related literature on the intergenerational impact of parents' unemployment experiences on their children's education and labour market outcomes, suggesting that these scarring effects have long-term implications beyond the current generation. Bratberg et al. (2008), Rege et al., (2011), Stevens & Schaller (2011), Gregg et al. (2012), Hilger (2016), and Ruiz-Valenzuela (2020) all find negative impacts of father's job loss on children's educational outcomes. Meanwhile, Oreopoulos et al. (2008) show that adult children whose fathers were displaced due to firm closures experience wages that were 9% lower than those whose fathers did not experience an employment shock.

Macmillan (2014) and Gregg & Macmillan (2020) show that the impact of high unemployment is particularly pronounced for those from deprived families with low levels of education. These impacts are compounded to put disadvantaged young people at the back of the queue for jobs when work disappears. Scarring effects on employment and earnings are also shown to be worse for ethnic minorities (Zucotti & O'Reilly, 2018; Li & Heath, 2020).

There may also be less obvious and counterintuitive effects. Bianchi (2013) finds that graduates who entered the workforce during economic downturns were more satisfied with their jobs both early and later in their careers than those who entered during stronger economic times, even when they earned less money, perhaps because they "were less likely to fixate on ways they might have done better and more likely to feel grateful for the jobs they held" (Bianchi, 2013). Giuliano & Spilimbergo (2009) find long-lasting effects increasing support for government redistribution and voting for left-wing parties.

The evidence clearly shows that unemployment hurts people who experience it, particularly school leavers who feel the effects for years after recessions are over and people have returned to work, in terms of future wages, job stability and health, and even for their children. The evidence is also clear that it is long periods of unemployment that do the lasting damage. So the policy response needs to be both about job creation, and targeted help for those who experience the bulk of the duration of unemployment. We now discuss potential area of policy response.

What can we do?

There are three major areas of policy intervention for a government facing a jobs crisis: 1) action at the macro- level to support jobs, such as the CJRS, and interventions focused on helping individuals which can be broadly split into 2) education and skills and 3) active labour market policies.

Macro- Level Support for Jobs

Governments facing a major economic downturn will try to stabilise the economy by pumping resources in through maintaining incomes and, hence, consumer spending, helping businesses survive the crunch, helping firms to hold onto workers, and direct spending. The mix of these should depend on the nature of the crisis being faced, as all recessions differ. The banking crisis of 2008/09 meant that available credit to firms and households dramatically dried up hitting spending both by firms and consumers. It also drove a sharp devaluation of Sterling, which helped firms who exported or competed with imports from abroad but pushed up prices further, further squeezing spending by consumers. Trying to ease this by cutting VAT and, hence, prices to support consumer spending thus made sense.

This time the problem is not a hit on spending because of a credit squeeze and rising prices but because of social distancing reducing our propensity to travel, or go to restaurants or pubs, for example. Cutting prices by cutting VAT is not as attractive this time around because prices are not the primary cause of the spending problem. Further, any consumption boost will include imported goods and, hence, will not be fully targeted on employment in Britain. An alternative option is to cut employers' National Insurance (NI) payments to make employing people cheaper and, thus, preserving jobs; it could also potentially boost vacancies when the recovery starts. However, a broad cut is not well targeted on sectors in most distress or in the areas which are likely to employ the young and relatively low skilled labour who are most at risk of job loss. There are four more coherent responses, one of which the government has already done and another it has started but could do much more on.

First, the key step taken so far has been the relaxation of the 2-metre rule allowing pubs, restaurants etc. to operate with "1 metre plus" social distancing. This allows the hardest hit sectors to trade more effectively. It addresses the block on consumer spending which, in turn, eases the financial pressure on firms, while also being well-targeted on the labour-intensive sectors currently at high risk. This measure alone could well have reduced the peak unemployment rate at the end of the year from 14% to 12%.

