

IZA COVID-19 Crisis Response Monitoring

United Kingdom (November 2020)

Rui Costa
Stephen Machin

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Rui Costa

Centre for Economic Performance,
London School of Economics

Stephen Machin

Department of Economics and Centre for Economic Performance,
London School of Economics

ABSTRACT

On the 23rd of March, the United Kingdom locked down in response to the COVID-19 pandemic. Subsequently, the UK economy suffered the biggest contraction of economic activity in 41 years, experiencing a 21.5% year-on-year drop in GDP. The labour market has seen record rises in unemployment claims, big drops in employment and self-employment, a rise in short-time work along with an unprecedented fall in hours worked and a big drop in vacancies. These effects have been most pronounced among young workers and have shown little recovery in the recent months. Although the government's job retention scheme for employees and income support scheme for the self-employed helped maintaining unemployment rates stable until the middle of Summer, an increase is clearly visible in the recent months. How to ensure affected individuals are not on a trajectory heading towards long-term unemployment remains the top priority for economic recovery.

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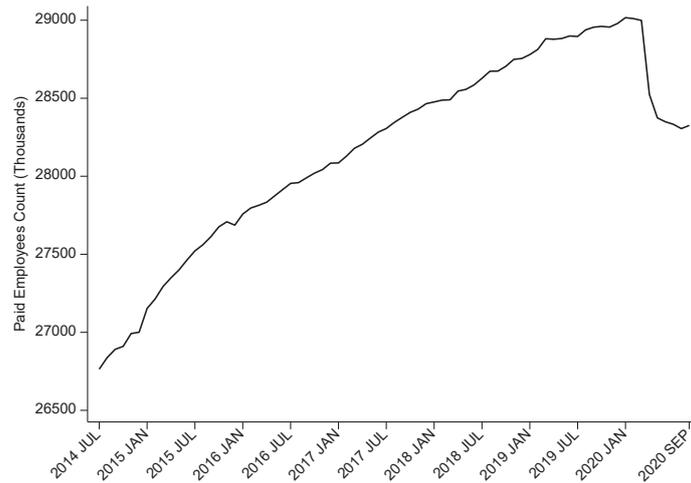
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Labor market impact of COVID-19

According to the latest official figures released by the Office for National Statistics (ONS), the UK labour market has been hit hard by the COVID-19 crisis. Between March and September 2020, there was a 673,000 fall in employee jobs¹ (Figure 1), and an unprecedentedly large increase in unemployment claims of 1.5 million, representing a 115% increase from March to July (Figure 2). For both employment and the claimant count most of the change occurred during April and May.

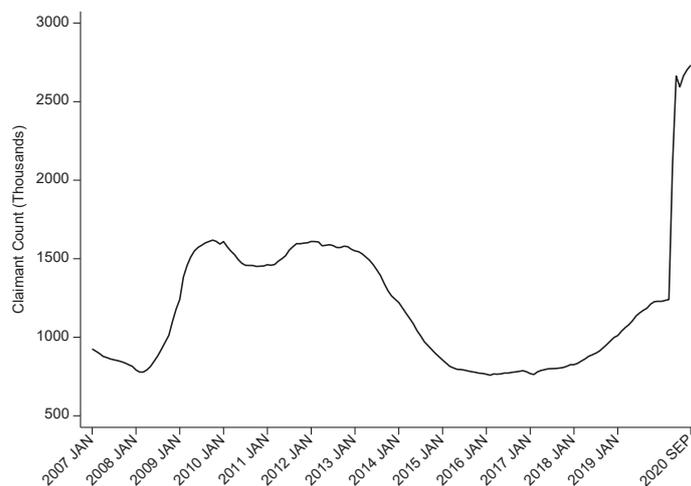
Figure 1: UK Employment Count of Paid Employees



Notes: Number of people receiving paid remuneration included in Pay As You Earn (PAYE) Real Time Information (RTI) for work done in the reference period. It also includes people receiving remuneration for the reference period who have not done work but are an employee.

Source: ONS Earnings and employment from Pay As You Earn Real Time Information, UK: October 2020

Figure 2: UK Claimant Count



Notes: Claimant count covers claims for Jobseeker’s Allowance and those claimants in the Universal Credit “searching for work”.

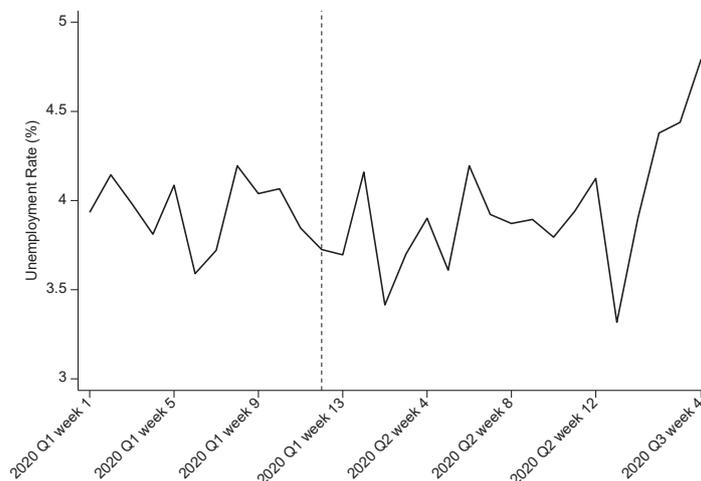
Source: ONS

The unemployment rate measured using data from the Quarterly Labour Force Survey (QLFS) remained relatively stable until the beginning of July (Quarter 3 Week 1 – Figure 3). Subsequent to this, an upward trend starts to be visible – according to the latest ONS statistics the average unemployment rate from June to August was 4.5%. Table 1 shows

¹ Note that employment numbers as presented are likely to underestimate the actual fall in total work as they do not account for self-employment.

how different age groups and gender experienced a change in their probability of becoming unemployed relative to the pre-lockdown months of 2020 until the end of June². Younger workers (16 to 24 years of age) have seen a statistically significant increase in their unemployment probability of 0.8 percentage points, with other older workers showing insignificant changes during this period³. The change in the probability of unemployment was similar and statistically indistinguishable across genders.

