

CORONAVIRUS AND THE LABOUR MARKET: IMPACTS AND CHALLENGES

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Executive summary

Coronavirus is a public health crisis and the Government has rightly taken unprecedented measures to tackle it. This has included significant restrictions on much social interaction and economic activity.

The result has been the sharpest spike in unemployment on record. There were one million claims for Universal Credit in a two week period, 7.3 times higher than the same period one year ago. Gains in employment over the last five years have been lost in just one month, with unemployment already likely to be at least 50% higher.

The impact of coronavirus will be felt unevenly, and there is a risk that it will deepen existing social and regional inequalities. These job losses have disproportionately affected young people, women and the lowest paid. These groups are more likely to work in sectors that have shut down or reduced activity, such as hospitality and retail. They are also less likely to be able to work from home.

The impact also varies significantly across the country: 18% of jobs in Greater Manchester are in 'shut down' sectors compared to 15% in the East Midlands. Likewise, 36% of jobs in the North East are in the most at risk occupations, compared to 32% in London, reflecting differences in occupational structure and ability to work from home.

The Government's policy response has focused on: supporting businesses through grants, loans and other measures; helping people to stay in work, including by covering wages up to 80% of £2,500 per month per employee; and increasing the generosity of benefits. But there is further to go and more we can learn from other countries. This includes the case for the ability to furlough workers part-time and increasing the generosity of benefits.

The future is highly uncertain, but there are five big challenges that policy must address:

1. **Support young people.** We must avoid a 'pandemic generation' of young people with poorer education and skills prospects.
2. **Utilise people's skills.** We should match those out of work or furloughed to jobs growth areas such as supermarkets, as well as chances to volunteer.
3. **Prevent long-term unemployment.** We must help those who lose their jobs back to work as quickly as possible, given the harm long-term unemployment does.
4. **Prepare for withdrawal of support.** Emergency support should be in place for as long as needed, but we need to think about how best to withdraw it when safe to do so.
5. **Plan for the future.** We need to think about how to combine high employment with improved security for people after the crisis.

Introduction

Coronavirus is, first and foremost, a health crisis and the health response must be paramount.

However, both the crisis and our response to it will have a very real economic impact. The social distancing measures and economic restrictions aim to slow the spread of the virus, protect the NHS and save lives. They have had a profound impact on businesses and jobs across the country. Alongside these public health measures, the Government has put in place unprecedented economic measures to protect jobs and incomes during the crisis.

This report aims to provide an early insight into the impact of coronavirus on our labour market, to explore the effectiveness of the measures taken so far, and to set out what else could be done to protect jobs and incomes. It looks at timely data which suggest a much sharper and higher spike in unemployment compared to the recession that followed the 2008 financial crisis. It analyses the labour market policy response in the UK and other countries.

Finally, the report identifies the key challenges that current and future policy and practice must address as the pandemic progresses and we emerge from it over time.

How many jobs have been lost?

Both coronavirus and the Government's necessary response to try and slow its spread have had immediate and profound economic impacts. We have seen the sharpest rises in unemployment in living memory and big changes in ways of working and living our lives.

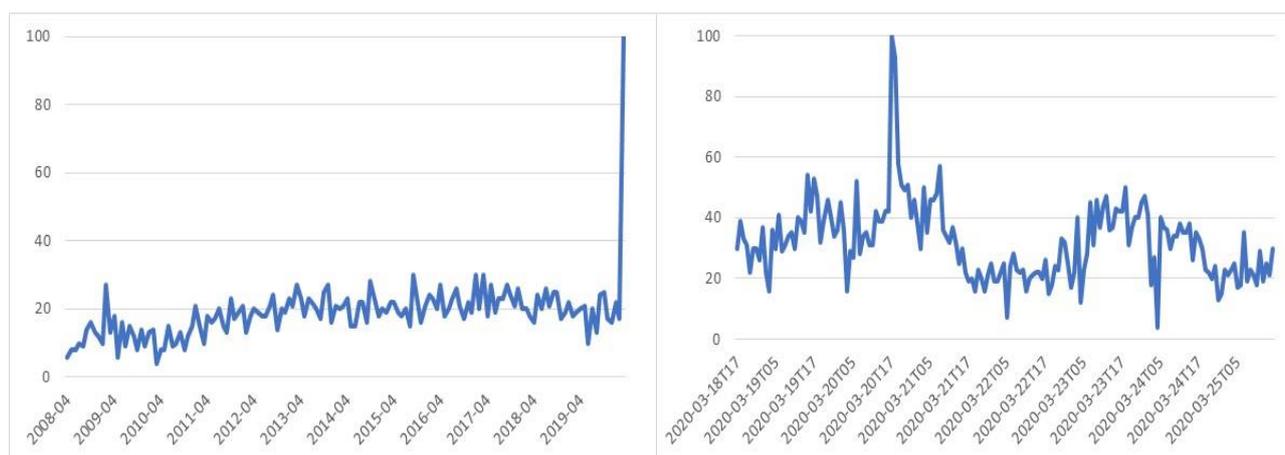
Google search trends show the scale of job losses and financial concerns

The Office for National Statistics produce high-quality labour market statistics, but the latest data available covers the three months to January 2020. They show a record employment rate of 76.5%, but this is clearly before the spread of coronavirus in the UK.¹

Learning and Work Institute have analysed trends in Google searches relating to unemployment and difficulty paying bills.² These can give an early indication of emerging challenges before they show up in benefit claims or official data, although of course people use other search engines or go directly to websites and will use other search terms too.

Searches for 'lost my job' spiked to five times their usual levels with a particular spike on Friday 17th March 2020. This is a relative measure, with 100 representing the time with the most searches. Other search terms, such as 'Universal Credit', 'can't pay bills' and 'can't pay rent' show a similar pattern.

Figure 1: Google searches for 'lost my job'



¹ Employment rate (Aged 16-64, seasonally adjusted). ONS. 2020

² Trouble ahead? Early warning signs for the labour market, Evans, L&W, 2020.