Second, the government has also announced that it is bringing forward £5 billion pounds of infrastructure spending. This is sensible policy making as it boosts activity, with infrastructure spending having substantial multiplier effects on the rest of the economy. However, £5 billion is not very much. Spending on repairing roads has the advantage of getting started quickly but more green action would be a programme of green energy production such as solar and, where appropriate, wind power on public buildings, which would have the advantage of also being able to be put in place quickly. Much larger investments (offshore wind farms / tidal power) in green energy take far longer to get moving but have similar multiplier effects into the wider economy. The government should be looking to spend considerably more on public infrastructure investment over the next two years.

The other two elements of a jobs recovery package would be incentives for short-time working in hard-hit firms for a few months and a more targeted, but more powerful, cut to employers' NI payments.

Regarding the short-time working package, as businesses begin to re-open, the full-time CJRS becomes redundant and the part-time option that is allowed from July should be the only attractive option. This represents a form of short-time working. As proposals stand, firms start paying employers' NI and pension costs from August. They also have to start paying 10% of the furloughed wage in September and 20% in October, which amounts to 35% of the furloughed wages in total. Under part-time (half time) working, this is around an extra 3% in August, rising to 12% in October, in wage costs per hour worked. Given that this is at a time when firms are extremely financially distressed, it seems unlikely that many will be using this option by the end of September. Rather they will retain some workers to normal hours and lay off the rest to cut costs.

There are two simple alternative tweaks to the part-time CJRS that would encourage firms to hold onto more staff. The first is to make government support for furloughed staff capped at a fixed contribution irrespective of full- or part-time furlough status, rather than a proportion of the furloughed wage. The government's contribution to a full-time furloughed worker will fall to 65% of £2000 per month in October or £1300 pm on average (80% of £2500 is current limit of government support and some workers receive less but it is also supporting employers' NI and pension costs) and the firm £700. For a half-time worker this is £650pm and £350 respectively. A single capped fee of £1000 pm would make full-time furlough far less attractive and part-time correspondingly more attractive. On this basis, the cap could be £1800 in August, £1400 in September and could continue to decline in November and December before ending completely in January. Such a move would delay the pressure to carry out redundancies of furloughed staff from the end of August until the end of October or later, allowing firms more time to get to grips with the new normal.

An alternative is for a retention bonus payment to be made for workers still employed by the firm at the end of January. For example, a fixed payment of between £2000 and £5000 per furloughed worker could be paid conditional on their employment continuing for 3 months after the regular payments stop in October if 100% of all workers are still with the firm. At 95% the bonus would be halved and 90% there would be no bonus. Firms now have a strong incentive not to let workers go. This approach could be targeted on firms who are last to leave lockdown (mainly leisure/tourism related).

Finally, there is value in supporting job creation, not just job retention in hard hit sectors. So, at some point, closing the CJRS and looking at wider job stimulation becomes sensible. While a general cut in employers' NI is not well-targeted on the jobs at risk or where job creation will be needed to absorb the losses in hard-hit sectors, a cut can be better focused by making it larger and on only the first few thousand pounds of eligible earnings. So, employers' NI could be abolished on first £5,000 of earnings by raising the threshold at which payments start or halved for the first £10,000. This is then more valuable for lower-paying jobs, including part-time jobs which are half-time or more (employers pay no or very little NI on short hour part-time working).

Finally, a more medium term issue is company debt. Firms will have taken on debt during lockdown, much of it backed by the Treasury Guarantee and on favourable terms for the first

year and beyond for smaller firms (under the Bounce Bank Loans and Coronavirus Business Interruption Loan schemes). The debt is held by commercial banks and firms will have to repay it. Such debt and repayments will reduce firms' capacity to borrow, invest, grow and, hence, create jobs over the next few years. How this debt is managed will have a sizable impact on the recovery. It could be written off entirely or part of it could be taken off banks' hands under quantitative easing by the Bank of England (writing off part of it – sometimes called a haircut). This releases capital but also offers alternative repayment periods and amounts.