Figure 3: Unemployment Rate, July 2020



Source: Quarterly Labour Force Surveys January to July 2020

Table 1: Changes in Unemployment Probability Pre-Post Lockdown, January to June 2020

Δ Probability of Being Unemployed Rate Pre-Post Lockdown (January to June)	
All	-0.002 (0.002)
Ages	
16-24	0.008 ** (0.004)
25-34	0.001 (0.003)
35-44	-0.005 (0.003)
45-54	-0.003 (0.003)
55-64	-0.010 *** (0.004)
Female	
	0.002 (0.003)

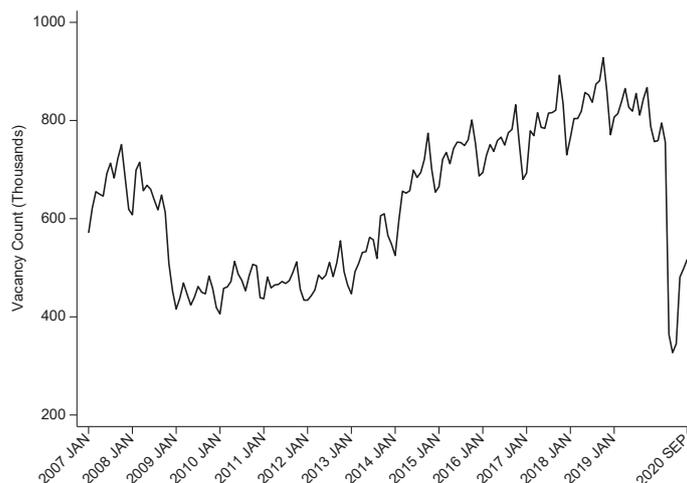
Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.
Source: Quarterly Labour Force Surveys January to June 2020.

Both employment counts and unemployment rates are very likely to be misleading with respect to the real impact of the COVID-19 crisis on the UK labour market. As pointed in work by Bell et al (2020), these statistics do not account for the substantial drop in hours worked in the economy and the government job protection assistance that largely shielded workers from losing their jobs during the period of analysis.

² Unfortunately the microdata referring to the month of July is not available at this point in time, although main aggregate statistics such as unemployment rate have been already produced by ONS.
³ Exception to the significant decrease among older workers (55-64) of 1 percentage points.

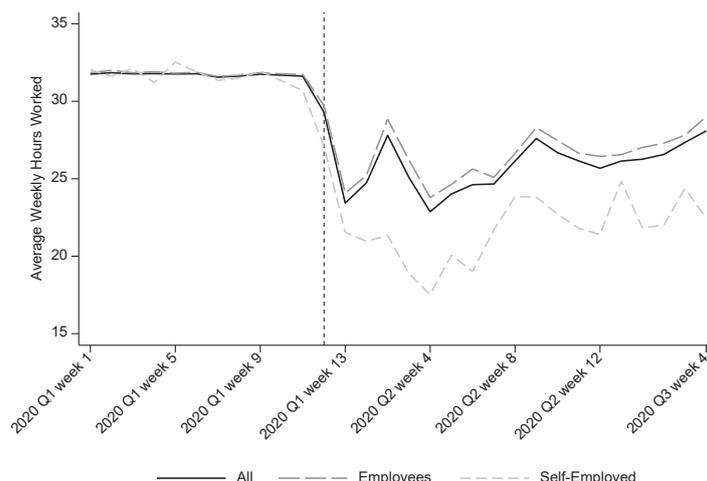
After a pronounced drop between March and June of 56%, vacancies increased during July and August, but at 517,000 still remain 32% below March levels (Figure 4). Similarly, in Figure 5 one can observe that after the largest annual decrease in average weekly hours of the past 10 years occurred (falling by 6.9 hours), average hours have slowly recovered until the end July (but still remaining 3.6 hours lower). Table 2 offers the breakdown across age groups and gender with respect to total hours worked. All age groups have seen their hours drop significantly and in comparable absolute terms, however when adjusted to their pre-lockdown mean we find that a similar detrimental pattern towards younger workers with significantly lower percentage drops (27.6%) relative to older workers (17.5% to 23.2%). The differential impact between male and female workers is significantly different in absolute magnitudes with women seeing a lower reduction in hours of 1.4 hours on average compared to their male counterpart, however this gap disappears when adjusted to the pre-lockdown mean of the groups (0.2%). Not surprisingly the abrupt drop in hours worked was caused primarily by a very significant increase in workers temporarily away from paid work as seen in Figure 6. This increase was steep and almost immediate following the lockdown announcement, two weeks after lockdown the count of workers declaring to be temporarily away from work had increase by 3 times the pre-lockdown level to 7.7 million. Once again younger worker experienced a shaper increase in their probability of being temporarily away of 22.5 percentage points when compared to older workers (13.2 to 17 percentage points), without no significant gender differentials (Table 3). Figure 7 presents the evolution of workers declaring to have worked fewer hours than usual by cause: hours vary, sickness or injury, economic conditions (laid off/short time/work interrupted), personal reasons (emergencies, family and/or personal reasons) or others (bank holiday, maternity/paternity leave...). A striking pattern emerges post-lockdown with a sharp increase among those declaring economic conditions and others as causes of their decrease in hours. Looking at the probability of declaring lay off/short time as the reason behind the hour shrinkage among employed workers, Table 4 shows that this has increased by 13.3 percentage points post-lockdown with stronger effects among the young and a significant although small gender differential in detriment of women.

