a **COVID-19** briefing

HOW TO CREATE NEW JOBS

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Summary

- Following the Covid-19 lockdown, the UK labour market faces much higher unemployment and reductions in labour force participation as some groups withdraw from the labour market.
- Measures such as the Coronavirus Job Retention Scheme and the Self-employment Income Support Scheme served a useful purpose, but governments cannot keep businesses on life support indefinitely. Job protection measures risk substantial harm if they hinder the adjustment of the labour market to changing conditions.
- Direct government interventions to ‘create jobs’ can be costly and are rarely successful in generating multiplier effects.
- The current crisis risks becoming an excuse for the permanent expansion of the state, accompanied by increased taxation, which could damage the recovery and become a long-term constraint on future growth.
- Before the pandemic hit, the UK had been doing well in generating new private sector jobs. Allowing markets for goods and services to operate freely could help to restore and enhance the conditions under which job creation can be maximised.
- Some deregulation of land-use planning has been announced, but the government could also consider liberalising employment law.
- Employment regulation is in effect a tax on jobs, the burden falling largely on workers in terms of reduced pay and employment opportunities rather than on company profits. It often serves sectional interests at the expense of the wider workforce and may be a poorly-targeted way of assisting disadvantaged groups.

- Key elements in boosting economic recovery might include the scrapping of much occupational licensing, the reform of minimum wages, ending the apprenticeship levy and unpicking many other types of employment regulation.

Introduction

In the early part of this year, the UK labour market was in its best shape for decades, with record levels of employment, low unemployment and an economy which created new jobs all the time.[1] The Covid-19 pandemic put paid to this, and we now face an uncertain economic future. Employment has already fallen by three-quarters of a million, with large numbers of workers withdrawing from the workforce and unemployment widely expected to rise sharply this autumn. Some commentators, such as the Bank of England's Chief Economist, Andy Haldane,[2] believe that the natural resilience of private enterprise will enable the economy to recover quickly, although hopes of a dramatic V-shaped bounce-back in GDP may be too optimistic.

Even given a recovery in GDP, experience of previous recessions suggests that a recovery in employment will lag that in output. Given the peculiar features of the current situation, it must be a real fear that jobs will not return as quickly as we would like.

How do we speed a recovery in employment? Should we go down the route of a British 'New Deal', involving extensive government spending and increasing interference in the UK labour market? Or is there another way, by relaxing regulation and encouraging private enterprise to drive the recovery? This paper reviews the arguments.

1 See ONS data on 'Employment and labour market' (https://www.ons.gov.uk/employmentandlabourmarket).

2 'UK is in a V-shaped recovery, says Bank of England economist', *Guardian*, 20 July 2020 (https://www.theguardian.com/business/2020/jul/20/uk-seeing-v-shaped-recovery-says-bank-of-england-economist).

The Covid-19 crisis and the government's response

The Covid-19 pandemic led the UK government to impose severe restrictions on people's normal activity to help reduce the spread of the disease. These restrictions meant that a large part of the economy ceased to function.

The shock to people's livelihoods was mitigated by the Coronavirus Job Retention Scheme (CJRS) and the Self-employment Income Support Scheme (SEISS). The CJRS had supported 9.5 million spells of furlough by mid-August, while 2.7 million self-employed workers had received the first tranche of SEISS support by mid-July, with a second tranche of payments beginning on 17 August.[3]

This support, mirroring that available in many countries,[4] was particularly important in sectors forbidden or effectively unable to operate, such as accommodation and food services, where 87 per cent of businesses together have furloughed some 1.4 million staff. But even in sectors which could continue subject to restrictions, such as agriculture, forestry and fishing (where 28 per cent of businesses used the CJRS) or information and communications systems (37 per cent), furloughing has been widely used.[5]

3 HMRC coronavirus (COVID-19) statistics (https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics).

4 'Facing the jobs crisis', OECD (http://www.oecd.org/employment-outlook/2020/).

5 'Coronavirus Job Retention Scheme statistics: July 2020', HMRC, 15 July 2020 (https://www.gov.uk/government/publications/coronavirus-job-retention-scheme-statistics-july-2020/coronavirus-job-retention-scheme-statistics-july-2020).

As restrictions have been lifted, many employees have been able to return to their jobs. However, some still cannot, as social distancing requirements continue to make normal work (for example in theatres and the entertainment industry) impossible, or because the increase in homeworking, empty offices and the decline in commuting keep demand far below pre-Covid levels.

There has been understandable pressure for the Chancellor to extend the CJRS, but this option has become increasingly problematic. Covid-19 is not about to disappear, nor is a vaccine imminent or likely to prove wholly effective. There will not be a return to 'normal' activity for some time, if ever, in some areas.

Even if rules on social distancing were to be lifted completely, people's behaviour is unlikely to revert to pre-Covid norms. Many erstwhile office workers will continue to work at home, while opinion surveys suggest that people are going to change consumption patterns permanently, with less travel, fewer trips to the theatre or concerts, but more home entertainment and online shopping. This inevitably means changes in employment patterns.

The pattern of labour demand can never be frozen by government fiat. Jobs disappear all the time, even without pandemics. Over the twelve months from the beginning of 2017 to the beginning of 2018, for example, 2,229,555 jobs were lost as businesses closed and others reduced headcounts (Hart and Prashar 2019); fortunately 2,648,989 new jobs were generated during this period through the huge creative power of many thousands of private businesses of all shapes and sizes.

On 28 September the Chancellor announced some further support to businesses, including a limited period of wage subsidies for those firms that could offer 'viable' part-time work, but he resisted calls to extend the furloughing scheme. He called it 'fundamentally wrong' to keep people in jobs which were unsustainable. It is argued that new jobs and new businesses should be encouraged, rather than trying to hold on to old jobs and keeping old businesses on artificial life support.[6]

6 This need not preclude further financial assistance to some individuals, but this should not be associated with continuing 'employment' relationships with defunct businesses.

A 'New Deal'?

