



Treasury Committee

Oral evidence: [Jobs, growth and productivity after coronavirus](#), HC 150

Monday 20 September 2021

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[Watch the meeting](#)

Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Felicity Buchan; Dame Angela Eagle; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 63 - 146

Witnesses

I: Rain Newton-Smith, Chief Economist, Confederation of British Industry (CBI); Paul Nowak, Deputy General Secretary, TUC; Professor Alan Manning, Professor of Economics, London School of Economics.

Written evidence from witnesses:

[The TUC](#)



Examination of witnesses

Witnesses: Rain Newton-Smith, Paul Nowak and Professor Alan Manning.

Q63 **Chair:** Good afternoon and welcome to the Treasury Select Committee inquiry session on jobs, growth and productivity after the coronavirus. I am delighted to be joined by three witnesses this afternoon. Two are present with us in the room and one is coming to us remotely. I would like to ask all three of our witnesses to briefly introduce themselves.

Paul Nowak: My name is Paul Nowak. I am the deputy general secretary of the TUC. We represent 5.5 million workers in 48 different unions up and down the country.

Rain Newton-Smith: Hi. I am Rain Newton-Smith. I am chief economist of the CBI. We represent businesses of all sizes and sectors across the UK.

Professor Manning: My name is Alan Manning and I am a labour market economist from LSE.

Q64 **Chair:** Welcome, everybody. If you turn the clock back some months, clearly there was huge concern about the prospect of mass unemployment, with lots of job losses left, right and centre. We have now emerged into a period in which unemployment has not spiked. It is coming down. It has not spiked at the kinds of levels that some feared before. We have record vacancies out there. Can you unpack for the Committee what has gone on and the story of the labour market? What is happening in the labour market at the moment?

Rain Newton-Smith: You are right to put it in context. Even a year ago, if I were giving evidence to this Committee, I did not think we would be able to have such a positive viewpoint on the overall labour market. I do not think we were expecting to see growth in the economy this year of around 8%. That is what we expect in our forecast, and actually we now expect unemployment to peak well below 5.5%. We were very concerned during the pandemic that we would see possibly even double-digit unemployment at some point. People were really concerned about the long-term scarring potential in the labour market, particularly on young people.

We have to acknowledge that there has been such a huge success of the furlough scheme. The TUC, the CBI and other business organisations worked with Government to help design the job retention scheme, and it has played such a pivotal role.

One thing we are facing at the moment is a different set of challenges as the economy has reopened. We are seeing a mismatch between demand and supply as the economy reopens. The UK is adjusting to a new trading relationship with the EU and other countries. We are also seeing some of the longstanding challenges in the labour market re-emerge. We know that some of the skills shortages have been present in the UK economy



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for a long time around digital. There are particularly some acute ones around HGV drivers that existed before the pandemic and for several years.

There is no doubt that the opening up of the economy has made some of those supply constraints a lot more challenging. Businesses are having to manage challenges in terms of finding staff and of finding parts. We are seeing rising inflation and, more recently, concerns around rising energy prices as well.

Briefly, in terms of some of the solutions to the challenges we are facing, our core message is that we do not think some of the challenges we are facing around skills shortages and labour shortages are going to be short-lived. Some of them represent longstanding challenges. The idea that we can just stand aside and everything will just resolve itself is a false assumption. We need to tackle this.

Q65 Chair: On that, I have two quick questions to you. First, what is the impact of furlough unwinding now going to be on the job situation? Might that bring a lot more people—clearly it will do—back into the labour market and ease a lot of the problems you have identified? Secondly, on the skills issue, do you think the Government are doing the right thing? How would you score what they are doing at the moment and where do you think they need to improve?

Rain Newton-Smith: The gradual unwinding of furlough will help, but I do not think it will alleviate the problems. From what we know, there are around 1.9 million on furlough at the end of June, from the latest statistics. The people on furlough are also in the sectors where you are seeing the highest vacancies. There is a positive correlation with furlough, but of course those can be in different regions and in different firms. You will still have some mismatch. The winding down of furlough will help the situation, but I do not think it will eliminate the situation by any means.

Q66 Chair: Are the Government doing the right thing on skills—apprenticeships, Kickstart and all of that stuff? Is it working?

Rain Newton-Smith: There are a few things. I am sure we will come on to this, but they need to look at the shortage occupation list. The clue is in the name. We should be using those more flexibly to address some of the skills shortages we know we have, and HGV drivers is a very good example. That is whole-economy. It is affecting distribution. It is affecting almost every sector at the moment.

We absolutely need to invest in training. The apprenticeship levy needs to be more flexible so that businesses can use it to invest in some of these skills shortages that we are seeing. We need to look at the whole process of adult retraining. I would extend the Kickstart scheme for at least six months to keep that going for longer.



We are in favour of individual learning accounts, particularly for long-term unemployed or people where retraining needs are highest, which could be on a sliding scale, so individuals are contributing according to their means, but there is top-up from Government for those on lower incomes. That is something we have set out in our budget and spending review submission. We are very happy to share that full submission with the Committee.

The only final thing I would say is that we need to think about business investment and capital investment alongside our investment in skills. Our goal is to ensure strong growth, strong productivity and strong real wage growth over the longer term. That means we need to invest in our skills but we need the capital to go alongside that.

Q67 **Chair:** I am going to come to Paul in a minute, but I am just going to quickly go to Alan first on the labour market. What is going on in the labour market at the moment? What are the challenges the Government are facing and to what degree are they doing the right things, in your opinion, in facing those challenges?

Professor Manning: We are in a much better place than we expected to be some months ago, but unemployment is still above pre-pandemic levels, as is inactivity. We have to unwind furlough. We do not quite know how the virus is going to behave in the coming months. Unanticipated bumps in the road keep coming up. For example, gas prices have emerged as being a serious concern and so on. We should not be complacent. We have to be ready to adjust to emerging problems.

I would also flag up one other issue, which is that many of our statistics have been seriously disrupted by Covid, the pandemic itself. It becomes a little bit harder to gauge what is happening in the economy as a whole when the statistics are probably less reliable than they were in the past.

Q68 **Chair:** As to what the Government are doing at the moment, if you look at skills, for example, do you have thoughts on that, as to whether they are pursuing the right path?

Professor Manning: The UK has well-known, very longstanding weaknesses in its skills system. There is a long tail of people with very poor basic skills. It has been rather poor in providing vocational education. The Government are making the right noises in this kind of area, but many Governments have done that before without it turning into much. I am not sure that I would feel that we have gone from the words stage yet, which is fine, to the actions.

Q69 **Chair:** Paul, can we have your observations, please?

Paul Nowak: As Rain said, we are in a much better position than we thought we would be this time last year. In a large part that is down to not only the successful rollout of the vaccination programme but the furlough scheme and the self-employed income support scheme, which made a big difference. They did what they were designed to do, which



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was to keep people in employment and then to see them come back into the labour market as the public health restrictions lifted. That made an incredibly positive difference.

It is a very mixed picture. All the headlines are about the staff shortages, whether its heavy-goods vehicle drivers through to people working in social care or in food production. That is certainly the case in some sectors. From a trade union point of view, in some sectors there has been a welcome push upwards in terms of pay and terms and conditions.

It is certainly not a universal experience though. There are some sectors of the economy—hospitality would be one—where any increases we have seen, for example in employment in public services, are still at below pre-pandemic levels of employment in some of those sectors that are under pressure. I would echo Alan’s caution in particular that we do not quite know yet what is going to happen with the pandemic. We do not know what the impact will be as we roll through to October and November.

The big unknown for us is the impact of the end of the furlough scheme. There are 1.6 million people still to come back into the labour market. There are some sectors where there is not a lot of confidence that people will come straight back into jobs. I met our aviation unions and the aviation Minister a couple of weeks ago. The concerns that our unions have in aviation are exactly the same sorts of concerns that many employers would have about how we bridge from the end of the furlough scheme through to spring next year, when hopefully things will be a little bit better. There is still a lot of uncertainty out there, and I would echo the thought that we are not quite out of the woods yet, although we are in a much more positive position than we thought we probably would be last year.

Q70 Chair: With the furlough scheme ending, is your view that the Government are doing the right thing to end it now, or are there any thoughts that the TUC has that there should be continued support?

Paul Nowak: The furlough scheme and the self-employed income support scheme were not perfect, but they were that product of the joint work of the Government, the CBI, the TUC and the other business organisations.

We certainly think there is a case in the short term, for some of those sectors that are still under pressure and are operating below their normal capacity because of the public health restrictions, for there to be a continuation of furlough or sector-specific support in those areas; call it what you want. Aviation would be one I mentioned before, but you could think about some parts of our entertainment and creative industries, for example, where that would be the case as well.

In the medium to long term, we absolutely believe there is an argument for a son or daughter of furlough. We can talk a little bit more about this later on if it would be useful for the Committee. Twenty-three OECD



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countries currently have some sort of short-time working subsidy scheme and that is really useful in terms of supporting employers and employees through periods of industrial transition. We would certainly see the case for us building on that positive legacy of the furlough scheme.

As the previous contributors have mentioned, we would like to see the Government being more ambitious in terms of things like the skills agenda and apprenticeship levies. Again, I am happy to go into more detail if useful for the Committee.

Q71 Chair: You mentioned wages there, which in some areas have started to move up. The average wages have been increasing reasonably strongly recently, although some of that appears to be because, very unfortunately, low-paid people have been losing their jobs disproportionately, which has made the increases look higher than they would otherwise have been. Could you comment on this wage increase issue? Is it something that is going to have legs? Do you think this is going to continue, or is it very much just in a few areas of the economy and it is just a transitional thing? I am thinking here about inflation as much as anything else as well.

Paul Nowak: It is very much a mixed picture. I am looking at some of the agreements that our unions have secured with employers. If I think about Great Bear Distribution, they have the Unilever contract at Port Sunlight, 12.32% pay deal, pay increase for lorry drivers, right through to other areas, such as British Sugar at 3%. There is a real variation across the piece.

There are parts of the labour market certainly where unions are not present where that upward pressure on wages will take longer to come through in terms of improved pay, terms and conditions for workers.

The Government themselves have a big role to play. We effectively had a real-terms pay cut for many public sector workers this year. We do not know what is going to happen in the spending review and what the future of pay settlements will be in the public sector. That will have an impact.

I would make the observation that one learning point I would hope the Government will take from the period after the financial crash is that we had 10 years of stagnant wage growth and real-terms falls in people's living standards. That was part of the reason why we took so long to recover from the financial crash. It is important that we put money into the pockets of working people.

Yes, we have to be mindful of the risks of inflation, but we have large numbers of people out there who have been well overdue a decent pay award, but also not just pay. There are some real issues, taking HGV drivers as an example, about the conditions people work in, things like cancellation of shifts at late notice, fragmented employment relationships and bogus self-employment. I would hope that we see pressure on those things as well as the headline rate of pay. I do not think one-off bonus



payments are likely to address some of those longer-term issues that Rain talked about before.

