



Select Committee on Economic Affairs

Corrected oral evidence: Employment and Covid-19

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Fox; Lord Livingston of Parkhead; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 3

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Questions 17 - 29

Witnesses

I: Professor Len Shackleton, Editorial and Research Fellow, Institute of Economic Affairs; Clare McNeil, Associate Director for Work and Welfare State, Institute for Public Policy Research; Dr Hande Küçük, Deputy Director, National Institute of Economic and Social Research.

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Examination of witnesses

Professor Len Shackleton, Clare McNeil and Dr Hande Küçük.

Q17 **The Chair:** Welcome to the Economic Affairs Committee, Dr Küçük, Professor Shackleton and Clare McNeil. Perhaps I could begin by asking the first question, which is a general question. Should the job retention scheme and support for self-employed workers be extended beyond October?

Dr Hande Küçük: As NIESR, we suggest that extending the job retention scheme and support for self-employed workers beyond October is crucial to prevent a cliff-edge end to schemes and to support economic recovery going forward. The schemes should be reformed to target the most affected sectors. Providing training incentives and risk sharing with firms would boost the effectiveness of these policies.

So far, the furlough scheme has contributed to protecting 9.6 million jobs from 1.2 million employers. It has played a critical role in helping households and businesses to survive through the pandemic and contribute to jumpstarting the UK economy. According to the information that we gathered, between 5 million and 6 million people are estimated to still be on furlough leave. As we published in our forecast in the NIESR August review, between 1 million and 1.5 million people are likely to be made unemployed when the furlough scheme ends in October.

As our director stated in his May review commentary, we view this argument for extending exceptional support measures, such as the job retention scheme and support for self-employed workers, as a general argument for making fiscal policy contingent on the state of the economy rather than on an arbitrary time period. As my predecessor deputy director Garry Young presented in a previous analysis from our institute, we argue for extending the furlough scheme, ideally until GDP is back to its pre-Covid-19 levels. This is forecast to be around the middle of next year. Hence, research at NIESR suggests that the end of furlough should be determined by economic recovery rather than an arbitrary deadline.

Despite three months of ongoing recovery, the UK economy is still far from full recovery, according to last Friday's ONS data. We have recovered just over half the output lost due to the Covid-19 pandemic. The services and construction sectors still need to grow by 13% to 14% to get back to pre-Covid levels. Given the current evolution of the pandemic and apparent risk of a second wave, we think there is a rocky road ahead to recovery. A drop in government support schemes such as the furlough scheme would only make this rocky road longer.

I would like to end by giving an overall view from the perspective of public sector balances. The furlough scheme has been costly for public sector balances, but additional government borrowing has been financed at quite low interest rates. We have to take into account that, to the extent that the furlough scheme contributes to post-lockdown recovery and prevents long-term scarring, it could contribute to future public

balances. Government revenues would start to rise again and the need for further stimulus along the road would be reduced.

The Chair: You are basically saying that the Government should write an open-ended cheque for the furlough scheme for as long as required.

Dr Hande Küçük: We are not suggesting an open-ended scheme, but we are not fully confident in the recovery yet. The economy is still operating below its pre-crisis levels, and ending it abruptly would hamper this recovery going forward.

We suggest that it be extended, but not in its current form. It should be reformed. It should make sure that the most affected sectors are targeted and that it moves ahead with getting more part-time workers, as it has started to do since July. Retraining incentives would also be important to facilitate a smooth exit from this furlough scheme when the time comes, so that employees are in a better position to find jobs in other businesses and in more viable sectors.

Clare McNeil: We think the job retention scheme should be extended, to limit the scale of the coming unemployment crisis, but not in its current form. We have set out a proposal for a scheme to replace the job retention scheme, which has four key features. It would be targeted far more at the worst affected businesses. For example, eligibility could be assessed by the impact on turnover. It should go much further to encourage part-time working, so we have suggested a subsidy for working hours as well as non-working hours to achieve this.

It should come with conditions attached, as in other countries, for example committing to keeping people in work, to not paying dividends to shareholders and to ensuring that no worker's income falls below the minimum wage. Finally, we think it should be linked to an offer of training, either upskilling or retraining where that is more appropriate, to boost workers' future prospects.

