

# After Covid-19: the lessons for the UK's labour market, inequality and the welfare system

**Mike Brewer**

Chief Economist, Resolution Foundation

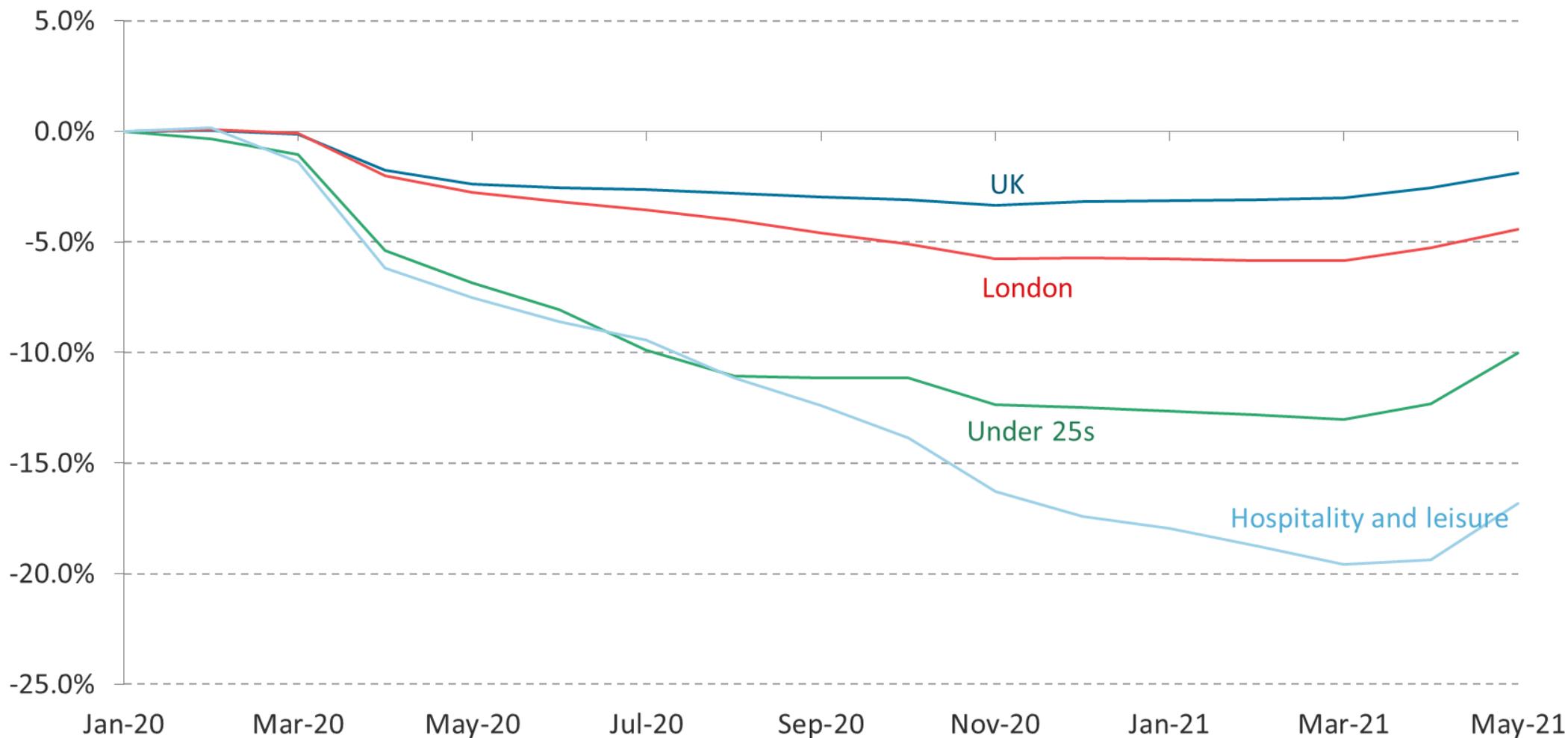
# Outline

- The effect of Covid-19 on the labour market
- The effect of Covid-19 on incomes and balance sheets
- Lesson for the welfare system

# The effect of Covid-19 on the labour market

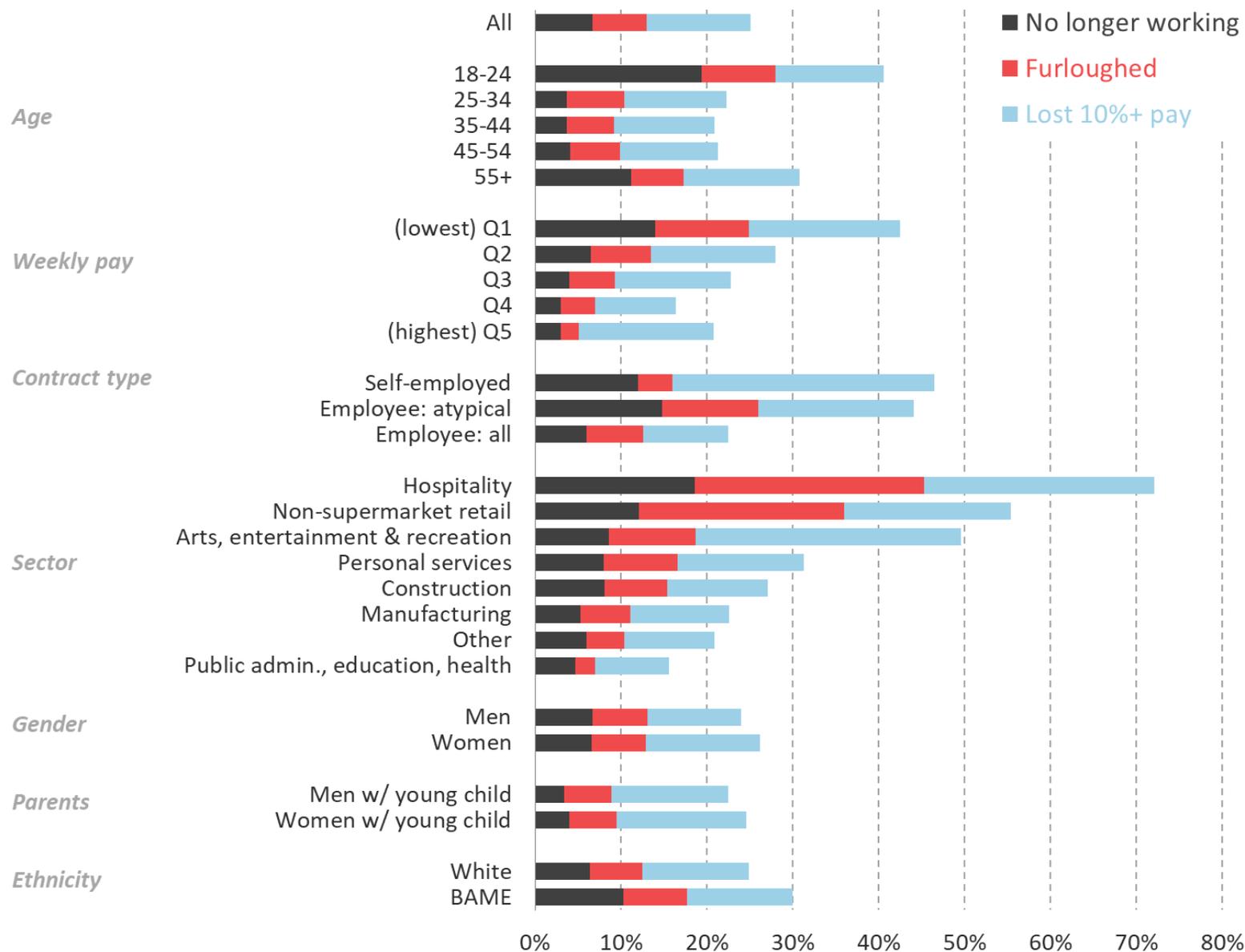
# It has been a sectorally-differentiated downturn...

Change in payrolled employees: UK, January 2020 to May 2021



Notes: Latest data point is frequently subject to revision in later releases. Hospitality is the sum of the 'Accommodation and food services' and 'Arts, entertainment, and recreation' industry groups.  
Source: RF analysis of HMRC, PAYE Real Time Information.

# ...but with a strong distributional slant...

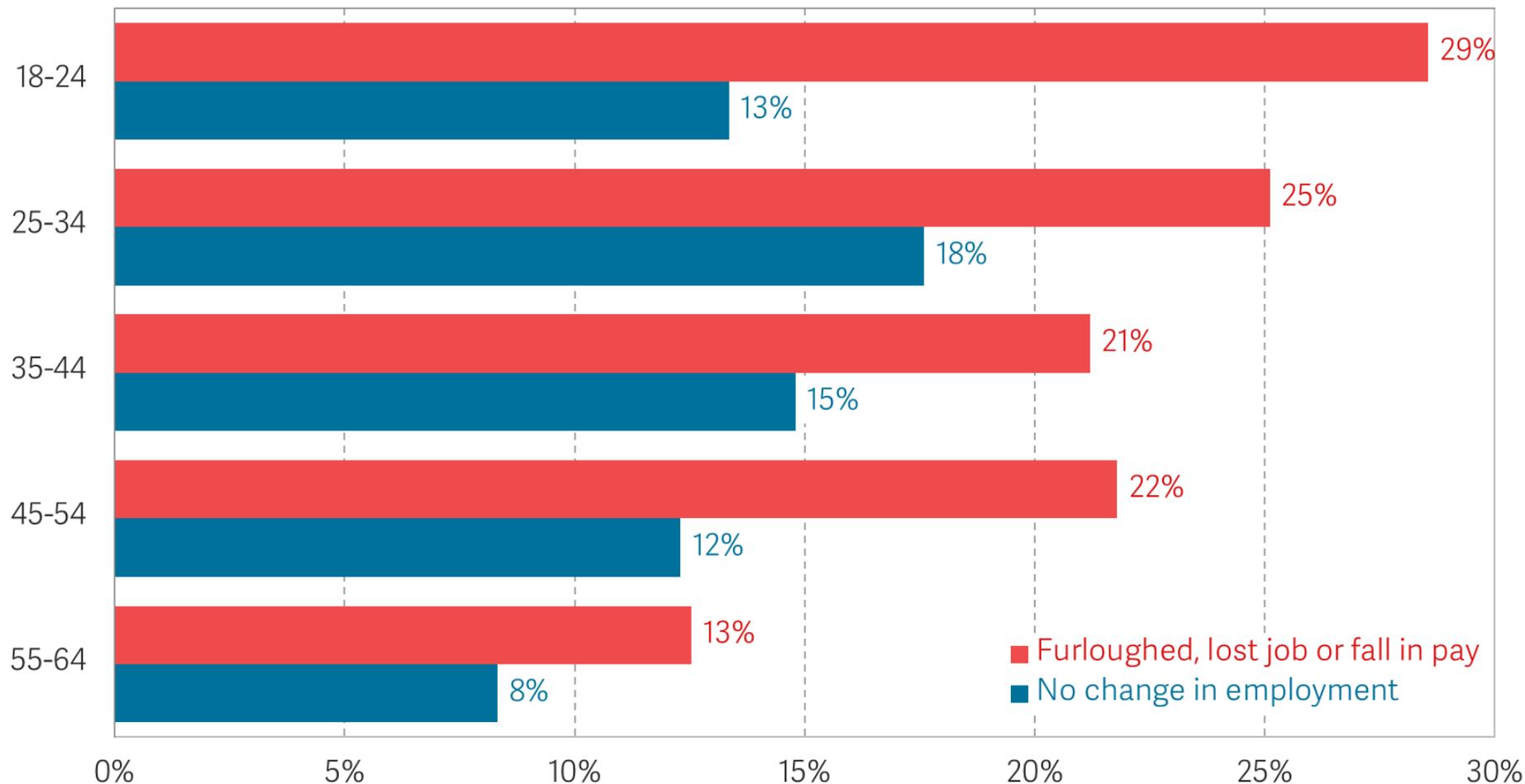


Proportion of people employed in February 2020 who in January 2021 were either no longer working, were furloughed, or whose earnings had fallen by 10 per cent (or more) compared to February 2020

NOTES: The overall base is all those in employment at the start of the crisis, age 18 to 64, with non-missing observations for change in employment status, furlough status and pay status (n= 4,848). The base for each sub-group shown in the chart are: AGE: Age 18-24 (n=499), Age 25-34 (n=1,224), Age 35-44 (n=1,136), Age 45-54 (n=1,188), Age 55+ (n=801); WEEKLY PAY: Q1 (n=833), Q2 (n=870), Q3 (n=795), Q4 (n=807), Q5 (n=825); CONTRACT TYPE: Self-employed (n=518), Employee: all (n=4,330), Employee: atypical contract (n=1,125). SECTOR: Hospitality (n=228), Non-supermarket retail (n=240), Arts, entertainment & recreation (n=198), Personal services (n=224), Construction (n=136), Manufacturing (n=244), Other (n=1,806), Public administration, education, health (n=1,680); GENDER: Men (n=2,433), Women (n=2,415); PARENTS: Men with young child (n=523), Women with young child (n=578); ETHNICITY: White (n=4,297), BAME (n=323). All figures have been analysed independently by the Resolution Foundation. SOURCE: RF analysis of YouGov, Adults Age 18-65 and the Coronavirus (COVID-19), January 2021 wave.

