



Task Force 6
**Social Cohesion and the Future
of Welfare Systems**

Policy brief

COVID-19 AND INEQUALITY: AN INTEGRATED POLICY RESPONSE FOR SKILLS, EMPLOYMENT AND WELFARE

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ABSTRACT

The longer-term impact of the COVID-19 pandemic on skills, jobs and welfare raises key challenges that are common to the G20 economies and require a coordinated response. With lower paid, more insecure and younger workers more likely to have been working in shutdown sectors, labour market inequalities are likely to increase. Young people, particularly from poorer backgrounds, have also seen significant disruption to their learning, and the job prospects of those entering the labour force are limited. At the same time there is an acceleration in new technologies driven by the move to e-commerce and remote working. Our focus is on policies towards human capital that generate the skills to complement new technologies, while incentivising technologies that are aligned with good jobs. There is growing evidence of what works and we highlight the key role of employer-based qualification training that is oriented towards new technologies, soft skills and local sector demands.



CHALLENGE

There are many challenges brought about by the COVID-19 pandemic but the specific ones around the longer-term impact on skills, jobs and welfare design are both incredibly pressing and common to the majority of the G20 economies. The pandemic has increased many existing inequalities and has also introduced new ones. The enormous loss of education, training and earnings during the pandemic has left many people, both adults and children, poorly prepared for the future. The pandemic has changed the world of work and accelerated the shift towards e-commerce, placing increased demand for skills that complement these technologies. The climate change emergency has also refocused policy across the G20 on skills that align with green technologies. Governments who have spent large sums on temporary measures to address the immediate impacts of the pandemic will now have find resources to address these long-term challenges. It is therefore imperative that the most effective and efficient policies are chosen, highlighting the need for coordination and shared knowledge.

We identify three key inequalities that are likely to have risen during the pandemic. These are: income inequalities between richer and poorer households; socio-economic inequalities in education and skills; and inter-generational inequalities between older and younger people. These inequalities have increased due to two key trends.

First, many children have missed out on face-to-face schooling for large parts of the last year. While some of that has been made up for with remote or online teaching, this provision has often been patchy at best. There is a wide range of variation in how much face-to-face schooling children have missed, determined by the prevalence of COVID-19; decisions of governments or municipalities on when to re-open schools; and the ability of different schools to provide remote teaching to their pupils. Children from lower socio-economic backgrounds have missed out the most. Surveys during lockdown show that lack of access to digital technology is a key reason why children from lower socio-economic groups were unable to access remedial tuition.

Second, the reduction in employment has been concentrated amongst young adults and people with lower levels of formal education. This is particularly due to the concentration of these groups in jobs in the retail and hospitality sectors, on which there have been large restrictions due to social distancing and lockdowns. In addition, the lower demand for labour has reduced demand from firms for apprentices, thereby reducing workplace-based training routes, which are important for people who do not pursue university education. Although furlough-style schemes, short-time working and expansions of unemployment insurance have provided income protection to many or most of those affected, as temporary assistance schemes are withdrawn, it is likely that there will be high unemployment rates. These are particularly important, as it becomes increasingly clear how the pandemic itself has caused or accelerated trends that change the demand for skills in particular areas, such as due to increases in online commerce and remote working.



The implications of less teaching in schools and lower educational achievement will hit people from poorer backgrounds harder. Younger generations as a whole are likely to be badly hit by disrupted education and a labour market with reduced opportunities for training, thus reducing their prospects for career progression. Lower-educated young workers face increasingly poor pay progression, low rates of training, shorter job tenures and a higher risk of outsourcing. It is likely, therefore, that much of the persistent impact of the pandemic on social and economic outcomes will fall upon younger generations and people from poorer socio-economic backgrounds.



PROPOSAL

We present the case for a large-scale, integrated policy response, coordinated across the G20, to help younger adults who either face difficulties finding jobs in the labour market and/or have received considerably less formal education over the last 18 months. While these challenges are faced by many young adults, they are most acute for those from poorer families, as the latter are most likely to have missed education, most likely to have worked in the hardest-hit sectors of retail and hospitality, and are most dependent on workplace-based training (rather than university tertiary education) for career progression.

Here we set out some key areas that we think governments should focus on in order to ameliorate the deleterious effects of the pandemic for these groups. The policies in question are intended to increase career progression and incentivise the creation of good jobs, while providing a social protection system designed to enhance skills.