What does this imply for public policy? The answer which our politicians seem to favour is for the government to use its enormous spending power in attempting to stimulate new employment. This has the advantage of visibility, with the government being seen to 'do something' by an understandably worried electorate and a febrile political class and media.

Thus, at the end of June, the Prime Minister made a speech[7] which, channelling Franklin D. Roosevelt,[8] called for a 'New Deal for Britain', and set out a number of areas where he intended government spending to increase, including the NHS, infrastructure spending on schools and road-building.

Then in early July, the Chancellor elaborated on this by setting out a 'Plan for Jobs',[9] designed to help the economy's recovery. His plan aimed to 'protect, support and create jobs'. It included a Job Retention Bonus of £1000 for each furloughed employee who is still employed on 31 January 2021, a payment which is unlikely to persuade many employers to keep workers on after the closure of the CJRS in October if their jobs are at serious risk. It will mainly benefit companies which furloughed workers whose jobs were never in danger.[10]

A 'Kickstart' scheme was proposed to provide 350,000 six-month jobs for 16-24 year olds claiming Universal Credit. Apprenticeships and traineeships were to be boosted, and 13,000 new 'work coaches' appointed. Homeowners would be able to apply for vouchers worth £2 billion in total to pay for home insulation, and £1 billion would also be available to make public buildings such as schools and hospitals 'greener, helping the country meet its ambitions of achieving Net Zero by 2050'. There was also another £5.8 billion to be spent on 'shovel-ready' construction projects. And there was assistance for tourism and hospitality, with a temporary cut in VAT and (perhaps the feature

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7 'Boris Johnson dismisses austerity as he unveils £5bn infrastructure revolution', LBC, 30 June 2020 (https://www.lbc.co.uk/news/boris-johnson-austerity-way-unveils-infrastructure-revolution/).

8 Roosevelt's New Deal is not necessarily a promising model. Despite huge amounts of spending, unemployment remained stubbornly high and was still over 15 per cent in 1939; only rearmament and the coming of war moved the USA to full employment.

9 'Chancellor's Plan for Jobs to help the UK's recovery', HM Treasury, 8 July 2020 (https://www.gov.uk/government/news/rishis-plan-for-jobs-will-help-britain-bounce-back).

10 Many businesses will inevitably have used the CJRS tactically, rotating staff on and off furlough to take advantage of a taxpayer subsidy during a period of slack demand, but with no real danger that jobs would be lost permanently.

most noticed by the general public) the ‘Eat Out to Help Out’ scheme, which provided discounted restaurant meals throughout August.

More detail on some of these proposals has yet to emerge. In any case, the Chancellor emphasised that this was only a stage in the government’s thinking, with a major Budget and Spending Review planned for the Autumn (although this has now been delayed). But enough information has been provided to make the general direction of policy very clear. In the Prime Minister’s words, ‘we will not be responding to this crisis with austerity. We are not going to try to cheese-pare our way out of trouble’. Big-spending government is to be the New Normal, it seems.

Government spending and jobs

This section surveys the types of intervention that the government has sketched, and points to some evidence on their efficacy. For government intervention to boost jobs has a long history, going back into the nineteenth century. It is not, however, a glorious one. Government schemes have often proved wasteful and ineffective.

Governments sometimes learn little from their predecessors, and it is possible that our current generation of politicians and civil servants will rehash unsuccessful schemes from the past.

Infrastructure and public works

In addition to the Chancellor's 'shovel-ready' construction projects, Boris Johnson has spoken of a programme of roadbuilding and more ambitious schemes such as a crossing between Scotland and Northern Ireland. The government has also confirmed that HS2 - the largest item of infrastructure spending of them all – will go ahead.

Countries may need some publicly funded infrastructure works of various kinds, as Adam Smith pointed out long ago. But these should be clearly justified in relation to real benefits which they will bring to the economy on completion, not simply by their ability to 'create jobs', which is a misleading way of thinking about them and ignores the opportunity cost of government spending.

Belief in the job-creating powers of any sort of public infrastructure spending goes back centuries, but was given an intellectual boost by Keynes (1936: 9), with his famous suggestion that burying banknotes in bottles, and then digging them up again, would serve to create jobs just as well as anything else.

Keynes was joking, but in the 1930s his argument had a lot of influence, particularly when coupled with Richard Kahn's 'multiplier' analysis, which suggested that an injection of government investment would have a multiplied effect on output and jobs as those who obtained work on government projects increased their own spending and created further employment (Kahn 1931).

However, 'naïve Keynesianism' (Caporale and Poitras 2020) is a poor guide to today's problems. Any job-creating effect takes time, and ill-conceived infrastructure projects risk wasting resources which could be put to better use, as European experience over the last twenty years, for example in Spain,[11] suggests.

Moreover, Keynes implicitly assumed a perfectly elastic supply of undifferentiated labour and equipment: in reality a big increase in public spending on infrastructure will rapidly run up against constraints in terms of equipment and, in particular, skilled workers. Unemployed baristas, personal shoppers, actors and musicians in London cannot easily be transformed into construction workers turning northern stretches of the A1 into dual carriageway (one of the government's proposed schemes).

Equipment and skill shortages will drive up prices and wages, and therefore tend to reduce investment by the private sector, which will be 'crowded out'.[12] Accordingly, many modern estimates (Ramey 2019) suggest that the multiplier is small, often considerably less than one. We should be very wary of assuming that infrastructure spending is an easy way to boost employment.

11 'Is Spain squandering money on public infrastructure projects? Report says yes', *El Pais*, 19 June 2018 (https://english.elpais.com/elpais/2018/06/19/inenglish/1529399004_907742.html).

12 If government borrowing to finance investment were to drive up interest rates, this would be a further factor discouraging private sector investment.

Moving public sector jobs

A scheme predating the pandemic envisages moving public sector jobs from London. The March Budget set a target of moving 22,000 jobs out of central London by 2030, and promised to set up a 750-strong, multi-departmental economic policymaking campus in the North of England. It appears that this plan is being pursued with extra vigour as part of the recovery plan.