# ...with consequential impacts on mental health

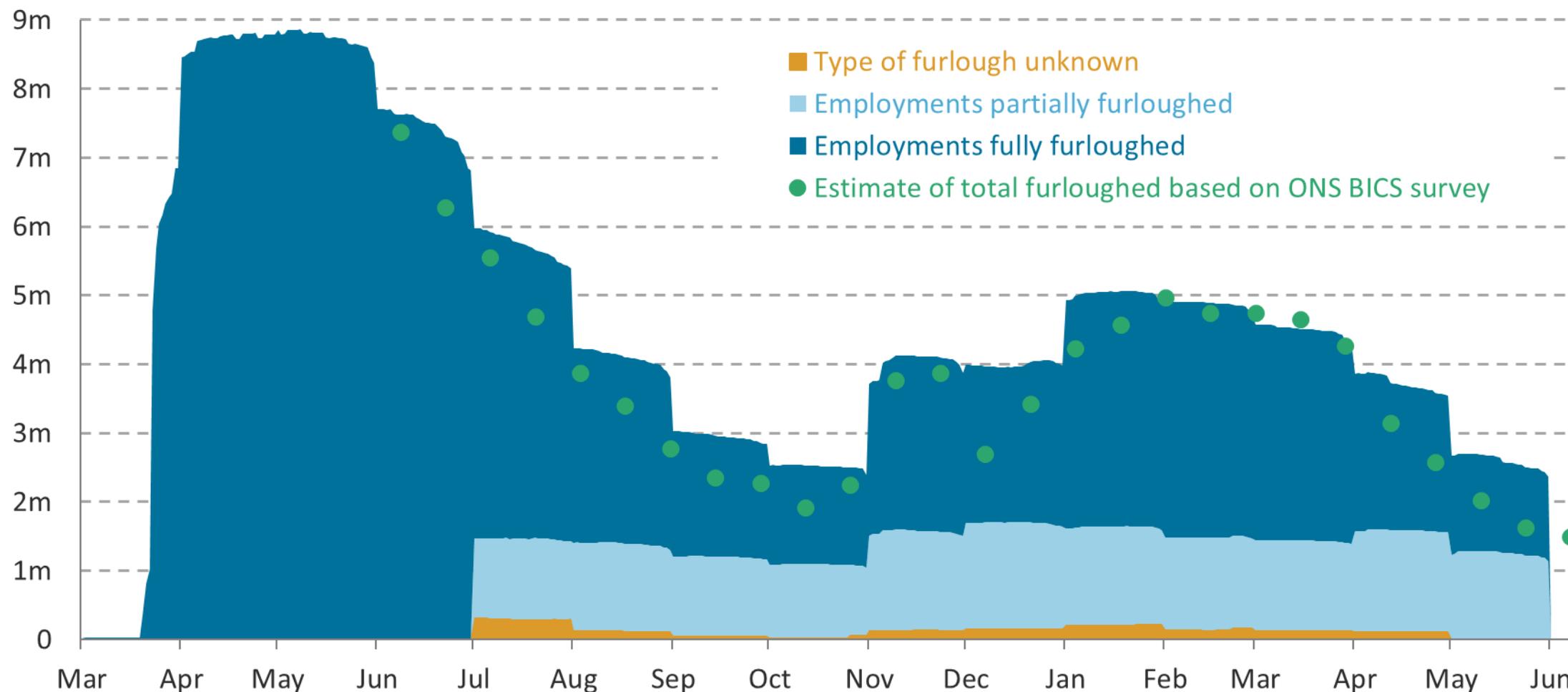
Proportion of people with self-rated poor mental health, by change in employment status between February 2020 and June 2021: UK, 3-8 June 2021



Notes: Base = those in employment at the start of the crisis, age 18 to 64, with non-missing observations for pre-crisis and current employment status, and current mental health status. For each bar: No change in employment; 18-24 (n= 268), 25-34 (n=930), 35-44 (n=947), 45-54 (n=872), 55-64 (n=550). Furloughed, lost job or fall in pay: 18-24 (n= 123), 25-34 (n=148), 35-44 (n=161), 45-54 (n=177), 55-64 (n=161).  
Source: RF analysis of YouGov, Adults Age 18+ and the Coronavirus (COVID-19), June 2021 wave.

# Since reopening, furlough numbers have fallen fast...

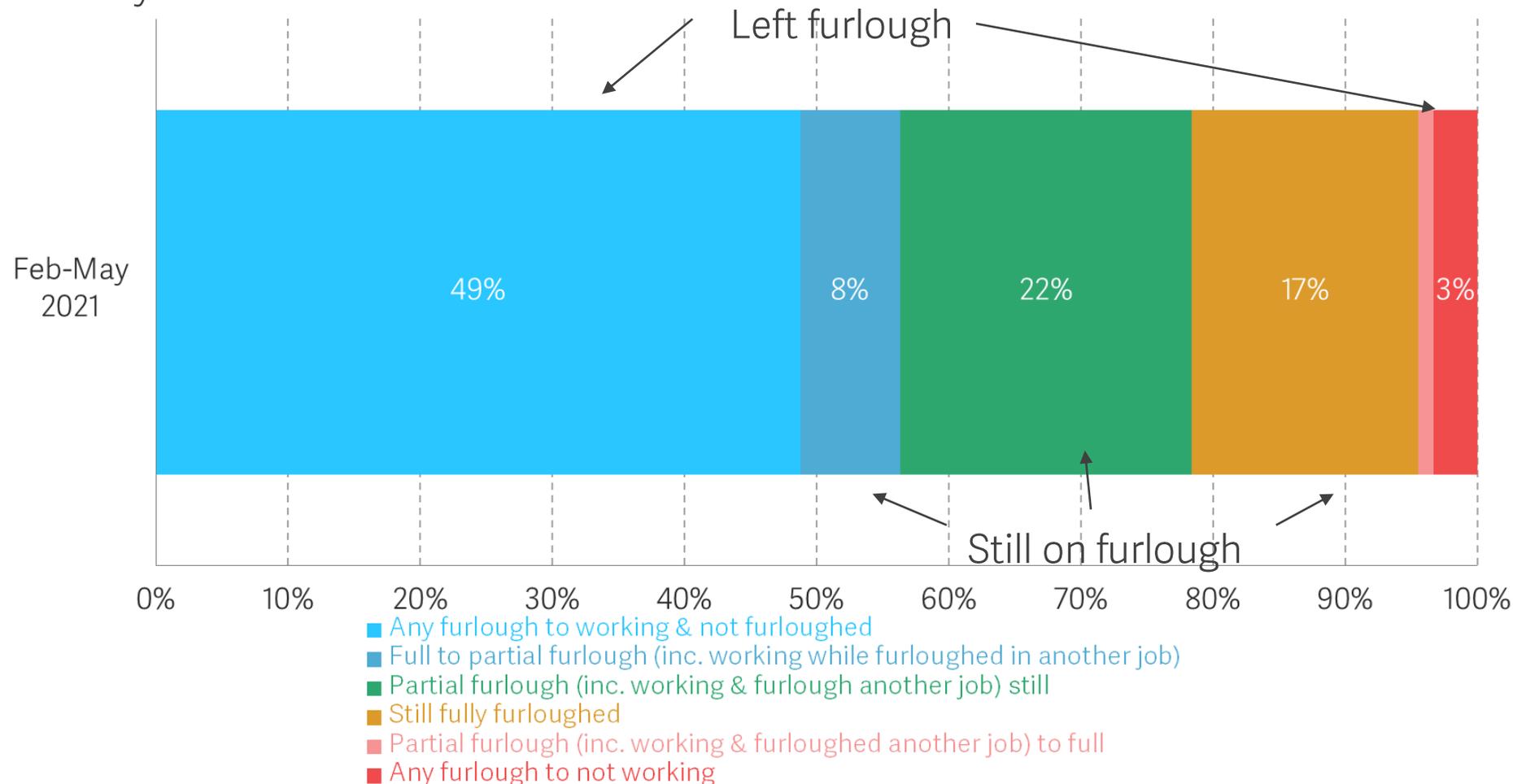
Number of furloughed workers, actual count from HMRC and estimates from surveys: UK



Source: HMRC, Coronavirus Job Retention Scheme statistics: July 2021; RF analysis of ONS, Business Insights and Conditions Survey.

# ...as workers return to the workplace

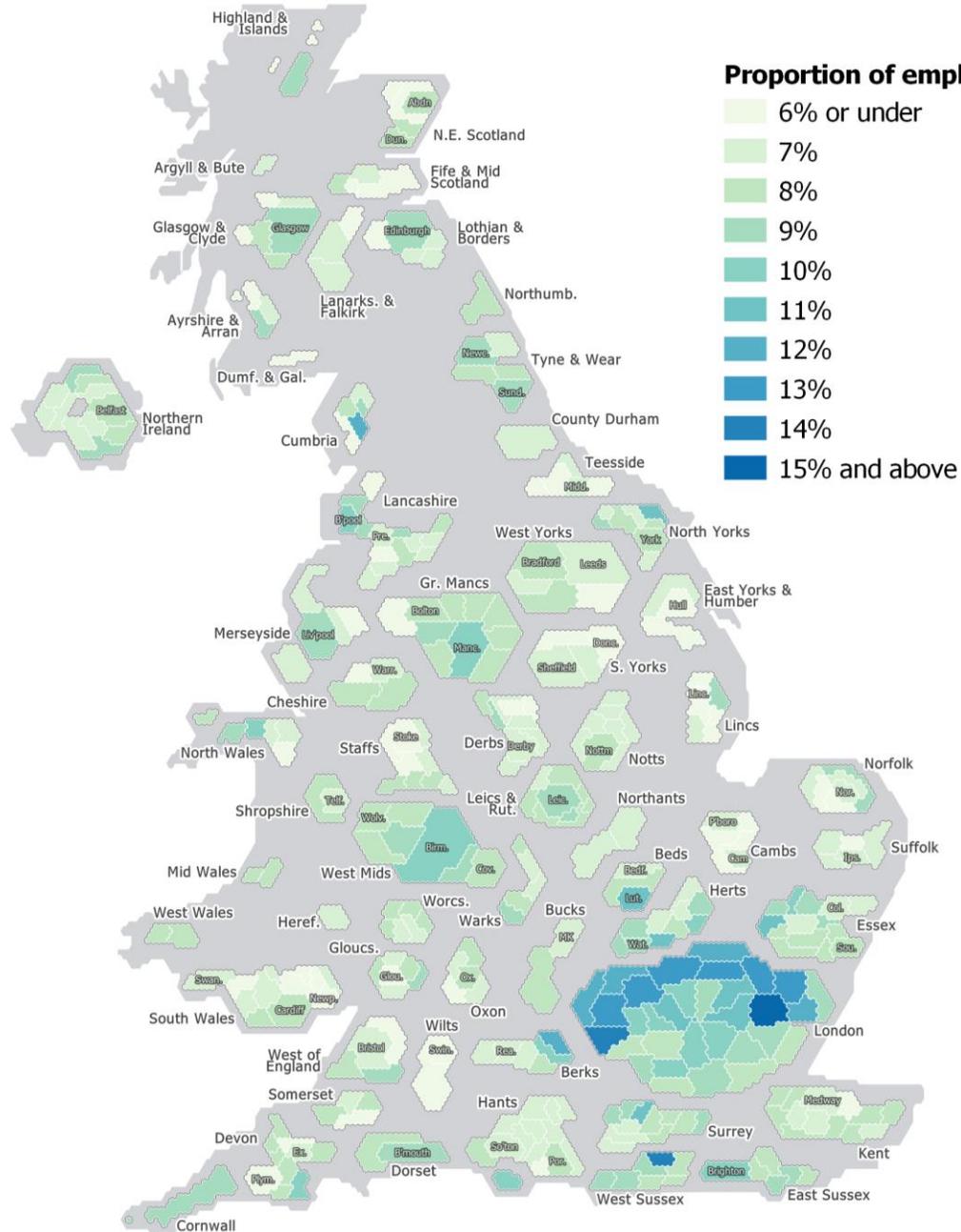
Labour market status among respondents who were furloughed in February 2021, 18-64-year-olds: UK, 24-30 May 2021



Notes: The base is all respondents who indicated they were fully furloughed, partially furloughed or furloughed while working in another job during February 2021, excluding those whose labour market status was listed as 'don't know/can't recall' or 'none of these' (n=472). The RF/YouGov survey was conducted 3rd-8th June; respondents were asked to provide employment information for the survey reference week of 24th-30th May. The views expressed here are not necessarily those of YouGov.