This would be a much smaller, more targeted scheme, which we think should be in place until at least March next year, by which point official estimates suggest that the economic recovery will have begun to take hold. The scheme should also be designed to be accessible to the self-employed, including those who lost out on support previously. The job retention scheme was an important policy innovation, one that we should look to retain and to adapt for this crisis but also for future crises and disruptions that we might face as a country.

Professor Len Shackleton: I have to disagree with the two previous speakers. I do not think the schemes should be extended any further than they are being extended now. In any six-month period in normal conditions, approximately a million jobs disappear as businesses downsize and firms go out of business or merge. You cannot stop this process going on. It will have been accelerated during the lockdown, because we know that jobs are just not going to come back in the numbers in which they have in the past. The sooner businesses and

individuals are focused on creating new jobs and looking for new jobs, the better.

The furlough scheme as designed originally was okay, although I would have preferred us to use the German system, which allowed some part-time working right from the beginning. There will clearly be a high level of unemployment unless we are very careful, but all efforts to preserve existing jobs should be focused on a very narrow range of business activities, which are being artificially held down by government diktat at the moment. I am thinking of things such as entertainment, theatre and professional sports. There may be a case for helping those out, but in general I do not think there should be.

There is a risk of a different kind from continuing with the furlough scheme, which is fraud and misuse of this scheme. We are already seeing examples of this coming forward. When we have eventually investigated this, I think we will find that a lot of activity that was subsidised on the furlough scheme was probably inappropriate.

The Chair: I read the paper that you submitted to the Committee. You were basically making a free-market case, but a point that I feel you did not place enough emphasis on is that a lot of these jobs are being destroyed by virtue of government intervention. If that intervention was not happening, these jobs would still exist. Without schemes of some kind to maintain and keep the life force of these jobs, they will disappear and the burden will fall on the state. What is your response to that?

Professor Len Shackleton: That is true. As I said, there are some areas, such as theatre and professional sports, where it is clear that eventually something will come back. It is not clear to me that a lot of the other jobs that have been destroyed by the lockdown will come back. For example, I cannot see a recovery of the number of people travelling on public transport in any reasonable time period.

People's behaviour will change as a consequence of this. We know there is survey data on the way in which people will go out less. They will spend more time at home. They will do online shopping and so forth. We cannot assume that when all this is switched off again and we are back to some kind of normal, these jobs will come back. We need to move forward. We need to think about job creation rather than the preservation of existing jobs, except in a few very limited areas.

Q18 **Lord Burns:** It seems to me that there is a case that says that you are rather underestimating the size of the group affected by the Government's measures. The construction industry is one of the areas where there is still quite a shortfall, which must have a lot to do with social distancing. What about the restaurant sector? A lot of the service sector is itself subject to government intervention, to say nothing of the performing arts, theatres, et cetera. It seems to me that the balance between the areas where jobs are being held back because of government intervention and those where the jobs will not come back is much more even than you were implying.

Professor Len Shackleton: I do not think that is true. For example, the restaurant sector will undergo a substantial downsizing over the next few years. People will not go out in the same numbers as before, even if restrictions are lifted. We are seeing a change of behaviour. People will not travel into the city in such large numbers. They will not travel to the West End in such large numbers. God knows what is happening to tourism, but a huge swathe of activity in London is determined by an influx of tourists. We will not get that back for some considerable time; I would suggest years rather than months.

How long can we keep people on this artificial set-up in which they are hoping that their jobs will come back but there is no obvious sign of them doing so? We have to move away from that model to focus on the future rather than on trying to bring back the past.

Lord Burns: As the Chair was saying, this is not an issue of the future versus the past. These are consequences of government intervention.

Professor Len Shackleton: One of the consequences of government intervention will be that we spend huge amounts of money trying to keep part of the labour force in suspended animation. At the moment, the huge amount of money that we have spent on the furlough scheme is just about manageable. We have borrowed enormously and so forth, but do we want to run massive budget deficits indefinitely going forward? This is only one aspect of it, but we have to think very clearly about where we are going with this. If we have huge budget deficits, we will have to raise taxes sooner or later. Taxes themselves will take more out of the economy and set back any recovery.

I just think we should move on. We made this argument in March, and we could be making this argument next June because there will always be a case for keeping people on. We will not get a recovery from this recession within a very short period.