Policies focussed on helping individuals: Education and Skills
Covid-19 seems likely to exacerbate the underlying structural challenges in the labour market: a decade of stagnant productivity with associated static real wages and living standards. High employment rates and low levels of unemployment disguised few development opportunities and poor progression for many in employment. However, and as argued above, the immediate focus needs to be on young people currently transiting through the education system into employment since they will bear a disproportionate burden of the increase in unemployment.

Decisions to stay in further education and training may be affected by economic conditions (Taylor & Rampino, 2014; Tumino & Taylor, 2015) and, as highlighted by Burgess et al. (2003), may help to buffer scarring effects. Policy should therefore support such decisions across the range of educational routes, including freeing up supply of university places, offering more access courses for those wishing to upskill, and aiding the recovery of apprenticeship opportunities after the initial hit to these as part of the response to Covid-19 (Linford, 2020).

Actions should be geared towards supporting those whose education and training has been most disrupted, and for whom employment prospects will be curtailed. Equipping both young people and adults for the post-Covid world of work requires short-term and long-term changes to the ways in which the skills and training 'system' are organised and funded. We are fortunate in having a recent and very comprehensive review of post-18 education and funding published only last year – the Augar Review (2019). This highlighted many of the structural issues including the systemic neglect of the Further Education (FE) system over many decades and the associated weaknesses in the provision of vocational and technical education. It is hugely important that the conclusions (and recommendations) in Augar are not lost in the immediacy of the responses to Covid-19. They are set to be even more important post-Covid, given the likely acceleration in many of the changes in employment structure that have already been anticipated.

Apprenticeships: For some young people, apprenticeships would have provided skilled training opportunities, but these may be squeezed as firms emerge from the pandemic – one estimate suggests that 80% of apprenticeship starts in April were cancelled for example (Linford, 2020). However, despite the Prime Minister recently suggesting that "Young people, I believe, should be guaranteed an apprenticeship", the apprenticeship system cannot be the only way for individuals to access improved vocational and technical skills development after compulsory schooling. Apprenticeships are not 'scalable' at the quality that apprenticeship standards

require (12 months minimum duration plus 20% of time engaged in off-the-job training), and thus such a strategy would run the risk of diluting the progress that has been made in recent years in improving the standards of the apprenticeship system. However, there is a need to stop numbers of opportunities falling away and using Apprenticeship Level money to bear more of the cost of apprenticeships – which means making apprenticeships fully funded for 18-24s (non-levy firms currently bear 5% of the costs of training). Even better would be going further to bear some or all of the cost of the modest apprentice minimum wage (£4.15 per hour).

HE, FE and Access Courses: Encouraging continued education among the young also makes sense as a general policy response. The decision not to continue in full-time education at age 18 in HE or FE may have been preferable in the tight pre-Covid labour market but for those now facing mass unemployment supporting second chance learning makes sense. We need a flexible loans-based system for the 50% who choose not normally to enter HE to enable their participation in high-level vocational education and training. This should be part of a meaningful guarantee for all young people which will be discussed at the end of the next section. In addition, there will be a large number of places at the university level, owing to reduced numbers of overseas students. But this year's cap on domestic students will limit this supply somewhat. Lifting this cap, encouraging universities to offer extra places through clearing, and offering support to potential students through means-assessed grants are obvious steps, alongside contextualised offers. In addition, universities (often in conjunction with FE) could be paid to offer access courses to 19-24-year olds who didn't attend first time round and have basic GCSEs but not necessarily the traditional qualification requirements to attend universities. HE Access courses are available but focused on 25-35 year olds changing their life plans; this focus should be brought down to cover 20-24s. An Access course might apply to a group of universities, where students who perform to the required standard get access to universities with higher entry requirements, while those students who perform less well access those with lower entry requirements.

The largest numeric impact in terms of employment loss over the next few months – at least as suggested by the extent of the use of furlough – is likely to be experienced by those in low-paid occupations often with low skills and low-level educational qualifications. For these adults finding themselves unemployed, perhaps for the first time, the post-Covid labour market will be a hostile environment in which their existing skills are likely to be poorly matched with the opportunities that will be available, or that will emerge later as we recover from the Covid crisis.