Q72 **Felicity Buchan:** It is good to see you all. My questions are on how to address the labour shortages that we have been talking about. Rain, you have already referenced the shortage occupation list. The CBI seems to be suggesting that migration is the solution here. Is there not a risk, if we take that approach, that we do not focus on productivity enhancement and the skills up-tiering that we all collectively want to see?

Rain Newton-Smith: The CBI is saying that, first and foremost, we need to invest in training. That needs to be both by businesses themselves and by Government, where there are gaps in that training provision. First and foremost, we would absolutely agree the focus needs to be on training.

We are also saying that, where there are particularly acute shortages that are hitting multiple sectors, that is where we would follow the advice of the Migration Advisory Committee that we should be looking at those shortage occupation lists. We think the Government should adopt the recommendations it made a year ago.

Specifically, we would also like to look at HGV drivers, for example. Because they are skill level 2, they are not eligible for that shortage occupation list at the moment, and yet we are hearing from businesses. Anecdotally, I know from businesses that supermarkets are having to lend their drivers to companies in their supply chain to get goods on to shelves in shops. If that is not an acute skill shortage that is hitting supply across the economy right at this moment, I do not know what is.

I do not think we are saying that migration is the solution to the specific problem over the long term. On these critical, acute shortages, that is where we should be using flexibility in the system, in those shortage occupation lists, to get the skills we critically need to keep goods and services moving around the economy, at the moment particularly, as we reopen.

Q73 **Felicity Buchan:** What industry specifically would you like to see on that list?

Rain Newton-Smith: We did a paper that set out where we are seeing it as particularly acute. It is HGV drivers. Welding is another specific occupation that has been raised with us. There are also the issues around chefs. What is important is looking at where it is hitting multiple industries. That is where you can really see it. It is a generalised, very acute shortage.

Q74 **Felicity Buchan:** Alan, in a recent article, you distinguished between general shortage of labour and localised, sectoral shortages. What do you think is happening at the moment?



Professor Manning: It is a little hard to be entirely sure, but the evidence is accumulating that we are seeing a more generalised shortage of labour. The CBI today put out something giving some very high percentage of its members expressing concern about this. It is important to realise that you cannot use immigration as a way to resolve generalised labour shortages in an economy, just as you cannot use immigration to reduce unemployment in a recession.

It is natural that people think you can, because we are talking here about a gap between the demand and the supply for labour in the current situation, with shortages, demand, running ahead of supply. Immigration clearly alters the supply of labour, so you think we can use it to close the gap. The problem is that you get an immigrant who fills a vacancy, they start earning money and then start spending money. That then creates demand for labour elsewhere in the economy. All the evidence is that, just as you raise supply, you basically one-for-one raise demand as well.

You cannot use immigration as a way to solve generalised shortages. You can for localised shortages. There, you have to think a bit about what the cause of the shortage is and how serious the particular shortage is. The shortage of drivers strikes me as the most serious one, because it has ramifications throughout the whole economy.

Shortages have been there for a very long time. I dug up an article from *The Guardian* in 2015, even before the referendum, about how Christmas was at risk because we had a shortage of tens of thousands of drivers at that point. The issue here has been poor pay and conditions, together with the fact that there is no real incentive to train them.

The worry about using immigration as a short-term gap while we train people up is that too often it takes off the reason for the pressure and it does not happen. These shortages of drivers have been around for years and years and years, not being addressed because people seem to be able to muddle through. That is why it gets to be quite a difficult situation. You are faced with a real short-term problem, but dealing with the short-term crisis may mean you are not addressing the longer-run underlying cause.

Q75 **Felicity Buchan:** If you were giving Government a recommendation at the moment on some of these very acute sectors, whether it is drivers or care workers, would you recommend short-term immigration or not?

Professor Manning: I like to base recommendations on evidence, and I cannot pretend that I have looked at all the evidence that I would want to in these particular cases. I will give one example: the ONS figures on how the number of drivers has changed from 2017 to 2021. The number of non-UK nationals has gone from 37,000 to 25,000, so down quite a lot in proportional terms. The number of UK nationals has fallen from 280,000 to 230,000.



A first question is that it would seem that there are lots of people in the UK labour market with the relevant licence who are not choosing to work in this sector. Why not and what can be done about it? There are a lot of questions I would want to ask before coming to a conclusion. I do not think one should go, "Shortage: let us press the immigration solution".

Q76 Felicity Buchan: It comes back to making these industries more attractive—pay and conditions, essentially.

Professor Manning: The sectors that are being talked about at the moment all tend to be sectors that either pay very badly or have poor conditions. Driving is not so badly paid but it has very difficult conditions. It is very well to say the problem is poor pay, but why is there poor pay? Often, these are low productivity sectors as well.

It is partly a question about what sort of economy we want. Do we want to have an economy with large, low-productivity sectors. We normally think that is not what we want. We want an economy that has a bigger share of high-productivity sectors. If you, for example, opened up immigration to hospitality and so on, or agriculture or food processing, you are making the UK a lower-productivity, lower-wage economy when you do that.

Q77 Felicity Buchan: Paul, can I bring you in on this discussion? What are your views?

Paul Nowak: I will build on where Alan left off. Let us take HGV drivers as an example. This is an issue. It is feeling particularly acute at the moment, but it is something that Unite, which is one of our main unions in logistics, has been warning about for a number of years.

A starting point would be learning one of the key lessons from the pandemic, which was the design of that furlough scheme, where Government brought employers and unions together round the table to say, "How do we jointly solve this problem?" If you are serious about addressing the shortage of drivers in logistics, you would get employers, unions and companies in the supply chains. A lot of the issues that Alan talked about in logistics are driven by supermarkets driving cost reductions through their supply chains. That has an impact on the terms and conditions of people in those supply chains.

I had a note from Unite last week. The Government are setting up an economic recovery taskforce to look at logistics, but, to date, nobody from a trade union has been invited. That is a real missed opportunity. We should jointly be talking about pay and conditions, obviously. Quite often, for HGV drivers, it is things like access to toilet facilities as well as the headline rate of pay.

We should also be talking about skills. We should be talking about productivity and how we deploy drivers more effectively, how you reconfigure some of those relationships between the logistics providers and those elsewhere in the supply chain. You could draw a similar parallel



if you took an area like social care, a desperately fragmented system and one that is characterised not by low-skilled employment but low-paid employment and, quite often, zero-hours contracts, again fragmented employment relationships.

These are the sorts of sectors where the value of building consensus around how we address skills shortages and drive up pay, terms and conditions would have a really positive effect.

Q78 **Felicity Buchan:** Do you think that employees at the moment have more leverage than they normally have, in terms of negotiating pay and conditions?

Paul Nowak: In some cases, yes. I talked before about the work that our unions have done in part of logistics, and that definitely has had an upward pressure on pay, terms and conditions. If you are a care worker or working in a warehouse without union representation on a zero-hours contract, you probably still do not think you have a huge amount of individual leverage. That probably reflects the reality of the situation on the ground.

This is where Government have a role to play as well in terms of driving up the floor of employment standards. One thing the Government did five years ago, I think, was commission Matthew Taylor to review modern employment practices. Five years on, we are still waiting for the Employment Bill that would take action on things like cancellation of shifts at short notice on zero-hours contracts.

There has to be a recognition that workers do not just empower themselves. There is more the Government can do. Allowing unions access to workplaces—I would say this; I work for the TUC—would make a positive difference and give workers that confidence to be able to make representations around things like pay, terms and conditions.

As I say, some of these sectors are characterised by low levels of unionisation—not all of them but some of them are—and poor conditions of employment. Food production is quite often not a very pleasant place to work and the employment practices are not the best. I do not think they are going to fix themselves overnight because of pressure on the market.

Q79 **Felicity Buchan:** I have one final question. Are you confident that we can recycle the workers on furlough in the job market, if they cannot go back to their current employers?

Paul Nowak: It is going to be difficult. It is certainly not going to be seamless, because there is going to be a mismatch between where people are at the moment and where there might be vacancies. There is a mismatch in terms of where people are located but also the employers they work for and the sectors they work in. That retraining and reskilling is not going to happen by accident.



Maybe we will talk about skills policy more broadly. One thing I would like to see is a fundamental right to retrain, so that we could support people to make that transition much more effectively. At the end of the day, there are 1.5 million people. Even if we do not manage to get a third of those people back into employment quickly, that is 500,000 people's livelihoods, and they and their families will be worrying about what is going to happen at the end of this month. Making sure that people have access to retraining, reskilling and financial support in the meantime would be really important.

Rain Newton-Smith: I have a quick supplemental on HGV drivers, building on what both Alan and Paul are saying. Everyone agrees that we need to look at pay and conditions across the whole sector. There is obviously a big challenge also in attracting women into the sectors relating to facilities that are available by the roadside, et cetera.

I also wanted to be clear, just to go back on something Alan said. When I am talking about HGV drivers, it is impacting across sectors, but the reason why that needs to be on the shortage occupation list is we have to remember that, yes, that has been a structural issue that has been around for several years, but 20,000 fewer licences were issued during the pandemic. We have just had a period where people could not get licences, so there is a temporary problem.

No one should leave thinking that the problems we are facing now are just an ordinary challenge that we faced around Christmas in previous years. From what we are hearing from our membership, from across different businesses in different sectors, this is totally different. It is more acute and it relates to some of the knock-on effect we have seen from the pandemic, specifically on issuing licences.

Absolutely, we need to invest in training over the long term. We are not saying migration is always the solution to labour shortages across the economy. When you have specific skills like HGV drivers and licences that we are not able to issue, that feels to me like something where a Government intervention, looking at a shortage occupation list, would be useful. You can sunset clause it, providing a temporary solution to where we are seeing a temporary issue.

Q80 **Dame Angela Eagle:** Paul, you have talked about daughter of furlough. It is strange that furlough was a woman. You mentioned earlier that the UK is one of the few OECD countries that does not have a short-time working scheme. How do you think that would work? What do you think it would do, in terms of productivity, for our economy, should we have another shock?

Paul Nowak: We talked before about some of the fundamental problems that the UK economy had even before the pandemic, about low productivity but also big challenges coming down the line. Pre-pandemic, we were all talking about the impact of Brexit, or we were talking about digitalisation and automation and what that was going to do for jobs.



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Now we are talking about that, decarbonisation and the drive towards net zero. We have big industrial transitions coming down the line.

We think that that short-time working scheme, which is commonplace across the OECD and in some states in the US, would help both employers and employees manage those industrial transitions. It would allow employers, for example, rather than laying people off during a period when they have to re-engineer or retool workplaces, to actually keep people on to reskill them while they are on short-time working.

As new technology is deployed, we quite often have this mismatch. In the long run, we all think that there will be a digital dividend, we will all benefit and it will lead to increased employment, but it means that some people are going to fall by the wayside if we just leave things to the market. You represent a seat on Merseyside. I grew up on Merseyside during the 1980s and we have seen what happens when industrial transition is not managed effectively.

It comes at a great cost to individuals but actually to communities and the economy as well. People who lose their jobs through no fault of their own, because of industrial change, find themselves out of work for two years, three years, five years and more. The idea of a short-time scheme was that it would support employers and employees, not for indefinite periods of time but in a very targeted manner to support some of those big industrial transitions.