Source: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

# Share of employees furloughed, by local authority: 31 May 2021

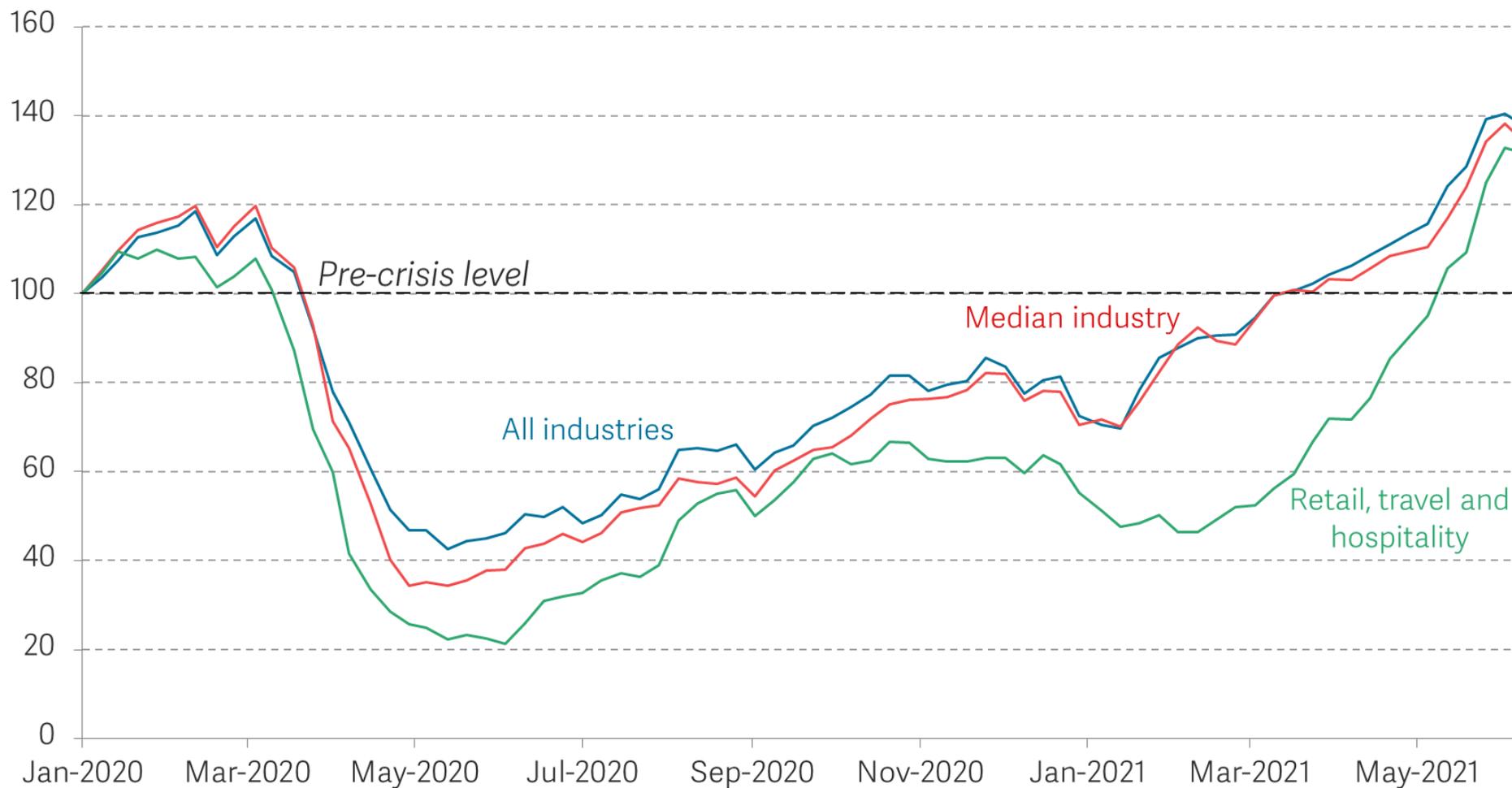


Source: HMRC, Coronavirus Job Retention Scheme statistics: 1 July 2021.

Map design by Carl Baker, Contains Parliamentary information licensed under the Open Parliament Licence v3.0.

# Some have said the labour market is running hot...

Index of vacancies, by industry (Jan 2020=100): UK, January 2020 to May 2021



Source: RF analysis of Adzuna weekly job vacancies

# ...but vacancies are easier to fill than they were pre-Covid...

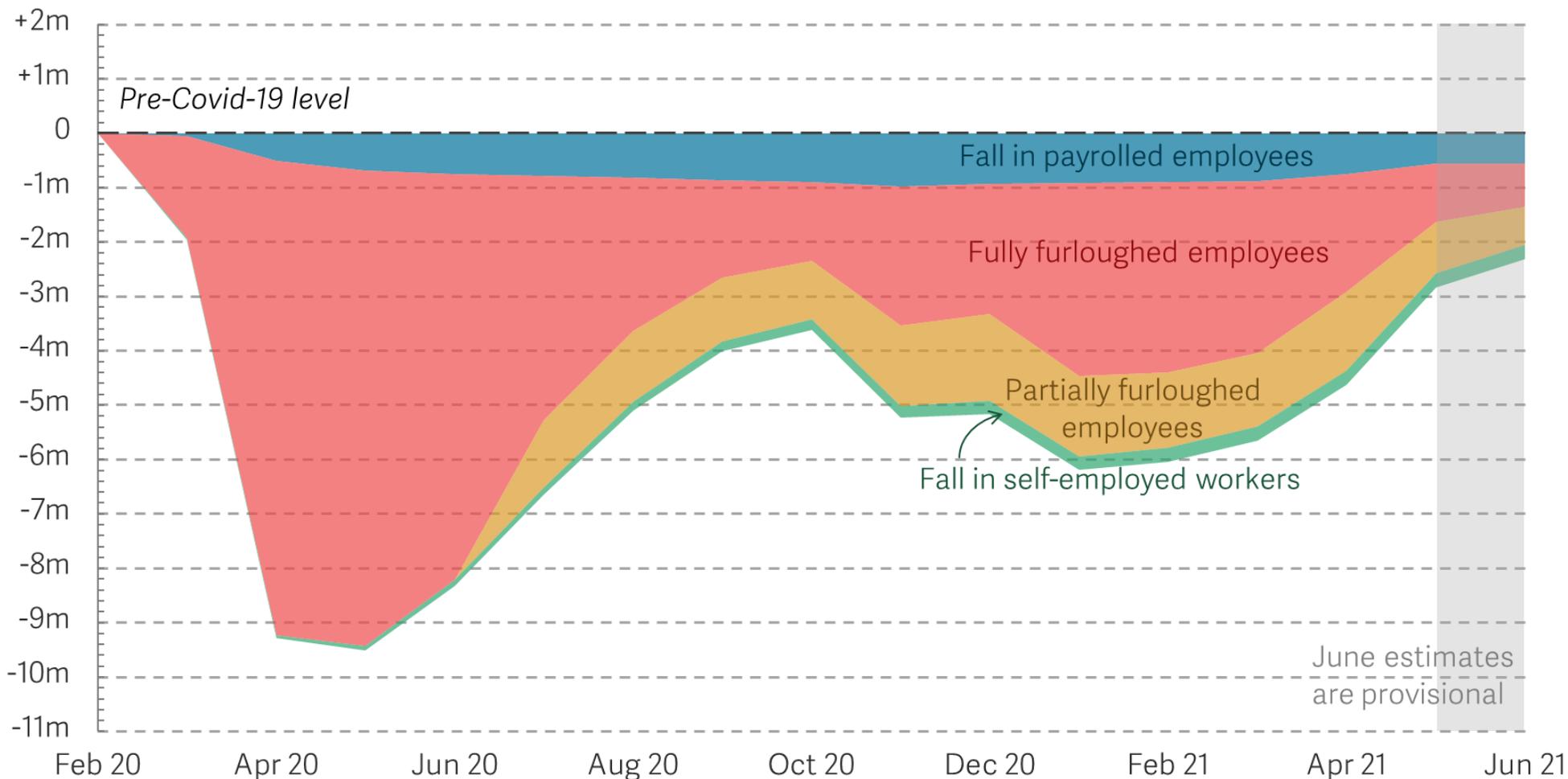
Implied number of months to fill a vacancy: UK



Source: RF analysis of ONS, Labour Market Flows and Adzuna weekly job vacancies. The chart shows the ratio of vacancies to the sum of the number of people moving into work and between jobs.

# ... and 2 million people are doing less work than pre-crisis

Change in employment since the start of the Covid-19 pandemic: UK, February 2020-June 2021

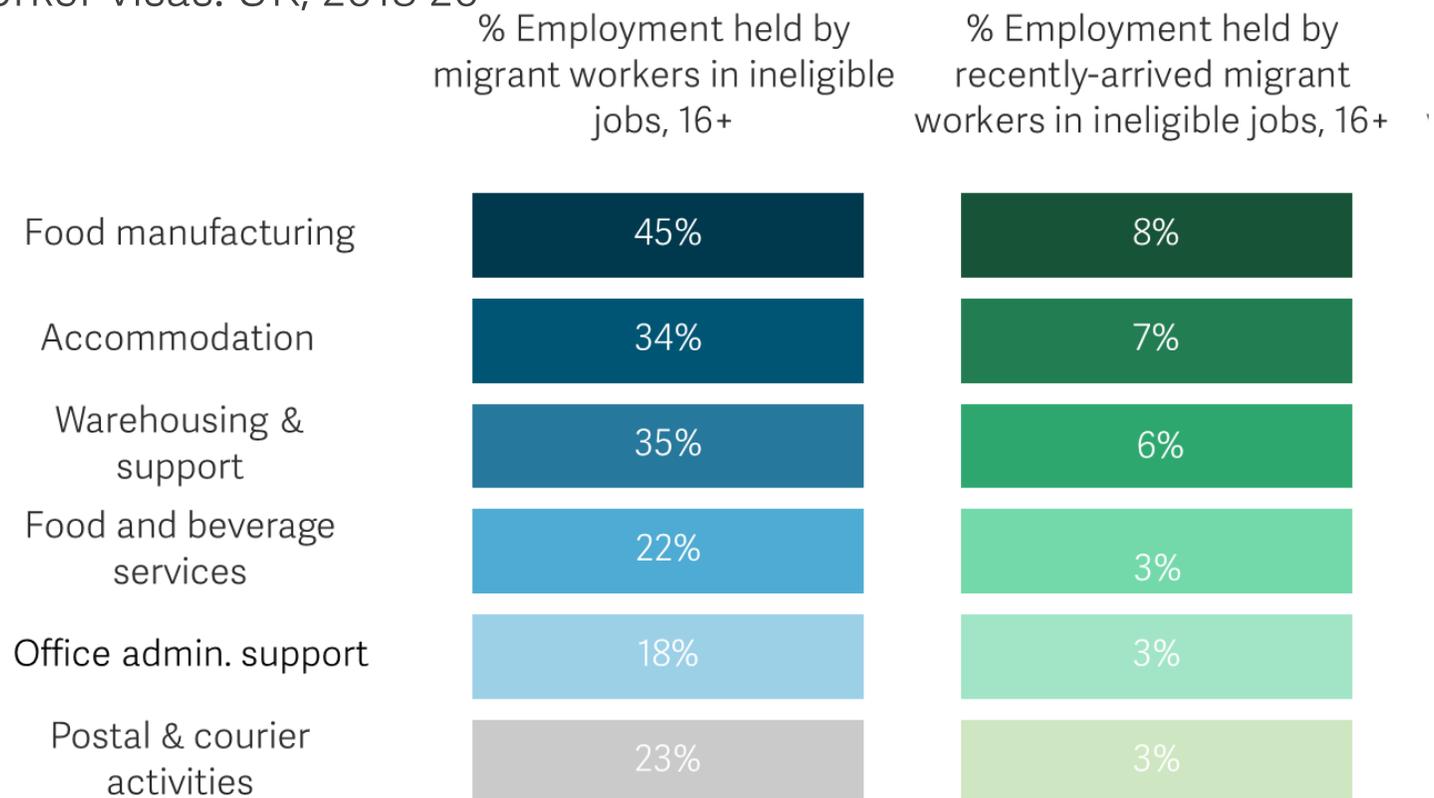


Notes: The June 2021 data points for fully and partially furloughed workers estimate the 31 May-13 June total based on data from the Business Insights and Conditions Survey (BICS). The June 2021 estimates for falls in payrolled employees and self-employed workers, and the split between full and partial furlough, have been rolled forward from May 2021 data. May 2021 self-employment fall projected forward using the average change over the most recent two data points. Estimated net fall in self-employment adjusted for the average share of self-employment outflows who moved into the 'employee' category between April 2020 and March 2021.