It is worth highlighting up-front that we think that governments should address these problems in an integrated way and that there is also scope for better knowledge dissemination between countries on how to address some of these issues. The demands on government resources are likely to be of a magnitude not seen outside wartime. Coordination is required to both effectively and efficiently address the impact on jobs, skills and inequality from the loss of human capital, the rapid shifts in technology and the changes in the world of work brought about by the pandemic.

In all countries there is a need for an integrated approach to policy-making. Different government departments typically have responsibility for different areas of public policy, and even within departments, teams of civil servants focus on specific policies or policy issues. However, the interaction of different inequalities and the complexity of the public policy challenges that we have highlighted implies that it will be increasingly important for there to be strong co-ordination across government departments and agencies within and between countries for policy to be successful in the aftermath of the pandemic. Indeed, the civil service and public administration will work best when countries learn from each others' policy successes and their mistakes. Given the scale of the challenge there is a pressing need to establish an international office, perhaps interacting with the OECD, to coordinate the exchange of knowledge, the spread of best practice and the alignment of policy.

Below we highlight areas of policy that governments should particularly consider.

We highlight six key areas for improvement to tackle the economic effects of the pandemic: 1) targeting resources at remedial education for children who have missed out; 2) improving the quality of upper-secondary and non-university tertiary education and training; 3) invest-



ment in digital infrastructure to improve education and training; 4) re-considering the support provided to job-seekers; 5) addressing poor wage progression for the low-educated, and 6) focusing on technology incentives and skills incentives to deliver good jobs.

We now examine each of these areas in turn.

REMEDIAL EDUCATION

It is important for governments to increase funding for remedial education - for example, through small-group tuition. Small group programmes alone are unlikely to completely close the socio-economic gap in learning that has opened up for the following two reasons: (a) there are so many children who are disadvantaged in various ways that the scale of the programme required is enormous and there is bound to be variation in the quality of delivery and the appropriateness of the targeting; (b) the learning loss is in multiple subjects over a long period. It does not seem possible for small-group tuition to compensate entirely for the loss of instructional time.

Governments should consider how to increase the number of hours of schooling pupils receive. Options include repeating school years, shortening the summer holidays and extending hours on regular school weeks. Of these, the latter seems most reasonable. This would come with the need for significantly increased resources for schools (and potentially pay for teachers).

Addressing learning loss is not only about targeting disadvantage but also about trying to offer much broader-scale remedial help to the whole cohort of pupils affected by the COVID-19 pandemic. The fact that educational inequalities have different dimensions (not all reflecting socio-economic background) and that these will be differently affected by the COVID-19 pandemic suggests that direct targeting of particular groups is not sufficient on its own to make up for the damage caused by the pandemic. Any changes that are made in this area are likely to be necessary not just for a term or two, but for a number of years.

QUALITY OF UPPER-SECONDARY AND NON-UNIVERSITY TERTIARY EDUCATION AND TRAINING

Improving access to, and the quality of, vocational education has been a priority from before the pandemic, but is brought into sharp relief for young people facing a much more difficult labour market due to the pandemic. While some countries have extensive and effective systems of vocational training, often undertaken in partnership with employers, many countries do not. A particular issue for those young people affected by the pandemic is that it is important that there is enough flexibility to allow them to change courses and to spend longer in education or training programmes than might be expected for other cohorts.



Governments need to deal with the fact that pupils facing assessment for qualifications will have had much less preparation than previous cohorts. This will be particularly the case in countries with high-stakes exams in secondary school that channel pupils into different routes for further education. Poorer pupils will, on average, have received much less schooling than richer ones, as a result of the pandemic. Grades will not measure the same thing as in previous years. These are not easy issues, but much greater care will need to be taken to support pupils into an academic or vocational education or training scheme that is a best match for their skills and talents, and takes account of their educational experience during the pandemic. This would be helped by clear sign-posting of progression routes.

Encourage investment in training, particularly oriented towards appropriate and new technologies. It is important for education and training providers to focus on skills and matches that deliver earnings progression and opportunities for mobility. Soft skills have been shown to be increasingly important for career progression and are particularly relevant for people with low-levels of education, who have historically experienced very low levels of earnings progression. It is also important that training routes and programmes are flexible enough to respond to the changing needs of technology and local sector needs that occur in the post-pandemic labour market. We highlight the role of soft skills and good jobs in (5) below. The skills and training needs prompted by technological change are a key area where knowledge exchange between countries would be beneficial.

