COVID-19 RECESSION IS HAVING A DISPROPORTIONATE IMPACT ON THE MOST VULNERABLE

Long-run scarring effects ‘could cut deeper’ than in previous recessions

Individuals who are young, low-paid, black, in self-employment, those who have low education levels or live in large families have been disproportionately affected by the current recession, a new analysis finds.

The report *What can previous recessions tell us about the Covid-19 downturn?* published today by the LSE’s Centre for Economic Performance (CEP), shows that these groups are more likely to have lost their jobs, not be working any hours or had their pay cut in the current crisis.

And the report authors - Brian Bell, Mihai Codreanu and CEP director Stephen Machin – warn that because the current crisis is generating the largest economic shock to the UK since at least the 1980s there is scope for long-term scars to cut even deeper than in the past.

The report authors have created a comprehensive measure using information on people with jobs who report working no hours to assess a “realistic” employment rate. They also compare the current pandemic-induced downturn with the three previous recessions - those of the early 1980s, the early 1990s and following the global financial crisis in the 2000s - finding that in all these episodes particular vulnerable groups of people were affected. But this recession has distinctive features with some groups being hit especially hard.

Key findings include:

- The “realistic” employment rate shows a decrease in employment between February 2020 and June 2020 of more than 15 percentage points, in sharp contrast with the stable official unemployment rate. With the total number of hours worked in June at only 80 percent of the level in February 2020, the picture is bleak - the UK economy is on track to suffer its biggest unemployment shock since at least the 1980s recession.

- For employees who were earning less than £151 per week in February, the probability of being furloughed or having their hours cut by at least half almost three times higher than for those earning more than £600 per week (53.7 percent compared to 18 percent).

- Those aged 18-24 who were still employed in June were almost 18 percentage points more likely than those aged 35-54 to have had their hours cut by at least half or to have been furloughed.

- Individuals with only GCSE qualifications or equivalent are 17.1 percentage points more likely to have been furloughed or lost at least half of working hours compared with those with a degree.
Professor Machin said: “Unfortunately, the Covid-19 crisis poses even harder questions than the previous recessions. The effects on those leaving full-time education could be more pronounced due to school closures and shifts to online learning in universities. Long-lasting changes to the way we shop, travel and socialise are likely to significantly affect certain sectors. Uncertainty about the course of the pandemic, means the recovery could be even slower. Consequently, the economic scars have considerable potential to cut even deeper.”

Professor Bell said: “Some individuals will be affected harder than others. We find those most likely to become unemployed are the young, those with a lower level of qualifications, black workers and those on low pay. Similar to previous recessions, the Covid-19 crisis has the potential to scar a large number of individuals, most of them already in a precarious situation. Well-designed labour market policies need to be implemented to protect those most at risk and to prevent further damage to affected individuals, their families, communities and to the UK economy.”

Mihai Codreanu said: “Understanding what we can and cannot learn from previous recessions is important for the current downturn - there are some similarities, but also some marked distinctions. The starkest difference is the occurrence of a discrete, immediate lockdown of some sectors. Effects in these sectors are likely to be long-lasting despite government support because it is implausible that consumer demand will return to normal in the foreseeable future.”

The report points out that despite the UK entering the Covid-19 crisis with historically low unemployment rates, earnings had only just recovered to pre-financial crisis levels and increasing numbers of people were in precarious zero-hours contract jobs.

The report cites the most recent central scenario forecast of the Office for Budget Responsibility that predicts the unemployment rate of the current recession will peak at 11.9% - the same level as in the early 1980s recession, and higher than in the early 1990s (10.7%) or the Great Recession of 2008/09 (8.4%). This would mean a rise in the unemployment rate of 8 percentage points, compared with an average rise of 4.5 percentage points in the previous recessions.

The full report can be read here: What can previous recessions tell us about the Covid-19 downturn?

Notes to editors

1. The Centre for Economic Performance (CEP) is an independent research centre based at the London School of Economics and Political Science. Its members are from the LSE and a wide range of universities within the UK and around the world. www.cep.lse.ac.uk

2. The Centre for Economic Performance is part-funded by the Economic and Social Research Council, part of UK Research and Innovation (UKRI) https://esrc.ukri.org/ https://www.ukri.org/

3. We thank the Office for National Statistics for access to the Covid-19 study of the Understanding Society: UK Household Longitudinal Survey and the UK Labour Force Survey.

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