



Industrial Communities Alliance Wales

The all-party association campaigning on behalf of local authorities
in the industrial areas of England, Scotland and Wales

INDUSTRIAL COMMUNITIES ALLIANCE WALES

Impact of Coronavirus Crisis on Youth Unemployment: Discussion Paper

1. Introduction

- 1.1 As the coronavirus pandemic continues to take its toll on the economy it is becoming clear that young people between the ages of 18-24 are carrying much of the immediate burden in terms of its impact on the labour market. There are also grave concerns that the crisis will inflict long term damage on the future employment and educational prospects of young people leading to what some are describing as a 'lost generation'. At the same time the crisis has significantly worsened both economic and educational inequality, which in turn will impact on social mobility.
- 1.2 This brief report explores the 'perfect storm' facing young people as they strive to find work in a weak labour market in what is likely to be a long and deep economic recession. It goes on to examine the range of policy responses which Westminster and Cardiff Bay should consider in order to prioritise the needs of young people in the aftermath of the coronavirus crisis.

2. The Impact on Young People in the Labour Market

- 2.1 As early as April 2020 the impact of the economic and social lock-down on youth unemployment was becoming very apparent whilst the latest (May 2020) claimant figures for the 18-24 year olds show a doubling of the rate in Alliance areas since January 2020. At the same time it should also be noted that the underlying claimant rate across the South Wales' Valleys prior to the virus outbreak was already around 50% higher than the GB average, making young people in such areas particularly vulnerable to long term unemployment in the event of a deep economic recession.
- 2.2 The reasons behind the increase in the claimant rate are very clear. Research by the Resolution Foundation shows that it is younger workers that are most likely to be working in sectors that have been shut down in the current crisis. Those under 25 are twice as likely to work in these sectors than the rest of the workforce. On top of this, they are far less likely to be able to work from home, with only 22 per cent of 16-24-year-olds likely to be working from home, compared to 39 per cent of 35-44-year-olds.

Claimant Rates 18-24 Years of Age: Alliance Areas

Local Authority	Claimant Rate January 2020	Claimant Rate May 2020
Blaenau Gwent	6.4%	12.8%
Merthyr Tydfil	6.8%	13.1%
Torfaen	6.3%	12.0
Caerphilly	5.9%	11.5%
Rhondda Cynon Taf	5.4%	11.1%
Neath Port Talbot	6.1%	10.7%
Bridgend	5.7%	11.1%
Carmarthenshire	5.0%	9.8%
Powys	3.2%	8.2%
Wales	4.4%	8.9%
GB	3.9%	8.7%

Source: NOMIS

- 2.3 One-third of 18-24-year-old employees (excluding students) have lost jobs or been furloughed, compared to one-in-six those aged between 25 and 49. Of particular note is the fact that the proportion of 18-24-year-olds who have lost their main job since the coronavirus outbreak began (9%) is three times as large as the figure across all employees. The young have also experienced larger falls in earnings since the onset of the crisis; 35% reduction compared to 23% for those between 25 and 49. As a group they face an uncertain future when the furloughing scheme comes to an end in October. Some could probably return to work on a part-time basis, particularly if the job retention scheme is extended to support 'active work', but others face redundancy as a result of businesses failing to re-open or scaling back on their activity in response to reduced demand within the economy.
- 2.4 Unemployment amongst the under 25's is forecast to rise by 640,000 to over 1m in 2020, potentially blighting the prospects of a whole generation unless immediate and effective action is taken. According to the Resolution Foundation, many of the lower-paying roles that education leavers have tended to enter into during their first years in the labour market are in sectors like travel, non-food retail and hospitality that are largely shut down at present, and unlikely to reach full capacity again in the near future. It goes on to conclude '*that the first rung of the employment ladder looks to be broken, and it is unclear when, and if, it will be mended back to recent conditions.*' Over one-third of non-graduate leavers begin their careers in roles that are likely to be shut down in the current crisis.
- 2.5 In the 'Class of 2020' report it is estimated that 800,000 18-24-year-olds are expected to leave education this year at a time when unemployment is expected to double to 6%, which is twice the increase following the financial crisis in 2008. It also finds that those leaving

education this year are likely to face reduced pay and employment prospects even after the economy has recovered. The employment rates of graduates entering the labour market during the crisis are projected to be 13 per cent lower, three years down the line, than they might otherwise have been. The employment rates for mid- and low-skilled workers risk falling even further by 27 per cent and 37 per cent respectively. On the issue of earnings, the report finds that, one year after leaving education, the pay of graduates is projected to be 7 per cent lower, and 9 per cent and 19 per cent lower for mid- and low-skilled workers