Q19 **Lord Tugendhat:** Before I get to my question, I cannot resist making a point arising out of what Professor Shackleton has just said. The future is very hard to forecast. It was only very recently indeed that everybody was forecasting that universities would be in deep trouble because not enough students would come and the overseas students would not want to come back to Britain. I saw in my *Financial Times* or *Times* this morning that admittances to universities are running at a much higher level than last year. Although fewer people are coming from Europe, far more people are coming from the rest of the world. The net result is that universities have more people than before and not fewer, completely contrary to what majority opinion was forecasting a very short time ago.

We are still at an early stage of what is likely to be a very long period of uncertainty. In those circumstances, to what extent would an extension of the job retention scheme delay inevitable adjustments in the economy? Would it also add considerably to the level of social discontent?

Clare McNeil: Of the jobs supported by the job retention scheme in October, we estimate that as many as one-third may be permanently

lost, many of those in companies that were struggling before the crisis began. However, the remaining jobs are likely to be in companies and sectors that were stable, perhaps even growing, before the pandemic: for example, hospitality and leisure, or the creative arts. These could thrive when we return to normal levels of social interaction after a vaccine or an effective treatment has been found.

We cannot know now whether the changes in social interaction that we are seeing will be temporary or a more permanent structural change. There are risks in either assumption. Either we subsidise jobs that could be gone in the long term, or we allow substantial job losses that could be unnecessary, resulting in long-term scarring and a slower recovery. Given these risks, we think that it would be best to take a cautious approach and to bridge this gap via the kind of scheme that we and others have proposed.

There are two additional reasons why I would argue that. The first is the low level of job creation that we are seeing so far. Vacancies are down by around two-thirds. Because of the very sectorally concentrated nature of these job losses, we would need to see sector switching, people moving to a job in a new sector, of almost unprecedented levels. That is a challenge that the Government will need to wrestle with. There is definitely a role for retraining and education, but we need to limit the scale of the unemployment crisis given those factors.

The Chair: Does anyone have an alternative view on this?

Dr Hande Küçük: The economy will inevitably adjust to the new post-pandemic equilibrium. Jobs will definitely be lost, but doing it abruptly could put aggregate demand recovery at risk. With a huge income loss, aggregate demand would not recover to levels that would make job creation flourish.

An extension of these schemes helps to diminish uncertainty for employers. It also helps firms and households to plan ahead. These are important aspects. While the adjustment is happening in the labour market, it is important to support income and aggregate demand that would contribute to the recovery going forward. I hope this would prevent a short-term health crisis turning into long-term economic damage.

We already see adjustments being made. The number of workers on furlough has been reduced from 30% in June to 18% in July. As the economy recovers, the number of workers on furlough will decrease. We will need to support a lower fraction of workers, especially in the worst-affected sectors that have the potential to recover more as social distancing requirements ease.

Q20 **Lord Stern of Brentford:** We have been speaking about sectors, and I now want to ask about geographies. The sectors clearly interact with the geographies, but we also see very different impacts from and prevalence of Covid geographically. That is likely to be the case into the future. We cannot fully forecast, but we know that some geographies will be worse

than others. Can you give us some thoughts or guidance on how you think the scheme could or should be localised to reflect different incidence or economic impacts associated with Covid?

The Chair: Who would like to start on that? Professor Shackleton, why not stir things up?

Professor Len Shackleton: I do not mean to stir things up. Yes, Lord Stern is obviously right that there are big regional differences. In the longer term, we ought to take into account the effect of the national minimum wage in particular areas and the effect of public sector employment in different regions. There are issues that we ought to cope with.

In saying that we should end the furlough scheme, I am arguing that we must take a much more focused and targeted approach to this rather than a blanket one. It is rather like a blanket; it is a comfort blanket to people in a situation where there is a very rapid economic change. I am afraid I disagree with my colleagues. The changes will be profound. We will see very different patterns of employment in the future and we need to move with that.

Clare McNeil: It is undoubtedly the weakest economies that will lose the most jobs. The Joseph Rowntree Foundation did research recently that showed that areas, such as Doncaster and Mansfield, that suffered the most during the industrialisation in the 1980s will be worst affected by this unemployment crisis. We have argued that businesses in areas with local lockdowns should have automatic access to any extension of the scheme, as we saw during the lockdown in Leicester. Businesses there had access to the job retention scheme.