A range of surveys show the immediate shock to the labour market

Several surveys point to an immediate and sharp shock to the labour market:

- The **Chartered Institute of Personnel Development (CIPD)** found that 52% of employers plan to use the Government's help with wage costs. Many plan to reduce staffing: 15% expect to make up to 10% staff redundant and 9% expect to lose 11-50% of staff. Recruitment has also dropped sharply: 52% have frozen hiring, 25% are hiring less, 14% are recruiting as normal and 4% hiring more.³
- The **British Chambers of Commerce (BCC)** found that 32% of their employers planned to furlough 75-100% of their staff in next week, while 44% said they'd furlough at least 50% of their workforce in the next week. Many employers may have already reduced staffing before this early April 2020 survey.⁴
- The **Office for National Statistics (ONS)** found that between 9th and 22nd March 2020, 51% of accommodation and food services businesses had reduced staffing in the short-term, with similar patterns for administrative and support service activities and arts, entertainment and recreation.⁵
- A survey by **academics** in late March (before the Government's announcements of business and wage support) found that 8% of workers said they had lost their job and that 35% expect to earn less in the next four months.⁶
- A **YouGov** survey in late March found that almost one in ten people employed before the crisis had lost their job and a further 16% had their pay or hours reduced. This was early in the crisis and is likely to have now risen further.⁷

Claims to Universal Credit have spiked off the charts

Data on benefit claims suggest the increase in unemployment as a result of the coronavirus crisis will be far larger and more rapid than during the last recession. There have been almost one million new claims for Universal Credit in the last fortnight of March 2020, 7.3 times higher than the same period last year.

By comparison, during the peak of the last recession, claims for Jobseeker's Allowance – the main unemployment benefit that preceded Universal Credit – reached 100,000 a week. This peak was just 1.8 times higher than the previous year.

Both the level of claims and speed of increase is unprecedented.

³ Survey of HR professionals, CIPD and People Management, 2020

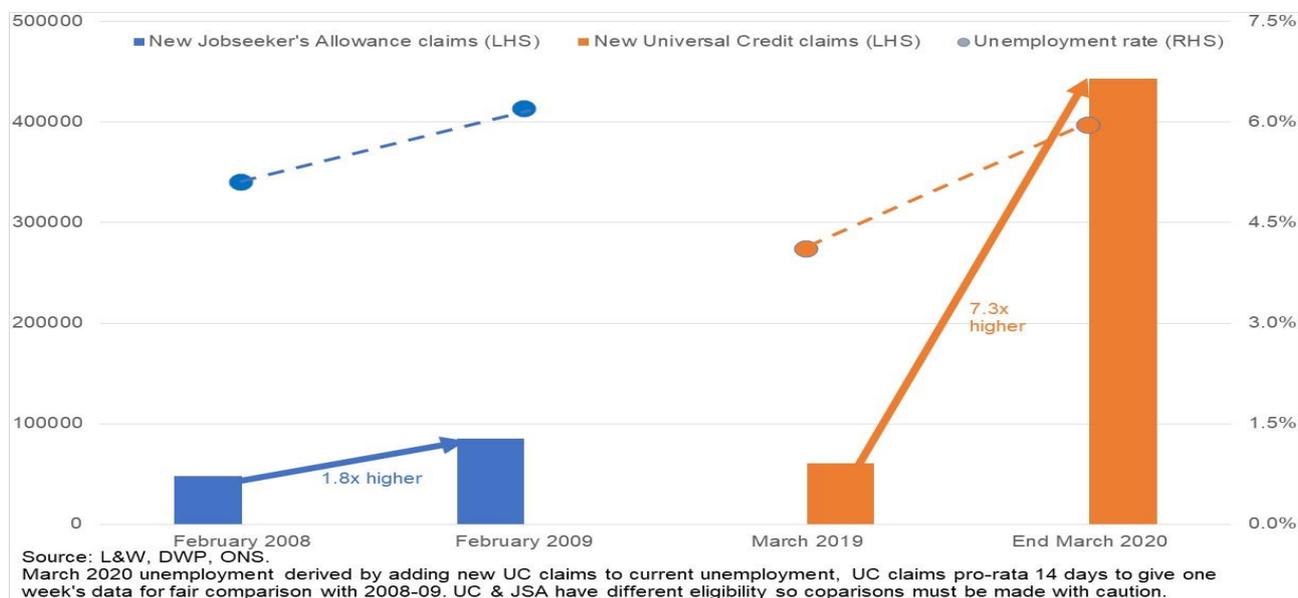
⁴ Coronavirus business impact tracker, BCC, 2020.

⁵ Coronavirus, the UK economy and society, faster indicators: data as at 9th April 2020, ONS, 2020.

⁶ Inequality in the impact of the coronavirus shock: new survey evidence for UK, Adams-Prassl, Boneva, Golin and Rauh, 2020.

⁷ Coronavirus survey, YouGov, 2020.

Figure 2: Weekly increase in benefit claims



Eligibility for Universal Credit today is different to that for Jobseeker's Allowance in 2008. A wider group of those who are out of work is eligible and around one in three claimants is in work. This means that some of these new Universal Credit claimants may still be in work, but have a reduction in earnings. Together this means that comparisons between the two must be made with caution. Nonetheless, the figures illustrate a large increase in unemployment, and significantly sharper rise than in 2008.

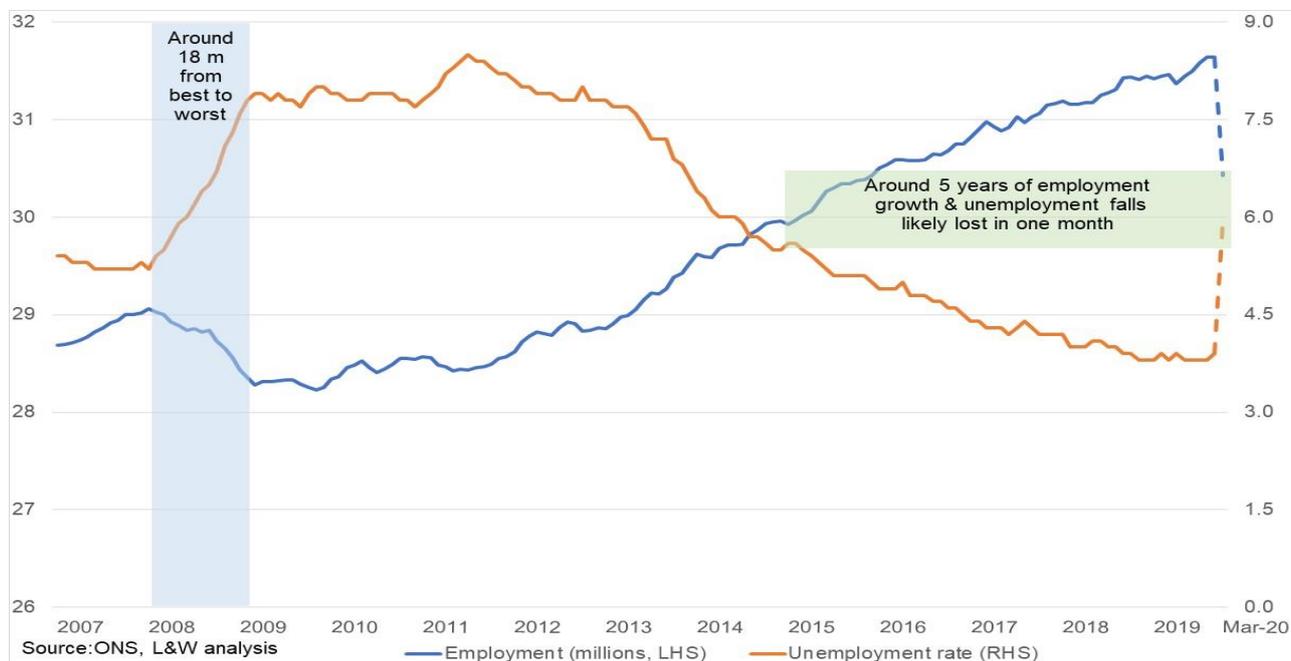
DWP and Jobcentre Plus staff have worked exceptionally hard to process these claims in a timely manner, with around 10,000 redeployed to help. This has been a significant effort by all involved.