Source: RF analysis of HMRC, Coronavirus Job Retention Scheme Statistics; ONS, Business Insights and Conditions Survey; ONS, Labour Market Statistics; ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information; ONS, Labour Market Flows.

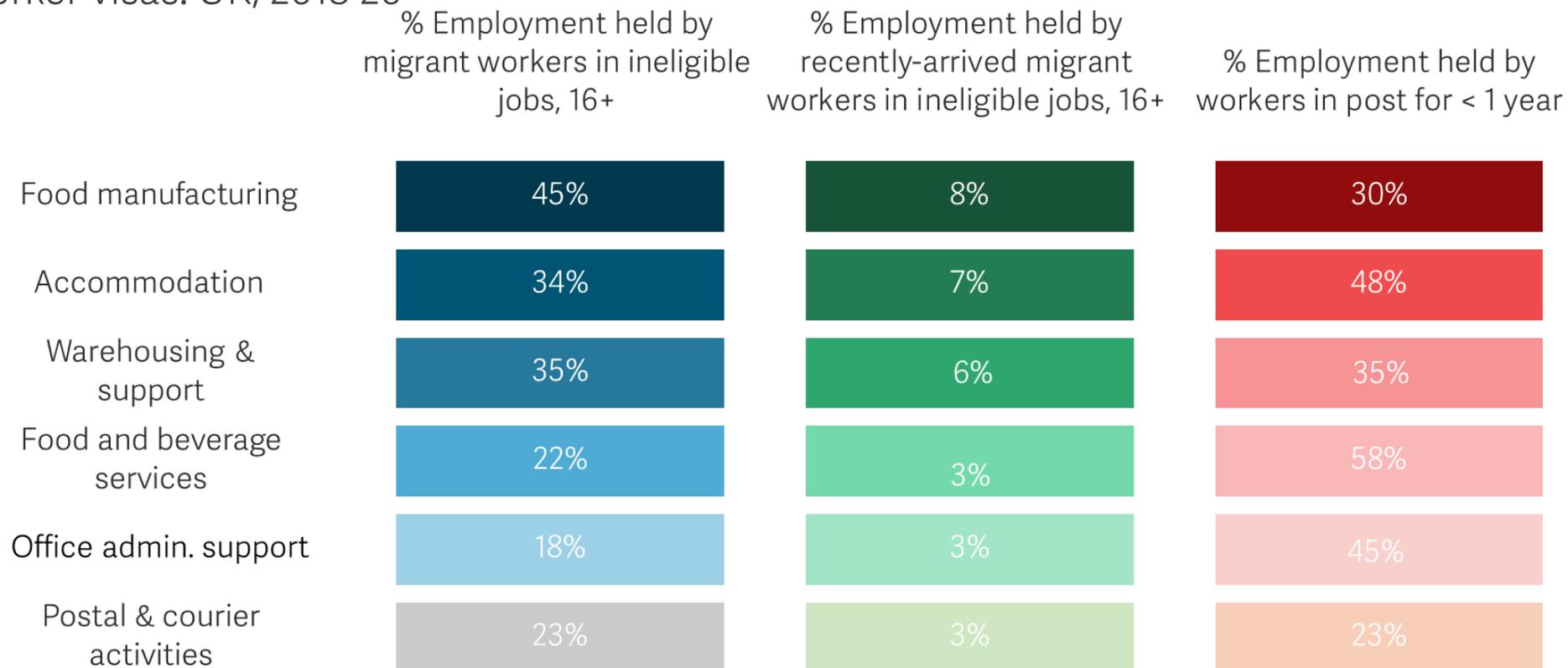
# Brexit will be affecting some sectors

Migrant-reliant industries with a high share of employment in occupations that are ineligible for skilled worker visas: UK, 2018-20



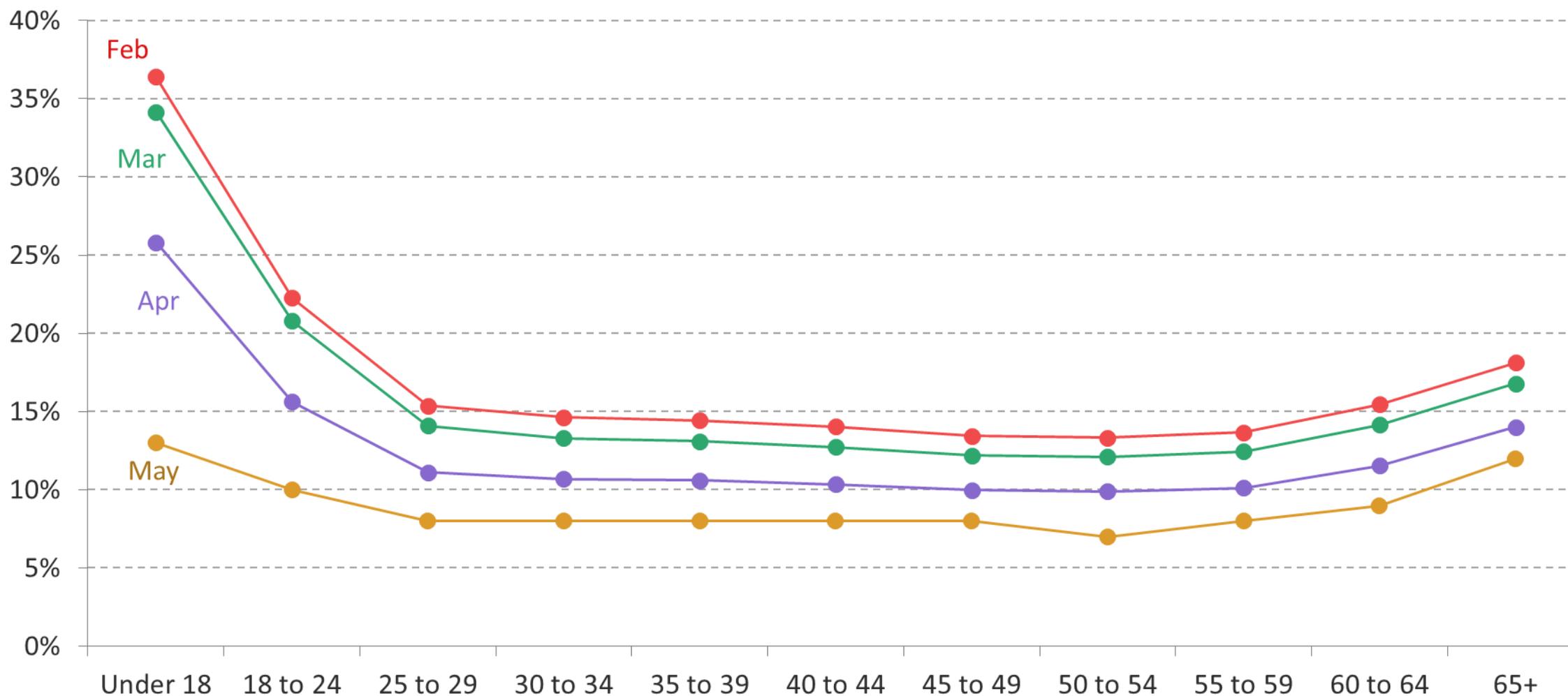
# Brexit will be affecting some sectors

Migrant-reliant industries with a high share of employment in occupations that are ineligible for skilled worker visas: UK, 2018-20



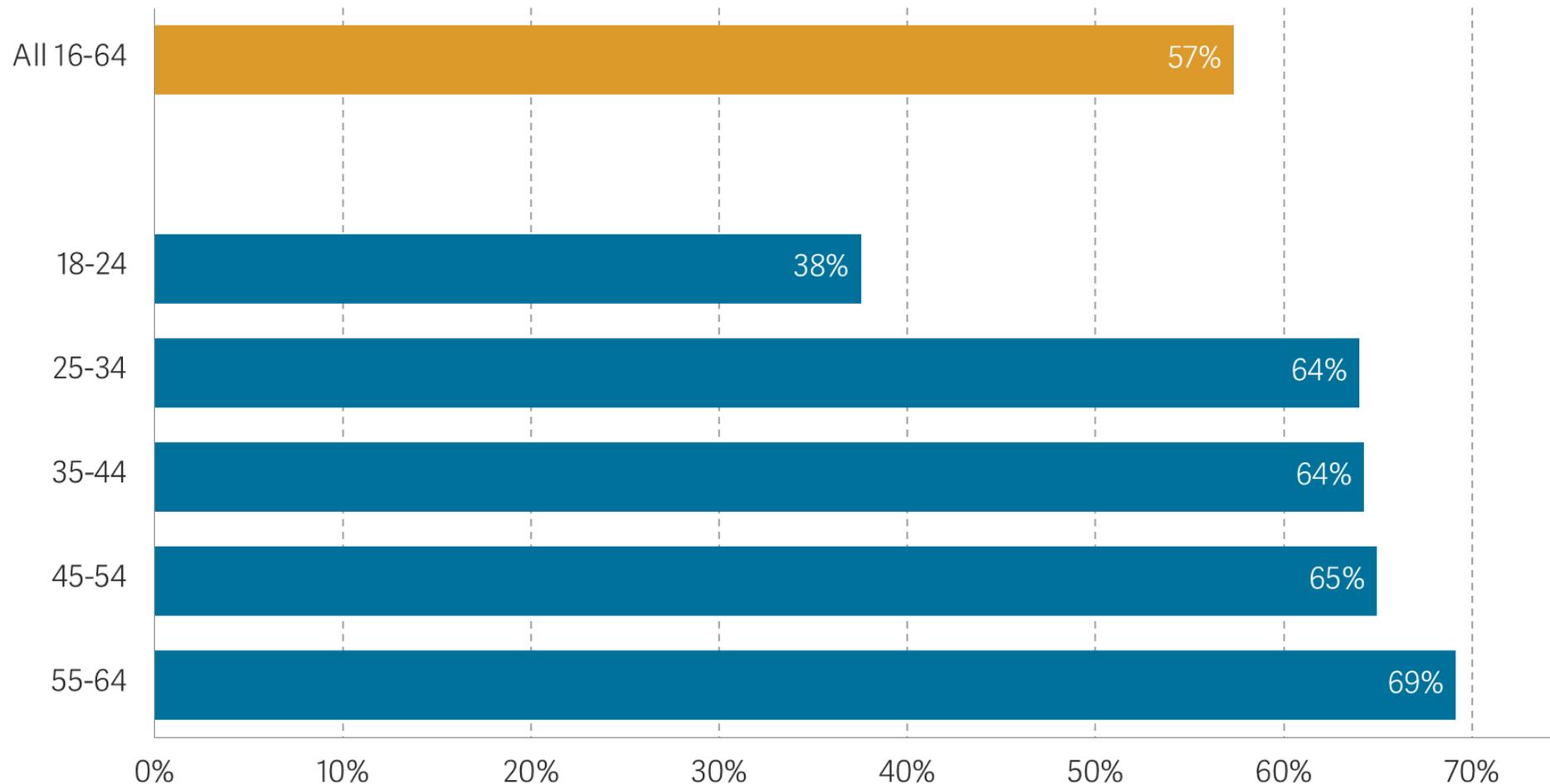
# Those left on furlough are getting older: half of fully-furloughed workers in May 2021 were aged 45 or older...