There can be various reasons behind such proposals – to enhance devolution, or to make the civil service more diverse[13] – but a key one is to bring more jobs to regions which may have high levels of unemployment and limited opportunities for local populations. These may include areas where the Conservatives gained seats from Labour at the last election.

Such a policy is expensive. The evidence suggests, however, that movement of jobs often achieves rather little. Swinney and Piazza (2017) investigated the movement of the Office for National Statistics to Newport, and part of the BBC to Salford Quays.

On the Newport move, there was clearly some gain in jobs in South Wales, as only around one in ten of ONS's former London employees moved with the jobs. However, there was very little gain beyond this: few if any businesses employing statisticians have sprung up around Newport, while the ONS location outside the town centre meant that there was relatively little increased activity in shops and restaurants. So, the net gain of jobs was largely confined to the ONS posts.[14]

The picture in Manchester was rather better, though undramatic. There appear to have been net gains in media employment beyond the imported BBC jobs in Greater Manchester, although there was a good deal of displacement going on as many existing Manchester jobs moved into Salford Quays.

This type of scheme offers relatively little to boost the regions – particularly now that more people are working from home. Existing staff members based in the south east could be officially based in Durham rather than

13 'From Whitehall to Walsall: redistributing the civil service', *Global Government Forum*, 16 July 2020 (https://www.globalgovernmentforum.com/from-whitehall-to-walsall-redistributing-the-civil-service/).

14 The authors also note that there was a perceived decline in the quality of ONS work, at least for a time.

London without moving home, while travelling up to the north east for occasional meetings.

Job 'creation'

Governments can always 'create' jobs by taking on more public sector workers, although the cost falls on taxpayers whose reduced spending may destroy jobs elsewhere.

The government plans to expand employment in the NHS,[15] schools, the police and other parts of the public sector. These jobs, however, do not necessarily match up with taxpayers' preferences, as employment of administrators, managers and diversity coordinators often expands faster than 'front-line' posts for doctors, dentists, nurses and police officers on the beat.

Moreover, the availability of extra posts in the public sector may reduce the supply of skilled workers to the private sector. In some parts of the country, too, public sector employment drives up wages for low-skilled workers to the extent that it is uneconomic for the private sector to employ them. So, as with infrastructure, government spending on services may crowd out private spending.

Instead of employing people directly, government may subsidise private sector businesses to employ people. Such schemes are often popular. The Chancellor's new Kickstart scheme for young people was welcomed by the CBI, the TUC and the Labour Party, though with the predictable qualification that it should be bigger: a £2 billion exchequer cost is apparently not enough.

Job subsidy schemes have been widespread in times of high unemployment: there is an extensive literature on their effects (Lange and Shackleton 1998; Lee 2005; Brown 2015). Recruitment subsidies suffer from several drawbacks. There is usually considerable *deadweight loss:* workers are taken on who would have found work anyway in the absence of the subsidy. Thus the payment simply boosts their employers' profits. There is very likely to be *substitution,* where one group of workers - in this case,

15 To give the unreformed NHS, which has not done well during the pandemic, yet more spending power seems particularly quixotic.

the young unemployed - is taken on at the expense of another group, for example older workers or women returners, who become unemployed instead. More perniciously, schemes can have a *displacement effect.* Inevitably some businesses are more able to take on subsidised workers than others — larger firms, expanding firms, firms with better contacts with Jobcentres. These firms get the benefit of subsidies while others, such as smaller businesses and the self-employed, do not; they might lose out in a competitive environment and shed labour or close their businesses.

Estimates of these effects from studies of programmes conducted in many countries in the late 1980s and 1990s suggest that they can be substantial. Ireland's Employment Incentive scheme showed a cumulative deadweight and substitution effect of 95 per cent in one study (Breen and Halpen 1989). Dutch recruitment subsidies may have had deadweight and substitution effects of between 76 and 89 per cent (de Koning 1993); deadweight losses alone on Australia's Jobstart schemes during that period were estimated at between 67 and 79 per cent (Department of Employment, Education and Training 1989).

This all suggests that the cost of schemes *per unit reduction in unemployment* is far higher than the subsidy per worker participating in the scheme. The Chancellor's new scheme involves paying firms around £7,000 per recruit over a full six-month period. But even if combined deadweight, substitution and displacement is kept down to, say, 40 per cent – which would be an achievement – the cost of a temporary reduction in unemployment rises to nearly £12,000 per individual. If the offset effects rise beyond 40 per cent, the cost per unit reduction in unemployment rises correspondingly.[16] Even if we weigh this against savings in Jobseeker's Allowance and other benefits, it doesn't look like a particularly attractive proposition for public expenditure.

16 Moreover, the demographic which this scheme is aimed at has a high propensity to drop out of schemes. Young people change jobs frequently and have options such as further study, returning to live with parents, having children and so forth. As Brown (2015) points out, targeted schemes – for example those aimed at people with disabilities, or women returners – tend to work better than those aimed at broad age groups.

Apprenticeship or training 'guarantee'?

Another government employment proposal is that of boosting apprenticeships and training for young people. The Prime Minister apparently had an epiphany when meeting some Clydeside apprentices on the election trail in 2019 and now – like many politicians before him – is an enthusiast for apprenticeships. So much so that, at his daily press conference on 3 June 2020, he offered an 'apprenticeship guarantee' to all young workers.[17]

However, by 30 June this had become an 'Opportunity Guarantee so that every young person has the chance of apprenticeship or an in-work placement so that they maintain the skills and confidence they need to find the job that is right for them'. By the time that the Chancellor launched his Plan for Jobs, the ambition had shrunk again and there was no mention of guarantees. A total of £1.6 billion will, however, be invested in 'scaling up employment support schemes, training and apprenticeships'. Employers are to be offered subsidies to take on apprentices. This further complicates a set-up where large employers are subject to an apprenticeship levy which they can then claim back if they take on apprentices, with extra funding for 16-18 year olds and those with disabilities. There is also an increase in funding for loosely defined 'traineeships' and 'placements'. £900 million of the extra £1.6 billion spending, however, is for a massive expansion of 'work coaches', the name now used for civil servants who work in Jobcentres advising the unemployed.