Q81 Dame Angela Eagle: Would there be some obligations on retraining? Certainly the German system, as I know it, has quite strict obligations on employers so that there is a shared cost.

Paul Nowak: That is a key principle: that this is not something that is just picked up by the state. There is a shared cost, cost-sharing often between employees, employers and the Government. It would allow people to retrain, either within the company that they are already employed by or to look for opportunities elsewhere.

It is a scheme that has good precedent in different parts of the world. In fact, the Welsh Government, in the face of the financial crash, had schemes called ReAct and ProAct, which were forms of short-time working but very much linked in terms of supporting employers to retrain and reskill staff at a time when demand went down. We could learn a lot from that example. As I say, those other 23 OECD countries have those sorts of schemes in place.

Q82 Dame Angela Eagle: Do you think that having those sorts of schemes creates behaviour that tries to exploit schemes, that employers do this? We have suffered in particular in the UK from a sort of free market in skills training that has failed again and again and again to give us the skills we need to match. How do you think having a short-time scheme, like a more permanent capacity to have a furlough, would help to get over some of these structural problems that we have experienced in the



UK in skills retraining?

Paul Nowak: It speaks to the need for co-creation, so employers, unions and Government around the table. To give a very practical example, I was a member of the Department for Business, Energy and Industrial Strategy's Green Jobs Taskforce, which has just reported. We are waiting for the Government to respond to the Green Jobs Taskforce recommendations. One of the recommendations of the taskforce was that employers should develop in conjunction with their workforce, with unions where they are present, just transition plans.

You could say that employers have to have just transition plans in place in order to be able to access the daughter of furlough scheme, whatever it might be. This would not be just a case of taxpayers handing out money to employers who are gaming the system. It would be very much tied to, "Show us how you are going to make the transition to net zero, what that means in terms of retraining for staff, reskilling, what it means in terms of decarbonising your industrial processes, and here is the support from Government in place to allow you to do that".

Q83 **Dame Angela Eagle:** Rain, do you think the 1.6 million people who are on furlough at the moment are going to move smoothly into jobs, or do you think the Government have to do something to try to deal with a mismatch in skills or geographical or sectoral positioning that may become apparent as furlough ends?

Rain Newton-Smith: It is the impossible question to answer. We can look at what has happened up until this point. There has been some really positive news that generally people have been employed through the furlough scheme and have continued to be on employment as they have gradually reduced.

I agree with where Alan started. If you look across the labour market as a whole, there is still an employment gap. We estimate that that gap is around 3 million if you take into account how employment on payroll has gone down and self-employment has gone down. There is still some slack in the labour market at the moment, but we are expecting to see strong growth and we are seeing strong vacancies. Our hope and expectation is that people will move from furlough into more regular employment. One thing is that it is not clear whether some of those individuals are still actively seeking employment as well.

We can take positives from what has happened from now. We think it will gradually unwind. Over the medium term, we need to see that focus on long-term adult retraining, particularly a proper scheme for people who have been unemployed for a period of time, so that we have a proper adult retraining scheme and individual learning accounts, so those individuals can get the training they need.

Q84 **Dame Angela Eagle:** There have been various Ministers quite badly burned with individual learning accounts in the past.



Rain Newton-Smith: It may need a rebranding. I am open to suggestions on names.

Q85 **Dame Angela Eagle:** It would be a brave Minister who went down that path again after what happened in the past. Do you think that some of the shortages and the mismatches we are seeing at the moment can actually be solved by persuasion or just by much higher wages? You are not going to get people to work in the care sector or the logistics sector without addressing the reasons why they are not working there now, are you?

Rain Newton-Smith: The sectors are different and face different challenges. With HGV drivers, there is a process of qualification, which was disrupted during the pandemic. There is a host of issues.

Q86 **Dame Angela Eagle:** There is also Brexit. Let us mention the B-word.

Rain Newton-Smith: Yes, absolutely. It has been impacted. We know that around 20,000 EU drivers have left the UK who obviously had licences. That has put more pressure on the system. I agree with what Alan was saying: you need investment. You need a system that works in terms of ensuring you have a steady flow of people qualifying as HGV drivers.

The only thing I would say is that, yes, there are quite a lot of people who have HGV licences. It is not my bag—I cycle—but some of those people have them for purely leisure purposes, et cetera. They have no intention of being employed in the sector ever.

On social care, there is a whole different set of circumstances. We need to see progress on funding for the sector and conditions to make sure that remains an area where people can enter that market, gain skills and work within that sector. We know that that is a longstanding issue as well in the UK.

Q87 **Dame Angela Eagle:** In terms of fruit-picking, fruit is rotting in the fields because farmers cannot get workers to go in there. There is work in abattoirs and taking the animals from the farm to the abattoir to be slaughtered. There are huge disruptions going on now in our what had become just-in-time delivery markets, which are being shown to be very fragile. Surely some of the answer to this has to be increased wages and some give further up the supply chain.

Rain Newton-Smith: That is one of the things I wanted to come back to. We need to see an adjustment in wages in some of these sectors, where there are difficult circumstances where people are working. I agree with what Alan was saying. You need to let some of that process happen.

Over the longer term, what determines standard of living across the whole economy is that focus on productivity, capital investment and investment in human capital across the whole economy. I agree: we need to see some adjustment in wages where that is how the demand and



supply works. Where we really need critical skills, we need to see some adjustment in wages to affect the demand for those skills.

Q88 **Dame Angela Eagle:** Alan, do you have any comments on these areas of shortages, labour mismatch, the problems we have had with skills in the past and whether we think short-time working and a more structured, tripartite approach to skills would be more likely to get us through some of these huge transitions that the economy needs to go through in the next period?

Professor Manning: I will make a couple of observations, rather than answer everything. Paul put the case for short-time working schemes like furlough. There is a downside to them, which is that you may keep workers attached to firms when you actually want them to move on, so they may not be the greatest jobs. If you are the German economy, with a very strong manufacturing sector, trying to get through the temporary problems of the financial crisis, it makes more sense than if you are talking about keeping UK hospitality going when there is very rapid churn in businesses and workers in normal times.

The other point I would make is that furlough and short-time working is important in providing insurance against the income risks of job loss. The other main system that does that would, in the UK, be universal credit. That is extremely weak when we compare the UK to other countries.

Q89 **Dame Angela Eagle:** It is about to get weaker.

Professor Manning: It is about to get weaker, yes. In particular, for example, it is not related at all to people's earnings. There is a risk that you get this sort of inequality. Workers who are fortunate enough to be eligible, or their employer puts them on short-time working, do much better when their job temporarily disappears than those who are laid off and forced on to universal credit. That disparity is also something you have to worry about.

Paul Nowak: Very briefly on this issue around wages, I do not think that wages are going to correct themselves in social care if we just leave it to the market and hope it is going to sort itself out over the next six to 12 months. That is where there is a value in Government thinking imaginatively about how you bring together employers, unions and funders in the case of social care. You cannot improve the wages of people working in social care unless you make the money available to local authorities and others who commission those services.

It is that sort of idea of bringing together people to talk about not just headline pay, terms and conditions, which are important to our members, but also productivity, skills, career progression, how you make these occupations that people feel are genuinely valued and rewarded. You have people working in the NHS and carrying out very similar roles to people working in social care who get treated fundamentally differently. They have decent pay, terms and conditions, access to pensions, access



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to training, because there is collective bargaining and they are represented by unions.

It is not just a case of, "Let us hope that the rate of pay goes up". You need to find the mechanisms to do that. I would argue that collective bargaining is the key mechanism.

Q90 **Rushanara Ali:** Good afternoon. I have questions around unemployment and job creation. Obviously, there is a big focus, rightly, on labour shortage. Before I go on to those questions, I just had a quick follow-up, which was about the interplay between Brexit and Covid and where, in your assessment, the challenges are coming from. When the Brexit debate was happening, none of us saw Covid hitting the economy the way it has. The deputy governor said that productivity was going to be hit by about 1% because of Covid and 3.5% because of Brexit. Could each of you talk us through the impact of that on growth and jobs, from your perspective? What do those figures mean for the country?

Rain Newton-Smith: What we think is most important, and we put it very clearly in our submission to the Chancellor for the spending review and the budget, is that we need to focus on business investment and the transition to a low-carbon economy. Thinking about Brexit and non-Brexit at the moment feels like the wrong terminology.

Q91 **Rushanara Ali:** With respect, those figures are very serious for the economy. It is not just looking back. It is looking at extrapolating what is going to happen and what we should do to try to mitigate the damage.

Rain Newton-Smith: It is really important that we have that focus on our productivity growth and our supply potential of our economy over the long term. We know that having less access to our major trading partner—it is still our largest trading partner—and not having the same access as we did previously to the single market creates trading frictions, which has an impact on our productivity and rate of innovation. What is most important is what we do now and what we do to increase our productivity.

Q92 **Rushanara Ali:** You mentioned investment. We have talked at length already about skills, training, labour and capital. What else should we be doing? What does your sector think needs to happen to make up for these big gaps in productivity going forward?

Rain Newton-Smith: What is really important is that focus around business investment and innovation. The Government have committed to increasing the overall amount we are spending in R&D by £22 billion over this Parliament. We think we need to bring forward that investment. This is a competitive game.

When we think about even the move to a low-carbon economy, other Governments around the world, particularly around the G7, have made big commitments around investment in low-carbon technologies, like electric vehicles, hydrogen and other newer technologies that are



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emerging. If we want to get ahead of that game, and we want to increase our productivity but also lower our carbon emissions, we need to be investing in that.

Q93 Rushanara Ali: Are the numbers that we are talking about in this country enough, compared to other countries?

Rain Newton-Smith: If we get to that £22 billion by the end of the Parliament, that brings us in line with what is the OECD average. We think we should be getting there quicker, essentially by bringing forward some of that investment. More broadly around business investment, we lag behind our G7 peers and structurally have for a long period of time. The average is 14%; we have averaged around 10% of GDP, so we have a lot of lost ground to make up for.

Over the pandemic, business investment has been hit harder. Consumption is coming back quicker, but business investment is taking longer, so it needs to be the focus. One area is that the super-deduction has helped to bring forward some business investment, but it comes to an end in 2023 and corporation tax goes up at that point. Businesses accept that increase in corporation tax, but you need to look at capital expensing beyond 2023, particularly with a focus on greening the tax system and green technologies, for the UK to be competitive internationally.

Q94 Rushanara Ali: Paul Nowak, can you talk through what needs to happen to make up these numbers, in terms of productivity gap, and to stimulate growth in the economy?

Paul Nowak: There obviously has been a Brexit impact. It is not worthwhile framing it in terms of Brexit good or bad things. It is just a reality. Our trade with the European Union is starting to pick up, but we are still 20% below where we were when we were members of the European Union.

Talking to other employers' organisations as well, I know that Make UK has made the point that the cost of doing business has risen as a result of Brexit. That puts the onus even more fairly and squarely on Government to try to do what they can to maintain demand in the economy and to encourage investment.