Proportion of employees furloughed, by age: February 2021 to May 2021, UK



# ...and older workers are more likely to have been not-working long-term

Proportion of respondents fully furloughed or unemployed in May that have been in that state for at least six consecutive months: UK, 24-30 May 2021



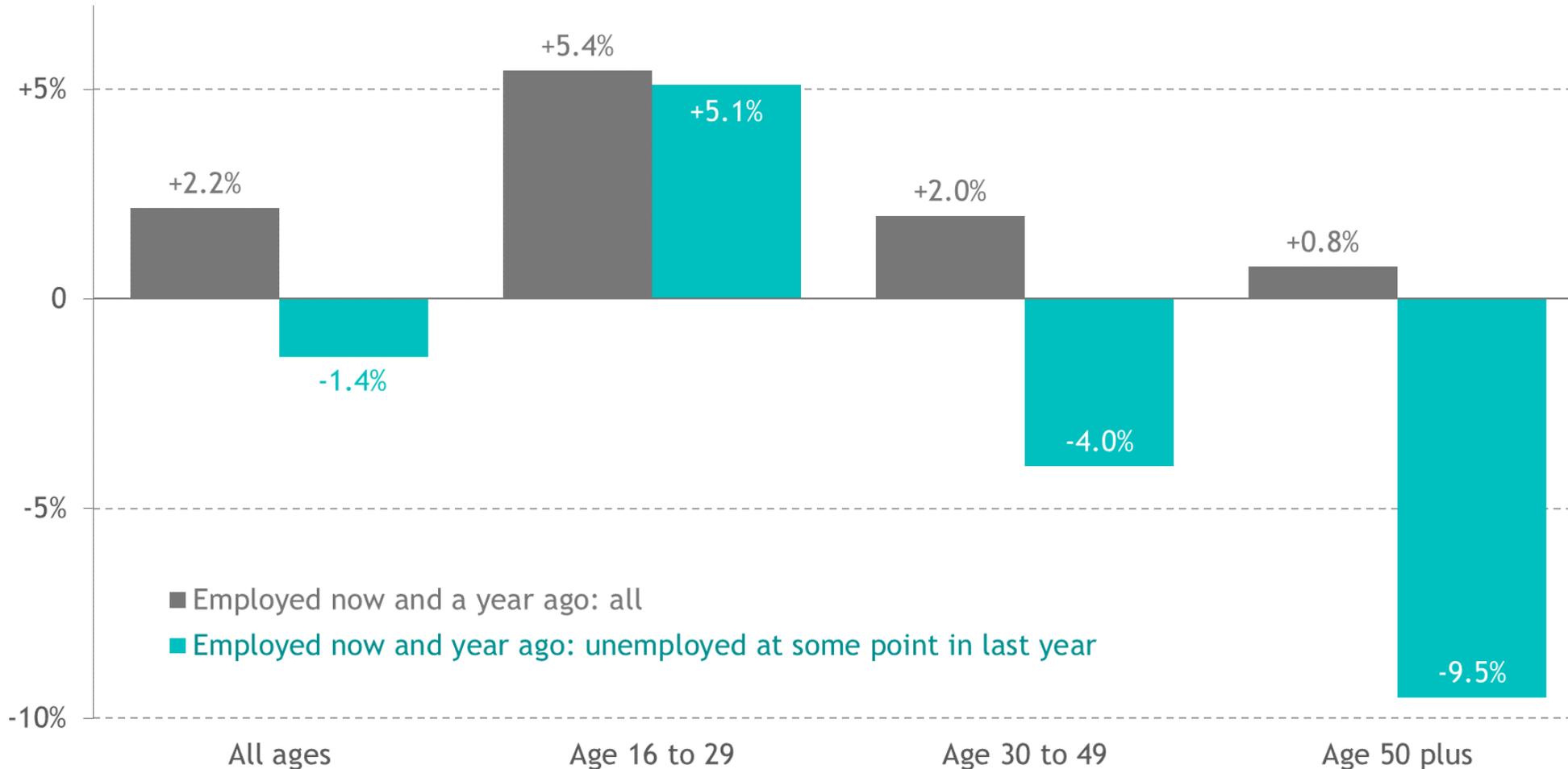
Notes: Base for each bar is respondents who were unemployed or fully furloughed in May 2021 by age group. The RF/YouGov survey was conducted 3rd-8th June; respondents were asked to provide employment information for the survey reference week of 24th-30th May. 18-24 = 93; 25-34 = 75; 35-44 = 60; 45-54 = 81; 55-64 = 65.

The views expressed here are not necessarily those of YouGov.

Source: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

# Older unemployed workers are slower to return to work, and they earn less when they do return

Median annual change in hourly pay, by whether have experienced some period of unemployment in the past year: UK, 1995-2020



Notes: Pay data in the Labour Force Survey is only available for employees, so this figure does not include the self-employed.  
Source: RF analysis of ONS, Five-quarter Longitudinal Labour Force Survey.

So far:

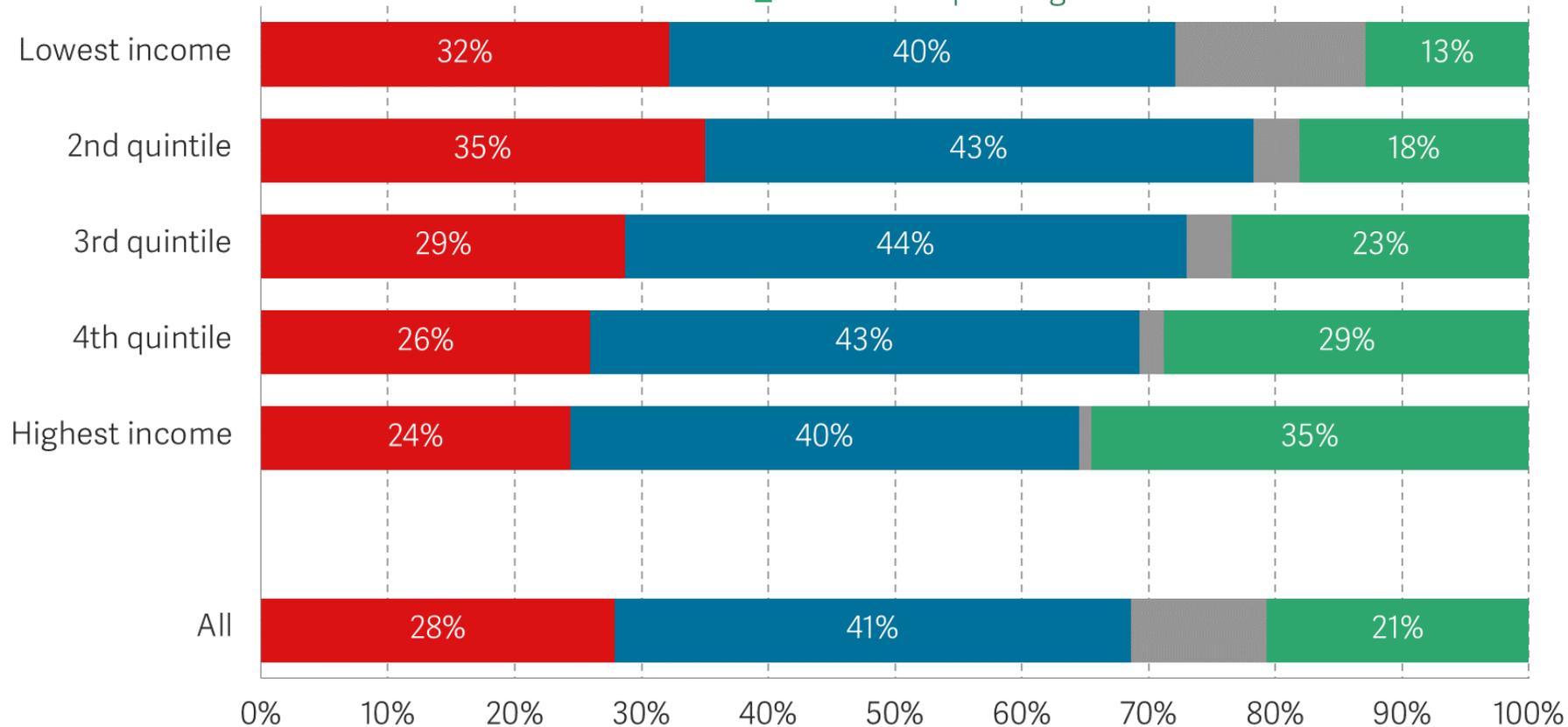
- JRS prevented a labour market catastrophe
- The young were hit the hardest. Although this is changing rapidly as we re-open, a year of disruption will have had long-term impacts (with mental health an important mechanism?)
- The labour market is recovering, but is not running hot (but Brexit+Covid is restricting labour supply in some sectors)
- Furlough scheme is obscuring a “long-term non-working” issue among older workers, which will very soon be DWP’s problem

# The effect of Covid-19 on incomes and balance sheets

# Labour market disruption was skewed towards the bottom, but we need to look at spending as well as income

Change in household income and spending during re-opening (July-September) compared to February 2020, by pre-pandemic household income quintile: UK, 17-22 September 2020

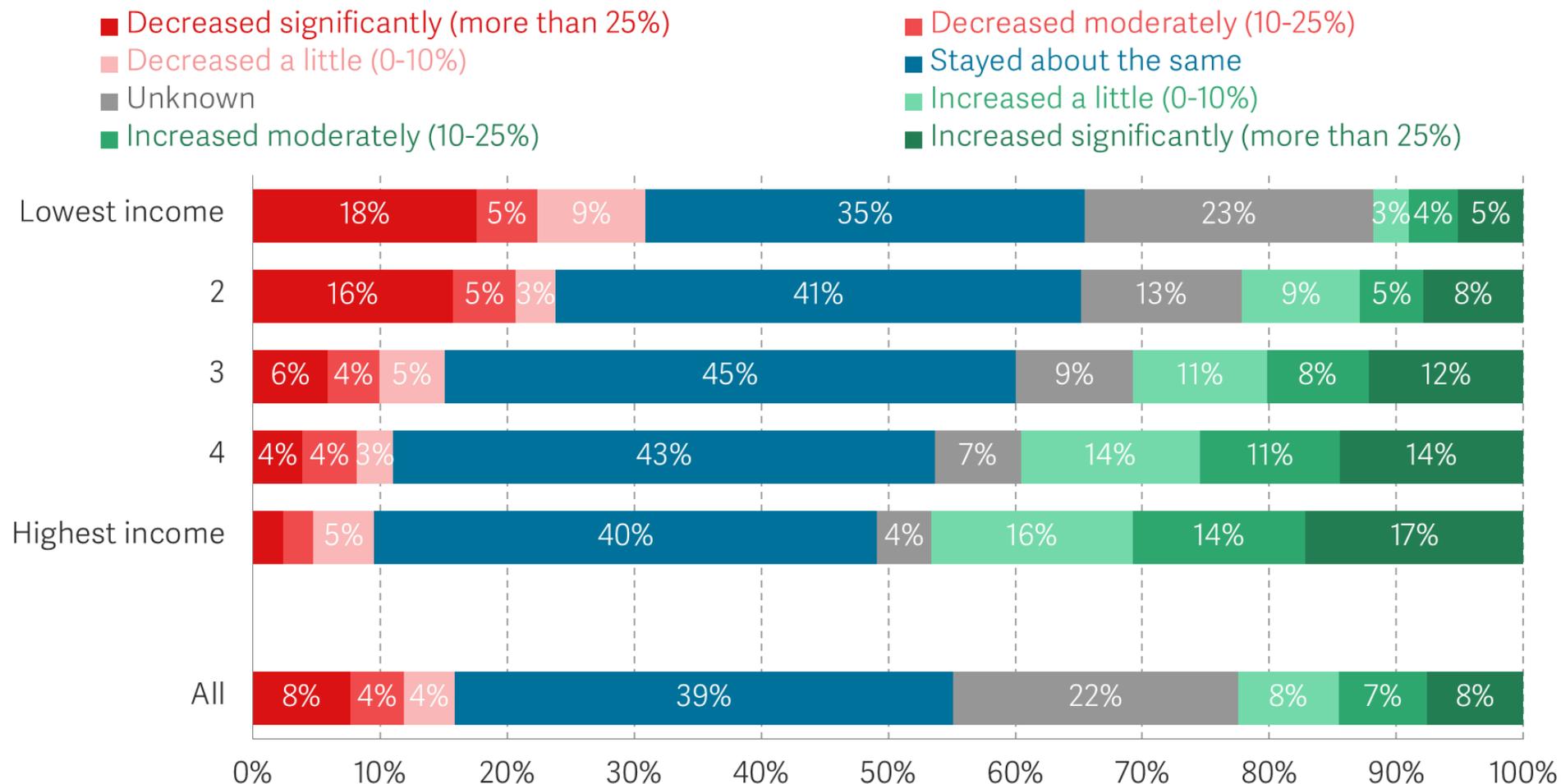
- Squeezed: Income has fallen relative to spending
- Unchanged: No income change relative to spending
- Unknown
- Loosened: Spending has fallen relative to income



Notes: Base = all adults aged 18-65 with valid income data (n=3,128), apart from the 'all' category where the base is all UK adults aged 18-65 (n=6,061). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students (see annex for more details). Categories calculated based on answers to questions on changes to household income and household spending (see annex for more details). These figures have been analysed independently by the Resolution Foundation.  
Source: RF analysis of YouGov, UK Adults and The Coronavirus (Covid-19) – September 2020 wave.