Governments have tried for over forty years to boost apprenticeships. For example, the Cameron government was determined, after scandals which saw apprenticeship 'providers' taking government money to award qualifications of little value,[18] to improve matters.

Mr Cameron's government planned the apprenticeship levy, which came into operation under Theresa May's administration. Its results turned out to be disappointing. The number of apprenticeships seems to have fallen rather than risen (Powell and Neary 2020). Few new apprenticeships are pitched above the most basic level, and some businesses claim to have been unable to access levy funds for more appropriate training schemes.

17 'Boris Johnson promises apprenticeship guarantee as he admits UK heading for coronavirus recession', *Independent*, 3 June 2020 (https://www.independent.co.uk/news/uk/politics/boris-johnson-uk-recession-coronavirus-apprenticeships-jobs-young-people-a9547571.html).

18 For example, see Wolf (2015: 4).

As Jonathan Simons, Director of Education at Public First, says:

> we simply can't have an apprenticeship guarantee; because it's not within the government's gift. Unlike university places, or college places, which can be more or less expanded as far as the government would pay for them, apprenticeships also need employers willing to offer them.[19]

The way governments sought to boost apprenticeships in the past was to pay businesses to take on subsidised workers who were awarded low-level qualifications by outside bodies with little close involvement with employers.[20] The apprenticeship levy was meant to change this but, except in some limited areas, it hasn't. In any case, the skill needs of the 21st century are arguably changing too rapidly to be set out in formal qualifications imposed by industry incumbents.

If greater reliance is to be put on other forms of training, we wait to see what is proposed. Government training schemes, like job subsidy schemes, have a mixed record. Some of the more successful have been aimed at young people who suffered from labour market disadvantage and benefited from being exposed to work discipline and remedial education (Wilson 2013). Other schemes, however, have had little impact, and in some cases may have actually harmed future employment prospects by 'stigmatising' participants.

The difficulty with designing appropriate training and placement schemes this time around is that many unemployed young people may already be experienced and well qualified. They will have lost jobs as a result of the dramatic shutdown or shrinkage of their sector – the arts, events management, retailing, restaurants. They will also include a flood of new graduates. There has not been a need for large-scale training or retraining of this sort of unemployed individual before, and novel approaches will be necessary if large sums of public money are not to be wasted. Appointing 13,000 work coaches may be an appropriate strategy when dealing with difficult-to-place and difficult-to-motivate disadvantaged groups, but not with many of the bright young people who have lost jobs, or cannot find

19 'The prime minister's "apprenticeship guarantee": over-optimistic or visionary?', *FE Week*, 5 June 2020 (https://feweek.co.uk/2020/06/05/the-prime-ministers-apprenticeship-guarantee-over-optimistic-or-visionary/).

20 The rhetoric often insisted that apprenticeships were employer-led, but the reality was that qualification schemes were often devised by consultants with varying levels of experience.

one, through no fault of their own. If we are to spend public money, it might be better to put it in the hands of the unemployed themselves, by offering them loans to take postgraduate qualifications or start their own businesses.

Business subsidies

The government has so far not succumbed to the temptation to subsidise specific failing British businesses, unlike, for example, the Italian government with its nationalisation of Alitalia. It may be unlikely that UK governments will do this on any large scale, although there is always pressure to do so when a steel plant faces closure or a car manufacturer threatens to pull out of the country, and any moves in this direction could open the floodgates to special pleading.[21]

General subsidies, such as business rates relief, and lower rates of VAT for hotels and restaurants, were however introduced in response to the crisis. Creative destruction is an inevitable reality in dynamic economies and these subsidies could hinder adjustment to changing conditions, for example by shoring up the high street as business models change and consumers switch permanently to online retailing for many of their needs. And if people are going to be travelling less on public transport for the foreseeable future, tough decisions may have to be taken to make cuts in services.

Extra government spending means higher taxes

Although the CJRS and other support schemes have cost mind-boggling amounts of money, it has proved possible to borrow to cover the massive budget deficit this has entailed. Were this spending to be simply a one-off, there might be no need for large tax increases or spending cuts to bring the finances back under control (Jessop and Shackleton 2020: 21-26).

21 There are reports that negotiations with the EU have run into problems because the UK negotiators (seemingly at the insistence of Dominic Cummings) want the freedom to intervene to support British employers. See 'PM threatens no-deal Brexit over EU's state aid rules', *The Sunday Times*, 30 August 2020 (https://www.thetimes.co.uk article/pm-threatens-no-deal-brexit-over-eus-state-aid-rules-phlpl9prd).

However, the sort of policies recently outlined by the government will involve continuing high levels of public spending for several years, if not indefinitely (as in the case of higher NHS spending).

Unless the government has bought into Modern Monetary Theory, with its seductive promise that the government can simply create money to pay for any level of expenditure it chooses (an unlikely conversion, given that the Conservatives spent a decade trying to restore fiscal responsibility), big increases in public spending will require tax increases.

The government seems already to be planning this, with rumours that the Chancellor is proposing increased corporation tax, capital gains tax and tax on the self-employed.[22]

While much of the public claims to support higher taxes,[23] this is usually with the proviso that they fall on 'the rich'. While the government will probably avoid increases in income tax, it is fallacious to assume that hikes in other taxes have no impact on those on middle and lower incomes. There will be costs in terms of reduced company investment, fewer house sales, reduced numbers of people starting their own businesses and so forth, while it is far from clear that increases in corporation tax rates, for example, will bring in all that much extra revenue. To turn the UK into a high-tax country could be a big mistake – particularly when the measures which tax increases are intended to support may do little to stimulate employment.

Rather than higher spending and higher taxes, the government could consider alternative ways to stimulate employment in a position of national emergency – by relaxing regulation.