Figure 4: Vacancies Count, September 2020



Source: ONS

Figure 5: Average Weekly Hours Worker UK by Employment Type, January to July 2020



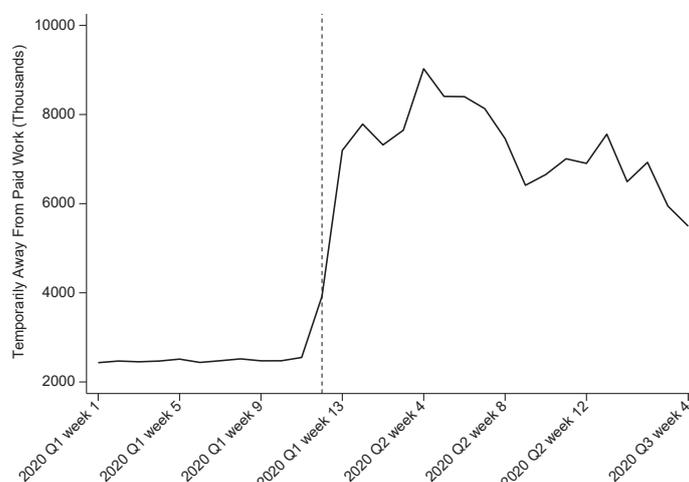
Notes: Average weekly hours worked calculated as total hours worked in the reference week including overtime and 2nd jobs. The dashed vertical line identifies the week prior to lockdown on the 23rd of March.
Source: ONS

Table 2: Changes in Total Hours Worked Pre-Post Lockdown, January to June 2020

	Δ Total Hours	Δ Total Hours as % of Pre-Lockdown Mean
All	-6.567 *** (0.140)	-0.201 *** (0.004)
Ages		
16-24	-7.633 *** (0.407)	-0.276 *** (0.013)
25-34	-6.468 *** (0.282)	-0.192 *** (0.009)
35-44	-5.883 *** (0.289)	-0.175 *** (0.009)
45-54	-6.400 *** (0.284)	-0.185 *** (0.009)
55-64	-7.131 *** (0.333)	-0.232 *** (0.010)
Female	1.468 *** (0.277)	-0.002 (0.009)

Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.
Source: Quarterly Labour Force Surveys January to June 2020.

Figure 6: Worker Temporarily Away From Paid Work, January to July 2020



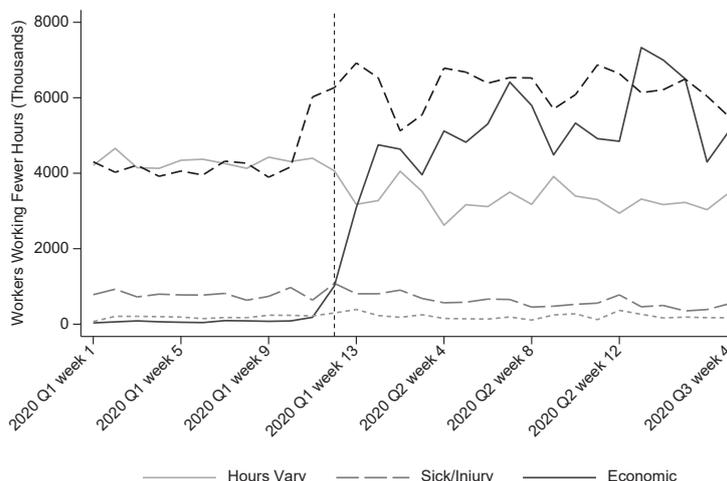
Notes: The dashed vertical line identifies the week prior to lockdown on the 23rd of March.
Source: ONS.

Table 3: Changes in Probability of Being Temporarily Away Pre-Post Lockdown, January to June 2020

Δ Probability of Being Temporarily Away From Paid Work (January to June)	
All	0.150 *** (0.003)
Ages	
16–24	0.225 *** (0.008)
25–34	0.132 *** (0.006)
35–44	0.120 *** (0.006)
45–54	0.132 *** (0.006)
55–64	0.170 *** (0.007)
Female	0.006 (0.005)

Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.
Source: Quarterly Labour Force Surveys January to June 2020.

Figure 7: Changes in Total Hours Worked Pre-Post Lockdown, January to July 2020



Notes: The dashed vertical line identifies the week prior to lockdown on the 23rd of March.
Source: ONS.

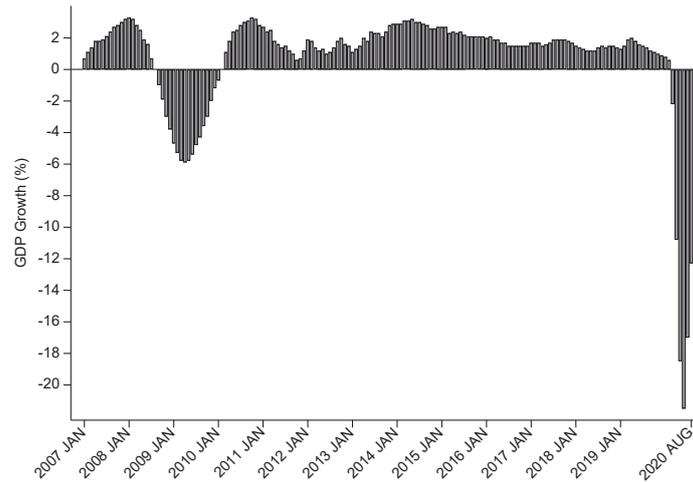
Table 4: Changes in Probability of Being Laid Off/Short Time Pre-Post Lockdown, January to June 2020

Δ Probability Working Fewer Hours Due to Lay Off/Short Time (January to June)	
All	0.133 *** (0.002)
Ages	
16–24	0.165 *** (0.006)
25–34	0.112 *** (0.004)
35–44	0.111 *** (0.005)
45–54	0.125 *** (0.005)
55–64	0.154 *** (0.005)
Female	0.010 ** (0.004)

Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.
Source: Quarterly Labour Force Surveys January to June 2020.