# Savings rose for high-income individuals and fell for low-income individuals... (aggregate change of +£125bn!)

Proportion of individuals by changes in stock of savings over the course of crisis, by income quintile: UK, 3-8 June 2021

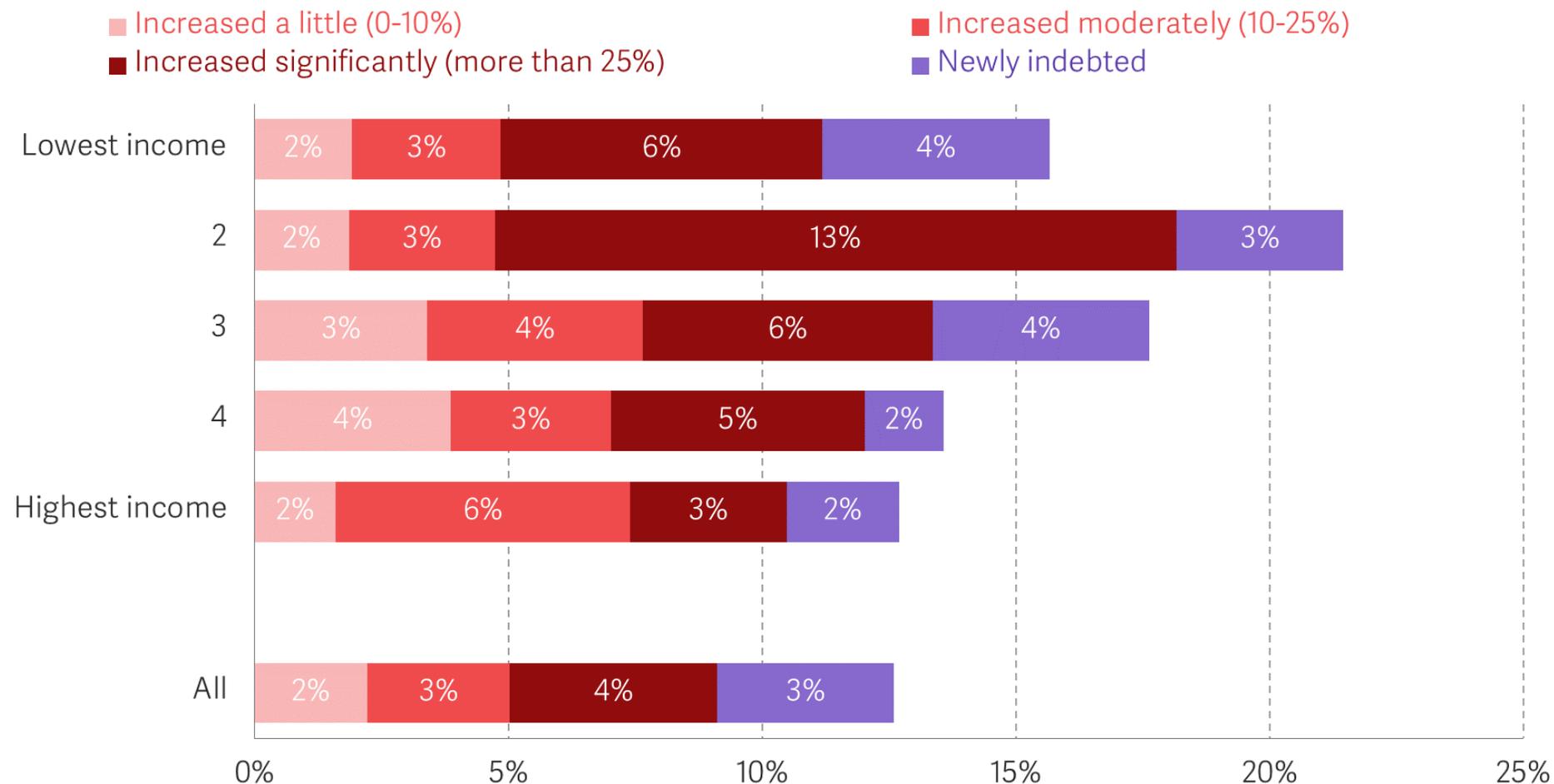


Notes: Base = 2,680: all adults aged 18+ with valid income data (apart from the 'all' category where the base is 8,030). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students. These figures have been analysed independently by the Resolution Foundation.

Source: RF analysis of YouGov, UK Adults and The Coronavirus (Covid-19) – June 2021 wave.

# ...and people on lower income are more likely to have seen their debt increase during the crisis

Proportion of individuals with increases in debt since February 2020, by income quintile: UK, 3-8 June 2021

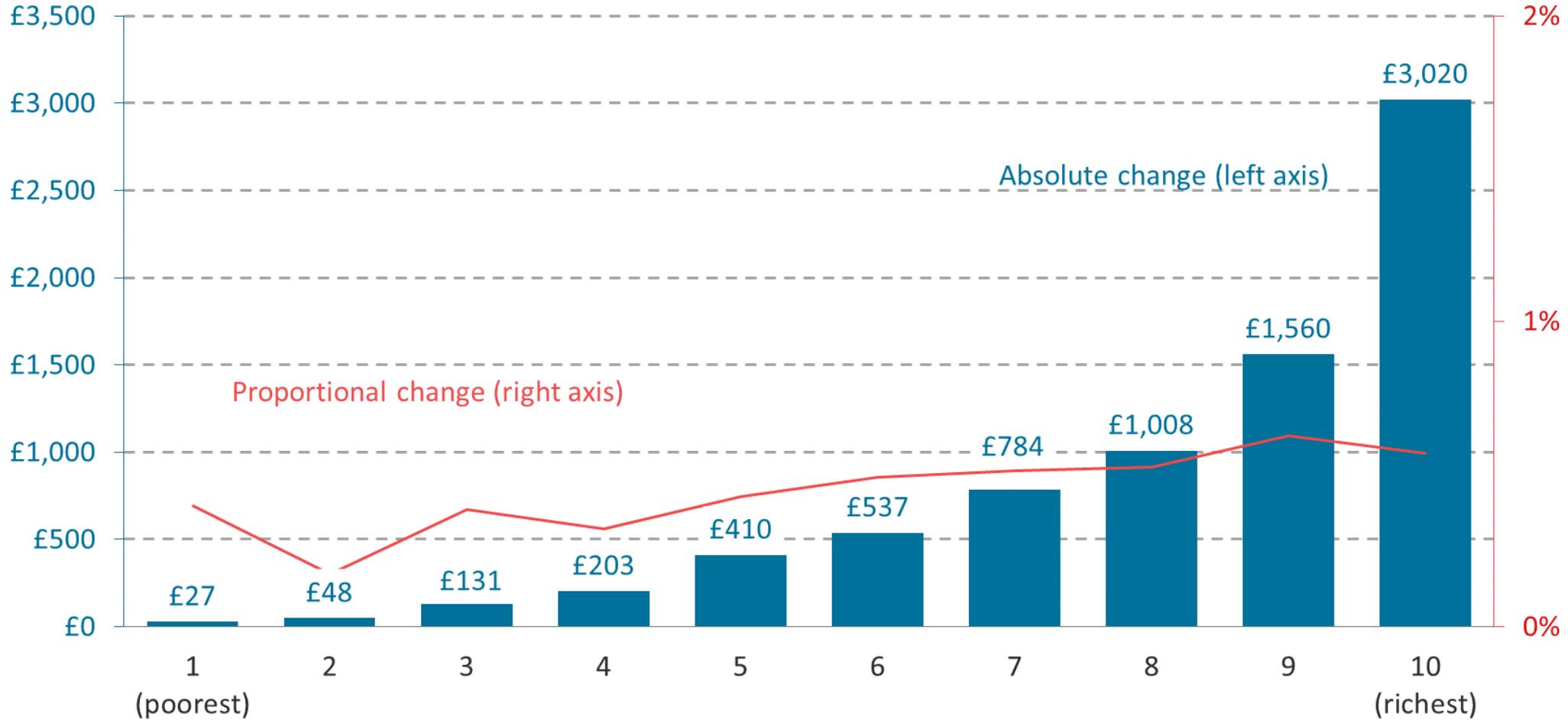


Notes: Base = 2,680: all adults aged 18+ with valid income data (apart from the 'all' category where the base is 8,030). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students. These figures have been analysed independently by the Resolution Foundation. For debts, we asked respondents to include hire purchases, personal loans, credit or store cards, mail order purchases, DWP social fund loans, overdrafts, payday loans or hire purchases excluding car finance, and exclude any balances due to be repaid in full within a month, student loans and mortgages.

Source: RF analysis of YouGov, UK Adults and The Coronavirus (Covid-19) – June 2021 wave.

# ...leading to an inequality-enhancing change in family wealth

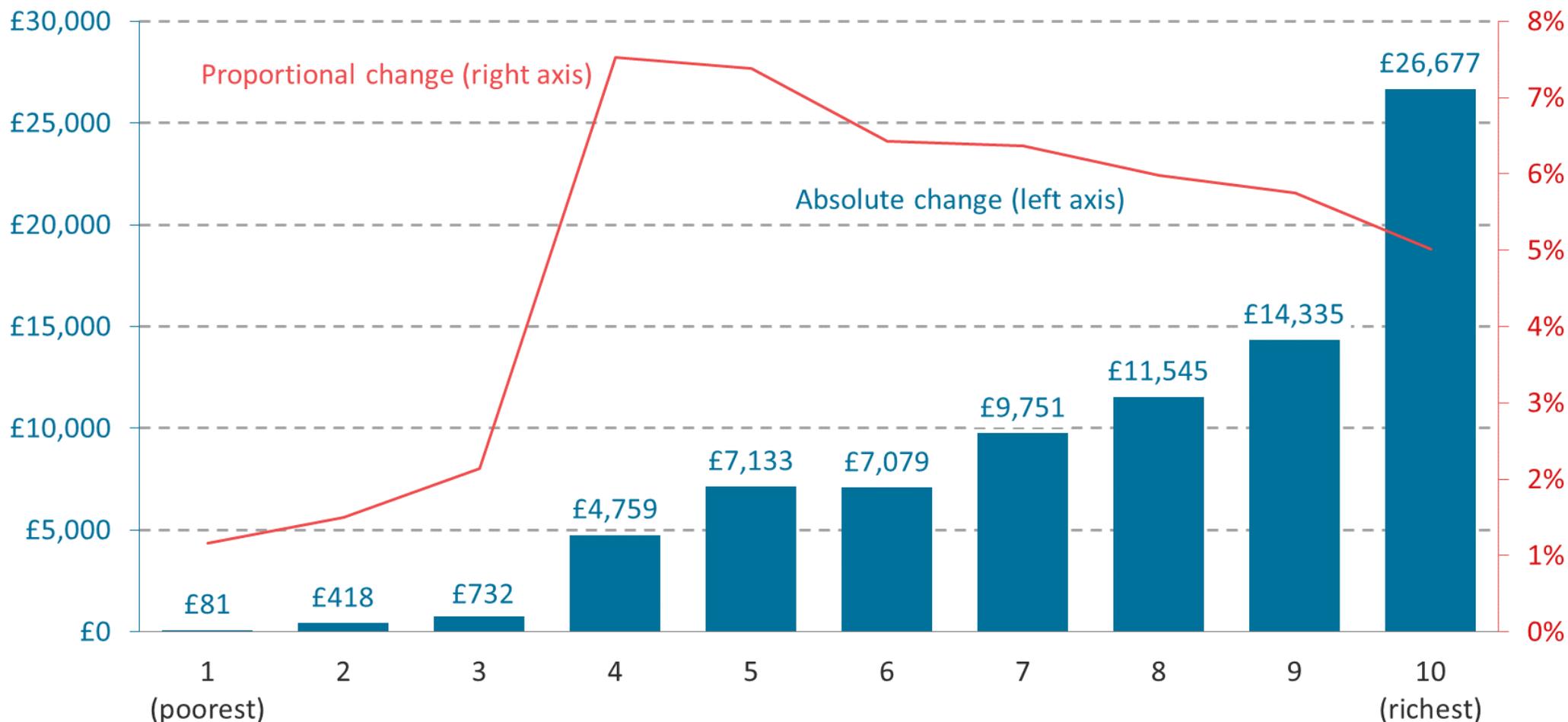
Median change in family wealth per adult as a result of active saving and debt changes since the onset of the pandemic, by income decile: GB, February 2020 to May 2021



Notes: Results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4,606). These figures have been analysed independently by the Resolution Foundation.  
Source: RF analysis of ONS; Wealth and Assets Survey; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave

# ...which was amplified by passive changes to wealth

Median change in family wealth per adult since the onset of the pandemic, by income decile: GB, February 2020 to May 2021