22 'Coronavirus: Rishi Sunak plans triple tax raid on the wealthy', *The Sunday Times*, 30 August 2020 (https://www.thetimes.co.uk/article/coronavirus-rishi-sunak-plans-triple-tax-raid-on-the-wealthy-2wlqpq9v6).

23 'Yougov poll: public wants higher taxes on wealth and no bailouts for tax haven companies', TaxJustice UK, 13 May 2020 (https://www.taxjustice.uk/blog/yougov-poll-public-want-higher-taxes-on-wealth-and-no-bailouts-for-tax-haven-companies).

Deregulation

First and foremost, the government faces the challenge of assessing whether the Covid-19 regulations which still restrict the economy are appropriate and proportionate to the risks involved. As the advice of scientists is much less clear-cut and unambiguous than might be hoped, our politicians have responsibility for trading off possible costs in terms of danger to life from infection against more subtle dangers from permanent economic damage, which of course may also pose threats to mental and physical health (Jessop 2020). Arbitrary renewals of lockdown restrictions could make some businesses less confident to open up again and take on new staff.

But as we eventually return, hopefully, to something like normality, the government could focus on pre-Covid restrictions which might hold back the creation of new jobs.

Regulation involves rules which constrain businesses and individuals from engaging in mutually beneficial activities. Economists argue that it is justified where it helps to correct market failures, such as the external costs imposed on the community by polluting industrial processes. Regulation may, however, be used by interest groups such as unions and trade associations to create ‘rents’ (excessive pay or profits) at the expense of other less organised groups (Stigler 1971).

Moreover, regulation in the 21st century is frequently advocated by anti-capitalist thinking that sees it as vital in the pursuit of social justice. Such regulation may not be the most effective means of pursuing this goal. Direct resource transfers targeted to reduce poverty, for example, are likely be more effective and cost less than general regulations to control housing costs or boost wages.

Regulation not only prevents voluntary economic activity taking place, which has a very real but necessarily hidden cost, but also involves the overt use of resources to ensure compliance - for example the 200,000 or so people involved in human resource management jobs in the UK, or the many thousands involved in financial compliance, a function which has increased dramatically in scale since the crisis of 2007-09. Together the overt and hidden costs of regulation may often exceed the benefits from regulation, and act as a drag on productivity (Crafts 2006).

There are historic precedents for using deregulation as the springboard for economic recovery: for example that of West Germany in the years after World War II, where the population was demoralised, ill and hungry, while huge parts of the productive capacity of the economy had been destroyed. Minister of Economic Affairs Ludwig Erhard went against the advice of planners, the occupying authorities and politicians. He scrapped controls and let the market operate. Within a few years his ‘ordo-liberal’ policies had reconstructed a prosperous economy and sparked the post-war West German *Wirtschaftswunder.*

The UK government could show similar boldness. It has already recognised that some regulations which industry could tolerate in pre-Covid days are inappropriate. For example, it has allowed construction sites to work longer, it has allowed restaurants to diversify into takeaways and permitted them to place tables in the street, and it has suspended gender pay gap reporting.

Planning

The government has also proposed fundamental changes to planning regulations. One aspect of this is making it easier to repurpose high street buildings: planning permission will no longer be required to demolish or rebuild existing retail premises.[24] But the government has also promised a major change in land use regulation to make it quicker to build homes. This will involve land being divided up into three categories – ‘growth’, ‘renewal’ and ‘protected’. On land earmarked for growth, new homes, schools and hospitals will be allowed to be built automatically, with councils unable to block or delay as they have done perhaps too often in the past to assuage protestors.

24 ‘New laws to extend homes upwards and revitalise town centres’, Ministry of Housing, Communities and Local Government, 21 July 2020 (https://www.gov.uk/government/news/new-laws-to-extend-homes-upwards-and-revitalise-town-centres).

Potentially, this offers great opportunities for the housing sector to lead the country out of recession, as it did in the 1930s. The number of houses built by the private sector rose from 133,000 in 1931/2 to 293,000 in 1934/5 and 279,000 in 1935/6 (Crafts 2013); these figures dwarf the 160,000 a year currently being built. According to Crafts (ibid.):

> Houses were cheap because the supply of land for housing was very elastic which in turn meant that there was no incentive for developers to sit on large land banks. Underpinning the availability of land for house-building was an almost complete absence of land-use planning restrictions which applied to only about 75,000 acres in 1932 – the draconian provisions of the 1947 Town and Country Planning Act were still to come.

Of course, we can anticipate considerable opposition to major reforms of this kind, with local authorities, environmental pressure groups and the inevitable NIMBYs. It may take longer to implement than reformers would wish. But it could be a step in the right direction, not only for its potential for employment but also for contributing to the mitigation of the UK's longstanding housing problems.

Liberalising the labour market

Labour market regulation is being increased

The government is taking a very different approach to labour market regulation. Although gender pay gap reporting has been suspended, there is nothing to suggest that it will be abandoned completely. On the contrary, it seems very likely in the wake of the Black Lives Matter movement that the government will also require compulsory reporting of ethnic pay gaps.[25] It has already held a consultation on this - a hugely problematic issue when the Office for National Statistics alone distinguishes 18 sizeable ethnic groups.[26] There are other changes in the offing, such as the introduction of Carer's Leave (a consultation[27] closed on 3 August), and planned increases in reporting requirements - and probably higher taxes - for the self-employed.