DIGITAL INFRASTRUCTURE

Governments could provide funding to buy poorer school-children technology (such as laptops or tablet computers) that could allow all pupils to harness the benefits of technology in schools. Lack of access to technology is one reason why poorer pupils have been able to benefit less from online learning. Wider use of personal computers by pupils would enable institutions to learn how to use online resources more effectively for teaching (drawing on their experience during the pandemic), in such a way that all pupils could access online resources. It would also help facilitate additional tuition taking place out of regular school hours.

Digital access and training Technological advancement might also help if it enables people to access training opportunities that are a long way from where they live (as studies often find distance to education provider to be an important predictor of educational engagement).

SUPPORT FOR JOBSEEKERS

Increased funding towards (re-)training schemes for jobseekers would be appropriate to try to encourage people who have been made redundant from shrinking sectors of the economy to gain skills that are valued in the labour market after COVID-19. There are many policy changes that might be considered, including making adult re-training less costly. In



the UK for example, this might involve permanently removing rules restricting loan eligibility and also by enabling more flexibility on what public subsidies can cover. Retraining also generally needs an employer contribution too, with a focus on skills and matches that deliver earnings progression and opportunities for mobility – so-called “good jobs”. Policies such as “human capital tax credits” should be considered in order to help incentivise firms to undertake more training than currently.

Considering a different focus for “job centres”. Many countries have parts of the government that help job-seekers find work. Policy-makers should consider what balance to strike between encouraging job-seekers to take any work available, and encouraging people to find training or opportunities that exploit their skills and experience. It could be a good time for governments to consider whether they are providing enough support to people who are made redundant, or remain unemployed, after the end of the pandemic, and/or whether their welfare systems are providing sufficient incentive to seek new work.

ADDRESSING POOR WAGE PROGRESSION

Wage progression and good jobs. Lower-educated workers face increasingly poor pay progression, low rates of training, shorter job tenures and a higher risk of outsourcing. These are the exact opposite of the key attributes that define “good jobs” – those with favourable long-term prospects: opportunities for pay progression, good benefits and promotion. Despite this overall gloomy picture, there are pockets of light. Workers can still benefit from training, but the type of skills gained matters, as do the accreditation system and the kind of firms that lower-education workers are matched to. These factors may be the key to reversing poor job prospects for lower-educated workers, particularly those who do less well in, or are less well-served by, the formal education system.

Soft skills. Research shows that soft skills can lead to significant improvements along all key dimensions of good jobs for lower-educated workers throughout their working lives. This includes better pay progression, more training, longer firm tenures and less outsourcing. That is not to say that numeracy and literacy skills do not matter – far from it – it points, rather, to a further dimension of skills for which the prospects for good jobs are enhanced, especially for low-educated workers.

DESIGNING POLICIES THAT INDUCE GOOD JOBS

The balance between incentives for technology and incentives for skills. New technologies typically *displace* workers in some occupations and industries. They also *replace* lost jobs with new ones, often involving new tasks and requiring new skills. The speed of replacement can lower the impact of technology on overall employment (Acemoglu and Restrepo 2018). However, incentivising technologies that deliver replacement jobs alone is not enough. It is important to incentivise technologies that produce good jobs. That is jobs with good career progression and benefits. Good jobs are produced by bringing togeth-



er dynamic and growing firms with appropriately skilled workers. The complementarity of worker skills and the type of firms will therefore be important.

Historically it is educated workers who have benefited with improved job prospects following technological innovation. The move to e-commerce and remote working enhanced by the COVID pandemic is likely to increase this trend. It is important, therefore, to make sure that the skills possessed by lower-educated workers, and the new technologies being accessed, can generate good jobs for low-educated workers. Recent research (Aghion et al. 2019), has shown that enhanced wage progression and better jobs for the low-educated can be achieved through the right investment in skills, especially soft skills. The research also shows that these benefits are much more likely to occur in innovative firms and firms with a larger share of higher-educated personnel. Innovation need not lead to the demise of good jobs for lower-educated workers. It is this match between worker skills and the type of firms that matters and requires careful policy attention as we emerge from the pandemic.