The spike in unemployment has wiped out five years of jobs gains

The spike in Universal Credit claims and other survey measures suggests that unemployment is likely to have increased substantially already. Learning and Work Institute estimate that unemployment has already risen from 3.9% to at least 6%.⁸

⁸ Based on assuming that two thirds of new Universal Credit claimants are people who have lost their jobs, with the remainder still in work but with reduced income. This is in line with the total proportion of Universal Credit claimants who are out of work.

Figure 3: Actual and projected changes in employment and unemployment



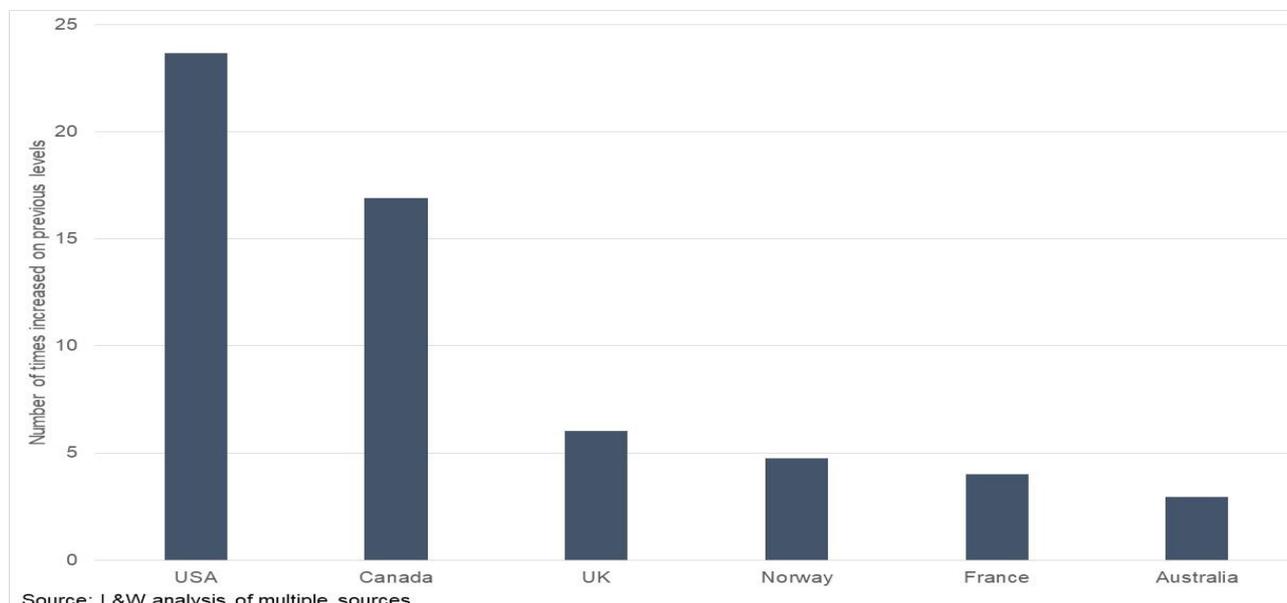
Both the scale and speed of change stand out: it took unemployment 18 months to increase by the same amount in the last recession. The drop in employment so far is likely to have wiped out five years of employment gains.

Many countries have a similar experience, though the nature and scale varies

Coronavirus is a global crisis, and it is having an impact on economies across the world. New records for unemployment benefit claims have been set in many countries. The nature and scale of the increases in unemployment depends both on the scale of the outbreak, the policy response of governments, and the underlying economic and labour market conditions.

Timely and comparable data is not yet available for many countries, but a range of data indicate the scale of impact. There have been 10 million new claims for unemployment benefit across the USA (only partly the result of widened eligibility criteria for this benefit) in a fortnight; one million new claims in Canada in one week; projected sharp rises in unemployment rates in Australia; unemployment claims are up five-fold in Norway; and four times the usual number of employees are now covered by partial unemployment (reductions in hours or work by employers) arrangements in France.

Figure 4: Changes in unemployment and reduced employment by country



The scale and speed of economic and labour market change is off the charts in the UK and many other countries. The recession that followed the 2008 financial crisis led to a large increase in unemployment. However, this was much smaller in scale than the current situation and built up over a much longer period of time. In part this is because real wages took up some of the strain of falling demand in the economy, supported by a significant fall in the exchange rate and subsequent rise in inflation.

By contrast, this is an unemployment-led recession with an almost overnight change on an unprecedented scale.

Who is most at risk?