Between the months of April to July average earnings growth has been falling accumulatively -3.9% for total pay (August showing a recovery of 1.9%) and median pay after a fall until June has recovered to March levels in August for payrolled employees. The most recently available monthly GDP growth statistic points to an unprecedented contraction of the economy beginning in March with a 1.8 % fall (compared to the three months prior) followed by sustained falls ranging from 10.4 % (April) to 21.7 % (June) with latest available estimate of 12.3% in August. This contraction of the economy vastly surpasses that experienced at the peak of the 2008 financial crisis (Figure 8).

Figure 8: Gross Domestic Product Growth UK, 2007 Jan-2020 August



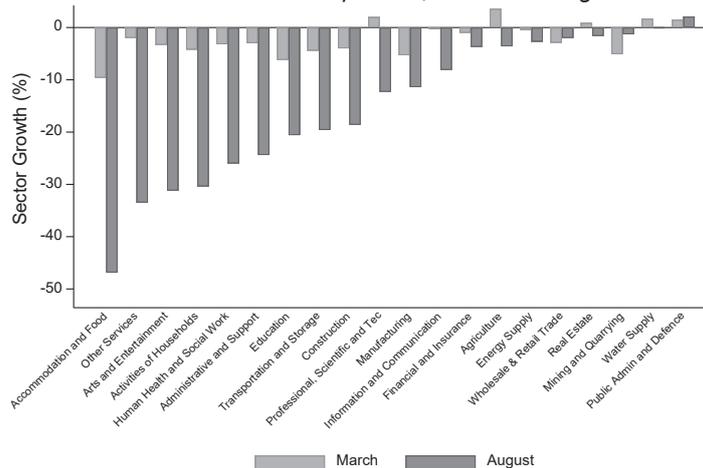
Notes: Three Month-on-Three Month growth rates relative to previous year
Source: ONS

The most affected sectors are customer-oriented personal and domestic services: Non-food, non-pharmaceutical retail; passenger transport; accommodation and food; travel; childcare; arts and leisure; personal care; domestic services. The combined employment in these sector accounts for roughly 15% of employees in the UK. These sectors have experienced the large contractions in output with gross valued added growth since March on negative ground of 19.6%, and as high as a staggering 46.9% for accommodation and food service activities (Figure 9). According to the latest ONS survey figures⁴, with the relaxing of lockdown restrictions the sectors that previously reported higher percentages of temporary cease of trading, accommodation and food service activities (74%) and arts, entertainment and recreation (75%), show as of late August percentages of currently trading of 85.1% and 67.2% respectively.⁵ Despite the shy recovery in overall vacancies, drops remain significant in these sectors (49% and 79% respectively) with Figure 10 showing that not all sectors have been equally hit.

⁴ Business Impact of COVID-19 Survey, 24 August - 6 September, ONS.

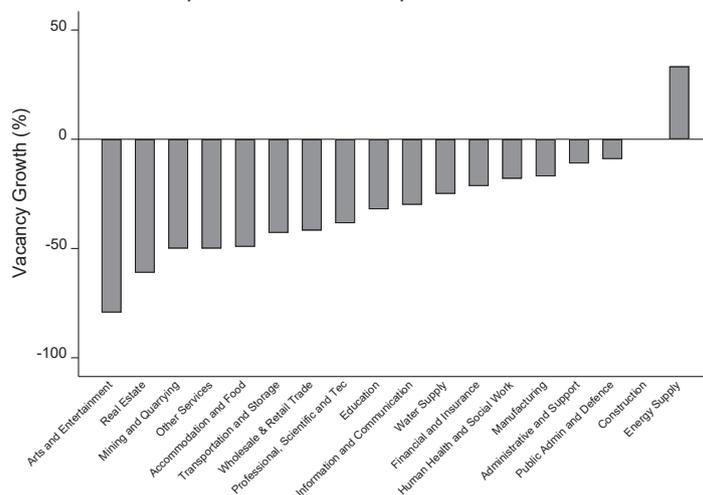
⁵ The May figures show a slight improvement relative to the temporary cease of trading experienced in the April by the same sector (80% and 81%).

Figure 9: Gross Domestic Product Growth UK by Sector, March and August 2020



Source: ONS

Figure 10: Vacancies Growth UK by Sector, March to September 2020



Notes: Growth rates are calculated relative to March 2020 levels
Source: ONS

The composition of workforce in most affected sectors is not homogeneous: being disproportionately young (2.5 times more likely to work in sector in lockdown), concentrated among low earners (7 times more likely to work in sector in lockdown), gender biased (women are 33% more likely to work in sector in lockdown)⁶, self-employed intensive (22% of self-employed work in affected sectors). According to the latest QLFS data and as shown in Figure 5 the loss in weekly hours worked has been particularly pronounced among the self-employed with a drop of 8.7 hours on average comparing the periods pre- and post-lockdown until the end of July. Weekly hours worked prior to lockdown had been on average similar between employees and self-employed (32.2 and 31.9) but the lockdown has affected the self-employed significantly more with a 27% drop in hours relative to 10% felt by employees. The sharper fall in hours of self-employed does not exhibit significant differential patterns across ages or gender⁷. Further analysis of QLFS data shows that, adding to the steeper reduction in hours, self-employed workers have seen a sustained drop in their employment count, 200,000 since March to July (5.8% reduction) significantly more noticeable than employee workers.