Opportunities for retraining and upskilling as adults are particularly poor in Britain. There has been a secular decline in workforce training over the last four decades, and adults with the lowest levels of qualifications and skills are least likely to access the few opportunities that are available. For many adults, therefore, there is an acute need to re-engage with education and training. For these individuals, access to shorter-term, more modular, education and training opportunities will be crucially important. Augar suggests that this should be supported with a life-long learning (LLL) account for adult non-graduates. We need a flexible system that will allow individuals to repeatedly access education and training throughout their working lives.

Financing could be supported by widening the scope of the Apprenticeship Levy to a broader range of firms – the current threshold for paying the Levy is high and most firms are excluded. Alternatively, as some have suggested, human capital tax credits could be used to incentivise reskilling and training (noting that R&D is of little purpose unless firms have the skilled workers they need to implement new techniques and technologies). Or perhaps a 'Training and Skills account' could be established in which firms' contributions were matched by government. Certainly, any revitalisation of the adult training and skills system needs to include active involvement of employers, including sharing costs with both individuals and government.

Currently, FE is in poor shape, reflecting the historic underinvestment over decades. Improving its capacity to deliver post-18 skills and training, as well as its attractiveness to students, requires significant investment in infrastructure and staffing, as well as funding. This would be a good area for fiscal stimulus – one with clear long-term benefits.

Finally, given the excess demand for teaching support in schools as they try to re-open with social distancing restrictions, there is an opportunity both to meet this need and to provide the opportunity for young people displaced from the labour market to support qualified teachers as trainee/apprentice teaching assistants.

Policies focussed on helping individuals: Active Labour Market Policy

There are three forms of active labour market policy that have proven effective: job search support, hiring subsidies, and high quality work experience. As Bell & Blanchflower (2012) argue, these policies tend to work best during period of economic recovery, while those targeting younger people are less effective, especially when less intensive. This emphasises the need for wider support for job creation discussed earlier.

Job Search Support

The Work Programme was the Coalition government's flagship welfare-to-work programme. This started in 2011 and was replaced in 2015 with a programme targeting those with health issues/disability. Young people who had been out of work for three to nine months would be placed with providers to support with finding employment, with the providers receiving money for placing the individuals into jobs, with an extra reward for sustained jobs.

Providers primarily used one-to-one job search support with relatively little employer engagement and wider interventions such as training. A provider had a person on their books for two years and on average got 18% into sustained employment, and 25% for younger workers (there has not been a comprehensive analysis of the scheme but House of Commons Library, 2016, is useful guide). The scheme became more successful over time but this largely reflected the strengthening jobs recovery in this period. While placing 1 in 4 young in sustained employment in 2 years in a strengthening labour market suggests limited success, the scheme was low cost and these types of job support interventions have generally been found to be positive in the past (as in the Gateway of the New Deal for Young People, Van Reenen 2004).

The payments for sustained outcomes and that people who returned to unemployment re-engaged with the programme in the two year window were innovative.

Incentives for providers and employers to hire the young

Alongside the Work Programme, the Coalition introduced the Youth Contract which offered subsidies worth £2,275 for a full-time post, to employers who recruited a young person from the Work Programme and retained them for at least six months. Take up was very limited and the effects modest, in part because Work Programme providers did not have the employer links to support this element well. The international evidence on hiring subsidies is reviewed by Brown (2015) and is much more positive. This shows how well targeted hiring subsidies raise employment of supported individuals even 5 years after the subsidy ends. However, targeting is central, otherwise there are large deadweight costs from paying employers to do what they would have done anyway, or firms may hire a subsidised worker and displace an existing worker. Targeting is usually done by duration but can have more early entry for particular high risk-groups. Hiring subsidies are often used in conjunction with job search supports to maximise their effectiveness by giving a marketing element. This was not well designed in the case with Youth Contract discussed above.