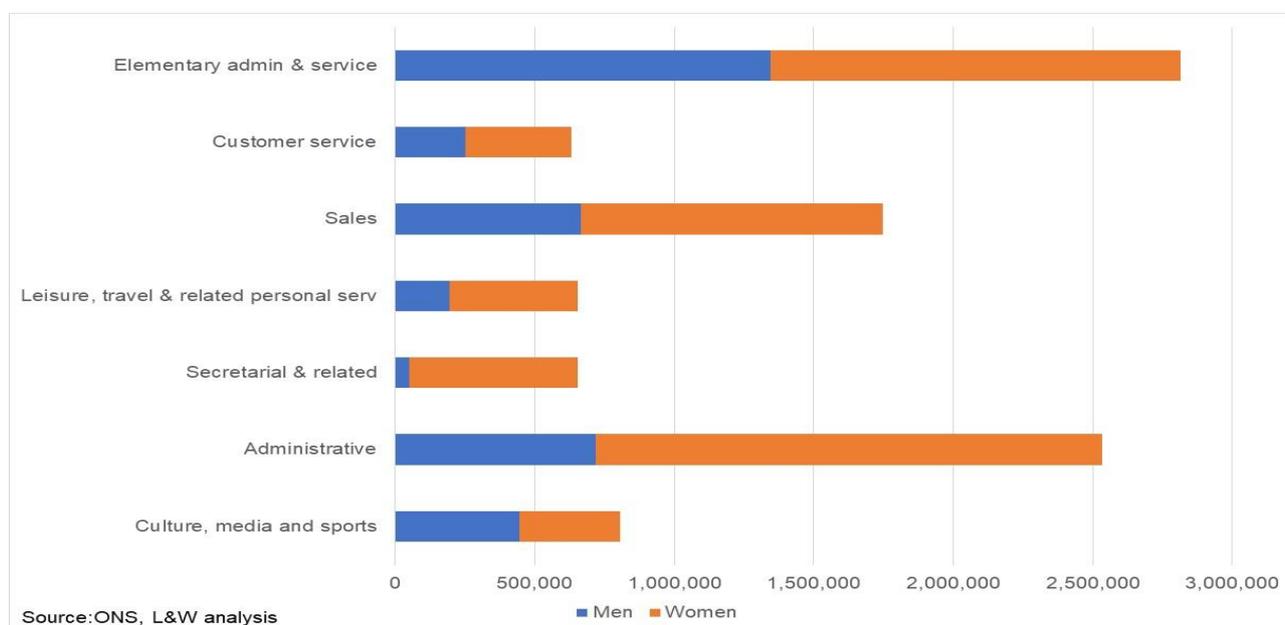
The immediate impact of Coronavirus on employment has been large and rapid. The nature of the virus and the policy responses necessary for public health reasons, means that the impact has been unevenly distributed.

Up to 10 million jobs are in the most 'at risk' categories

Learning and Work Institute's analysis suggests almost **10 million people are employed in the occupations that could be most directly affected**.⁹ Of course, not all of these jobs will be lost: some businesses will continue to operate, these roles are split across a range of sectors not all of which are affected, many people can work at home, and many businesses will have furloughed staff thus keeping them in employment. However, unemployment would double if even one in five of the most at risk staff lost their jobs.

The Institute for Fiscal Studies estimate that 15% (4.8 million) of employees work in sectors largely or fully shut down.¹⁰ Together this suggests 5-10 million jobs could be affected. Unemployment may double on realistic assumptions though there is a high degree of uncertainty.

Figure 5: Employment in occupations most at risk



There are some areas of the economy where the number of jobs is increasing. These include distribution and other roles associated with online shopping, as well as a range of healthcare roles for obvious reasons. Meanwhile, many other sectors continue to recruit

⁹ Based on two digit SOC codes for the occupations listed in Figure 5: 32, 34, 41, 42, 62, 71, 72, 82 and 92.

¹⁰ Sector shutdowns during the coronavirus crisis: which workers are most exposed, IFS, 2020.

(though often at reduced levels as the previous chapter showed). In some respects, this is accelerating existing trends, such as the shift in retail from the high street to online.

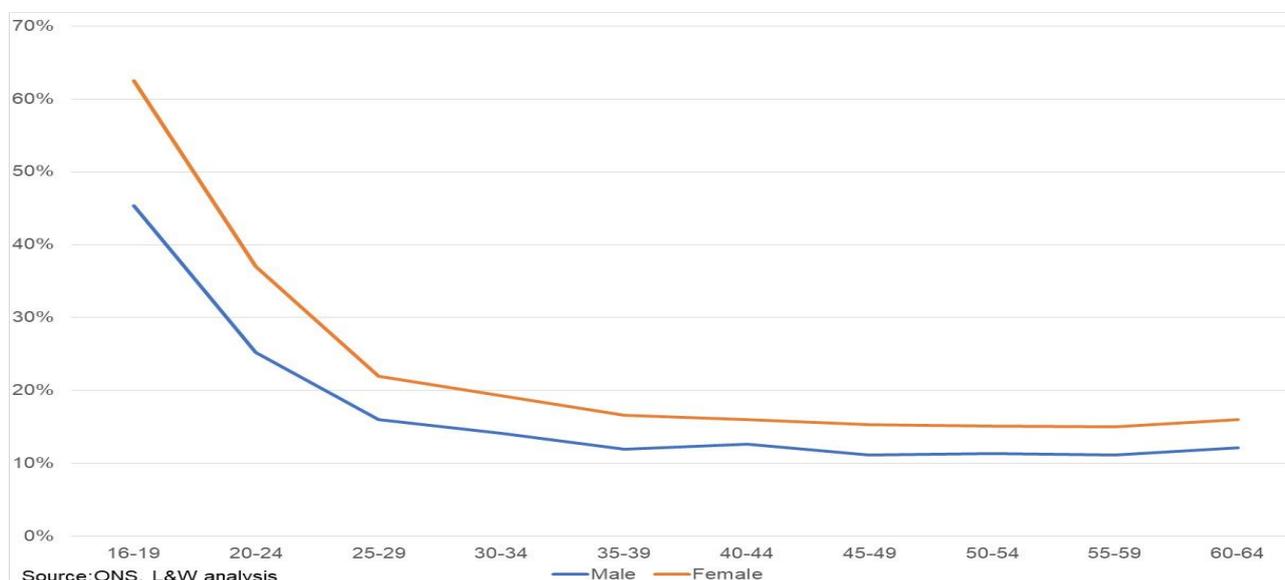
Women, younger people and lower earners are most at risk of losing their job

The sectors and occupations most at risk employ a higher number of young people, women and low earners: women make up two in three of the occupations most at risk.

YouGov found that 8% of 18-24 year olds said they had been in work before the coronavirus crisis, but had now lost their jobs, compared to 5% of all adults.¹¹ Around 69% workers under 30 report working fewer hours and earning less, compared to 49% of 40-55 year olds. 12% of those earning less than £20k per year say they've lost their job definitely or probably because of coronavirus, compared to 5% of those earning £40k or more.¹²

Our analysis, based on an IFS assessment of the sectors most directly affected by constraints on economic activity, shows young people more likely to be affected.¹³ Those in their early 20s are 2.5 times more likely to work in a shut down sector than other workers. The IFS found low earners are seven times more likely to work in such sectors.

Figure 6: Proportion of jobs in 'lockdown' sectors by age



Some of the shifts in employment and growth areas outlined above risk exacerbating these inequalities. For example, women are more likely to be employed in high street retail

¹¹ How is Covid19 affecting British opinion, jobs and wellbeing? YouGov, 2020.

¹² Inequality in the impact of the coronavirus shock: new survey evidence for UK, Adams-Prassl, Boneva, Golin and Rauh, 2020.