⁶ See Joyce and Xu (2020).

⁷ Authors' calculations.

Orientation and targeting of adopted measures

The extensions of both Coronavirus Job Retention Scheme (CJRS) and Self-Employed Income Support Scheme (SEISS) until October announced by the Chancellor Rishi Sunak on the 29th of May are now coming to an end. Although SEISS will be extended. After reduction in the generosity of the schemes to 70% of wage/earnings instead of the initial 80% in September, the future of the supporting schemes will be considerably different. As announced on the 24th of September by the Chancellor, the CJRS will end in October and to be replaced by the Job Support Scheme (JSS) which targets “viable” jobs by subsidizing wages of unworked hours of employees working at least a third of their usual hours. JSS will only apply to small and medium size businesses facing lower demand over the winter months. SEISS was extended but under considerably less generous conditions. Liquidity measures such as loan guarantees, tax deferrals and VAT cuts have been extended in their maturity. Completing these extensions and replacements two relevant policies have been announced in the Summer: Job Retention Bonus (JRB) and Kickstart Scheme (KS). The Job Retention Bonus offers an incentive for keeping previously furloughed workers in employment through a one-off taxable payment to employers for each eligible employee that has been furloughed under CJRS and was kept continuously employed until 31 January 2021. Targeting youth employment is the purposed aim of the Kickstart Scheme which covers a substantial part of the wage and employer contributions for new 6-month job placements for young workers (16 to 24 years old) currently receiving Universal Credit or at risk of long-term unemployment. In light of the most recent struggle to control the rise of infections in parts of the UK, a 3 tier system of local monitoring and phased lockdown has been announced on 12th of October. Complementing this announcement, the Chancellor has announced an extension of the CJRS with a lower generosity of 2/3 of wages supported by the government for businesses forced to close due to health restrictions.

The stable unemployment and employment rates until July are evidence of the relative success at preserving firm-worker matches and employment through different policies enacted by the UK government (particularly CJRS and SEISS), however this levels are unlikely to hold in the coming months even with the extensions and complements announced.

After initial labour market policies were introduced to provide the businesses with liquidity and to shield workers with permanent contracts and later self-employed, the new wave of policies is considerably less generous and aimed at what government describes as “viable” jobs as result of the structural change in the economy. Sectors most affected by lockdown are likely to suffer renewed considerable strain in winter months as health measures become more strictive without the same level of support. The subliminal notion that job seekers either new to the job market or transitioning after a job loss will successfully move to sectors facing higher demand under the new economic paradigm is somehow idyllical without a significant investment in human capital through training and most importantly re-training.

The cost of the measures in place as of July 21 is not negligible, the Office for Budget Responsibility estimates that CJRS and SEISS will represent an expenditure of 49.3 and 12.4 billion pounds respectively accruing to the equivalent to 3% of UK GDP in 2019 (Table 5).⁸ The most significant policies with respect to estimated cost are CJRS, SEISS, the Business Grant Schemes and Bounce Back Loan Schemes as presented in Table 5. All measures combined amount to cost equivalent to 9.6 % of UK GDP in 2019.

Table 5: Estimated Cost of COVID-19 Support Measures UK, July 2020

COVID-19 Support Measures	Net Cost in £ billion (2020-21)
Public services spending	
1 Health services	-6.6
2 Clinically vulnerable people	-0.9
3 Devolved administrations	-2.4
4 Local authorities	-3.7
5 Rail franchise suspension	-3.9
6 Transport for London	-1.0
7 Cycling and walkways	-2.0
Employment support	
8 Coronavirus job retention scheme	-49.3
9 Self-employed income support scheme	-12.4
Costings for welfare spending measures	
10 Increase weekly universal credit by £20	-5.5
11 Increase weekly working tax credit by £20	-1.5
12 Other welfare measures	-5.9
Business support: tax and spending measures	
13 Business grant schemes	-14.8
14 Business rates relief	-11.8
15 VAT payment deferral	-1.9
16 Self-assessment tax payment deferral	-1.2
17 Statutory sick pay support	-0.2
Business support: loans and guarantees	
18 Bounce back loan scheme	-17.3
19 Coronavirus business interruption loan scheme	-0.6
20 Coronavirus large business interruption loan scheme	-0.1
21 Covid corporate financing facility	0.0
22 Future fund	-0.1
23 Trade credit insurance	-1.7
Other tax measures	
24 Off-payroll working: one-year delay to the extension to the private sector	-0.9
25 VAT: earlier introduction of the zero rate on e-publications	-0.1
26 Import duty: exemption for medical products	-0.1
27 VAT: zero rate on personal protective equipment	-0.1
28 VAT reverse charge in the construction sector: 5-month delay	0.0
Sub-Total (1)	-147.6
Summer Update Measures	
Jobs Measures	
Job retention bonus	-6.1
Kickstart scheme	-2.1
Boosting worksearch, skills and apprenticeships	-1.6
Reduced rate of VAT for hospitality, accommodation and attractions	-2.5
Eat out to help out	-0.5
Infrastructure package	-1.5
Public sector and social housing decarbonisation	-1.1
Green homes grant	-2.0
Stamp Duty Land Tax temporary cut	-2.5
Other Measures	
Additional health spending	-25.3
Local Government	-1.5
Additional funding for schools	-0.2
Additional public transport spending	-0.9
Other public services	-2.2
Cultural recovery fund	-1.3
Extension of VAT: zero rate on personal protective equipment	-0.1
Sub-Total (2)	-51.4
TOTAL (1) + (2)	-199.0

Notes: The estimates cover cash impacts of the policies in 2020-21 based on the illustrative assumption that economic activity would be heavily restricted for three months and then gradually return to normal over the subsequent three months. Impacts at future periods are not covered. * means no estimate has yet been produced.