There are also pressures for tighter restrictions on the use of zero-hours contracts, and there has been a suggestion, not denied by ministers, that a legal right to request to work at home is being considered.[28] This would be popular with the TUC, which has argued for this right, and probably with the general public: UK workers appear to be the most reluctant to

25 'Calls for mandatory ethnicity pay reporting renewed as petition hits 100,000 signatures', *People Management*, 15 June 2020 (https://www.peoplemanagement.co.uk/news/articles/mandatory-ethnicity-pay-reporting-to-be-debated-in-parliament).
26 'Ethnic pay monitoring will lead to misleading comparisons', IEA blog, 2 July 2019 (https://iea.org.uk/ethnic-pay-monitoring-will-produce-misleading-comparisons/).
27 'Carer's Leave', Department for Business, Energy and Industrial Strategy, 18 March 2020 (https://www.gov.uk/government/consultations/carers-leave).
28 'People could get right to work from home as Ministers consider shake-up', *The Mirror*, 10 July 2020 (https://www.mirror.co.uk/news/politics/people-could-legal-right-work-22333663).

return to the office in an eight-country study.[29] But it could increase the pressure on businesses, which would have to justify in detail any refusals to allow home working to employees, and probably lead ultimately to employment tribunals: the existing right to request flexible working has often led to costly clashes.

External pressures for further regulation are complemented by internal pressures. One of the last acts of Theresa May's administration was to appoint Matthew Taylor as Interim Director of Labour Market Enforcement. Mr Taylor, a former Head of Tony Blair's Number 10 Policy Unit, previously led a Review of Modern Working Practices (Taylor 2017) for Mrs May. It is clear from his Annual Report in July 2020 that Mr Taylor wants to see tighter enforcement of existing employment regulations, plus legislation on some of the recommendations of his Report that have not yet been acted upon.[30]

Members of the current cabinet - from Boris Johnson downwards - have often spoken of the burdens which employment regulations impose. Yet they have acquiesced in more and more such interventions. The current crisis presents a rare opportunity for a fundamental change of direction to help boost the economy's recovery without further increases in public spending. Examples follow of changes which could be made.

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29 'Workers in UK are the most reluctant to return to the office', *The Telegraph*, 24 August 2020 (https://www.telegraph.co.uk/news/2020/08/24/workers-uk-reluctant-return-office/).

30 'Director's statement on the publication of the Labour Market Enforcement Annual Report 2018/19', Department for Business, Energy & Industrial Strategy, 9 July 2020 (https://www.gov.uk/government/speeches/directors-statement-on-the-publication-of-the-labour-market-enforcement-annual-report-201819).

Occupational regulation

In the last twenty years, occupational regulation – state licensing of people to work in particular occupations – has risen sharply. Now around one in five workers in the UK are subject to such regulation, which typically involves requiring academic and professional qualifications, work experience, tests of competence and commitments to continuing professional development and codes of practice.

Occupational regulation is often justified by the assumption of what economists call 'asymmetric information'. The public is said to be uninformed and in need of protection from incompetent or unscrupulous practitioners who could exploit their ignorance. This case is perhaps strongest in medicine and related fields: however, these account for only a fraction of regulated occupations. At a time when access to information has been expanding rapidly and many online rating apps and websites are available to aid consumer choice (Farranato et al. 2020), why has government regulation needed to spread to new groups such as estate agents, private investigators and security guards,[31] all of which have been regulated in the last decade? Or why should nursing, social work and the police have been obliged to move to becoming all-graduate professions?

These requirements have often been lobbied for by unions and professional associations as a way of restricting competition and enhancing members' prestige rather than the ostensible reason of protecting the public (Shackleton 2017a: 11-14).

A major recent international study by OECD economists (Bambalaite et al. 2020) cites evidence that occupational regulation raises prices, reduces market entry and lowers employment while showing no clear evidence of improving perceived quality of services. Their own new empirical work suggests that productivity would be significantly enhanced in the UK and elsewhere by liberalising occupational rules. Before the Covid-19 outbreak, the OECD was already calling for 'bold reforms easing occupational entry regulations, especially those concerning qualification requirements'. They argued that, apart from its other benefits, relaxation of entry requirements would open occupations to a range of disadvantaged groups.

31 This is not to say that there should not be rules about the conduct of these activities. This can be, the legal responsibility of employers who could choose employees on the basis of their skills and aptitudes rather than on the basis of government-mandated qualifications.

This argument is reinforced by the circumstances in which we currently find ourselves, with new labour market entrants, and those losing their previous jobs, facing bleak career prospects. Making it possible for graduates to teach in state schools without undergoing teacher training (as is common in private schools) or for nurses to enter the profession without having to take a degree, or people to become social workers without being a graduate in social work, or become lawyers without going through pupillages, or become estate agents or childcare workers without formal qualifications, could open up individual opportunities (not least to disadvantaged minorities) and make new business models possible.

A review of occupational regulation was apparently being considered some time ago; the government could now, as a matter of post-Covid urgency, open up jobs to as wide a range of applicants as possible. Where regulation is necessary it could, as the OECD puts it, be directed to the *output* of businesses and service, rather than the *input* of employees.

Minimum wages

One important type of employment regulation is minimum wage legislation, where the Chancellor's commitments in the March Budget now seem problematic. His Budget not only confirmed a large planned rise in the over-25 National Living Wage (and above-inflation increases in the other four minimum wage rates) from 1 April, but also announced a new remit to the Low Pay Commission (LPC), requiring it to raise the NLW rate to reach 66 per cent of national median hourly earnings, one of the highest rates in the world, by 2024.

It is the effect on smaller businesses which is particularly concerning. Evidence from the LPC's last annual report (Low Pay Commission 2020) suggests that smaller outfits (examples cited include hairdressers and convenience retailers) are particularly hit by these big pay hikes. Facing considerable competition, it is difficult for them to push up prices, so adjustment comes from reductions in profits (already low in these sectors, especially following Covid-19 restrictions), work intensification and cutting back on investment. These expedients can only go so far before businesses collapse.

Even in the generally buoyant labour market prior to the coronavirus pandemic, sectors with a high proportion of workers on the NLW grew employment very slowly, if at all, as the Low Pay Commission notes (ibid.).

Big increases in minimum wages raise employer costs disproportionately in those poorer regions of the country that the Prime Minister wants to help. The proportion of workers on minimum wages is far higher in some parts of the country than others: it is 12.8 per cent in the North East, 12.1 per cent in Yorkshire and Humber, 12.1 per cent in Wales; but only 5.3 per cent in London (ibid.). In some poor seaside and former industrial towns, a quarter or more of workers may be paid at the statutory minimum. They are at serious risk of joblessness if there are further big increases in minimum wages at this time.