Offer high quality work experience

Young people can be taken out of unemployment and temporarily placed into work experience to equip them with skills for regular job entry. The UK 2009 Future Jobs Fund (FJF), which offered 6 months paid (minimum wage) work experience to 18-24 year old Jobseeker's Allowance claimants, raised job entry and reduced time on benefits for the young participants (DWP, 2012). Two years after starting the six-month programme, participants were 11 percentage points more likely than a slightly older and ineligible group, to be in employment (when tracking was stopped). The resulting benefits broadly offset its costs. These sustained employment gains are impressive, considering that the scheme was running at the worst period for unemployment in that recession (2010-12) and as noted earlier, such interventions normally perform best in the recovery phase.

The Future Jobs Fund was replaced by the less expensive 'Work experience', offering only up to 8 weeks of unpaid work and focused less on high quality placements, usually being very routine roles. The short-run effects estimates were positive and 5 weeks after the placement employment rose by 6 percentage points for the first wave of entrants in 2011. However, these gains were eroded, declining to 4% at 1 year after participation and also were less effective for later cohorts entering the programme. Therefore although this approach was cheap, as no wage was paid, the effectiveness was limited.

Combined Programmes

In the UK, the 1998 New Deal for Young People was compulsory for the young unemployed and offered 4 options: employment placement, education/training place, a place on an environmental taskforce, or a place in a voluntary sector equivalent. Its innovation over past schemes was to require job search whilst offering support in finding employment, which occurred before the placement began, and subsidies for employers hiring young people. The

scheme proved successful, increasing employment by around 5% (Blundell et al., 2001) and its marginal benefits were higher than the marginal cost of the programme (Van Reenen, 2004). However, the environmental taskforce and voluntary sector options were less effective than the other two. Dorsett (2006) finds the employment option was the most successful. Drawing on this, the Future Jobs Fund also sought to maintain job search support to move on into regular employment.

Another more recent combination programme that is still up and running is the Traineeships programme being offered to those young people on benefits without the necessary qualifications to start an apprenticeship. It offers work experience with training, designed as a pre-apprenticeship and thus views moves into full-time education or an apprenticeship as positive outcomes. The DWP assessment is that it raised employment by 18% after a year and thus is more effective than were either the Future Jobs Fund or New Deal employment option. However, moves onto Apprenticeships were less positive and this should be viewed more as a work experience programme with training. It is, however, very small scale, with around 20,000 starts a year. It also operated in an extremely tight labour market and will be hard to grow substantially in a deep recession (Dorsett et al., 2019).

In summary, combined programmes offering work experience preferably with training (as with Traineeships), with required job search and on-going job search support and a hiring subsidy for moves into regular work are effective and must be at the heart of efforts to address youth unemployment. But they are expensive and as such they need to be focused on the most at risk of long-term damage from unemployment. Lower cost programmes for the less seriously in need (or at early durations) should not be lower quality work options such as make-work schemes (e.g. Work experience, Environmental Taskforce or similar), but job search support with hiring subsidies (for those aged 55+ this is the best option) or just job search support.

A Guarantee

Creating a Guarantee then should integrate these positive elements, with apprenticeships and continuing education (via Access Courses if needed) as options, to offer a range of positive options rather than low quality placements. As the numbers will be hard to grow to the scale needed, we would need a two-tier entry system based on duration out of work (not duration on benefits because this is often not the same as duration out of work for young people) with early entry for those with high-risk markers (discussed more in the next sections). For those not yet eligible for this more intensive treatment, the natural step is to create a window of job search support (as with the Gateway in New Deal) and the hiring subsidy before entry into the more intensive programme.