Source: Office for Budget Responsibility.

Immediate liquidity support to businesses

Until the end of August, HMRC declared that 1.2 million firms had claimed support of the Coronavirus Job Retention Scheme (CJRS), representing 9.6 million jobs furloughed (Figure 11). According to the latest release from HMRC⁹, firms with less than 50 employees represented 95% of all firms claiming support and 47% of the jobs covered. As of August, considering the official count of the population of firms as of 2019 by employment size, it is estimated that 38% of firms with less than 50 employees have asked support of CJRS and the same statistic climbs to 61% for larger firms. The furlough scheme has started phase out from the end of May and more significantly thereafter as shown by the furloughed worker count in Figure 12. Corroborating these numbers, since end of May ONS survey figures have consistently found businesses declaring that shares of their workforce had returned from furlough in the past 2 weeks (4.3% of workforce in the end of May and 5.1% in the latest figures covering 24th August to 6th of September)¹⁰. The speed of return from furlough has been slightly faster for larger firms with 47% of furloughed workers having returned compared to 41% in smaller size businesses at the end of July. The March to September differences in vacancies growth for businesses employing less than 50 employees compared to larger firms of 11% and 40% respectively, shows that the recovery in vacancies has been stronger for smaller firms since July. According to the latest figures from ONS, in the beginning of September, 10.6% of businesses have responded to be at severe or moderate risk of insolvency, 47.9% at low risk and only 30.1% at no risk¹¹. Out of those answering to be at any risk of insolvency 40.1% have declared that the COVID crisis had contributed to the increase in their risk.

According to HMRC, the official number of applications received for the Coronavirus Self-Employed Income Support Scheme (SEISS) was 2.7 million as of July 19 (Figure 13), corresponding to a value claimed of 7.8 billion pounds.¹² The take up of the scheme has been high, as of August 31 it is estimated that 60% of the eligible population had taken part in the support scheme¹³. Conditional of eligibility, men shown a higher take up than women 62% compared to 54%, and the take up among younger workers was as well higher (63%) than that of older workers (59%).

⁹ Coronavirus Job Retention Scheme (CJRS) statistics: September 2020, HMRC

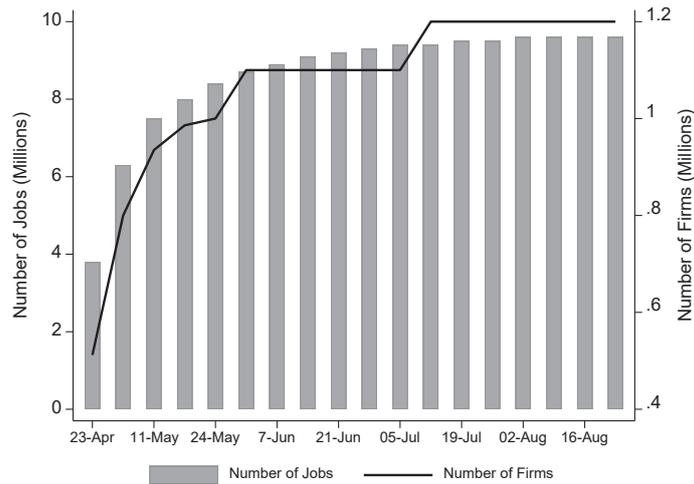
¹⁰ Business Impact of COVID-19 Survey, 24 August - 6 September, ONS

¹¹ Business Impact of COVID-19 Survey, 24 August - 6 September, ONS. 11.4% of businesses interview were not sure about their insolvency risk.

¹² The SEISS had two tranches, the numbers reported represent the 1st tranche. The 2nd tranche started in the end of August and by September 24 had 2.2 million claims made.

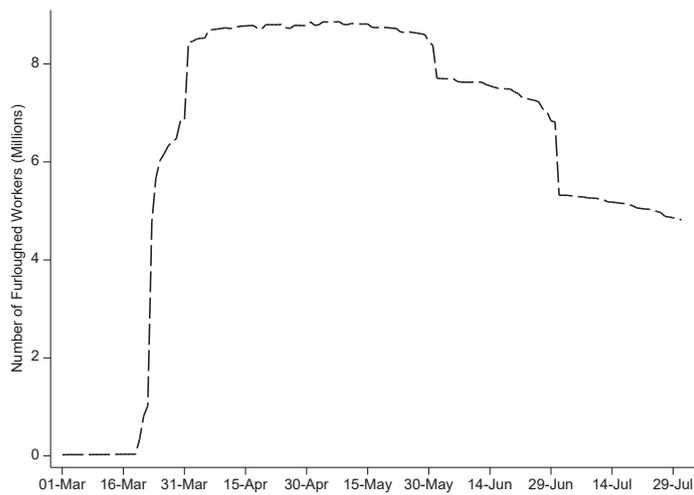
¹³ Self-Employment Income Support Scheme (SEISS) Statistics: September 2020, HMRC