Economists, including those at the LPC, focus on the 'bite' of the National Living Wage – the percentage of median earnings which it constitutes – as a factor in the risk of pricing the low-paid out of jobs. The bite varies considerably from area to area. The projected trajectory to 2024 will mean that in some parts of the country it will approach 75 per cent. And by then the NLW is scheduled to apply to those 21 and over, not just to the 25+ age group as at present.

The Chancellor has further boxed himself in on this issue by quoting a projected hourly rate of £10.50 for 2024, based on what the OBR thought median hourly earnings would be in four years' time. However, the OBR's figures are based on pre-pandemic modelling. If median hourly earnings do not rise as projected – and they will probably fall – the government either has to slow the growth of the NLW so it doesn't reach the projected £10.50, or stick to the politically-determined time path and increase the 'bite' still further.

It would be ironic if higher unemployment resulting from such pre-programmed wage hikes offsets Budget measures intended to boost investment and support jobs in poorer regions.

The Chair of the Low Pay Commission has warned that an 'emergency brake' may need to be activated. This would involve the LPC advising that the target and/or the timeframe should be reviewed.[32]

A rethink could go further (Shackleton 2018). There is evidence that minimum wages are a crude and ill-targeted way of raising living standards. Much of the benefit goes to people living in households which are not poor

32 'Push to end low pay may have to be scrapped, UK government warned', *The Guardian,* 31 March 2020 (https://www.theguardian.com/money/2020/mar/31/uk-minimum-wage-rise-of-6-to-go-ahead-despite-coronavirus-pay-freeze-call).

(for example, young people living with their parents), while they can do nothing to relieve poverty for those outside the workforce or working few hours (a large majority of those on minimum wages are working part-time).

While it is unlikely any government is going to scrap minimum wage laws completely – they remain politically popular – the UK's system is relatively complicated. While most countries have just one rate, the UK now has five. There could be just two – one for those aged 25 and over and one for those aged 18 to 24. When the national minimum wage was introduced there was no minimum for under-18s: the government could revert to this position, given that all 16- and 17-year-olds are now required to be in education or training. It could also simplify the rules so that employers are not constantly being surprised by new employment tribunal or HMRC interpretations (for example recent decisions about compensation for uniforms and sleeping overnight in care homes).

There may, however, be a case for having different rates for different parts of the UK, reflecting the strength or weakness of different regional labour markets. Rates could be set at a level which is judged not to threaten jobs, the original mandate of the Low Pay Commission before George Osborne and his successors began to set seemingly arbitrary targets.

The apprenticeship levy

The apprenticeship levy is imposed on all organisations with a payroll of £3 million and over, paid at a rate of 0.5 per cent of the wage bill. Businesses can claim money back to support approved apprenticeships, but many find it hard to access this funding. For them it is in effect simply a payroll tax.

The levy was intended to stimulate the expansion of high-level apprenticeships. This it has failed to do. The concept of an apprenticeship might anyway be an archaic hangover (which Adam Smith denounced in *The Wealth of Nations*). It assumes that there is an established body of skills which can be learnt while young people provide cheap labour. This is an exception rather than a rule.

The apprenticeship levy could be scrapped. The UK labour market may be more likely to recover quickly if employers are free to make their own choices about training and recruitment, relieved of burdensome forms of employment regulation.

Mandated benefits

A ‘mandated benefit’ is a benefit which employers are required to provide for employees. In the UK there are many such mandates: well-known examples include paid holidays, redundancy payments, various forms of parental leave and more recent add-ons such as adoption leave and carer’s leave.

The effects of mandated benefits are subtle. The costs appear to fall on the employer, but this is only true in the short run. Employers inevitably attempt to pass on the costs, just as they try to pass on increased costs of energy or raw materials.

Sometimes it may be possible for employers to pass costs on to consumers (or taxpayers, in the case of public sector employees), but in competitive markets this is difficult. In this situation the cost will fall on employees.

If a worker’s productivity is worth £25,000 a year to an employer, a mandated benefit costing the employer £1,000 a year means that the amount the employer can afford to pay the worker and make a profit is reduced. The proliferation of new mandates in recent years may be one reason why pay has only grown slowly. Importantly, if pay cannot be reduced by a sufficient amount to maintain profits, as is the case with minimum wage workers, employment will tend to fall.[33]

Once provided, mandated benefits are difficult to take away. To the extent that they have been paid for by employees, compensation would seem to be necessary if they are removed, and the government lacks the ability to do this even if it wanted to. Cutting back on existing mandates would therefore require some political courage, but the government could at least resist further extensions.

Pension auto-enrolment

One recently introduced mandate where the cost could be lowered is pension auto-enrolment. The government now requires all employers (even a family employing a nanny) to put staff aged between 22 and state pension age, and earning more than £10,000 per year, into a workplace

33 The classic reference is Summers (1989). For a fuller explanation see Shackleton (2017b: 61-65).

pension scheme.[34] They can opt out, but otherwise the default is that employees pay a minimum of 4 per cent of their salary between national insurance upper and lower earnings limits, while employers must pay 3 per cent (tax relief can add another 1 per cent to this).

The argument behind this policy was that people were not saving enough for their retirement and should be encouraged – 'nudged' by a benevolent state – to do more. Requiring employees to opt out instead of having to opt in to pensions has meant that the policy has been 'successful' in the sense that many more people are now in pension schemes (Thurley 2020).

However, critics argue that it has encouraged too many people on low earnings to be in schemes, even though returns are low on very small contributions, where partly hidden management charges absorb a disproportionate amount.[35] Many who are signed up to schemes, for example young people who may be carrying substantial debts (including student loans and mortgages), could be better off repaying those debts rather than paying into pension schemes in their early twenties.

The government intends over time to extend the coverage of auto-enrolment and require higher contributions from both employees and employers. This policy direction may have attractions, but it will have the effects of mandates outlined above: it will tend to reduce pay and act as a disincentive to employment.