¹³ Sector shutdowns during the coronavirus crisis: which workers are most exposed, IFS, 2020. We have used this methodology of identifying sectors most affected and pooled eight waves of LFS data to assess.

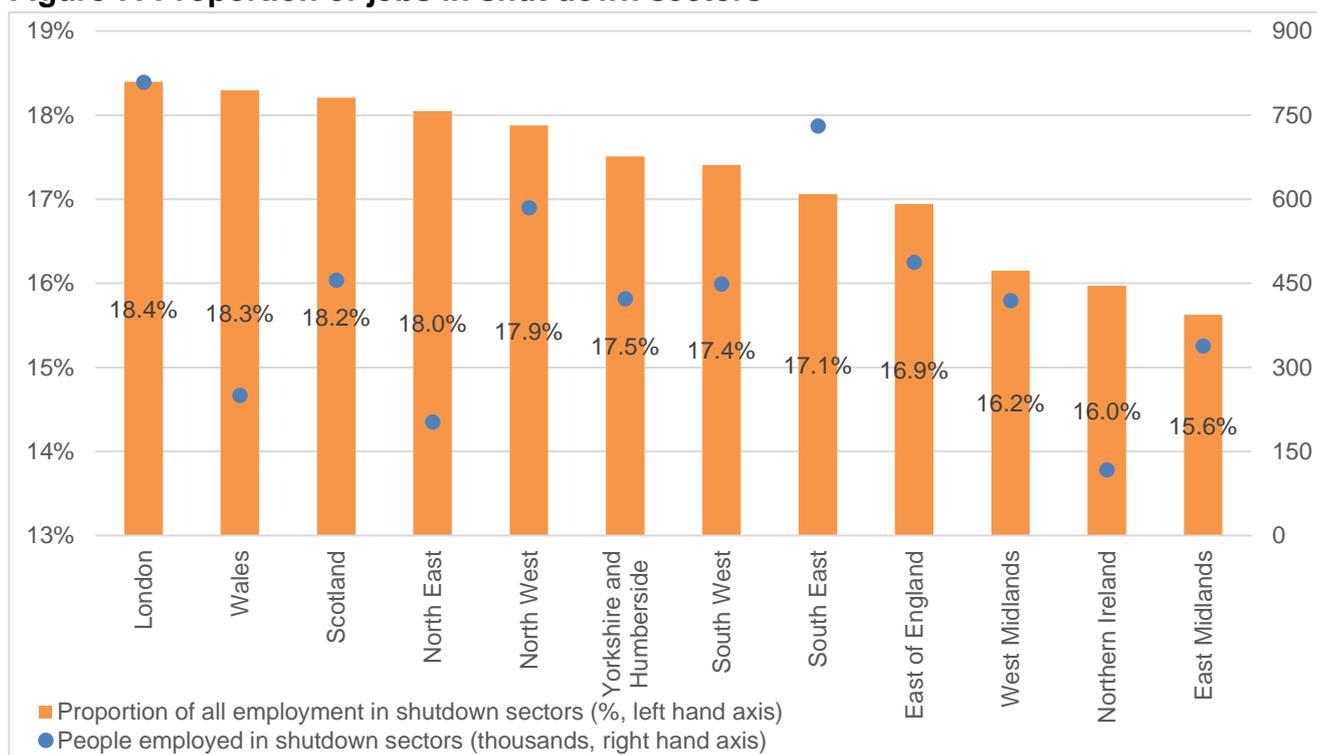
whereas men are more likely to be employed in the warehousing and distribution roles needed for online shopping. Both policy and employer practice can help to tackle this.

The north of England faces a greater risk of job losses

The proportion of employment in industries most impacted by the shutdown varies between regions. Figure 7 below shows that London has the highest proportion of employment in vulnerable industries, with 18.4% of all jobs being in shutdown sectors. The East Midlands has the lowest proportion of employment in these sectors, with 15.6% of employment being in sectors that have been most impacted by the shutdown.

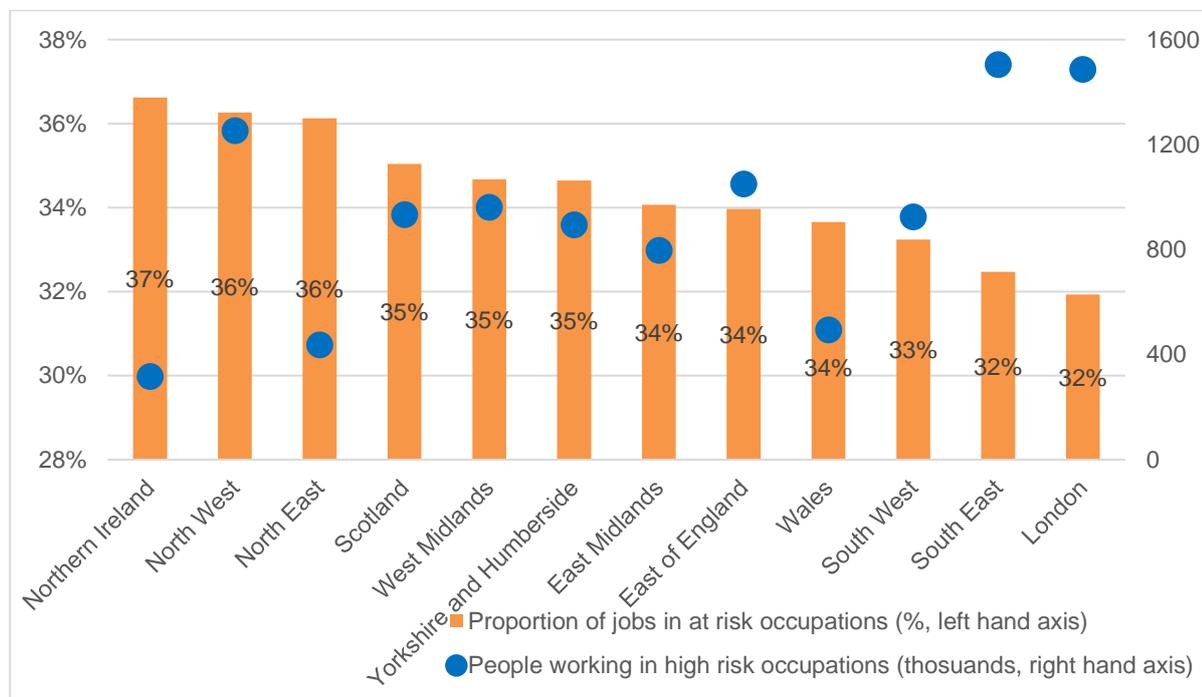
Looking at the number of people previously working in shutdown sectors, London has the highest number, with 808,000, followed by the South East of England, with 730,000, and the North West with 584,000.