We set out a plan for the Government to invest £85 billion over two years in the green economy, everything from high-speed broadband through to new green infrastructure and new green energy. Those sound like big figures, and they obviously are big figures, but if you compare what the UK Government are doing at the moment to, say, what is happening on the other side of the Atlantic, we are on course to spend £180 per person over the course of the next decade, in terms of supporting investment in the green economy. The Biden Administration is talking about just shy of £3,000 per head, so there is a big difference in terms of the ambition on either side of the Atlantic.



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This is genuinely about investment, is it not? We talked before about net zero. I want us to be in a situation where we have a strong steel industry, a strong chemicals industry and a strong automotive industry in this country. We do not want decarbonisation on the back of deindustrialisation. It is going to require an active role for Government in the new green economy.

Also we have talked about public services and social care in particular. We have a spending review coming up. I would have thought one of the lessons to draw from the pandemic—and it is not a political point; it is just a fact of life—is that part of the issue we had in the UK was that our public services were fragile. We had had a decade of austerity. There was not a lot of surplus in the system. That had an impact in terms of the ability of the system to respond.

The Government showed the way with the furlough scheme, in terms of a bold, large-scale intervention. It is going to need other bold, large-scale interventions going forward.

Q95 **Rushanara Ali:** Professor Manning, do you want to quickly address this question? I am then going to come on to the second set.

Professor Manning: On the Brexit effect on the trade in goods and services with the EU, we have added a huge amount of bureaucracy and cost to that. There is going to be a hit from that, for sure. They are our main trading partners.

On the immigration side of it, I actually think it will slightly raise our productivity because the immigration we have will be shifted towards higher-productivity-type jobs, but not enough to offset the negative hit from the increased trade frictions.

In terms of what we should do, for a country like the UK skills are critical. Human capital is the critical thing. Our wealth is not based around natural resources or anything like that. It is human resources. We have to make sure we have investment to give those people the capital to work with. We have a long tail of poor performers in many sectors of the UK economy. We have had for a long time. We need to address that.

We have to have a proactive state. Most of the gains from innovation, which is about moving the frontier of productivity, do not really go to the inventors of them. We need to subsidise and provide incentives for that.

Q96 **Rushanara Ali:** Turning on to some recent changes, Rain, CBI came out against the national insurance announcement this month. Could you tell us what you expect it to do to job creation?

Rain Newton-Smith: Essentially, we are seeing an increase in national insurance contributions for both employees and employers. We accept that it has happened.

Q97 **Rushanara Ali:** I appreciate that. Do not worry about that. Talk us



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through the impact on job creation.

Rain Newton-Smith: From that level, it is increasing the overall taxation on employment. At the margin, that could lead to lower employment.

Q98 **Rushanara Ali:** Could you put a number on it?

Rain Newton-Smith: No, we do not have any quantification of what that looks like.

Q99 **Rushanara Ali:** It is not going to help the situation.

Rain Newton-Smith: One thing we can talk about is some of our businesses within our membership and how it is impacting on their profitability more broadly, because of course profitability impacts their ability to invest in the future. While it is a 1.5% levy, it is obviously an increase of around 13% on that element of taxation. We had one member who said that they were seeing an impact of the increase; their profits would be reduced next year by 25%.

Businesses where you have low profit margins in high-employment sectors are obviously the ones that are going to be most impacted. Actually, they are some of the sectors that are impacted by other challenges we are seeing in the economy at the moment. For some of them, it is a bit of a perfect storm while we are going into a winter where things are highly uncertain.

Q100 **Rushanara Ali:** Can I come to one subset to this? You mentioned that last year everybody was concerned about scarring effects and particularly the impact on young people. Could you talk through what your assessment is of scarring long-term unemployment post Covid and given these sorts of policy changes? Do you have an assessment of the scarring effect?

Rain Newton-Smith: It was something we were highly concerned about going into the pandemic.

Q101 **Rushanara Ali:** Do you expect no scarring effect, or still considerable scarring effect? Which groups are still going to be hit by it?

Rain Newton-Smith: To be honest, it is quite hard to tell. If you talk to graduates at the moment, they will say that they are now competing in a job market where there are two sets of graduates competing. They were not able to enter the labour market last year, so you have two sets of graduates entering into the labour market.

However, as we have articulated already, the labour market across different skill levels is running quite hot. My hope is that young people will be able to move into employment over time, but obviously we know that there has been great research by the Resolution Foundation and others about the scarring effects of young people entering the labour market at a time when it is difficult. That has always been a concern.



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Actually, if you look at the wider statistics, some of the concern has more been about women in employment, because we have seen a reduction in women who were working part-time and seem to have left the labour market. That is a concern. Also, there is quite a big change in self-employment. Those are areas where I would have concern.

Ultimately, it is quite hard to tell the lasting impact on young people. That is why, if you look at the Kickstart scheme, we should extend that for another six months. We are starting to see some real successes in it. It seems like the wrong moment to end that policy just to address any scarring effects.

Paul Nowak: On the national insurance hike, we were concerned that low-paid workers have effectively been hit by a double-whammy, because they are being asked to pay more in national insurance contributions and at the same time they are also facing that cut in universal credit. It will impact some of the lowest-paid workers and lowest-income families hardest. It is important to remember that 40% of those people who claim universal credit are people who are at work. They will see that impact directly in their pockets.

From our perspective, it does not even do what it says on the tin, because it will not fill the funding gap in social care, certainly not in the short term, because that money will go into the NHS. We think that a fairer way to have done it would have been to rethink the way that capital gains tax is levied. We put forward proposals—and we can bring them to the Committee if it is useful—that would have seen a reform of CGT raise up to £17 billion a year.

Can I quickly come in on Kickstart? Kickstart was the right idea. I am a little bit less positive than Rain, partly because there is a bit of a lack of transparency about the real impact of Kickstart. The Government wanted 250,000 starts under Kickstart. In the last figures that I had seen, it was 63,000 starts. We have little or no information about the quality of employment that those young people are going into, whether they are staying in employment.

Fundamentally, it was the right sort of policy approach. I would like to see a little bit more transparency and engagement. This is the sort of thing where it would have been great for the DWP, again, to have unions and employers round a table: “Is this working? Is it having any unintended consequences? Can we make the scheme better? Can we make sure that those young people who start on the scheme finish on the scheme and that it is good-quality employment?” It is all of that. I am a little bit more agnostic about the positive impact of Kickstart, but it was the right sort of policy. I just would like a little more sunlight in terms of if it is making a real positive difference.

Professor Manning: In terms of the scarring, often we use the numbers of long-term unemployed as a sort of crude indicator of the scale of the problem. The longer you are out of work, the more likely it is to be an



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issue. The numbers for long-term unemployment are up, but they, again, do not look as bad as we would have expected a year ago, compared to the financial crisis. We still have the uncertainty about whether there is skill erosion among the furloughed. We will have to wait to see how that unwinds.

The bigger concern on scarring is around kids and education. It is not in the labour market. Although, on average, the estimates I have seen say that primary school kids are a few months behind, which they should be able to pick up over the course of the next decade, there is probably a huge amount of inequality in there. Some kids have been able to manage this an awful lot better than others. Going back to what I said earlier about this long tail of poor basic skills, those are the things that worry me most long term.

Q102 **Rushanara Ali:** Did you want to say anything on national insurance?

Professor Manning: National insurance makes people worse off. In theory, it then gives people better health and social care, which they value, so that may be a good deal for them or not. The details about it going into where it is actually going to go and show up are—

Q103 **Rushanara Ali:** And who pays. Do you agree with who should be paying? Do you have a view on whether the structure that has been set up is going to help job creation or not?

Professor Manning: My view is that, on job creation, it is probably neutral. I would think more in terms of the distribution. Some people were facing catastrophic care costs before these changes, but you had to have a lot of assets to face the catastrophic care costs. The people who are in some sense the biggest gainers from this are going to be some of the wealthy people. It is not really the wealthier who are paying for the improved insurance in the new scheme; it is everybody. That inevitably is regressive.

Q104 **Anthony Browne:** I have a couple of follow-up questions from earlier discussions, one for Rain and one for Alan, and then some questions about structural changes in the labour market. My first follow-up question is for you, Rain. You made the case for opening up truck drivers on the shortage occupation list because of the shortages there are now. You said there could be a sunset there to ensure that pay and conditions improve. Is the reality not that, once the employers of truck drivers got their people in through the visas, a lot of them would say, "We do not need to improve pay and conditions now"? You would come to the sunset clause and you would end up back in exactly the same position as we are in now. How would you stop that from happening?

Rain Newton-Smith: We absolutely need to ensure there is improvement in pay and conditions across the sector. Employers are absolutely focused on that and looking at that as well. As we were saying previously, we have an acute problem at the moment, which was partly caused by the fact that in the pandemic fewer licences were issued and



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also because people from the EU with HGV licences have left the country. Now, some of that is because of what happened with the pandemic; some of that is because of the change in settlement status. You have two factors that have hit the industry at the same time.

Q105 **Anthony Browne:** I get that. You are repeating what you said before. How do you stop the industry becoming complacent if you allow a large number of visas for truck drivers coming in? They are just going to say, “We do not need to improve pay and conditions anymore”.

Rain Newton-Smith: It is about setting it at the right level. You can link it to the overall pay within that. You look at the shortage occupation list. We are not saying that you should ignore the salary level that is implicit within that. It is more that, when you look at the occupation list at the moment, level 2 is not considered as a skilled occupation, yet I would argue that most of us, if we do not have a licence, could not jump into an HGV truck tomorrow and drive it skilfully.

Q106 **Anthony Browne:** We should only allow visas for truck drivers if they are paid over a certain salary.

Rain Newton-Smith: Yes, there are ways that you can design it. It is a challenge for Government to design it so that you are ensuring that there is the right pay and conditions and also ensuring that it is temporary. Professor Manning wrote this very well in his article when they looked at nurses. It ended up being on there for too long. That is in the gift of Government.

Q107 **Anthony Browne:** Yes, absolutely. There is no incentive to pay and conditions for nurses because they can just import them.

Rain Newton-Smith: If we are saying this is a time-limited issue, then you have a time limit for how long that occupation is on that list. You set that out clearly at the beginning so that businesses and individuals know how long that list is out there for.

Q108 **Anthony Browne:** I have a follow-up question to Professor Manning. We have had a discussion about wages and the Brexit effect. There has been a long academic discussion about the impact of immigration on wages. I am wondering what evidence there is about Brexit and its impact on wages. You mentioned briefly in one article that the evidence is getting stronger about the impact. I was just wondering how strong that evidence is.

Professor Manning: My view—what is happening now is in line with this—is that immigration can reduce wages, but it does not have to, if you get the immigration rules and other labour market regulations right. What is happening now is much less about Brexit, because, for the 5 million people—they are not all of working age, admittedly—who have settled or pre-settled status, essentially free movement continues, for at least some period. Some of them have gone home and they do not seem



to want to come back. They are able to come back; they just do not want to. That is why I think it is about pay and conditions.