- 2.6 Following on from the above, young people with lower qualifications are particularly at risk given the role they currently occupy within the labour market. The long term contraction and the likely slow recovery rate of shut-down sectors, such as hospitality, poses particular challenges for this group since they more likely to work in the lower paid and less secure jobs associated with these sectors. They now face the prospect of entering a much-reduced labour market during a deep recession, with increased competition for fewer vacancies from higher skilled\better qualified workers, albeit for jobs for which the latter are probably over-qualified. Intensive support and mentoring through a reformed careers service, together with measures to close the digital and technology divide, will need to be mobilized and delivered through more accessible infrastructure such as community hubs.
- 2.7 The experience following the 2008 financial crisis also suggests that more young people opted to stay in education rather than enter a depressed labour market. The highest rates of unemployment (32%) following the crash were amongst those who had recently left full-time education with lower qualifications, so it is no surprise that participation rates increased amongst those unable to find work, either to shield themselves from unemployment or to improve their employment prospects through acquiring better qualifications. The Class of 2020 report estimates that lower-skilled young adult staying in education for an extra year during the crisis might reduce the negative impact on their employment rate after three years from 37% to 18%. To facilitate social mobility and address educational inequalities, attention should be focused on improving the education maintenance grant regime and re-visiting the government's decision not to implement the recommendation of the Augur Committee's Post-18 Education Funding Report to limit student fees to £7,500.
- 2.8 In-work training opportunities such as apprenticeships are also likely to diminish as a result of there being fewer jobs overall and employers having limited resources to support such measures. Given that younger apprentices are more likely to be in sectors that are at risk of severe contraction in the current crisis¹, they are likely to be faced with a disproportionate fall in vacancies as businesses put a freeze on

recruitment or simply go out of business. In the short term there are also concerns over those currently undertaking apprenticeships who may find themselves unable to complete their training following a company closure.

- 2.9 Given the above analysis, the challenge for policy makers is twofold if we are to avoid young people being disproportionately affected by the ensuing recession when unemployment amongst younger people is likely to be higher than other groups. The first will require proactive employment policies to enable young people to enter and stay in the labour market, whilst the second will need to address the expanded demand for education and training. The next section of this report examines some of the options.

3. Policy Response

- 3,1 The above analysis describes an economic landscape which for young people will be characterized by significant higher and longer term unemployment and an uncertain future. The economic fall-out of the coronavirus cannot and should not impact disproportionately on the young, and their interests will need to be prioritised in the government's response. In particular, the response should focus on the following:

- Adapting and extending the Job Retention Scheme for shut-down sectors to facilitate the return of employees to 'active work' on a part time basis.
- The need for a step change in the priority afforded to investment in training, skills retention up-skilling, work experience and intensive careers guidance and mentoring for young people, in preparation for the eventual economic recovery, which could be some years off.
- Employment policies should focus on changing the balance in the labour market towards the creation of more high quality, secure jobs, which in turn will help to protect younger workers and others from the insecurities often associated with low paid and low skilled work.
- The DWP's Youth Obligation Support Programme should be extended to include a guaranteed offer of a job (incentivised via wage subsidy scheme), apprenticeship, or high-quality training place for all young people out of work for more than six months.
- The equivalent of the Future Jobs Fund needs to be introduced to provide guaranteed, paid employment for young people.
- Arrangements must be put in place to protect those already on apprenticeships, enabling them to complete their training.

- Apprenticeships for the under 25s should be prioritized (40% of apprenticeships currently go to the over 25s), with enhanced incentives for employers to support new apprenticeships, particularly for SMEs. These could include wage subsidies and fully funded apprenticeships for non-levy paying companies.
- Future government equity stakes in strategic industries and companies should be used as leverage for securing additional training and apprenticeships.
- Those young people furthest from the labour market should be supported through initiatives such as traineeships and wage subsidy schemes.
- There should be incentives for reskilling and training in the tax system, in the form of human capital tax credits (LSE Growth Commission, 2017).
- For young people, their remains a strong long term economic argument to obtain the highest qualifications possible, and attempts to impose a cap on HE student numbers should be resisted.
- In order to address the inequalities of access to FE and HE the government should introduce an enhanced education maintenance grant regime together with a cap on tuition fees in accordance with the Augur Report
- Additional education resources should be directed towards deprived areas to address the disproportionate impact of the lock-down on educational attainment.

4. Conclusion

- 4.1 As the economic consequences of the COVID-19 pandemic continue to unfold it becomes increasingly likely that the impact on young people will be on one of the defining issues of the crisis, given the disruption to their education and reduced job opportunities during what could be a deep recession. This is particularly so in areas such as the Valleys, where the structural weaknesses in the labour market were already much in evidence prior to the crisis. With unemployment forecast to reach levels in excess of 10% in 2021, the challenge for the government is immediate and real if the prospects of a whole generation of young people are to be protected.
- 4.2 It is an issue which merits the highest priority given the damage that prolonged and high levels of unemployment amongst the young can inflict on individuals, families and communities, not to mention the long term health of the economy. This report outlines some of the measures

that can be employed with immediate effect to mitigate the worst effects of the collapse in economic activity on areas and communities with little economic resilience. ICA Wales urges the governments in Cardiff Bay and Westminster to place the interests of young people at the top of the agenda when considering their responses to the severe economic challenges that lie ahead.

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The Industrial Communities Alliance is the all-party association of local authorities in the industrial areas of England, Scotland and Wales. The Alliance was formed in 2007 by the merger of longer-standing associations dating back to the 1980s. Its role is to deliver funding and policies to enable economic, social and environmental renewal in the cities, towns and communities covered by its member authorities. Its local authority membership in Wales comprises: Blaenau Gwent CBC, Torfaen CBC, Caerphilly CBC, Merthyr Tydfil CBC, Neath Port Talbot CBC, Rhondda Cynon Taf CBC, Bridgend CBC, Carmarthenshire CC and Powys CC.