Figure 7: Proportion of jobs in shut down sectors



The proportion of employment in at risk occupations also varies significantly by region. London has the lowest level of employment in at risk occupations, (31.9%), followed by the South East (32.5%). Northern Ireland (36.6%), the North West (36.3%), and the North East (36.1%) have the highest proportion of employment in at risk occupations. Figure 8 below shows the proportion of employment in at risk occupations by region, and the number of people employed in each sector.

Figure 8: Most 'at risk' occupations by region



The employment impact of coronavirus will be distributed unequally across the UK. The North East and the North West have both a high level of employment in shutdown sectors, and a high proportion of employment in occupations at risk from coronavirus. These regions also had lower employment rates before the coronavirus crisis hit.¹⁴ This suggests that coronavirus may exacerbate pre-existing economic inequalities, hitting areas with weaker economies hardest, and setting back the government's aim of 'levelling up' prosperity across the UK. There could also be an impact on inequalities within regions: London has a high proportion of people working in 'shutdown sectors' but a high proportion working in occupations able to work from home.

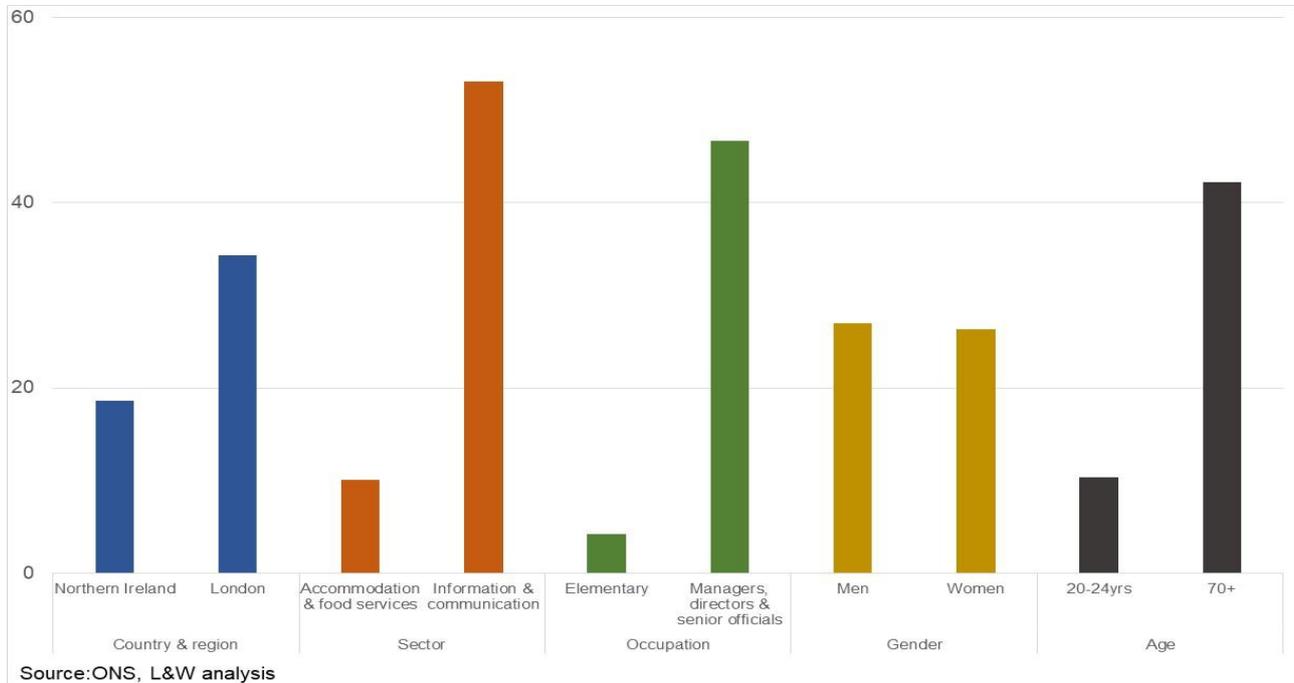
Higher occupational groups are more likely to be able to work from home

The ability to work from home can make jobs less vulnerable to being lost as a result of the current public health measures. This ability to work from home varies significantly across industries and occupations. Those in higher occupational groups are far more likely to be able to work from home: managers, directors and senior officials are ten times more likely to be able to work from home than those in elementary occupations.¹⁵ Ability to work from home also varies by region and by age, in part due to how the occupational and sectoral profile of employment varies across the country and age groups.

¹⁴ Labour market in the regions of the UK, ONS, 2020.

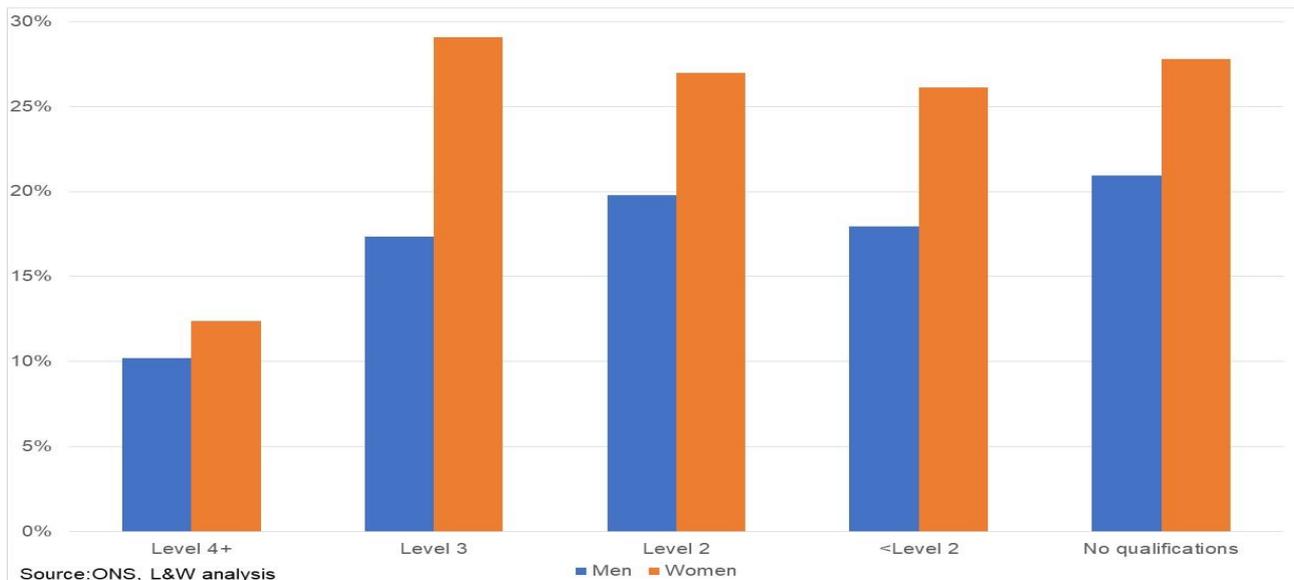
¹⁵ Home working the UK labour market, ONS, 2020.