If we take the impact of European migration on wages in the UK, because we had the minimum wage, which raised average earnings faster after 2004, we did not see much downward pressure on wages in that part of the UK labour market, but what we did see is that some jobs that would have normally paid above the minimum wage—because of the poor terms and conditions, the non-wage aspects—were able to pay close to the minimum wage. Those are the sectors that we now see complaining. This is food-processing, hospitality and agriculture. In those sectors, it probably was the case that EU immigration after 2004 had a small downward effect on wages.

Q109 Anthony Browne: My questions about the structural change are really about the longer-term impact of shortages, the new post-Brexit immigration system and any complications from the Covid pandemic on the structure of the economy in different sectors, those that have done well and those that have not done well. I am going to ask Rain about this first. Clearly, there is a new immigration system. There is not freedom of movement of labour now. Will that have an impact on different sectors of the economy? Will some of the sectors that relied more on freedom of movement of labour shrink? Clearly, some sectors cannot, like social care. There are still going to be people needing care, but others could.

Rain Newton-Smith: There are a few things here. If you have a new immigration system, it takes a while for employers to understand how the system works. What is most important is that you have a system that is transparent, easy to understand, easy for businesses to access and that looks across the globe and makes sure that the UK has access to talent from around the world. You need a system that is simple and easy to use.

Across professional services, for people who run businesses, access to global talent is particularly important in some of those industries where that access to human talent and capital is part of what makes us internationally competitive. It is quite hard to say which sectors are going to be most impacted by changes to the rules, but what you need is a system that is easy for businesses to access across sectors.

Q110 Anthony Browne: I think we would all agree with that, and certainly the Government would. Will restricting access to unskilled labour, which is what freedom of movement of labour within the EU does, have an impact on automation in businesses, and training and the incentive to train?

Rain Newton-Smith: That may be more one for Professor Manning in terms of thinking about the theoretics around the labour market, but what we can say is that what we need to see in the UK is an increase in business investment as well as investment in training. What I would say matters most in terms of that is having a tax system that incentivises investment, particularly in low technologies.



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It comes back to the “lump of labour” fallacy. Investment in AI, in internet of things and in these newer technologies raises productivity. The labour market adjusts. It does not mean you have higher unemployment over the longer term. Actually, it is the opposite. You have a faster-growing economy.

Q111 **Anthony Browne:** I am going to throw the question that I asked Rain over to Alan, and then I will come to Paul. Alan, if you restrict employers’ access to low-skilled labour, which is what has happened with the ending of free movement of labour within the EU, do you create an incentive to invest more in automation and training?

Professor Manning: You do a little bit, but sometimes the effects are not quite understood. For example, people talk about automation and think of it in quite a sci-if “robots and AI” kind of way, whereas often what happens is that, in any sector, you have high and low-productivity firms in that sector, and what happens when you, say, end free movement is that the lower-productivity firms within the sector find it harder to offer attractive jobs; they begin to struggle a bit more. You then just really get a batting average effect within sectors that raises productivity.

Q112 **Anthony Browne:** Those businesses that relied on the lower-wage employees more are more likely to go out of business. That is presumably what you are saying. You are left with the higher-productivity businesses.

Professor Manning: Yes. It is very tough for the people who have put their heart and soul into those businesses.

Anthony Browne: Yes, absolutely.

Professor Manning: From the perspective of aggregate productivity, that is a plus. That also applies at the sectoral level. After 2004, we saw that there was a tailwind behind some sectors. They suddenly discovered that they had access to this pool of labour, which they had not had before, and they grew. Having fallen for over 200 years since the industrial revolution, agricultural employment grew slightly over that period. That was a tailwind to low-productivity sectors, so our economy rebalanced towards low-productivity sectors.

As one restricts access to labour for those sectors, one would expect that the sectoral mix of the UK economy also alters in a slightly higher-productivity way. It is a small effect. I really do not want to give the impression that this is a very large effect, but it is in that direction.

Q113 **Anthony Browne:** It is there. Paul, coming to you, then, I asked a series of questions there. I do not know whether you want to focus on any particular aspect of this.

Paul Nowak: I would just make a couple of observations. The reality is that the low-productivity sectors are also the sectors where we have



insecure employment and low pay. This is not just an issue around the pandemic; this is something that I mentioned in the Government's review into modern employment practices going back four or five years. It was something that the Government recognised was a problem that the UK economy had. We had too many insecure low-paid jobs. One in nine workers were working in some form of precarious contract, whether it be a zero-hours contract or a casualised hours contract.

Government need to have a strategy for driving up the standard of employment. That in turn also helps drive up productivity. The Government recognise that. What we have not seen is action to take that forward. As I said before, if you take a sector like retail—Professor Manning is right—when we think about the impact of new technology, it is sci-fi and artificial intelligence; we do not tend to think about it being the stuff in the back of a warehouse or on the shop floor where people are self-scanning their items.

Two years ago, pre-pandemic, USDAW, our shopworkers' union, published the case for an industrial strategy for retail. When we think about industrial strategy, often we are focused on automotive, life sciences or the other glamorous sexy stuff that we associate with industrial strategy. If you are serious about addressing the UK's productivity problem, we have to drive up productivity in retail, hospitality and social care.

How are we going to do that? Again, there is a convening job for Government to do that is about saying, "There is no one individual employer that is going to sort this out. We cannot just leave it to the market, because what we are going to end up with is people still being in precarious and low-paid employment. There is a role for us here".

If I can just build on the point about retail, if you think about what is going to happen to our town and city centres over the next few months, who quite knows how many people are going to return to work? There is going to need to be a concerted and joined-up Government effort to bring together local authorities, the retail employers and hopefully the retail trade unions as well to make sure we have, hopefully, better-quality employment in retail going forward.

Q114 Julie Marson: It has been a very wide-ranging discussion. Rain, perhaps I could bring it back to the Government's plan for jobs. We have talked a little bit, and so has Paul, about Kickstart. The aim of the plan for jobs is to do several things: it is to get people back into work following the pandemic and the end of furlough, but it is also intended to do that reskilling angle, getting people into different work and giving those skills.

In that context and with those two different aims, knowing that Kickstart is just one of those—you have got Restart, job-focused skills, work academies and an increase in Jobcentre Pluses and work coaches—how is the Government's aim being achieved? How is the scope and the direction of the plan for jobs as a whole going to achieve those two aims?



Rain Newton-Smith: For us, there are a couple of things. We all agree that we want to see higher-quality apprenticeships, but, if you look at how the apprenticeship levy has worked, it has not led to the outcome that anyone wants. Apprenticeship starts have been declining, so it is clear the system is not working. We need to have a much more flexible system that works to help businesses not just create apprenticeships but have a broader focus on the training of their staff.

We can think about making it available for more professional qualifications. It does need to be regulated. You should either use the Office for Students or the Institute for Apprenticeships to kite-mark some of the quality of training provided, but it needs to be more flexible and include modular training rather than being quite a traditional “four days in the job, one day off-site training”, particularly in a hybrid world. The world has just changed completely; the way you can access training has changed completely. That system absolutely needs to be modernised.

In terms of the lifelong loan entitlement, that should be brought forward and introduced earlier in the Parliament. We have some recommendations about how you can look at jobcentres and turn them more into jobs and skills hubs, so you are looking at helping people adopt lifelong learning.

I mentioned this before, and I appreciate that “individual training accounts” may be better than “individual learning accounts”, if it gets away from previous terminology, but we think that there needs to be a mechanism for unemployed individuals and those with the highest retraining needs to be able to access training. We have a recommendation for the spending review and I am happy to share that with you.

Those are the areas where we think the biggest change in Government policy could really help with some of that adult retraining. Nine out of 10 people need to see some retraining over the next 10 years. We know there is a shortfall in training of about £3 billion per year, so it is going to take significant investment by Government but also from businesses themselves. The stat that really sticks with me is that half of people in the lowest 20% of the income distribution have not had any training since they left high school. We really need to focus the training on those who have not had any access to training and bring them all up to a certain level, so it is lifelong learning, because we are all living and working longer.

Q115 **Julie Marson:** Can I ask Paul the same question?

Paul Nowak: I would make three points. First of all, we do not think the lifetime skills guarantee goes far enough at the moment. The scheme only applies to a prescribed set of level 3 qualifications, and we would like to see that opened up to foundation-level qualifications, level 2 qualifications, but also, crucially, to people who already have a level 3 qualification. If you are serious about enabling people to retrain and



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reskill mid-career, the fact I have a qualification that allows me to do job X does not mean that the same qualification allows me to do job Y. It is about opening up the lifetime skills guarantee.

I mentioned the Green Jobs Taskforce before. We have yet to see the Government respond to that. That was a taskforce that brought together employers, unions and education providers. One of the recommendations from the Green Jobs Taskforce is that the Government should think creatively about breaking down the barriers to accessing training. It is not just about, "Can I do a particular qualification?" It is about the paid time off to be able to do that, the financial support to allow people to retrain midway through their working lives. I would recommend to the Committee the report of the Green Jobs Taskforce. It is not just me. There is actually some really good stuff in there, which I would encourage the Government to read. Hopefully the Government will respond positively.

On the apprenticeship levy, we would like to see the focus of the review of the apprenticeship levy not just looking at things like the quality and type of training that apprentices have access to but also the quality of employment. Are the people who complete the apprenticeships being paid the right wages? It is a principle that we are very supportive of. Again, there would be value in unions and employers being engaged by Government to think about the effectiveness of the apprenticeship levy and what more we can do to make it more effective.

I would just make one further point, Julie. In March of this year, the Government got rid of a thing called the union learning fund, which has been in existence for 20 years. It was introduced by a Labour Government but it continued through 10 years of Conservative-led Government as well. It was a modest amount of money, £20 million a year, to support union-led projects on learning and skills in workplaces. 200,000 workers a year accessed new training and qualifications through the union learning fund, and the DfE abolished it at a stroke.

We had a list of employers as long as your arm, literally, that lobbied the DfE to retain the union learning fund, because what it did do was precisely facilitate that retraining and reskilling in workplaces. Crucially, it gave people confidence to do that, because for those people who have not had access to new training opportunities throughout their working lives, it is a big thing to take that on. With the support of union learning reps and employers, as I say, 200,000 people a year were doing that. The union learning fund still exists in Scotland; it still exists in Wales. As I say, it was pulled by the Department for Education.

It was a scheme that had a proven benefit for employers and employees. It is the sort of thing that we need to see more of, rather than less.

Q116 **Julie Marson:** Alan, would you like to add anything to that?



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Professor Manning: I do not have much to add to what Rain and Paul have said. When I look at it, the words are fine but many Governments over the years have had fine words in this area. It is really about effective action. We are still waiting to see how effective it is.

Q117 **Julie Marson:** In that case, Alan, can I stick with you? How well aligned is the UK's strategy on growth and jobs to our education and our higher-education policy?