At first sight, it seems logical that there should a focus for interventions in specific areas such as the 'Green Economy' or Information Technology and Artificial Intelligence, by trying fit with the jobs being created for the future. In practice, this is difficult and can have unintended consequences. There are a large range of sectors where employment will grow in the next few years – health, social care, education, business services, research and even construction. Moreover, most job openings that will arise in the next 10 years will not be new jobs but will

be replacements to fill the jobs of individuals who are leaving the labour market for child and other caring responsibilities, moving to different jobs, or retirement. On average, there are at least 10 replacement jobs for each 'new' job and extra job creation is particularly limited soon after a recession. As such, we should focus the interventions of positive destinations and funding should as far as possible be outcome related. The first job that a person gets after unemployment will not be their last, and so it is the skills, education and on-the-job learning that matters not the sector it is offered in.

Targeting Support

The three support forms (job search, hiring subsidies and high quality work experience) have costs and their use needs to be targeted on those that most need support and the right kind of support. Job Search Support is relatively low cost and will, thus, likely to be widely used and is valuable for all groups (young, prime and older workers). It currently only involves disabled benefit recipients in England, although there is wider use in Wales. Hence, the scale needs to be ramped up quickly to get capacity ready for October when the first wave reaches 6 months duration.

Older workers (55+ or maybe 60+) are the simplest case. They do not need to participate in a work experience programme – they will have experience. For older workers the primary support is the job search support and employer engagement element and should be available for those not in work from April to the end of this year. The aim is to try and overcome the age bias of employers who can often think that the older employee is on their way to retirement and less motivated. Additional funds for re-training courses and a hiring subsidy should become available at a later duration, around the middle of next year (so at 15 to 18 months duration).

The same is true for most prime age workers. Here, then, we are in a waiting situation, letting duration out of work reveal who among those with normal circumstances will need help. For most it is hard to predict this need. A small minority of prime age, however, could potentially benefit from work experience before reaching a year or more out of work. Waiting is wasteful if the chances of a person finding work in a depressed labour market unaided are low. This is primarily those with disability or have already not worked much over the last three years.

The Young and RoNIs

For non-graduate young people, especially aged 18-20, the chances of getting work organically will be low. Early intervention is critical here. The regular way of targeting support, by duration of out of work benefit claim is doubly problematic for the young. First, they often do not claim benefits, or only erratically claim, and so do not build up duration. Further, it makes finding the young people to support them hard, too. Second, whilst duration since last employed spell works reasonably well when the flow of job loss is spread enough that provision can be mainly dealing with that flow rather than a large stock, this will not be the case in this recession.

Between September and December huge numbers of young people will be reaching 6 months duration since they last worked as a very large block. Likewise, next April will see a large cohort arriving at 6 months from those who lose work around September this year when the

CJRS ends, as well as the school leavers. In addition, a large portion of those who lost work in April/May this year will reach one year duration of their benefit claim (this could be 15-20% in a period of high unemployment). Waiting does not then seem sensible policy making, and having a scheme ready to start with no lead in time whilst we wait for people to reach 6 or 12 months seems a bad way to organise things. While targeting without relying on duration is less effective, it is still possible.

We need to be able to identify and target those at risk among the youth population. From previous youth unemployment crises, we have a history of using Risk of NEET Indicators (RoNIs). These are a set of characteristics which collectively predict NEET status for over 6 month's duration pretty well. The characteristics are combined into a 'risk score' based on several indicators, including: Achieving below 5+ GCSE's incl. Maths and English, Special Educational Needs and Disability (SEND) status, Free School Meals status, School exclusion/suspension or a truancy record, living in a deprived neighbourhood, looked after/ foster children, teen parenthood, young carer, and a record of youth offending.

The threshold of having a set of these characteristics can be chosen on the desired population to be engaged in support programmes. A score of five or six has been used previously (Britton et al., 2012). The indicators mostly come from the National Pupil Database (NPD) but given the progress made in linking administrative data (such as the Longitudinal Education Outcomes, LEO) available now, this should be more easily generated and even extended. Health issues outside SEND have not been generally used but could be added through links with health data and likewise markers of youth offending.