Philip Booth[36] has suggested that the government could mitigate the negative effects of auto-enrolment by increasing the minimum earnings threshold to £15,000 a year from £10,000 (where it has been fixed in nominal terms for several years, meaning it has fallen in real value, bringing more employees into the net) and subsequently update it for inflation. This would approximately triple the minimum contributions and make the eventual pension received more meaningful. He also wants to see the minimum age at which individuals are auto-enrolled being raised from 22 to 25. More controversially, he would also reduce the employer's contribution to zero, meaning that the scheme would, give or take tax

34 Other employees can opt into a scheme. Employers do not have to make a contribution for these employees, though they will incur some administrative costs.

35 House of Commons Work and Pensions Committee (2019) Pension Costs and Transparency. HC 1476. London: The Stationery Office (https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1476/147605.htm).

36 'Let's roll back auto-enrolment', IEA blog, 30 June 2020 (https://iea.org.uk/lets-roll-back-auto-enrolment/).

relief, be a pure ‘nudge’. This could lead to higher pay and more employment in the medium term.

Agency worker rules

Temporary employment agencies may provide a useful service to businesses and workers, particularly in economic downturns. When the outlook is as uncertain as it is at the moment, firms are reluctant to take on new employees, particularly in jobs for which the demand is seasonal or erratic. They may also need temporary replacements for workers who are ill or on maternity leave, and agency workers can fill gaps quickly without the employer undertaking a lengthy recruitment process. Workers coming to a new city and having difficulty finding a job may be helped to do so through an agency. Some do not wish to commit to a permanent job as they may have family responsibilities which preclude this, or may be semi-retired, or may be travelling, or have other jobs where employment is irregular (actors, for instance, may take on temporary office work between engagements).

Temp agencies have played a large role in the UK labour market for many years. Although there are difficulties in measuring the number of agency workers (Runge et al. 2017), partly because workers dip in and dip out of this type of work and may be registered with more than one agency, there may be approaching a million such workers at any one time. They do work both in the public sector (where the NHS is a major user of agency nurses and schools use supply teachers) and the private sector (where many catering, office, reception and security personnel are agency workers).

The European Union imposed various restrictions on agency work through a Directive which was eventually absorbed into UK law. Amongst other requirements, UK employers are obliged to extend all benefits available to their own workers to temporary agency workers who have been with them for 12 weeks. These benefits include access to training, holiday pay, periods of notice, pensions and so forth. This obligation reduces the attraction of using agency workers and may have led to a greater use of other cost-minimising employment practices such as zero hours contracts. There was a way round this, known as the ‘Swedish derogation contract’, whereby agency workers were employed directly by the agency rather than the hiring employer, but this has been banned since April 2020.

Now that the UK has left the European Union, the government could look again at agency work, which is likely to be of great importance during the recovery period. It could consider suspending, if not abolishing, the twelve-week rule for extension of benefits to agency workers.

Longer-term changes

Reform in these areas could be expected to have some effect on increasing employment in the short to medium term, but there are many other areas where changes could be usefully made to employment regulation. One might be to narrow the scope of discrimination law, which has swollen to include a far wider range of protected characteristics than was intended even in the 2010 Equality Act – for instance a range of minority beliefs (Wiccanism and veganism, for example) have been held to require protection. Under discrimination law there is no upper limit to compensation awarded by tribunals, whereas there is an upper limit for payment for unfair dismissal. There is no obvious reason why discrimination awards should not be capped.[37]

Unfair dismissal law itself could usefully be revisited. Unfair dismissal is a form of employment protection legislation, which international evidence (Skedinger 2010) suggests tends to raise costs to businesses (like other mandates, partially passed on to employees in the form of lower pay) and reduces employment.

After a qualifying period, UK employees can only ‘fairly’ be dismissed for a limited range of reasons – misconduct, capability issues, redundancy, legal bars (such as immigration status or conviction for child abuse) or ‘some other substantial reason’. Employers must follow formal procedures, and if they get these wrong, even ‘good cause’ dismissals are unfair and can lead to compensation.

The complications around dismissals can create problems for inexperienced small business owners or managers. They are the largest single category of employment tribunal cases. This led Adrian Beecroft, who was invited to report to David Cameron on employment regulation, to recommend the creation of ‘compulsory no-fault dismissal’ (Department for Business, Innovation and Skills 2012). His proposal could be looked at again.

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37 The absence of a cap was a requirement of EU law which the UK government could now change.

Conclusions

In view of the uncertainties and dangers of the initial stages of the Covid-19 pandemic, the government arguably had little option but to impose lockdown; the decision to support people who were unable to work followed. Job and business support schemes played a useful role, but they cannot indefinitely maintain the economy in a state of suspended animation.

In looking to the future, the government faces the challenge of offsetting the inevitable loss of jobs from the disruption to the economy and consequent shifts of consumer and business behaviour, and getting the labour market back to its pre-Covid performance.

At present it looks as if the government is to pursue a strategy which aims to spend its way back to full employment – Boris Johnson's modern 'New Deal'. There are weaknesses in this approach. Many of the policies the Prime Minister and the Chancellor have so far sketched out have been tried in the past, with indifferent results, and it is far from certain that they will generate a net increase in employment. They will however cost a lot of money, and there may have to be big increases in taxation to pay for them unless government debt is to rise without limit.

Tax increases in a recession are likely to prove counter-productive, and will crowd out private sector activity. More generally, they risk turning the UK back to what it was in the 1970s - a low-productivity, high-tax economy with an over-large public sector and little appeal to foreign investors.

An alternative strategy is to pivot towards deregulation and have faith in the private sector, which the last decade's experience suggests can innovate and generate jobs rapidly, given the chance. The government has already recognised that reform of planning law has the potential to create many jobs and help mitigate the country's longstanding housing problems.

However, it could go beyond this and recognise the need for wider deregulation, particularly in employment law, which has grown dramatically in recent decades. This paper has suggested some options for reform.

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