Figure 9: Proportion of people who ever work at home, highest and lowest



Linked to this, just over 10% of those with a degree or equivalent work in a sector most directly affected by restrictions (again, using the IFS measure of this) compared to around 17-25% of people qualified to other levels.

Figure 10: Proportion of people in lock down sectors by highest qualification

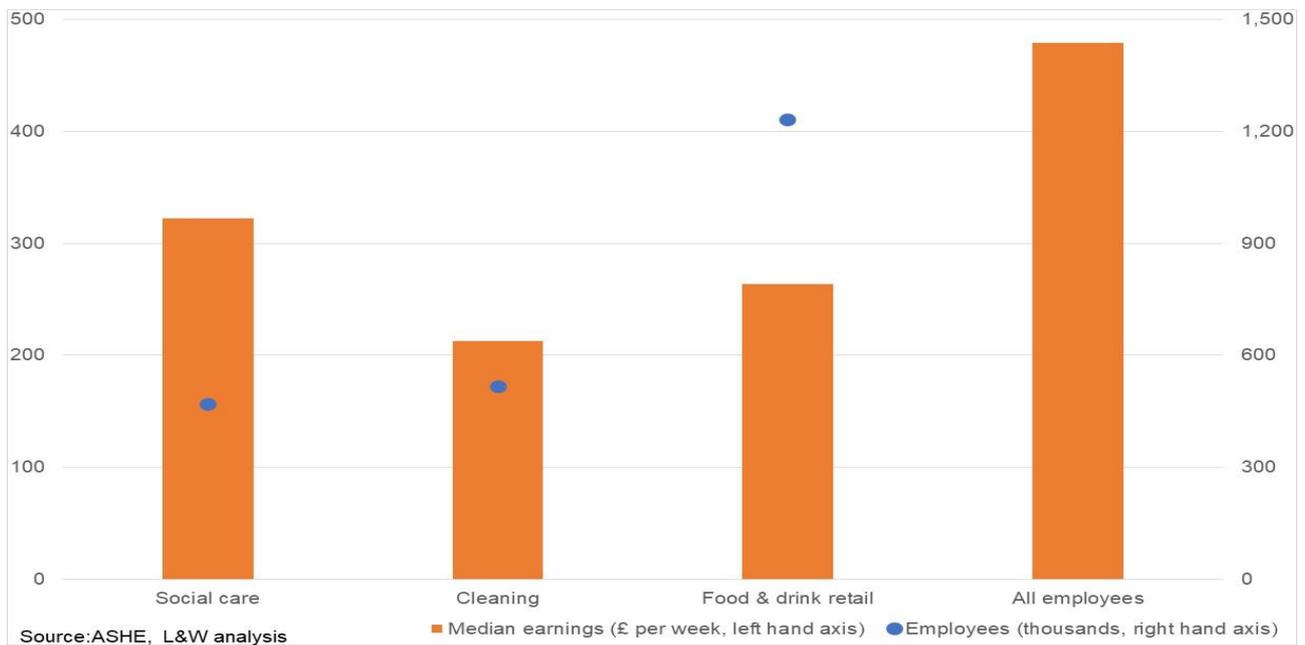


This suggests that the employment impact of coronavirus will be very uneven – with workers in lower level occupations and with lower levels of qualifications being far more vulnerable to unemployment.

Many of our key workers are among the lowest paid

The crisis has shown how many people are key workers, how low paid many are, and how interlinked so much social and economic activity is. To illustrate this, Figure 11 shows that the median earnings of the 2.2 million people are employed in social care, cleaning and food and drink retail are one third to one half less than those for all employees.

Figure 11: Employment and pay by sector



Doing whatever it takes: assessing the policy response

In his speech on 17th March 2020, just 33 days after taking office, the Chancellor Rishi Sunak MP said:

“We will support jobs, we will support incomes, we will support businesses, and we will help you protect your loved ones. We will do whatever it takes.”

The measures taken by the UK Government have been unprecedented in their scope and scale. The main measures include:

- A **Coronavirus Job Retention Scheme** which allows employers affected by coronavirus to furlough employees, and claim 80% of the cost of their wages, up to £2,500 per month;
- A **Self-employment Income Support Scheme** which provides self-employed workers with a taxable grant worth up to 80% of trading profits, up to a maximum of £2,500 a month;
- A **Coronavirus Statutory Sick Pay (SSP) Rebate Scheme** for small and medium sized businesses (SMEs), which repays employers the cost of SSP for employees who are unable to work because they have coronavirus, or cannot work because they are self-isolating;
- **Increases to benefits** with an additional £20 per week added to Universal Credit and the basic element in Working Tax Credit.
- **Support for businesses** including business rate holidays for businesses in the worst hit sectors, grants for small businesses in some sectors, and a scheme to support access to business interruption loans.

As the Chancellor set out in his initial speech, the measures have focussed on keeping businesses going, keeping people attached to work, and protecting incomes. The hope is that this will limit the long-term damage to the economy and to workers, and allow for a rapid recovery once the worst of the pandemic is over.

The unprecedented measures relate to the unprecedented nature and scale of the crisis. This is not a traditional recession or financial crisis: large parts of the economy are essentially being put into economic stasis so they can recover again once the crisis has passed.

The Government has broadly done the right things and acted impressively quickly, utilising existing mechanisms to get support to people and businesses as quickly as possible.

There has also been a rapid redeployment of resources within government to respond to the crisis, including the redeploying of 10,000 DWP workers to process extra UC claims.