For older adults, DWP data on past benefit receipt in the last three years plus educational qualifications, age (55+), living in a deprived area, prison record and if possible health issues could serve as the equivalent to RoNIs. These will allow us to create an early entry cohort into effective government support programmes before 6 months unemployment for the young or 1 year unemployment for the older workers have elapsed.

The linked administrative data should also be used to develop a tracking system for young people. This is to identify who is disengaging from education, work and even benefit receipt and allows us to reach out to them and engage them in the support programmes.

Conclusion

The second wave of job losses is starting now as firms start to look forward at the post-lockdown and post-CJRS trading picture. This second wave will start in earnest towards the end of August as firms are asked to start paying a significant part of the costs of their furloughed staff. The recent announcements on opening the economy and, especially, the move to "1 metre plus" social distancing have improved the picture for the second half of this year significantly. Even so, the economy will most likely be 8-10% below pre-Covid levels, and employment will shrink by a similar amount. Firms went into this crisis with low profitability after weak growth in 2019. The lockdown means they have not, or at most have only been partially, trading, with very limited revenues. The financial situation in the hardest hit sectors is perilous. In order to

survive, firms will have to cut costs and that means cutting jobs. This means unemployment is likely to rise from 4% pre-crisis to around 12%.

Whilst job loses will be widespread, those with high levels of education and strong work histories will get back to work though usually at a lower wage (typically a 10% wage fall which is then recouped plus a penalty for longer periods out of work that is not recovered). The joblessness focuses quickly on key at-risk groups. These are the young, the less well-educated, those living in deprived areas and ethnic minorities. Adults with poor work histories, disability, those that become homeless, and ex-offenders will be very hard hit. Older workers are less often hit but struggle to return as employers look less favourably on them as they are close to retirement.

We know from past recessions that those who experience sustained unemployment have lower wages and higher further unemployment well into the future, even when the economy has recovered. Those leaving education in a major crisis - even those with degrees - will suffer lower wages for a decade later due to the scarring effects of spells out of work. This means that addressing both high youth unemployment and longer durations of unemployment for prime age and older adults are the key priorities for action.

Supporting employment and job creation should not come from a VAT cut (as consumption is suppressed by social distancing rather than prices) or a general reduction in employers' NI payments. Rather, it should by through a targeted cut in employers' NI focused on lower waged jobs. This is for three reasons: this helps young people more, the hardest hit sectors are generally low wage, and lower wage jobs make up the bulk of entry jobs which get people into work, after which they can move into better paid openings. In addition, making the part-time furlough option more attractive to employers to support short-time working in hard hit sectors makes sense.

Helping those who are unemployed and school leavers effectively comes in three forms. These three should be viewed as partially overlapping (as in a Venn diagram) to create areas of one, two or three interventions in combination according to need. The most widely used will be job search support: a case worker working with the unemployed person and engaging with employers to take a look at the individual in question (interview guarantee). This is effective and low cost but on its own is less effective for the most excluded people in severe recessions and becomes of limited extra use over long periods of time. The two extra interventions are hiring subsidies and work experience/training placements. Hiring subsidies help for smaller and medium size firms, but larger firms with more bureaucratic processes do not have budgeting mechanisms for the part of the business which recruits someone to get the subsidy, reducing effectiveness. Work experience/training placements are far more successful when the placement/training is high quality. This means it offers substantive on-the-job learning. Disembodied training, which is not connected to a currently held job is less effective. The exception to this is returning to sustained full-time education which acts a reset. Access Courses to HE are therefore a useful tool here.

For young people and long-term unemployed adults there is attraction to creating a Guarantee and the government has indicated that they are developing plans for this currently. A Job Guarantee tends to encourage the use of low quality and less effective make-work schemes (litter and graffiti removal, giving a kid a spade to plant trees etc). These can have social value but do little to help a person find a regular job. More attractive alternatives include internships, Apprenticeship/Traineeship or Education Opportunity Guarantee, with a focus on quality opportunities. It has to be hoped that this is the direction of travel the government is planning.

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