When it comes to localised responses, that is arguably more important for the employment support that we offer people. When it comes to the role of Jobcentre Plus, we would like to see local authorities having a much bigger role in schemes such as Kickstart and apprenticeships in increasing numbers there. That is where I would see local areas playing a greater role.

Lord Stern of Brentford: Both the answers were thoughtful and helpful. Professor Shackleton, do you not think your answer sounds like seeing somebody knocked down in the road and telling them to get up rather than helping them up?

Professor Len Shackleton: Of course, Mrs Thatcher used to take a line rather like that. There is a sense in which people are responsible for their own career changes. A lot of the people who are losing their jobs at the moment are young people who are capable of moving in different directions, retraining and so forth. In that sense, there is a certain responsibility on everybody to make changes. We are all having to make changes in our lifestyles, some much more important than others.

Lord Stern of Brentford: Picking up on something Clare McNeil said, we would all agree that job creation and job protection are both part of the

picture. Dr Hande Küçük put it interestingly: your action should be contingent on the state of the economy. You could apply that to geographies. If the argument has substance in sectors, and I think there is some evidence that it does, would it not also be relevant to geographies, where the scale and nature of the shutdown has to do with government policy as well as the disease itself?

Clare McNeil: Yes, where the lockdown measures are different in different areas, the local response should be different. That applies more to the sorts of measures that we need to put in place to support people back into work than to any extension of the furlough scheme.

Q21 **Lord Skidelsky:** Dr Küçük made a very important point. She referred to the need to maintain aggregate demand at a time when normal business activity has shrunk. We have been maintaining aggregate demand by means of a furlough scheme and other income support schemes. We surely need to go beyond that and not just say, "For as long as it takes, we will pay people to do nothing in order to maintain aggregate demand".

One way in which we can try to maintain aggregate demand, and this will have local variations, is by giving people work, not just subsidising employers or encouraging them to find work when aggregate demand is too low to justify any big increase in private employment. This used to be called public works. I am surprised that it has not entered into any discussion. This is to do either with getting people on their bikes, to caricature Professor Shackleton, or with schemes for encouraging private business to retain or employ more workers. What does the panel think about the idea of local authority public works being provided on the scale required by the lockdown of their areas?

Professor Len Shackleton: Lord Skidelsky is the distinguished biographer of Lord Keynes. Of course, Lord Keynes spoke jokingly of digging holes and filling them in again as creating jobs. In the abstract, public works sounds like a good idea. In practice, what does this end up as? It ends up with bored young 18 and 19 year-olds sweeping the streets, painting out graffiti or something like that. This is surely not what the future is about.

Public works are a 19th or early 20th century idea. I do not think we can redeploy people who have just come out of university with good degrees, for example, to do public works in random parts of the country. That is not going to get us back to full employment.

Dr Hande Küçük: We agree that other forms of fiscal stimulus, such as government construction activities, can be appropriate on a regional level. Maybe we should think about supporting the low-skilled, because high-skilled university graduates could migrate to other regions in search of high-skilled jobs that have more of a future in the post-Covid world. Other kinds of fiscal stimulus could support low-skilled workers who lost their jobs due to lockdowns, not exactly in the form of public works but in the form of temporary necessary infrastructure works that had been delayed and that could be brought forward. These things would definitely

have a positive effect on decreasing regional inequalities in the face of local lockdowns.

Clare McNeil: It is a very important point. The Kickstart scheme is a form of subsidy. It does not currently involve local authorities to the extent that we would like to see, but it points in that direction. Perhaps we should think about expanding that for other affected groups.

The point about the scale of response needed is absolutely right. We should think about such ambitious options, as well as other forms of fiscal stimulus that we may come to, such as investments in public infrastructure.

Lord Skidelsky: Keynes's off-the-cuff remark was about digging holes and filling them up again, but he added that that would be if we could not think of anything more reasonable, which is never quoted. There are many more reasonable things that we can think of than sweeping up leaves in the street.

Q22 **Baroness Bowles of Berkhamsted:** We have already spoken about how some sectors will not recover and therefore whether one should or should not support furloughing. Which sectors will stay most scarred? Looking at very high-tech ones such as aerospace and automotive, might we lose highly skilled workers as a consequence and even lose some competitive advantage?