Professor Manning: Our higher-education sector is probably pretty good, but in some sense that hides other weaknesses. As I have mentioned a couple of times, there are many people leaving school with very poor basic skills and very poor vocational training. This is for young people mostly. As people get older, as I know from personal experience, retraining and learning new skills becomes harder and harder. The best reskilling policy, really, is to avoid having to do much reskilling at all by making sure that people get the right kind of skills early in life.

Q118 **Julie Marson:** I do not know whether Rain or Paul want to add anything to that about education policy.

Paul Nowak: To build on one of Alan's points, the missing link has been a properly supported FE sector. Again, I would urge the Committee to read a report that was produced earlier this year, *The College of the Future*. It was initiated by the Association of Colleges, but again brought together employers, unions and FE providers. There is some really good stuff in there about how you make FE fit for purpose to be able to deliver learning in this blended way but also for FE centres to be hubs of support for people for midlife careers advice and guidance, genuine hubs in the community that people can access throughout their working lives.

Crucially, there is lots in there about the FE workforce itself. Unfortunately, pay, terms and conditions in the sector have lagged behind other parts of education. It is difficult to attract skilled professionals from industry into FE, which is absolutely what you need if you are going to make sure that the skills and qualifications being offered by FE colleges are up to scratch. I would just recommend *The College of the Future*, because some really good, hard thinking has been done in that report about how you make sure FE supports industrial strategy, decarbonisation and people throughout their working lives.

Rain Newton-Smith: Just briefly, to echo some of the other points that have been made, I would support what Paul was saying around level 3 qualifications and allowing individuals to access training again. That is the whole idea behind retraining: you should be able to access level 3 in a different area.

Secondly, there is this point that Professor Manning made earlier about the scarring effect around the loss of education for young people and provision. That is one of the things around the pandemic, particularly those on lower incomes. As a working parent, home-schooling was a total



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nightmare, but it was particularly hard if you did not have the facilities at home, and it is harder for those young people to catch up. We know the IFS and others have shown just how long that scarring can last.

The final thing is just thinking about universities. The one thing we must not take for granted in the UK is that we are so lucky to have great universities and FE colleges in every region of the UK. It is part of our international competitiveness. We have to make sure that there is a funding model for universities that works, particularly in the world we are still in, where it is harder for international students to come to the UK and for UK students to study abroad. We need to really think about ensuring that we do not see any lasting effects on our university education.

Q119 Harriett Baldwin: I am going to thank our wonderful panel, because you have really brought such wisdom and expertise to these problems. I am going to keep probing on this productivity puzzle. It is such an important issue. I am really worried about productivity. It was stagnating before we went into the pandemic. I cannot believe that the numbers are going to improve with all the pings and the self-isolating and having to test and do all of these extra things. It just strikes me as being another blow to the productivity challenge we have in this country.

I also worry that, with the increase in public spending, which is a very natural reaction, and one I support, to the fact that we went through a period in which there was such huge uncertainty, it is not necessarily going to translate into immediate gains in productivity. If you take, for example, the NHS, unless you have that workforce that is going to be able to expand and do more with the extra money that is being allocated to the NHS, it is not immediately apparent to me that this is not also going to cause problems in terms of productivity.

This is a longwinded question, but I want to ask each one of you what the top three things are that you would do to improve productivity in this country. Professor Manning, you talked about this earlier so I am going to start with you. I want you to be as granular as possible about the three practical things that you would do to improve productivity in this country.

Professor Manning: I am afraid I am going to repeat myself.

Harriett Baldwin: I will probably ask you to get more granular.

Professor Manning: The number of our kids who come out entering the labour market with poor basic skills is appalling. We do very badly on that. It is really around the skills of people. We have poor vocational education. I am going to say that again. I agree with Paul about the FE sector. The other thing is that, again, compared with other countries with a similar level of economic development, we seem to have this problem with a long tail of poor-performing firms, low-productivity firms within sectors. It may be connected to management skills, so it does come back to the skills of people.



Those are the three things that I would focus on. They are all long-run policies, but you have to play a long game when you are talking about trying to raise productivity.

Q120 **Harriett Baldwin:** Is the programme that the Treasury launched around management skills something that could potentially be helpful?

Professor Manning: Potentially, yes. It sounds like a good idea. I am afraid that I do not really know enough about it to know about the scale and effectiveness of it. As a general idea, yes, that is a good idea.

Q121 **Harriett Baldwin:** What are your three things, Paul?

Paul Nowak: I mentioned investment before, and this is a familiar tune. We set out plans for the Government to spend £85 billion investing in the green economy. One of the things that I would like to see, whatever level of investment the Government put in to the green economy and green infrastructure, would be more conditionality there. If you take the example of London 2012, we had an agreement as part of the delivery of London 2012 around direct employment in the construction phase, employment of apprentices, diversity and equality in terms of people being employed on site.

I would love the Government to use taxpayers' money as effectively as possible in terms of measuring the quality of employment, the impact on quality of employment of Government investment and the impact in terms of things like direct employment. Effectively, if Government are going to support employers and invest in things like the green economy, we should make sure that UK taxpayers' money is used as effectively as possible. That means also making sure that we have real added value in UK supply chains. The Government have picked this issue up in relation to offshore wind, for example. We have seen big investment in offshore wind, but we have seen that a lot of that work is done in the Far East and in other parts of Europe rather than in UK yards. We should be thinking carefully about how you use UK taxpayers' money when you make those investments.

I would make a big plea for the idea—I have said this before—of bringing people together at a workplace level, a sectoral level and a national level with unions, employers and Government around the table. That makes for better policy, but, if you are serious about decarbonising the economy, you have to do that in a way that brings people with you. We can secure a just transition to a net-zero future, but you cannot do that by expecting those who are working in our high-carbon and energy-intensive industries to trust that employers and Government are going to do the right thing by them, their families and their communities. Having workers around the table at every stage is really important.

The third thing is that I would dearly love the Government to put more meat on the bones of this whole debate around good-quality employment. Take the review of modern employment practices. It needs



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a little updating now, because it is five years old, but how can we drive up the quality of employment in UK workplaces, whether it is social care, manufacturing or transport? All too often, we come across good employers that are trying to do the right thing being undermined by those that do abuse zero-hours contracts and that do bogusly self-employ people in construction. If the Government are serious about driving up productivity, they should be serious about making sure we have a good floor of employment rights and that employers play by the rules of the game.

Q122 **Harriett Baldwin:** Could you just be a bit more granular on what you think an investment in the green economy is? That is a very wide-ranging statement. I want you to try to focus on how that would then translate into a gain in productivity.

Paul Nowak: One of my concerns is that there is a lot of focus—we may hear about this when the Government publish their net-zero strategy prior to COP 26—on reskilling people to take advantage of new jobs in the green economy. I would like to see—this was a recommendation of the Green Jobs Taskforce—Government put investment into retooling some of our energy-intensive and carbon-intensive industries now. What would those be? It would be steel, chemicals and cement. We published a report—

Q123 **Harriett Baldwin:** Again, these are all important things, but I just wanted you to try to focus on how that is going to improve productivity.

Paul Nowak: This is about enabling employers to invest in new equipment and new kit, but also to invest in their staff and their workforces as well. We published a report a couple of weeks ago that showed there are 660,000 jobs at risk of being offshored from those high-carbon industries, because there is more Government support for things like energy costs, retooling and re-equipping factories and investments in skills.

There are practical things that Government could do to make sure that we retain our industrial base. We all want a net-zero future, but we want a net-zero future that is based on good-quality manufacturing and engineering in this country.

Q124 **Harriett Baldwin:** Rain, again focusing on productivity gains, what are the top three things that you would do? Could you be really granular here?

Rain Newton-Smith: Productivity is driven by capital, human capital, R&D and innovation. I have spent a lot of time already on human capital. Going forward on capital, I would re-emphasise that this is about business investment. In the UK, we know we have fallen behind our G7 peers; we also know that our overall scheme of capital allowances is less generous than our G7 peers. The super-deduction has addressed that for the next couple of years, but what we are recommending is that from 2023 there should be full expensing of capital allowances over the



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lifetime of an asset to have a real incentive around business investment in the UK.

We also need to look at business rates reform. At the moment, we have one of the highest rates of property taxation on business.

Q125 **Harriett Baldwin:** I am hearing the same points that were made earlier. I am just wondering whether you could link them to productivity gains.

Rain Newton-Smith: One of the things I would say is that, when we are thinking about GDP and productivity, we should also be thinking about the carbon emissions inherent within that. We cannot just look at narrow measures of GDP alone; with our net-zero target, we need to think about the carbon emissions incorporated within that. We need to ensure that our tax system is incentivising investment in green technologies.

In our business rates system at the moment, if you make your building more energy-efficient, which lowers your costs over the long term and increases your productivity as well, at the moment you just face a higher business rates bill. We need to update the list of technologies that should be exempt from business rates, and it should include air-source heat pumps and some of these newer green technologies. That list has not been updated for decades. That needs to change.

Q126 **Harriett Baldwin:** That is a good practical example. Is there anything else?

Rain Newton-Smith: More broadly, we need to think about where we can win internationally, particularly around green technologies, where the UK can build a competitive advantage. We can do more around electric vehicles and battery storage. That means investing in battery storage capability and some of the gigafactories capability here in the UK. That is about R&D innovation by the Government but also businesses investing alongside that. That is one. CCUS is another thing.

Q127 **Harriett Baldwin:** Is that carbon capture and storage?

Rain Newton-Smith: Yes. For a lot of that, what you need is for the Government to create the market and use contracts for difference to help to develop some of these markets in the same way that they were able to do for offshore wind.

Q128 **Harriett Baldwin:** We are transitioning a little bit into my next area of questioning. I am not sure whether I heard huge additional points about productivity gains, but certainly I heard some very important points about the path to net zero, which of course is very important. I am hoping that the UK's commitment is seen as strong enough and cross-party enough that it is stimulating businesses to think about how they are going to do it. I certainly found that when I held an event for businesses in my constituency.

Specifically on energy, because it is such a topical subject today, there are ways that you can see renewables coming to be at a lower price point



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than fossil fuels; it has happened to a certain extent so far. I wondered whether anyone had any particular observations on the transition to net zero and how we could maximise growth and productivity by generating even lower-cost energy than we would on the current trajectory. The point you made on that, Rain, was a good one. Did anyone else want to come in on that? Solar is 1.75 cents per kilowatt hour in Saudi Arabia now.

Paul Nowak: The TUC has always been a supporter of a properly balanced energy mix. There is absolutely a role for renewables. We also think there is a role for more new nuclear in the UK as well. This is where the Government's medium to long-term aspirations potentially gets undermined. They have set out a role for new nuclear build in the energy White Paper.

We have a particular case at the moment, Springfields, which is a nuclear fuel manufacturing facility near Preston. Again, it needs that bridge until that new nuclear comes online. One of the things that our unions and the employers have been pressing the Government to do is to think about how we make sure that we have enough certainty for investors going forward that there will be nuclear new-build in this country and that there is a role for Springfields. If you have the next generation of nuclear plants, you do not want them fuelled by fuel produced elsewhere.