Figure 11: Coronavirus Job Retention Scheme Take Up



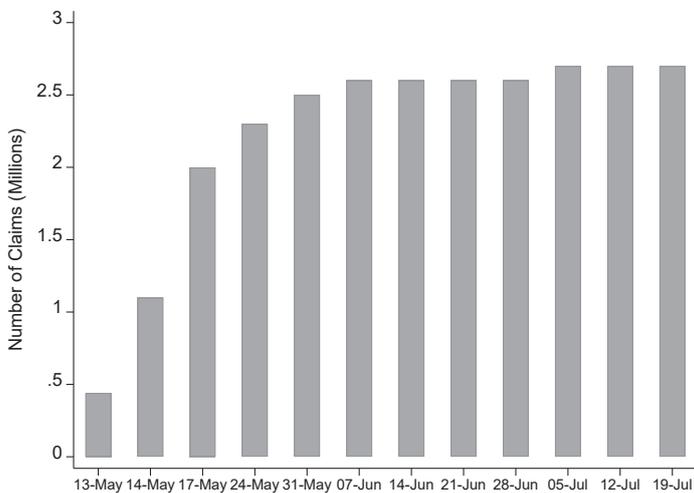
Notes: Number of jobs is calculated as the sum of the maximum number of employees furloughed by each PAYE scheme that has made a claim. Number of firms is calculated as the number of distinct PAYE schemes that have made a claim.
Source: HMRC.

Figure 12: Number of Employments Furloughed Per Day



Source: HMRC.

Figure 13: Coronavirus Self-Employed Income Support Scheme Take Up



Notes: Number of claims is calculated as the number of distinct PAYE schemes that have made a claim
Source: HMRC.

Support of dependent workers

Jobseeker's Allowance (Unemployment Benefit) has suffered no changes apart from the waiving of interviews and appointment attendance. Universal Credit suspension of the minimum wage floor aims to facilitate eligibility of self-employed. Universal Credit generosity has been temporarily increased as a response to crisis: for single claimants aged 25 or over the monthly benefits have increase from 317 £ to 410 £ (similar adjustments to couples) accompanied by more flexible pay back times and reduced deduction rates against outstanding debts. These measures are likely to become ever more relevant with the phasing out of the main job supporting schemes CJRS and SEISS, and the already noticeable up tick in inflows to unemployment. As previously discuss the nature of the new policies proposed by the government start to give more focus more on supporting jobs that show viability. Despite some glances of policies that can help job transition, the government has still to announce a comprehensive strategy on how it will help workers who, falling under the "non-viable" category, are and will experience job loss to find a new job likely in a new industry.

Working conditions and work organization

"Essential" sectors (health, wholesale retail (groceries), public transport) have adopted strict health guidelines with their operation procedures. Opening hours and/or frequency of service have been affected and "mirrored" work shifts are in place in order to try to minimize exposure and strain of workers. Although some of these stricter guidelines have been relaxed over Summer, a significant amount of measures in being reinstate a mist the new wave of infections. According to ONS survey calculations, 14% of workers in Great Britain responded that they have been working longer hours with no or reduced breaks in the past seven days.¹⁴ Furthermore, when asked about if they are worried about their health and safety at work 16% responded positively. Early in the crisis, Blundell and Machin (2020) found that around a third of self-employed workers still working have felt their health safety at risk, when focusing on the subset of self-employed who work with digital platforms this steeply rises to 79%. Notice that the average self-employed worker, according to the study, experienced an exposure to health risk similar to that of key workers when surveyed by ONS in May¹⁵. Homeworking has seen a pronounced increase; in the month of June it is estimated that 33% of employed workers were always working from home compared to the reporting by the same workers in January and February of 6%¹⁶. The gender gap in working from home relative to the month of June was small but statistically significant, 2% in favour of men. Furthermore, education seems to play an important role in being able to perform work remotely from home, with 44.1% of graduates reporting being continuously working from home in June, whereas only 25% of non-graduates were able to do so. The gap illustrates a sharp difference even with respect to the same workers' response in January and February, when the graduate to non-graduate differential was only 1.8% (7% of graduates and 5.2% of non-graduates reported as homeworking). More educated workers higher accessibility to remote work represents a significant shielding mechanism against the labour shock resulting from the lockdown and mobility restrictions in place. Looking at the sectoral difference in remote work arrangements, in the early September, one can see considerable variation with sector like Information and Communication, Education and Professional, Scientific and Technical Activities reporting

¹⁴ Coronavirus and the social impacts on Great Britain: 2 October 2020, ONS

¹⁵ Coronavirus and the social impacts on Great Britain: 7 May 2020, ONS

¹⁶ Understanding Society COVID-19, July 2020, Institute for Social and Economic Research

a proportion of workforce working remotely considerably above 40%¹⁷. In contrast sectors such as Accommodation and Food and Transport show only approximately 3% and 9% of their workforce being able to work from their homes respectively. When considering care responsibilities facing workers, it is estimated the COVID is directly affecting the degree of caring arrangements for 9% of those in working age with sharp gender differential: 7% of men compared to 11% of women.¹⁸

New labor market entrants

Considering the recent figures on the performance of the UK labour market and the likely scenario for coming months, it is expected that school leavers and graduates will be facing remarkable difficulties in entering the market and potentially severe scarring effects. In general, sectors that usually absorb part of the downturn employment shocks of recent crisis are precisely the most affected in the current situation, this worsens considerably the outlook for new labour market entrants. Furthermore, these sectors seem more likely to be labelled as “non-viable” and hence not the target of the new support policies. Despite particular extensions of the CRJS to the hospitality sector, the accumulated strain on the liquidity of the businesses in this sector coupled with the re-imposition of social distancing measures push several in the sector to insolvency. The most recent extension of the CRJS scheme to meet the demands of the new 3 tier lockdown system will provide some support to the sectors affected albeit limited considering that most of businesses will only be forced to close if at the highest tier of lockdown and hence benefit from this extension. While at tier 1 or 2, businesses in the hospitality sectors are not mandated to close and hence not eligible to the CJRS extension and hence left with the less generous schemes such as the Job Retention Bonus (JRB) and Job Support Scheme (JSS).