Professor Len Shackleton: I would not have thought that IT-related business would lose out. In fact, opportunities will be enhanced, given the changes in lifestyle. People have got used to having this kind of discussion [by Zoom]. That has been feasible for 10 years, but it has taken the Covid-19 epidemic to get us talking in this way. This [Zoom] is a rudimentary system. There will be much better systems than this and we have people working in Britain who can help us develop new technologies of this kind. I am bullish about such sectors. That is not where I think permanent job losses will come.

The Chair: Sorry to cut across you, but I think Baroness Bowles was pointing to aerospace and automotive industries, for example.

Professor Len Shackleton: The automotive industry is facing massive change anyway with the green revolution and moving towards all-electric. I cannot quite see why the automotive industry will be particularly badly affected by this. If anything, the demand for private vehicles et cetera is increasing rather than decreasing as a result of the decline in use of public transport. I think there are opportunities there.

Air transport is a very different thing. Whole sectors of air transport will substantially reduce, business travel for one. It will be a long time before we get back to the levels of tourism movement that we saw in the past. There are problems for the airline industry and obvious knock-on effects from there to the aerospace industry, where there will probably be declining orders for aircraft over the next few years. I think there are a few problems there, but not in the area of IT.

Q23 Lord Fox: One thing I would like you to think about is the capital cost of going into a business once it has stopped. We saw that in the 1970s and the 1980s when the small and medium businesses in automotive, for example, went out of business. Broadly speaking, they have never been replaced in this country, because the initial capital cost of re-establishing these businesses has never really been met.

Should we think about that when we look at measures to preserve capacity? Some of these businesses are easy and very fluid. I am sure Professor Shackleton is right when he talks about a million people moving around, but they are perhaps moving around where there is less friction. Should we consider the capital value of a sector as well as its vulnerability?

Professor Len Shackleton: I understand this business of re-establishing capital equipment. We are talking about a rather different set of questions here; I thought the focus was really on employment. Capital equipment can be mothballed. There are plenty of examples of that in the past and it has been opened up again when the opportunity has arisen.

Q24 Lord Burns: I just wanted to clarify that both the contributors who argued that we needed to continue to support employment were clear that the present scheme should not continue and should be withdrawn. There should be a new, more targeted scheme in place. I would just like to confirm that.

Secondly, do you see challenges in targeting? How difficult is it to distinguish between businesses that deserve it and those that do not? Should it be by company or type of existing employee? Should there be any automatic built-in phasing in this so that we do not subject ourselves to a cliff edge at some point in the future, as we are facing in October? How complicated are the schemes? We have talked about them at a higher level, but what about the practicalities?

The Chair: Dr Küçük, there are now three questions. If you could try to deal with those reasonably briefly, that would be great.

Dr Hande Küçük: As the economy has started to recover, we have already seen declines in the number of furloughed workers. The largest number of furloughed workers is still in the most affected sectors, such as the arts, entertainment, recreation, accommodation and food services. Some of these will also be in a better position. They will get out of the furlough scheme automatically, even if it is extended as the social distancing requirements ease. More time is needed for tourism, travel and recreation.

As Clare McNeil said, it will be critical to make it conditional on turnover and percentage of lost revenue, giving priority to sectors that have lost more but that will remain viable once the social distancing requirements ease. We need to put conditions into this.

Clare McNeil: Should the current scheme come to an end? Yes. Should it be more targeted? Yes, but it is difficult to pinpoint sectors. The

boundaries are very difficult to define, because jobs are at risk across a range of sectors, not just a few. For that reason, as Dr Küçük said, we have suggested that eligibility for a scheme should be based on the extent to which turnover or working hours have been affected. Those criteria are commonly used in other schemes of this kind across Europe.

The duration of the schemes is probably subject to discussion in every country. We have said that it should be linked to the economic conditions. That is generally the criterion used in other countries, but ultimately they have given fairly arbitrary dates at which schemes should end. For example, in Germany it is the end of next year. The principle should generally be linked to the state of the economy.

Q25 Lord Stern of Brentford: This is a big question, but it is really the only point in the discussion where we can raise it. It has come up only marginally, but it has come up. It is the link between job retention and job protection in the very short run and judgment about where the economy might be going in the medium run. Professor Shackleton raised it in connection with electric vehicles.