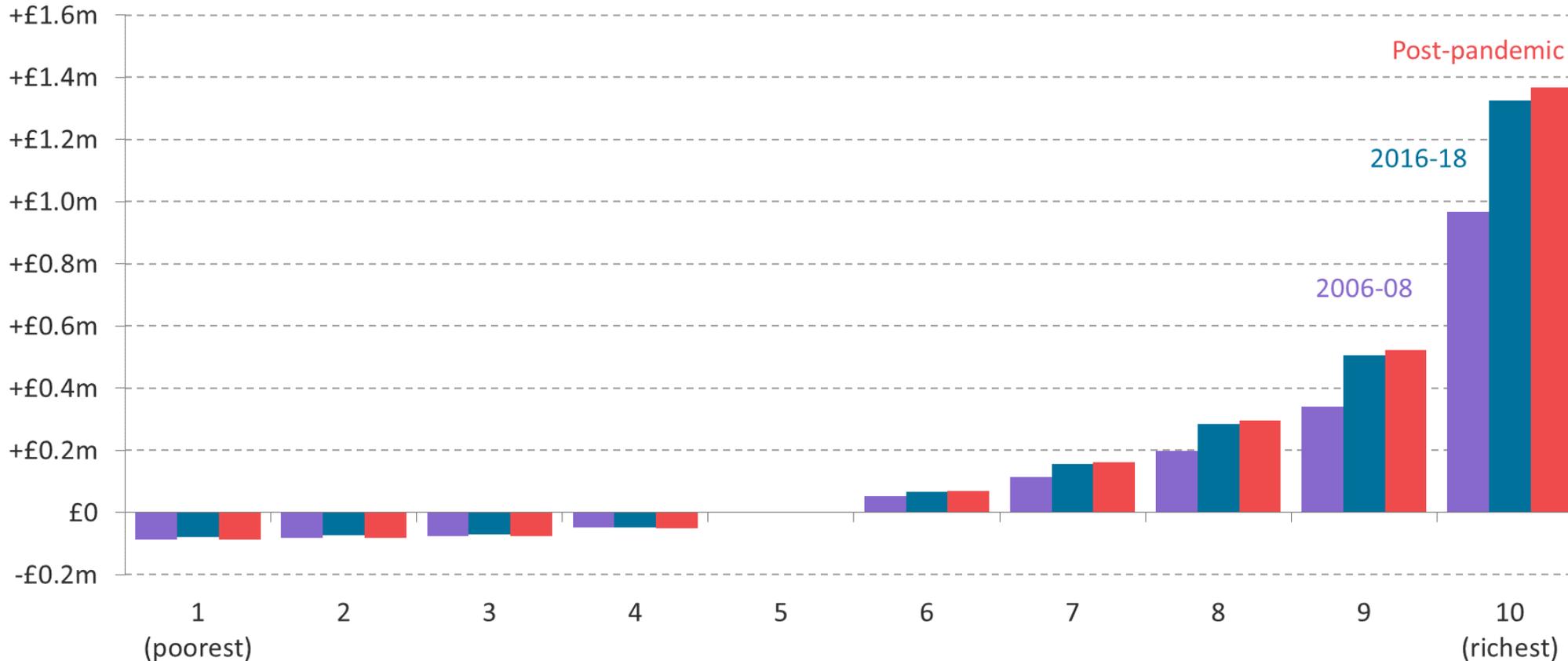


Notes: Results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4,606). These figures have been analysed independently by the Resolution Foundation.

Source: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave

# ...and wealth gaps have risen, particularly between the bottom and the middle

Absolute gap between mean family wealth per adult within each net wealth decile and mean wealth for decile 5: GB, 2006-08 & 2016-18 and May 2021



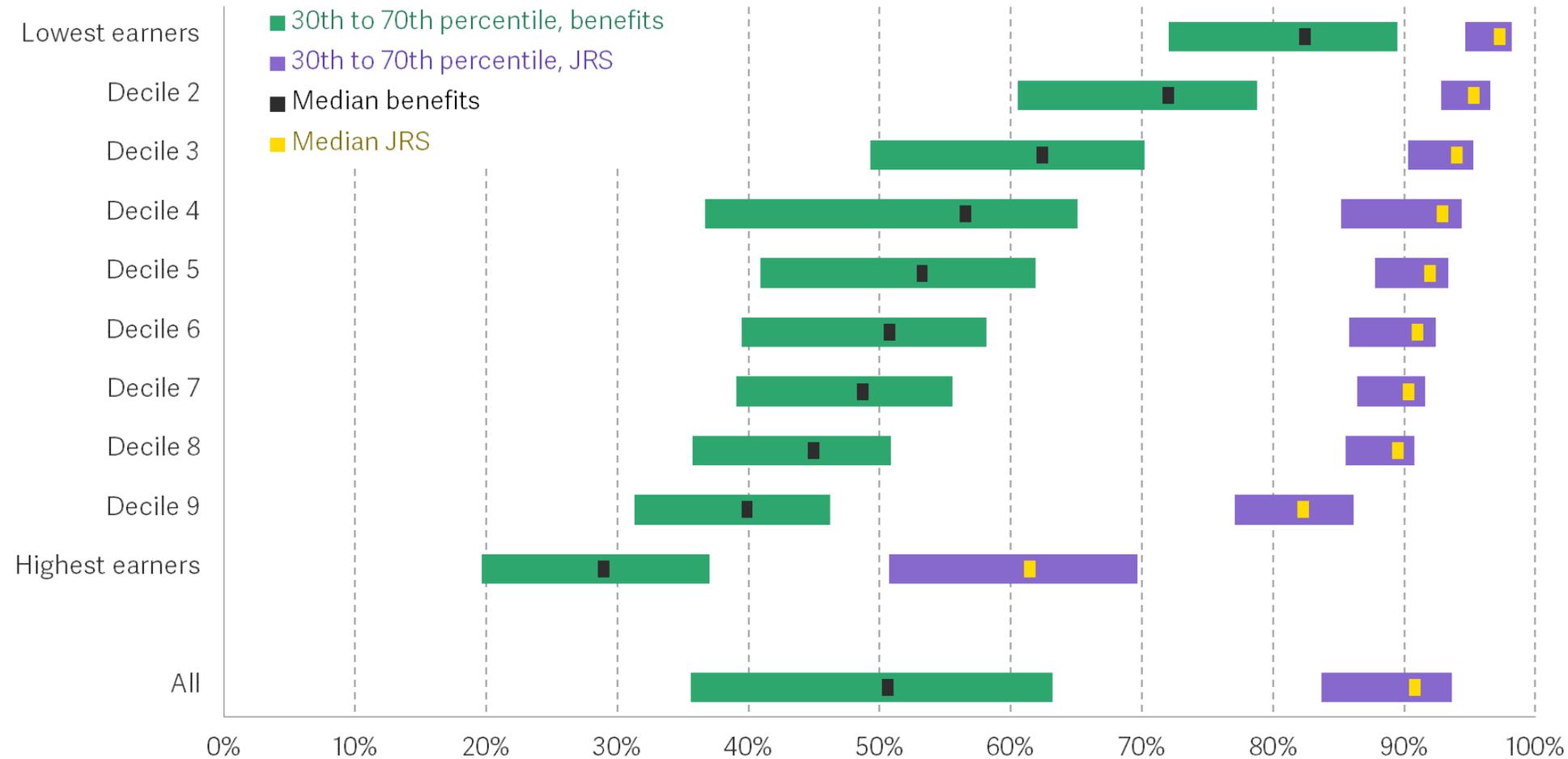
Notes: Data is adjusted using CPIH into April 2021 prices. Wealth is measured at the family unit level - i.e. one or two adults within a household plus any dependent children. Household composition is accounted for by taking wealth per adult within the family. The definition of wealth excludes physical wealth and private business wealth. This is because the definition of physical wealth is more subjective than other asset classes and is inconsistently defined compared to other asset classes. Private business wealth was poorly captured in the 2006-08 wave of the WAS and so is removed to reduce measurement changes over time. Post-pandemic results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4,606). These figures have been analysed independently by the Resolution Foundation.

Source: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave. @resfoundation

# Lessons for our social security

# 1. The JRS and SEISS were a more effective earnings replacement than the social security system

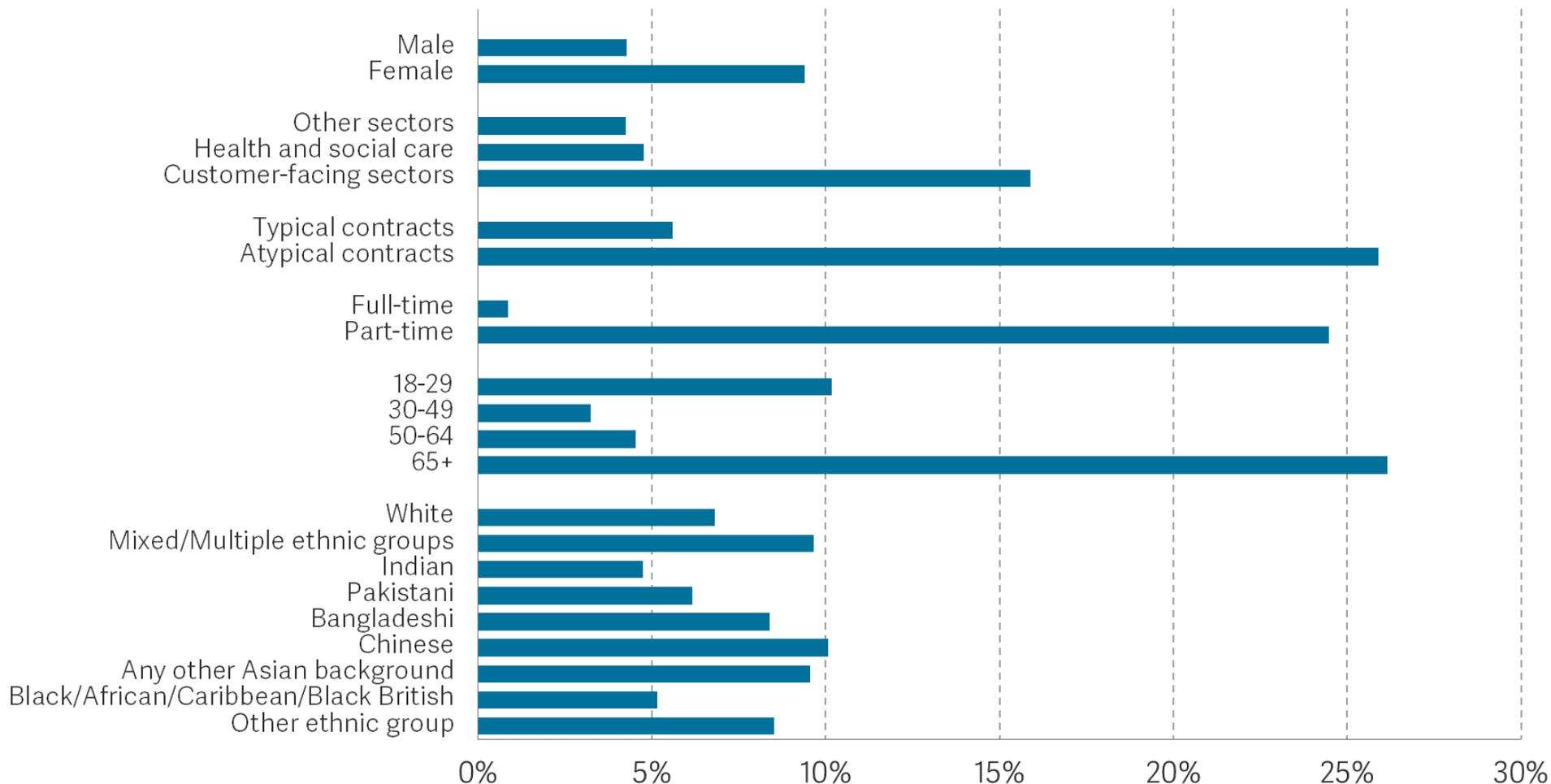
Family income replacement rates when earner stops working, is furloughed or claims a self-employment grant, by earnings decile: UK, 2020-21



Notes: Replacement rate shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. £20 per week boost to Universal Credit is not included. Full roll-out of UC and full take-up of benefits assumed. Source: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

## 2. Sick pay rates are insufficient, leaving workers with a financial imperative to keep working

Proportion of employees earning below the Lower Earnings Limit, by selected demographic groups: UK, 2019