That balanced energy mix is important. Rain mentioned carbon capture, utilisation and storage. That is important in terms of mitigating energy produced by gas, but it is also important in terms of mitigating our industrial emissions. Again, CCUS is potentially a part of how we green our steel, chemicals and cement industries. It is important just to say that, when it comes to energy policy, we should not put all our eggs in one particular basket. It is important to have that balanced energy mix. That is particularly important in terms of UK industry.

Q129 **Harriett Baldwin:** Have you seen any areas where you think there is a potential for it to lower the UK's cost of energy? The things you are mentioning are all important, but they are all still additional costs, are they not? I wondered whether there are any examples that anyone could point to where you feel we could get a productivity gain from a more reliable or stable cost of energy in this country.

Rain Newton-Smith: What you want to do is make sure we have the right investments. If you look at the development of offshore wind, the price of that per gigawatt hour came down so much quicker than scientists and other people were expecting at the time. Why did that work so effectively? Certainly, for the businesses that were involved in that, you had predictable policy; it was in place over the long term. So many of these investments are over the long term. If you chop and change the strategy, it does not work. You need to have support over the long term and you have to have a real focus.



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If you look at some of the newer technologies that the UK could be looking at, there is hydrogen in terms of transportation and heat. There are lots of examples of areas like this, where we need to have the right support for R&D innovation through our universities but also through bringing forward some of that public spending on R&D innovation. We recently did a survey that looked at fundamental physics research. It showed that half of those projects had some amount of public funding, which then crowded in private-sector funding into innovation. Those have a whole range of applications and help to increase our productivity.

Q130 **Harriett Baldwin:** You do not think that enough of that is happening at the moment.

Rain Newton-Smith: No, we think the investment in R&D innovation needs to be brought forward. There was a question earlier about whether it is sufficient. Even under current plans, by the end of the parliament we will still be at 2.7% of GDP. That is behind the US. It will be ahead of the EU average by that stage, but we know we are behind at the moment. We need to bring forward that investment so that we can have that innovation earlier in the UK, with a particular focus on low-carbon innovation. Again, that is somewhere where the UK can build a competitive advantage, and it is important for our commitments on net zero as well.

Q131 **Harriett Baldwin:** Professor Manning, did you want to add anything on that?

Professor Manning: No, I agree with that. The endgame here is when the cost of renewables is below the cost of fossil fuels. Then no one uses fossil fuels anymore. The cost gap is falling, but it needs investment from the private sector and the public sector. The private sector needs to be incentivised by the public sector in order to bring down that price gap. If in the end the price of energy ends up lower, that is going to provide an economic boost more generally.

Paul Nowak: We can follow this up with some supporting information from Community, Unite and the GMB, our steel unions. My understanding is certainly that for UK steel producers energy costs are 25% higher than they are for their French or German equivalents. That is the sort of stuff that makes a big difference for whether or not you are going to invest in new electric arc furnaces in the UK or whether you are going to invest somewhere else. This is stuff where the Government can play a very active role in making sure the quid pro quo for reduced energy cost is that you do have to invest in new, more productive and less carbon-intensive kit, whether that is electric arc furnaces or anything else. I am happy to try to—

Q132 **Harriett Baldwin:** It would be really interesting to know. Presumably Germany are using coal in that process in the same way that we do. What is it that is specifically different in terms of the energy costs going into those energy-intensive businesses? That is a potential area of



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productivity gain for this country.

Paul Nowak: It is something that I do not have to hand but certainly we can pull together supporting information from our unions.

Q133 **Alison Thewliss:** I have some questions around the impact that the coronavirus crisis has had on low-paid workers specifically. I wondered whether I could start by asking Professor Manning to outline what you feel the characteristics of low-paid workers are in terms of the jobs that they do, the sectors that they work in and how they have been affected by the pandemic.

Professor Manning: The low-paid tend to be concentrated in a lot of personal service-type occupations. In the pandemic, they have been more likely to lose their jobs because they have been more likely to work in the sectors that were shut down. Even when they kept their jobs, they were more likely to be exposed to the virus, because they are often involved in much more face-to-face interactions with customers.

As has already been alluded to by Rain, they probably found it much harder to manage the disruption to education of their kids. That has been quite important as well. Quite a lot of them will face a hangover of debt. Many of us, who have been lucky to remain in employment and be paid and who have struggled to find things to spend our money on, have seen our savings go up, but many of these lower-paid families have not been so fortunate.

On the other side, as we have talked about, we see a bit of upward pressure on wages in some of these sectors, though we can exaggerate how much we have seen to date.

Q134 **Alison Thewliss:** The Commission on Race and Ethnic Disparities' report concludes that the hourly median pay gap between all minorities and the white British ethnic group has shrunk to 2.3%, its smallest level since 2012, when it was 5.1%. Do you feel that there are still lots of things that need to change? What else do we need to do to close that gap?

Professor Manning: I did not think that particular piece of analysis that they did was terribly convincing. When I read it, I was a bit surprised by some of its claims about how small the overall penalty was and that it had been falling over time. To take that particular one, if you do not adjust for the fact that ethnic minorities are much more likely to live in London, where salaries are higher, you get a very misleading picture.

After reading it, together with a PhD student, we did the analysis that we thought the report should have done and did not do, which was to look at what had actually been happening over time once you adjust for other factors such as where you live. There was no real evidence of improvement. Given that only took us about a day, I do wonder why that report, which was meant to be the definitive statement on the current state of play in Britain, had not done that.



Q135 **Alison Thewliss:** I would agree that there is certainly more to be asked about it than questions that it answers.

If I could turn to you, Paul, to what extent do you feel that the economic and the health difficulties that ethnic minority groups faced during the pandemic can be explained by the fact that they are often concentrated in low-wage occupations?

Paul Nowak: That is absolutely the case. They are most likely to be in lower-paid, insecure employment. To reinforce the point that Alan has just made, if you look at London the ethnicity pay gap is 24%, and the reality is that if you are from a black or ethnic minority background, you find it harder to get a job, you are more likely to be unemployed and you are more likely to be in low-paid and insecure employment.

Talking more broadly on the impact on the low-paid, there are two things that I would draw out. One is that we did really see the practical impact of that on large numbers of low-paid workers during the course of the pandemic. Two million people were not even entitled to statutory sick pay if they had to self-isolate during the pandemic. That has a real impact on whether or not people choose to follow the public health guidance or feel that they have any choice whatsoever. If you are making a choice between, "Am I going to pay the bills or am I going to stay at home because I have got a ping?" that is a really difficult thing, if you are on a low income.

We did some work very recently—this was large-scale polling that BritainThinks did for us—about the experience of lower-paid and higher-paid workers during the course of the pandemic. Lower-paid workers were two times more likely to have cut back on spending during the course of the pandemic. Alan made the point that many of us in higher-paid, secure employment may have put a little bit away because we saved on our commuting costs or whatever it might be. That was not the experience of the very lowest-paid. Even looking ahead, higher earners were three times more likely to think that they are going to get a pay rise this year. That is an expectation based on their lived reality; it is not just a finger in the wind.

What I would say about the pandemic and the labour market in particular is that it did not create labour market inequality, but it certainly highlighted and exacerbated the inequality that was already there and, in particular, that occupational concentration for black and ethnic minority workers.

Q136 **Alison Thewliss:** Coming out of the pandemic, do you feel that things like increasing the minimum wage and making it a real living wage would help to address some of that inequality as we move out of the pandemic?

Paul Nowak: Absolutely, yes. The CBI and the TUC both gave our evidence to the Low Pay Commission the week before last, and certainly one thing that the TUC was keen to stress to the Low Pay Commission was that it is important for the Government to maintain their progress



towards the living wage being two-thirds of median earnings by 2024. It would be a real mistake to undermine the incomes of the very lowest-paid. There is no evidence at all that boosting the minimum wage would have a negative impact on employment. If you look at some of the sectors that we have talked about, the Government support for a sector like aviation is going to be much more important than the headline rate of the national minimum wage. It is important.

It is interesting. We are beginning to see some upward pressure. I would not overstate it, but in some parts of hospitality we are already seeing employers pushing up wages because they have to. Morrisons supermarket has already moved to a £10 minimum wage for all of its workers in an agreement that it signed with one of our unions, USDAW. I would like to see that being replicated. The minimum wage is an important pace-setter when it comes to those on the very lowest incomes.

Q137 Alison Thewliss: Thank you very much for that. Rain, the real living wage employers that I know extol its virtues. They feel it helps productivity; it helps staff retention as well. Do you take a view on that as the CBI in terms of what benefits a real living wage would have for employees as well as for employers?

Rain Newton-Smith: We absolutely support the national living wage and the LPC in setting that. The independence of the LPC in setting that is really important. We certainly encourage all businesses to look at the real living wage and look at being able to pay that where possible.

Where businesses can find that more challenging are some of the sectors that we have talked about already, around social care, for example, where some of that funding is fixed by Government support so they are kind of limited in terms of their overall funding. Therefore, that is one of the reasons why pay is not as high as people would like in that sector, yet it is such an important sector for all of us and for the wider economy.

Just drawing on some of the other areas that you were touching on, I would echo what Professor Manning and Paul were saying in terms of the experience over the pandemic and how that has hit low-income households and in particular working women, who have often taken on more of the childcare. This is about working parents—it is not just about women—but, unfortunately, we know from various studies that women are more likely to take on the home-schooling responsibilities.

There are also big issues around race and ethnicity. The pandemic has exposed issues that we knew were there already; it has really shone a light on them. As we are in a mode of hybrid working as we return, we need to take the best advantages of that, where that is possible, in terms of providing flexibility for working parents and people with disabilities. We also have to be mindful that, as we return to the office, it could lead to adverse consequences if we do not focus on making sure that people who



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are not able to be present in the office still have the same opportunities for promotion and progression within their organisation.

Paul Nowak: Can I come in very quickly on the social care issue? We all critiqued the Government's approach to the national insurance hike, but one of the missed opportunities around the new social care funding settlement—there is still an opportunity for the Government to do it—is for the Government to say that it needs to be linked to a real strategy for how we are going to improve the working lives of people who are delivering care. We have a new social care funding settlement, but there was no mention about the people who are delivering care on the front line.

The real living wage is an important part of that. I would point the Committee to things like Unison's ethical care charter, where local authorities have signed agreements that are about how services are procured from social care providers and how we can do that in a way that reinforces good-quality employment, gives people decent incomes and gets rid of things like zero-hours contracts. There is an opportunity to use that new settlement to drive up terms and conditions in the sector.

Q138 **Alison Thewliss:** I was really struck by what you said earlier on, Paul, about social care being low pay but not low skills. Finding a way of rewarding that properly is an important part of it.

Paul Nowak: Yes, absolutely, and to provide proper career progression, and also the ability to move forwards and backwards between private social care settings and the NHS, for example.

Q139 **Alison Thewliss:** You mentioned national insurance, and I also wanted to ask you about the impact on people working in low-pay sectors. What impact will the national insurance hike have on them?