This touches directly on Lord Skidelsky's point that the kinds of activities you might want to propose for public works should be linked with what is reasonable and valuable, and where the economy is going, such as electric vehicle charging stations. Should we move strongly to private electric vehicles in the coming year or two, a lot of infrastructure will be necessary in the management of the autonomous vehicles if they are replacing public transport.

There are important issues to do with where the economy is going, and how far the short-run judgments and actions should be linked to where the economy might go, bearing in mind that there is always uncertainty with where the economy might go. A reaction on that point would be valuable.

Professor Len Shackleton: Lord Stern has pointed to some useful areas that we might investigate. He has been around for as long as I have and knows that Governments are not particularly good at spotting the kinds of areas where they should invest.

Lord Stern of Brentford: You just spotted some. You told us about electric cars. You told us that retail was on the way down, and so on.

Professor Len Shackleton: Sure, but I am not making policy. I would not make policy off the cuff like that. You are quite right that there are certainly some areas that we could investigate, but at the moment the Government's strategy just seems to be to throw money at this kind of thing as if there is no tomorrow. For example, we are told that they want to increase the number of people in the NHS and teachers without really specifying how they are to be used.

This is the great problem with spending other people's money, of course: there is no comeback on it. Yes, electric charging points sounds like a good thing to me. On the other hand, you know full well that there are

people with interests in this area who will push this beyond the point where it makes sense, so that we have charging points every 100 yards or something.

This is the issue when we go forward. You know as well as I do that government is not omnipotent. Nor does it have the information that it requires. The private sector is motivated by profit, so there is some kind of direction to it. If you are in government, it is just pressure from one lobby group, one set of businesses, trade unions or whatever it may be. Boris Johnson has talked about the idea that we can get out of this with a 21st century new deal where you just throw money in all directions and hope that some of it pays off. That is not the way to go.

Q26 Lord Livingston of Parkhead: I hope that my question will have a briefer answer. Turning to international comparisons, commentators including the Bank of England have stated that the UK saw a greater decline in economic activity than a number of other countries, despite our lockdown not being as severe, because more activities in the UK economy have a social interaction nature and are affected by social distancing. Do you agree with this? Are there any implications, or do we just have to live with that particular oddity?

Dr Hande Küçük: Taking numbers from the OECD, the UK hospitality sector's share of total value added is quite close to the euro area average. The UK has an 18% share of retail trade, transport, accommodation and food services value added in total, as opposed to 19% in the euro area. There does not seem to be much difference, looking at that simple measure.

We tracked the stringency of lockdown measures. For example, the Oxford Covid-19 government response tracker shows that lockdown stringency in the UK started at a lower level than Germany, for example, but then stayed as stringent as it was in the beginning until July, according to that measure. Looking at Google mobility trends, for example, the mobility trends for retail and recreation remained below baseline by a much bigger margin in the UK compared with France and Germany, and similarly for mobility trends for workplaces.

This also has to do with the fact that the limitations, especially at this point, are on the more stringent side compared with some other European countries. Some statistics show that more office workers have gone back to work in France, for example, compared with the UK. A recent article by the *Economist* cites survey evidence that 84% of French office workers are reported to be back at the office. The number is less than 40% for British office workers. That also has to do with why the UK economy has done worse than others.

Q27 Lord Livingston of Parkhead: I have a follow-up question for Clare McNeil on that question, picking up on something earlier. When we talked about the potential for a next-generation job retention scheme, you mentioned, and we have heard this from previous witnesses, a reference to the conditionality on it. I can fully understand conditions such as not

paying dividends. That makes sense. You also mentioned no-redundancy commitments, the minimum wage—that is a legal requirement, so I was not sure if you meant the living wage, but you can tell me—training and other things. Is there a danger that you put so many conditions on future measures that the companies that can least afford them, because they are by nature a lot more scarred, do not pick them up, particularly smaller businesses? Do you effectively create a scheme that nobody wants?

Clare McNeil: The point about redundancies is about making sure that the support is effective. It is something that we tend to see in other schemes of this kind. That is an important condition on support.

Lord Livingston of Parkhead: Are you suggesting that, for instance, if a restaurant chain closes half its restaurants and takes support for the other half, it could not make the first half redundant? I want to understand. Are we talking about a complete redundancy ban across the whole workforce?