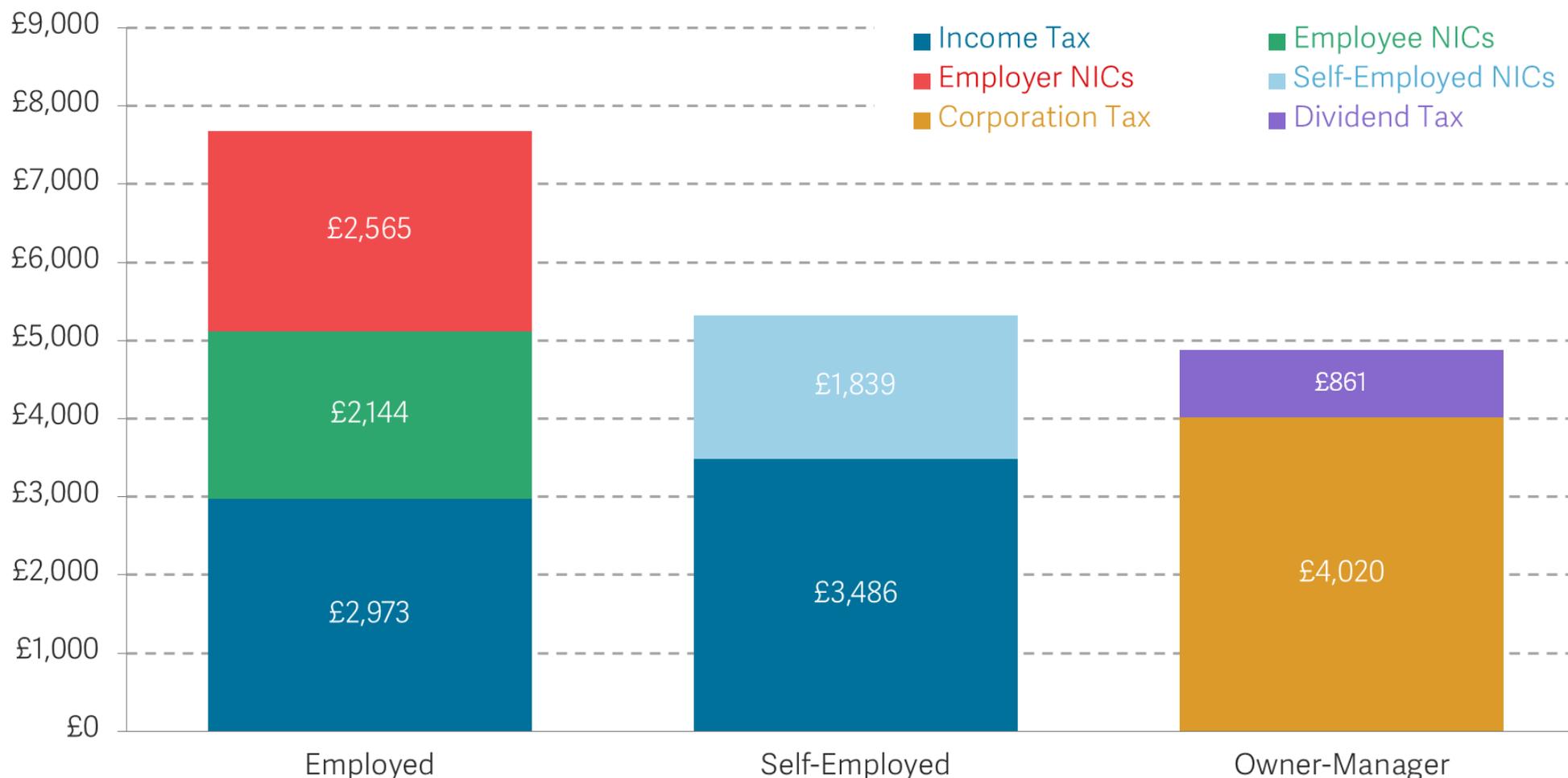


Notes: SSP covers all types of employment contracts, but employees on flexible or zero-hour contract have to prove their average earnings, which can be a challenge. Therefore, these figures may underestimate how many workers would receive SSP in case of illness. Atypical contracts include agency workers and workers on temporary and zero-hour contracts.

Source: RF analysis of ONS, Labour Force Survey.

### 3. Self-employed workers should be brought into social security

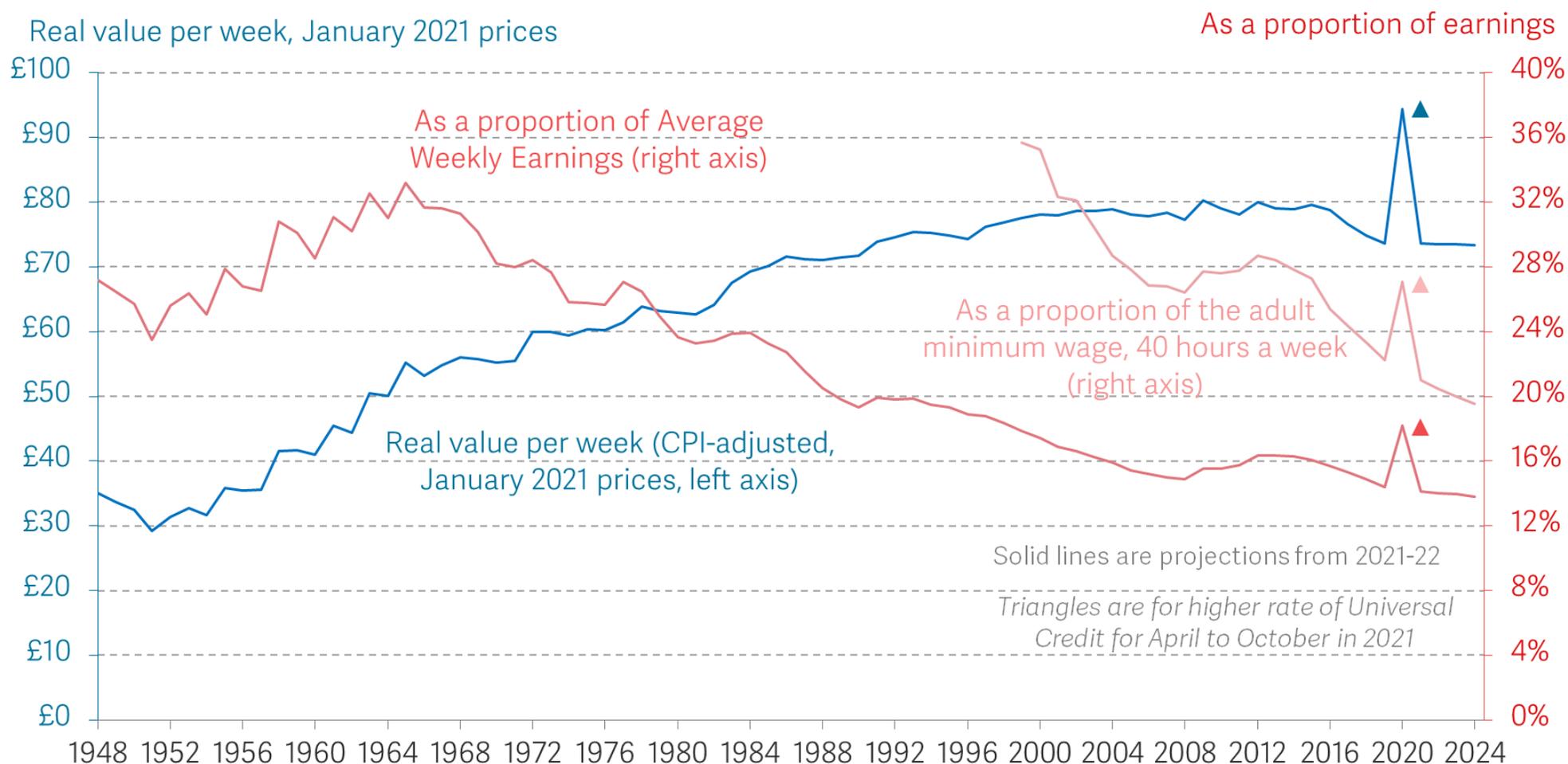
Tax due on £30,000 of economic activity by employment type: UK, 2021-22



Notes: Owner-Manager category assumes owner takes out a wage equal to the secondary limit (£8,840): the largest wage that can be paid without generating national insurance or income tax liabilities.  
Source: RF analysis of HMRC rates and allowances.

## 4. The safety net pre-crisis was insufficient

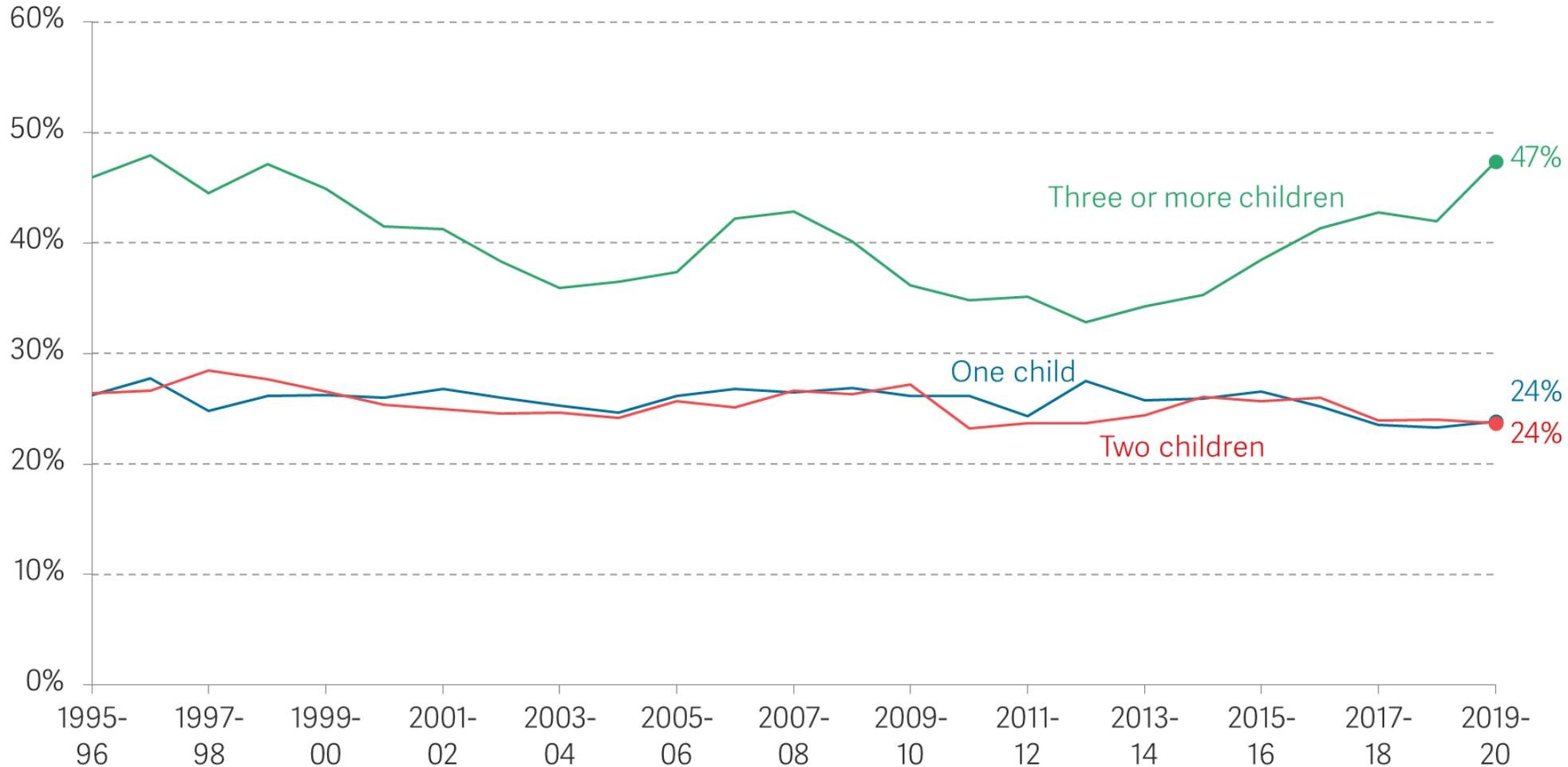
Value of the main rate of unemployment-related benefit over time for a single adult, with projections:  
UK, 1948 to 2024



Notes: National Living Wage forecast is based on OBR, Economic and Fiscal Outlook, November 2020.  
Source: RF analysis of IFS Fiscal Facts; ONS; Bank of England; and OBR.

# 5. The safety net should take account of households' varying costs

Proportion of children living in poverty living in relative poverty (after housing cost) by number of children in the family: UK



Source: RF analysis of DWP, Households Below Average Incomes, 2021.

## Conclusion

- JRS prevented a labour market catastrophe
- The young were hit the hardest. Although this is changing rapidly as we re-open, a year of disruption will have had long-term impacts (with mental health an important mechanism?)
- The labour market is recovering, but is not running hot (but Brexit+Covid is restricting labour supply in some sectors)
- Furlough scheme is obscuring a “long-term non-working” issue among older workers, which will very soon be DWP’s problem
- Impact on incomes more muted, but distributional consequences much clearer when look at balance sheets. Spending falls and asset-price rises are unusual! Long-run implications?
- There are many lessons for our welfare state...but none is cheap to solve!

# Sources

- Labour market
  - <https://www.resolutionfoundation.org/publications/understanding-the-labour-market/>
  - <https://www.resolutionfoundation.org/publications/the-living-standards-audit-2021/> (section 3)
  - <https://www.resolutionfoundation.org/publications/the-beginning-of-the-end/>
  - <https://www.resolutionfoundation.org/publications/a-u-shaped-crisis/>
  - <https://www.resolutionfoundation.org/publications/long-covid-in-the-labour-market/>
  - <https://www.resolutionfoundation.org/publications/out-of-the-woods/>
- Incomes, wealth and spending
  - <https://www.resolutionfoundation.org/publications/the-living-standards-audit-2021/>
  - <https://www.resolutionfoundation.org/publications/wealth-gap-year/>
  - <https://www.resolutionfoundation.org/publications/pandemic-pressures/>
- Social security lessons
  - <https://www.resolutionfoundation.org/publications/in-need-of-support/>

# After Covid-19: the lessons for the UK's labour market, inequality and the welfare system

**Mike Brewer**

Chief Economist, Resolution Foundation