A natural response from school and university graduates will be to stay on in education longer, such will imply the need for additional funding on an emergency basis aimed at both students and educators. For those choosing to leave education and try to enter the labour market, targeted job guarantee schemes such as the announced Job Retention and Kickstart Schemes and prioritising of apprenticeships for younger people will be sensible policies to reduce the detrimental impacts of crisis for new labour market entrants.¹⁹ On September 28 Boris Johnson PM announced the initiatives Right to Retrain and National Skills Fund aimed at investing in training and retraining through investments focusing in adult further education sector, however these initiatives will only start to be implemented in mid-2021 at best which may be far too late to attenuate the scarring effects of the crisis.

Several key higher education institutions, including University of Cambridge and University of Manchester, have started their teaching online for at least the next academic term. Other major universities, such as Oxford University and London School of Economics, decided for a “blended” approach mixing online and face-to-face tuition next year. The recent several outbreaks at university campus across the UK forced institutions to lockdown students in university accommodation is an effort to control the spread of infections. The recent developments jeopardize the possible feasibility of the “blended” approach, having forced universities to pay compensations to the students affected adding to the already considerable financial effort by higher education institutions in offering online teaching and adapt their campus to the health and social distancing guidelines in place.

¹⁷ Business Impact of COVID-19 Survey, 24 August - 6 September, ONS

¹⁸ Coronavirus and the social impacts on Great Britain: 2 October 2020, ONS

¹⁹ For a comprehensive analysis of the economic consequences of the crisis on education leavers and policy recommendations to tackle it see Henekan (2020).

Policy innovations and labor market trends

It is expected an acceleration of the pre-crisis trend in shifting a share of the usual work schedule to working from home. As several current studies point out there was already a willingness-to-pay for job security among self-employed workers which were willing to sacrifice part of their income in order to access the benefits of the social safety net (Blundell and Machin, 2020; Boeri, Giupponi, Krueger and Machin, 2020). This preference will likely be intensified now that a significant proportion of workers in alternative work arrangements are suffering significant economic hardship. In the terms of structural changes in production technology, one expects a hastening in adoption of automation processes in production in order to circumvent the reliance on in-workplace presence. A degree of reorganization and reallocation of global value chain downstream production is likely to take place as consequence of firms experience during this crisis. In the UK for example, 20.5% of importing businesses²⁰ declared that they completely stopped importing materials, goods or services during the outbreak. Of those businesses continuing to import 60.4% has reduced their importing (62.5% for manufacturing)²¹. This shock can push firms to decrease dependency on single geographic-centric suppliers, which in turn can have the potential to benefit labour market effects for domestic workers and closer trade partnering economies. The shifts in global value chains will likely to prioritise resilience and responsiveness over low-cost, centralised production. When asked about what type of support would help their importing challenges, 15.4% of businesses whose importing has suffered from the current crisis state support in finding new alternative supply chains as beneficial. It is hard to disentangle if firms' future decisions regarding their downstream production will mainly be driven by Brexit or the COVID crisis, although the changes due to Brexit are heavily dependent on the future trade deals. Also, we expect to see further wage stagnation particularly with some sectors affected (passenger transport; accommodation and food; travel) being considerably restricted even in the medium-run.

Next steps and fiscal viability

According to OBR, the latest estimate of the aggregate cost of the COVID response support packages is approximately -199.5 billion pounds, 9.6% of GDP. The current policy stance is likely to be unsustainable if unchanged until the end of the year (potentially even earlier). Future fiscal viability is dependent on the speed of recovery of the UK and World economy and the “tolerance” by the international financial markets towards the sovereign debt level. If the tolerance shown is the same as the one display in the European crisis of started in 2008, then most likely it will not be sustainable and can bring pressure of restrictive fiscal policies in the medium-term with severe consequences for inequality in the long-run. Additionally, the UK is no longer part of the EU making the mutualization of debt via mechanisms such as the so-called “coronabonds” is not an option. A mitigating factor is a likely sustained reduction in the capital financing costs due to a fall in investment demand. On October 5, the UK Chancellor Rishi Sunak reiterated that the fiscal sustainability is part of the agenda of the government warning the “hard choices” regarding public finances are likely to come soon as to balance the sharp rise in borrowing and debt levels since the beginning of the crisis.

The next steps to revive economic activity without significant job destruction and high long-term unemployment need to be focused on an efficient and well-monitored phasing

²⁰ Importing business is defined as having imported in the last 12 months

²¹ The effects were felt by exporter firm as well. 20.1% completely stopped their exporting during the outbreak, of those who did not 73.5% have reduced their exports.

out of the job retention schemes coupled with a sustained policy of investment in human capital and reskilling. As employers start to bear more of the costs there would seem to be two groups to carefully consider. The first will return to work, possibly first on a part-time or short time work basis. The second will not, either being laid off because there is not demand for their job, or because their employer closes down. For this group, policy is vital to ensure they do not be placed on a trajectory heading towards long-term unemployment, the economic, psychological and social costs of which are substantial as we know from a large body of research from earlier downturns that featured high levels of long term unemployment (Machin and Manning, 1999). It is important, for individuals, families and society that we do not return to the kind of long-term unemployment picture that did such damage in the UK in the early 1980s.

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