Clare McNeil: The principle is that you retain your workforce if you are receiving the support, because you are receiving a subsidy for your workers. Beyond that, France has the minimum wage element to its scheme. If an employee is receiving 80% or 60% of their earnings, that might be fine, depending on what salary they are on. If they are on one of the lower salaries, that presents challenges in terms of people's income. That is where that comes in. The sorts of measures that we have outlined, and others such as the TUC and the CBI, are fairly common in other European and international schemes and should not place too much of a burden on businesses.

Lord Livingston of Parkhead: The French record on employment is perhaps not one of the things we wish to copy, but thank you for that.

The Chair: Following up Lord Livingston's point, is there not a danger that, by constraining employers so they cannot, for example, make redundancies, which might result in the business being more viable and able to maintain a level of jobs, you end up with more people becoming unemployed as a result of those constraints themselves? You cannot second-guess the management of the business.

Clare McNeil: In our analysis, that did not come up as an issue. As I say, this principle is common to the schemes that we have looked at. It is also a criterion which the TUC has recommended in its proposal for a short-time working scheme.

The Chair: That is not an argument for doing it, is it?

Clare McNeil: The principle is that if a company receives support for that worker, they should be retained in employment. That is definitely the case in relation to the subsidy which the individual receives. That would be the principle.

The Chair: Lord Livingston's point was broader.

Lord Burns: I want to press this issue. Talking about the hospitality industry and looking at long chains of shops such as Pret, you are really saying that there cannot be anything unless every shop remains open everywhere and there are no redundancies at all.

Clare McNeil: The extent of the workforce that this applies to will vary between schemes. We can certainly send you evidence on how that applies in other countries' schemes.

Professor Len Shackleton: This is an interesting case of a wider thing I have noticed around the economics of Covid-19. All sorts of people are landing us with suggestions, which actually pre-existed the pandemic, of restrictions on firms, on their dividends and so forth. I am very worried about this. I do not think this would be a sensible way to proceed. Sustainable jobs are created by businesses that are focused very clearly on a market. They are not trying to play political games. We need to get back to free market activity, rather than assuming that the Government will sort this all out by imposing more and more restrictions. Let us do something.

Q28 **Viscount Chandos:** Do you think it is possible to estimate the cost to the Exchequer of withdrawing support too soon, for instance in increased social security spending and lower tax receipts, and from that have a comparison with the cost of continuing the scheme in either its present or a modified form? Within that, to what extent should the fraud and error rate be considered in deciding whether and how to wind down the scheme in its present form? What mechanisms could HMRC use to try to reduce that fraud and error rate in the future?

Dr Hande Küçük: We totally agree that when measuring the cost to the Exchequer of the support schemes, maybe not of withdrawing, we should take into account the counterfactual. What if these schemes were not there? What if there was an abrupt fall in employment? This would also cost the public finances, in the taxes the Government would normally receive and the benefits they would have to pay. In our August review, which includes the UK forecast for the medium term, we estimate the cost of extending the scheme until mid-2021 as around £10 billion. This is almost the amount of the job retention bonus, so this is just going through the cost side.

In our modelling exercises, we approach the cost of not extending it, of withdrawing support too soon, by using the idea of a hysteresis effect whereby a short-term rise in unemployment causes long-term effects through increased retrenchment in households and businesses on spending and the discouraged worker effect. That is where unemployed people become discouraged from searching for work and lose their attachment to the labour force, leading to a permanent loss in productivity.

When we work with these scenarios, such as 1% permanently lower productivity, this has a huge cost. We estimate the cost of 1% permanently lower productivity to be 2.5% lower GDP for an extended

period. A permanent loss of GDP implies that the Government will need higher taxes to make up for the lost revenue going forward. These are the rough illustrative estimates: what if you work with 1% lower productivity for the medium term? This has important costs in terms of GDP. Our estimates suggest that this would amount to a permanent loss of £50 billion per annum and £750 per person as of 2022. We can submit the written evidence explaining the calculations more.

The Chair: You said the furlough bonus equated to the £10 billion. That cannot be right, because surely that implies that everyone on furlough is reemployed. There are 9.5 million or so on furlough, so how do you get to £10 billion?

Dr Hande Küçük: The number of employees on furlough is now around 5 million.

The Chair: Yes, and 5 million times £1,000 is £5 billion, not £10 billion.

Dr Hande Küçük: I can give you the details of the calculation.