Beyond the action already taken, the Government should explore further measures to protect businesses and workers during this crisis:

- **Improving Statutory Sick Pay** – sickness benefits in the UK are comparatively low, with Statutory Sick Pay (SSP) being just £98.85 a week. With a large number of workers likely to have to take time off sick as a result of coronavirus, the Government should consider an increase in SSP, at least for the duration of the pandemic.
- **Increasing the generosity of benefits** – even following the temporary £20 a week increase in Universal Credit, the level of unemployment benefit in the UK is low compared to other European economies, and the real terms value of benefits has declined significantly following a long freeze on working age benefits. People with savings of £16,000 or over are not eligible for Universal Credit. This means that many workers who will lose their jobs will either face a significant drop in income, or not be eligible for support at all. The Government should consider further increasing the generosity of the benefit system and increasing or temporarily removing the savings cap to protect those who do lose their job.
- **Extending the job retention scheme to short time working** – the Coronavirus Job Retention Scheme is a welcome measure to protect jobs and keep people attached to the labour market. However, as those who are furloughed are not allowed to continue working for their employer at all, the design of the scheme incentivises organisations to furlough some workers, and concentrate their remaining work in a smaller number of remaining employees. Some countries – such as France – have schemes to support the incomes of workers who are placed on short-time working. Such schemes could allow for a more equitable distribution of remaining work, and support more workers to remain in touch with their jobs. The Government should consider introducing a short-time scheme which provides an income supplement for workers whose hours have reduced.

Many countries have adopted a similar package of measures to the UK, although with differences around timing, scale, focus and reflecting country-specific factors:¹⁶

- **Australia.** Support of AU\$194bn (9.7% GDP) includes: wage subsidies (6 month Jobkeeper subsidy of AU\$1500 per fortnight); income support to households (new time-limited AU£550 per fortnight supplement to income support); business loans guarantees; hiring 5,000 extra Centrelink (equivalent to Jobcentre Plus) workers.
- **France.** Spending of €45bn and loan guarantees of €300bn (total 15% GDP): liquidity support for businesses; wage support under the reduced hours scheme; direct financial support for independent workers; extension of expiring unemployment benefits.
- **Germany.** Supplementary spending of €156bn (4.9% GDP) as well as running down reserves and €850bn loan guarantees for businesses: expansion of short-time working (Kurzarbeit); expanded childcare benefits; access to unemployment support for the self-employed.
- **USA.** Federal support includes: \$250bn to give a one-time \$1200 tax rebate to individuals; £250bn to expand eligibility for and generosity of unemployment benefits; £510bn in grants and loans to businesses; £104bn for sick leave.

Overall, there is a broad international consensus around: financial support including loan guarantees for business; cashflow support including delaying payment of tax bills etc; increasing eligibility for and generosity of unemployment benefits; improved income and unemployment support for the self-employed; and improved financial support for people.

However, the US stands out as having less support in the form of direct job subsidies to keep people in work and having had fewer entitlements like sick leave in the first place. The focus in the UK and many other countries has been on keeping businesses going and keeping people in work or attached to work.

¹⁶ Policy responses to Covid-19: policy tracker, IMF, 2020.

What challenges do we need to focus on?

The ongoing impact of the virus, the nature and length of restrictions to economic and social activity, and how and when we can transition from current emergency measures are all highly uncertain. We argue there are five key challenges that policy must address.

1. Avoid creating a ‘pandemic generation’ of young people with poorer education and employment prospects.

Young people are particularly vulnerable to the economic impact of coronavirus. During the last recession, youth unemployment increased further and faster than unemployment overall. Early evidence highlighted above suggests young people are more likely to have lost their jobs, as they are concentrated in the sectors most affected.¹⁷ Evidence suggests that a significant period of unemployment can have a scarring impact on young people’s long term employment and earnings prospects, and on their wellbeing.¹⁸ There is also a risk that unequal access to online learning, careers advice and wider support networks further widens existing inequalities in education and employment outcomes.¹⁹

There are almost 1.4 million 16-17 year olds across the UK, and a further 5.5 million 18-24 year olds.²⁰ The restrictions on education establishments and scale of job losses brings a clear risk of a sharp spike in the number of young people not in education, employment or training. This would risk permanently reducing their career prospects. That suggests decisive action is needed to minimise the impact of the economic crisis on young people, and to support them to progress in learning and work.

2. Utilise the skills and expertise of those out of work or furloughed.

There are still vacancies in the economy: hiring has reduced but not ceased. In some areas there are a higher number of opportunities, for example working in supermarkets, which are seeing huge increases in sales. There is also a need for a volunteer army to support the NHS, local services and vulnerable people through this challenge. There are already many brilliant examples of linking people to this need, from the NHS Volunteer Responder scheme in England to cabin crew supporting NHS Nightingale staff.

We need more of this, driven by national and local action, both to meet our immediate needs as a country and to give those out of work or furloughed the chance to use their skills and remain close to the labour market.

¹⁷ Sector shutdowns during the coronavirus crisis: which workers are most exposed, IFS, 2020.

¹⁸ The wage scar from youth employment, Gregg and Tominey, University of Bristol, 2004.

¹⁹ Youth opportunity index: Youth Commission report 2, L&W, 2018.

²⁰ Labour market statistics, ONS, 2020.

3. Prevent short-term unemployment turning into long-term unemployment.

Despite the unprecedented measures the government has taken, there will be a very significant increase in unemployment in the short term. Evidence suggests both that unemployment can harm people's health and wellbeing, and the longer you are out of work the less likely you are to find work.²¹

The Government should quickly develop a plan to get Britain back to work when the worst of the pandemic is over. A prolonged period of low unemployment had led to reductions in employment support and Jobcentre Plus staffing. We will need a major re-investment in employment support, equivalent to a 50% (an extra 6,000) more Jobcentre Plus Work Coaches, and accelerating the use of technology to support people.

4. Support for as long as needed, but plan for withdrawal of emergency support.

The Government's first priority for the economic response has rightly been on providing rapid and significant support for businesses and individuals. It has generally done the right thing, and listened when gaps that have resulted from the speed of the response have been highlighted. The Government should continue to listen, and to further improve support. This could include extending the furlough scheme to cover short-time working, increasing Statutory Sick Pay, and increasing Universal Credit and temporarily increasing the savings threshold. We should retain these measures as long as they are needed.

However, we also need to start to think about *how* these measures will be withdrawn when it is safe to do so. This may be done in a phased way, with support being removed gradually in industries and in regions that are less affected.

5. Learn lessons for the future.

It is far too early to say what the world will look like after the peak of the pandemic, let alone what this should mean for economic and social policy. However, we must learn the lessons of the crisis, and ensure that decisions we take now offer a bridge to the future.

We went into this crisis with record employment and a rising minimum wage. However, it has shone a light on shortcomings in our labour market and social security support. Many self-employed workers face low pay and insecurity, and millions of key workers – from care workers to shop assistants – are low paid and in in-work poverty. Statutory Sick Pay is relatively limited and patchy, and benefit levels for those out of work low.

Our challenge as we look to the future after the pandemic is to learn from these lessons, and work to combine high employment, flexibility, opportunity and security. Not everything will change as a result of this crisis, but we can choose which things will.

²¹ The causes and consequences of long-term unemployment in Europe, Machin and Manning, CEP discussion paper 400, 1999.