Paul Nowak: To reinforce what I said before, Alison, if you combine that with the cut to universal credit, there is a real hit for the lowest-paid. We know that the less you earn the more disproportionately you are impacted by that national insurance increase. I am not one of those people who would ever rule out national insurance increases; there is a role there for national insurance to play. I am just not sure that this was the right way to go about addressing the social care issue.

Rain Newton-Smith: Everyone will agree that we need a proper funding model for social care. The principle of looking at a model to fund that is so important, so it is good that it has been partly addressed. There is a real challenge here. National insurance contributions kick in at a lower rate than income tax taxation, so it does mean that, as Paul was just saying, it has a disproportionate effect on those on low incomes. That really needs to be considered in the round.

Professor Manning: In social care, my personal view is that it has been so obvious for so long that pay has to go up. If you gave a 10% pay rise to those workers, it would cost about £1 billion. It is mostly publicly



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funded. The Government have spent over £100 billion on the pandemic and not one penny of that has gone on extra pay to care workers. I find that extraordinary.

Q140 Alison Thewliss: Finally, the only other point that I wanted to ask about was the inequality around people being in part-time temporary contracts who would perhaps rather be in full-time permanent contracts and the disproportionate effect that might have on women as well. I wondered whether that was anything that you had any more information to share on, Paul.

Paul Nowak: Lots of people choose to work part-time, but we have a real issue about people who are effectively underemployed. For me, it is not just about the number of hours; it is about the certainty of hours. You might not know from one week to the next how much you are going to earn. Certainly, all the survey work that we have done suggests that people on short-hours or zero-hours contracts would prefer more certainty about their income. That would be good for them and good for the UK economy as well.

Q141 Siobhain McDonagh: I would just like to look at the impact of the coronavirus crisis and the potential impact of post-pandemic remote working on workers in different regions. Does the move towards remote working have the potential to improve productivity and incomes in poorer areas in the UK, or is there a risk that the combination of remote working and regeneration pushes the cost of housing up in poorer areas, reducing disposable income for lower-income families? Professor Manning, I will start with you, if that is okay.

Professor Manning: It is a very good question. I am not sure I really have any degree of confidence in my answer. My view, if you force me, is that the impact is going to be less than many people think, because even if you, say, only had to go into work one day a week, you might put up with a longer commute but you cannot really live at the other end of the country and do that. Completely remote working is very different from even remote working a lot of time. I do not feel that many firms will be going to complete remote working. That is my feeling.

There will be some effects. For example, the pandemic has accelerated the move towards online retail. That has consequences for high streets, as has already been mentioned. City centres that rely on a lot of in-commuters will possibly have impacts. Most commutes in the UK, I always feel when I look at the statistics, are surprisingly short. It may not actually make that much difference. That would be my gut feeling.

Paul Nowak: I was desperately trying to find the figures and I cannot get them. We will make sure that we send them to the Committee. We have had some real concerns about, effectively, the class divide between those who have access to home-working and those who do not. There are some parts of the country where very few people have worked from home.



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People like me, who did work from home a lot, have this expectation that everybody has had this experience during the course of the 18 months, and clearly that has not been the experience for many people. These are people not only working in our public services, in social care and the NHS but working in supermarkets, delivering our parcels and so on.

Q142 Siobhain McDonagh: The divide is that if you are on low pay you are less likely to be working from home; if you are higher paid, you are more likely to be.

Paul Nowak: Yes, absolutely. One of the things that we are very keen to stress, coming out of the pandemic, is that we need to think about flexible working. For some workers that will be the ability to work from home for all or part of the time, but we need to think about other things.

We talked about people in insecure employment. It is also about having security around knowing when they are going to be working, what their shift patterns are going to be and the ability of people to work compressed hours or flexi-time. In terms of the polling that we have done, flexi-time is the most popular form of flexible working that people would want. What we would want to do is encourage employers and unions to have sensible conversations about what flexible working looks like.

We also want Government to take action. We have called for a new right for flexible working so that employers have to say upfront what flexible working arrangements they would consider making available to people when they apply for roles. We will certainly provide that evidence to the Committee about the divide, both the class divide but also the regional divide. It is important to recognise that it has not been a universal experience. Lots of people want flexible working but do not have the ability to work from home.

Rain Newton-Smith: A bit like Paul, our employment trends survey came out today, so we can provide that. That has some more detail around hybrid working and what businesses are saying. There is definitely an increase in hybrid working arrangements and an increase in complete remote working, but that is with the big caveat that we are talking around the 40% or so of jobs or employment where it is easy to work from home. That means that you can use talent from around the country, but I agree with Alan: because generally we are talking about hybrid working, so coming into the office one or two days a week, it means you can have a slightly longer travel-to-work time but it is probably less likely to be one end of the country to another.

We should do what we can to maximise the benefits of a more flexible approach to being in the office and what it does for people with caring responsibilities, et cetera, but we also cannot make assumptions. For some people, being in the office is really important; they do not have a suitable working space at home. It is about giving workers the flexibility to find a working arrangement that works for them and their employer.



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The other element that we need to focus on is the public transportation system. We are certainly not back to service as normal across many of the services, and that is both thinking about train services but also particularly buses, which is really important for many people in how they get to their place of work. That is something we need to focus on.

You also raised the question about what this could mean for housing, et cetera. I would just end by saying that we know in the UK we need to be building more homes and also have a focus on affordable housing within that. We have not managed to meet the 300,000 homes that we need to be building in the UK for most of the past few years. We clearly need to continue to focus on that.

Q143 **Siobhain McDonagh:** The last time we did was in the 1960s, so 300,000 is a bit more remote than that. Should we be concerned that workers in London may lose out as a result of trends towards remote working and the levelling-up agenda, particularly when there is as much poverty within London and between bits of London as there is between regions?

Professor Manning: If, for example, fewer people commute into central London on a daily basis, that leads to a readjustment of employment, but it does not necessarily make things worse. You might well see more sandwich shops in the suburbs, because that is where people are rather than in the city centre. As poor workers are much more likely to live a long way away from central London, I am not sure that is inevitably going to be to their disadvantage. Commuting is very expensive. If it gives more opportunities for lower-paid workers to work closer to home, that actually probably makes them slightly better off. There are a lot of moving parts in there, and it is a bit hard to be sure about what exactly will happen.

Paul Nowak: You are absolutely right, Siobhain. Sometimes we talk about the differences between the regions and nations. It is important to remember that London is not one homogenous land of milk and honey for the people who work there. Eight out of 10 of the constituencies with the highest levels of people not being paid the real living wage are in London. That is in a city with some of the highest housing costs. There is a real issue there.

Just looking back on my notes for an event tomorrow, 70% of workers in Richmond upon Thames worked from home during the pandemic. In Burnley, it was just 14%. I suspect there will be boroughs in London where those figures are more like Burnley than they are Richmond upon Thames as well. It is about recognising the different impacts across different occupational groups. Income is the defining factor, but—you would expect us to say this—at the TUC we are just as interested in workers in London as we are in Burnley, Glasgow or anywhere else.

Q144 **Siobhain McDonagh:** Which areas of the job market are likely to take the longest to recover from the economic crisis?



Professor Manning: I do not have very strong views on this. If we look, for example, at the regional impact of the pandemic, there are regional differences but the top-line story is that everywhere has much the same kind of impact. When you do look at differences, it is a little hard, with the exception of areas like central London, to come up with a very clear narrative for the regional differences in the statistics at the moment.

There are issues about struggling to recover. As I said earlier, I am most worried about the effect on young people, education and so on. I do not have very strong views apart from that.

Q145 **Siobhain McDonagh:** Working from home is least favourable to people at the start of their careers, given the accommodation that lots of young people in cities live in.

Professor Manning: Yes, that is possible, but it is a little hard to assess. Young people's social life is lived a lot more on social media than people like me, so I find it a bit hard to imagine how my kids can have an active social life while never leaving their bedrooms.

Siobhain McDonagh: The truth is they cannot.

Professor Manning: There may be workarounds to these kinds of things, but it is perhaps not so inevitable. It is perhaps a bit of a disadvantage.

Paul Nowak: I mentioned it before, Siobhain, but I am particularly concerned about the future of towns and cities in the short to medium term. Retail was in crisis in terms of employment prior to the pandemic. You can think about some of the high-street names that we have lost over the course of the last 12 to 18 months. If you walk around central London or any large city, the fact is that there is less footfall and fewer people around.

Whatever MHCLG has now become—the Department for Levelling Up—there is a need for MHCLG, DCMS and BEIS to come together with landlords, employers and unions to think about what an action plan to save our cities looks like. That is really important.

Q146 **Siobhain McDonagh:** It is even impacting on very wealthy areas. I was in Wimbledon village last week. A number of clothing shops have closed. Where stores have reopened, they are cafés or delis. This is an area with probably one of the highest rates of disposable income in the country. It is happening there.

Paul Nowak: Absolutely, yes. The only other additional point I would make—Rain mentioned this—is that it also needs us to think carefully about public transport. There is a real danger that we are going to see reduced passenger numbers in rail and in bus for certainly the short to medium term. Once those services go, it is very hard to put them back together. There is going to have to be Government support for public transport during this period, and we are still going to have to think about



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how we get people into our towns and cities. It will be repurposing some retail units; it will be thinking about the balance between creative industries, hospitality and retail. Again, that is something where Government need to join up the dots. There will be cross-party consensus about the need to have that support for our towns and cities.

Rain Newton-Smith: I just have a couple of points. You were talking about towns and city centres. One of the things that is really important is that we reform the business rates system. Part of the reason why you are seeing some of the retail shops closing is because they face a really high business rates burden and it is harder for them to compete with online businesses. That is one of the things that we could do to make it easier for some of our high streets.

Secondly, on some of the issues about the office, the return to the office and thinking about our young people, one of the things that is really important is that offices are really important places to come together and to collaborate, for creativity, innovation and training. Businesses talk about using offices in those ways. We have to think about how we facilitate that and also how we support employees' mental health, whether they are in or out of the office. If there is one positive out of the pandemic, it could be around helping businesses focus on how they could facilitate some of that wellbeing, whether individuals are in or out of the office. We need to keep that focus, because we could still see a relatively challenging winter ahead of us.

Finally, on this issue about some of the larger cities versus the smaller towns and what we have seen from the pandemic, certainly what has been challenging for some of the very big cities and the city centres has been that they have lost international tourism, university students and commuters. Some of that will adjust over time, and we have seen some of that spending displaced into other smaller towns. That can be helpful in itself in rejuvenating some of the towns. We saw that in terms of domestic tourism as well. There is no doubt that we need to have a focus on regional productivity and making sure there are opportunities in all areas of the UK, as Paul and others have said.

Chair: That brings us to the end of this session. On behalf of the whole Committee, can I thank our three witnesses for attending today? It has been a very useful, helpful and quite a wide-ranging discussion across the labour market and productivity in particular.

Perhaps I could come back to where we started, which is to celebrate, in a way, the fact that we are not facing the mass levels of unemployment and misery that could have resulted from the pandemic. We should just reflect on the fact that the TUC, the CBI and the Government in that instance were able to work together very positively. We thank you for that. That concludes this session.