Clare McNeil: We found that, under the proposal we set out for a short-time working scheme, the cost of extending it from November to March next year would be almost £8 billion, so a fairly similar estimate. While we have not assessed the full cost of withdrawing the support early, we have looked at the cost of universal credit for the same group of newly unemployed people over the same period. A highly conservative estimate puts that at £1.5 billion, so it is important to recognise that there are clearly costs on both sides.

Professor Len Shackleton: I would not argue with either of these estimates, because they are based on particular assumptions. We are looking at what the future will be, and whether we are looking to the market to resolve these problems or whether we are into a permanent situation where we are trying to hold up the economic processes, which I think will eventually get us back to some reasonable equilibrium.

Viscount Chandos: Professor Shackleton, is the question not one of how long the transition is? We are seeing that a transition just in the last six months and the withdrawal of the scheme at the end of October is an arbitrary judgment. You seem to be saying that any extension is, in a sense, a profligate short-term fix. May it not be the scale of the shock and the degree of excess? You talked about churn of a million jobs per quarter in normal circumstances. We are likely to see a multiple of that and probably a lower level of job creation. Is it not pragmatic to say that a longer and more phased withdrawal is appropriate?

Professor Len Shackleton: It may be pragmatic, but I can see us having exactly the same discussion in January, March, June or whenever it may be. These problems will not go away. Jobs that have been permanently lost, and there are a lot of them hidden behind furlough, will still be lost, however long you wait for this. I think a figure was quoted earlier that probably a third of the people still on furlough will eventually

lose their jobs. The sooner we move on from this and think about businesses reorganising themselves, premises being redirected, repurposed and so on, and people looking for new jobs, the quicker we will get out of this, rather than pretending that something will turn up in the new year and things will pick up in March or June. We have to get on with it.

Q29 Lord Fox: That moves nicely into this question. I think all three witnesses are agreed that some of the jobs being lost would inevitably have been lost, in the sense that they are weak businesses and perhaps the virus has accelerated the process of job loss. I think all three of you, and perhaps you would like to confirm this, agree that unless the right activities are taken ahead there is a risk that jobs that could have been saved will also be lost. What is the risk of this permanent scarring? What does the historical view show about this risk? Indeed, is there anything from history that we should be looking at to help us avoid this permanent scarring; in other words, the loss of jobs that need not be lost?

Professor Len Shackleton: The scarring is a real phenomenon. We have seen this in the past. I am more optimistic about it this time round. In the recessions of the 1980s, 1990s and so on, there was the loss of whole industries such as mining. You had people with a very specific set of skills that were no longer viable and it was very difficult for them to retrain. They were in very different, isolated parts of the country. I do not think that the kinds of job losses we are looking at now are concentrated in that way. A lot of them will be concentrated among young people who have been working in first-entry jobs or in service sector activities. I think they can move on fairly quickly from this. I do not think that scarring will be quite the problem it was in previous periods.

Clare McNeil: I am not as optimistic as Professor Shackleton, certainly not about the prospects for workers with fewer skills to move into new jobs, particularly where qualifications may be a barrier to entry. I take the point that there are differences between the unemployment crisis of the 1980s and now, but some of the lessons there will still apply to today. The lessons were that job losses are not simply reversed when the economy begins to grow again. They result in a growing detachment from the labour market, which can result in physical and mental health problems. Some job losses can become permanent.

The point that we need to take away is that, even if an extension of the job retention scheme were delaying the inevitable, mass unemployment is a highly costly outcome, with ongoing costs to public finances and individuals. Delaying or mitigating that, while job creation is as low as it is, is a valid and worthwhile policy goal in itself.

Dr Hande Küçük: Past experience shows persistent effects of abrupt rises in unemployment. We saw it in the 1970s and 1980s. More recently, we saw it after the global financial crisis, where, despite the monetary stimulus, it took quite a long while to get back to the unemployment levels from prior to the financial crisis. Policies are crucial here. It is important to support monetary and fiscal policies alongside structural

policies that aim at ensuring a smooth transition from some sectors that will not have much of a future to those that will. Avoiding long-term scarring requires all policies working together, with a view to minimising the costs associated with these policies.

The Chair: Could I thank all three of you? That has been quite a robust discussion and very helpful. We are extremely grateful to you for giving up your time.