The winners and losers from new technologies are also likely to be geographically concentrated, generating regional inequality with pockets of deprivation and little local demand for good jobs or good firms. The impact on communities may well go beyond income inequalities, health inequalities and broader social and economic inequalities. Policy design must therefore be attuned to the importance of regional inequality and the role of agglomeration.

There are two broad types of policies. First, there are policies that exploit complementarities. For example, encouraging investment in artificial intelligence that helps integrate lower-educated workers, or redressing geographical concentrations of low-educated workers. Second, there are policies that exploit synergies. These include subsidising firm-based qualification training with a component of nationally accredited training in soft skills. Local employers in sectors with good growth prospects could naturally contribute by identifying key complementarities.

The need for comprehensive reform. To be effective, these local sector-level policies, which focus on firm-based qualification training, with an emphasis on soft skills for lower-educated workers, need to be part of a broader policy. An enhanced welfare benefit and social insurance system alongside a generous minimum wage to boost low earnings will play a part. There is also a need for regulatory change to line up benefit eligibility and tax treatment for the self-employed.



CONCLUSION

To conclude we highlight where it may be particularly important for policy-makers to consider an integrated response to the challenges of a post-pandemic world.

Apprenticeship policy is an area that will benefit from increasingly joined-up thinking. Apprenticeships are not only important as a source of education and training, but are intimately linked to concerns on in-work wage progression, social mobility and levels of labour market inequalities. Good apprenticeships, particularly in areas such as skilled trades, can be effective forms of training for many people without tertiary education. However, in many countries there is a high number of policy-driven apprenticeship standards (currently over 600 in the UK), and there is a risk that apprentices learn skills that are too specific to particular firms, rather than broad – and accredited – skills that are useful to workers across different firms. In the longer-term, a broader suite of portable skills based on widely recognised qualifications will provide access to a wider range of firms and sectors, and potentially provide a form of insurance against large-scale shifts in the labour market caused by new technologies.

Addressing low pay in specific sectors of the workforce is another area to consider. The social care sector, for example, provides valuable services to many people, especially elderly people. However, it is also a sector where the workforce is predominantly low paid. Policies aimed at recruiting more people into this sector need to consider how to incentivise entry. This requires considering both pay and training (or re-training). This might involve more subsidised places at adult education colleges, as well as additional resources for local governments to pay for higher-quality care on behalf of older people. And with a workforce with a typically high share of immigrants working in it, policies in this area need to be considered alongside the status of social care workers in the immigration system.

Looking across the challenges facing education, skills and employment, a key area for joined-up policy-making will be in building the digital infrastructure to help facilitate people's efforts to engage in the post-pandemic economy and in society more generally. This will be highly complementary to other government policies and would enhance their effectiveness. For schools, extra tuition for students is likely to remain an important part of efforts to make up for lost learning during the pandemic, and perhaps become a permanent feature of the educational landscape. But one aspect of poverty is lack of access to technology, either because of poor broadband services or the lack of means to purchase computers and other devices. Surveys during the first lockdown show that lack of access to digital technology is one of the reasons why children from lower socio-economic groups were unable to access remedial tuition.

As regards training, on account of the pandemic and increased unemployment, we have argued that more people will need to retrain. The possibility of online training enables people to overcome barriers caused by distance from an educational provider, and potentially enables greater flexibility. The provision of better digital infrastructure would thus facilitate training both directly (i.e. enabling people to do this online) and indirectly (i.e. removing costs associated with having to attend in person). As for employment, a long-term legacy of the pandemic is likely to be increased working from home among many occupations.



To the extent that there is a digital divide in terms of infrastructure and access to technology, this will discriminate against people without good access. Perhaps the crisis will bring a new emphasis on building a fairer society. To do so, low-earning workers will need support and training that focuses on the demands of the post-COVID economy, of which accredited soft skills will be a key component.

Many of the proposals highlighted involve additional government expenditure. This could be financed by increased taxes, reduced government spending elsewhere, or increased government borrowing. Which of these is most appropriate is likely to differ across countries, depending on their current levels and structure of taxation, spending, public debt and borrowing costs. It is likely, however, that the tax system will increasingly be the source of revenue to cover the required expenditures. Although little international co-ordination is required in raising taxes on labour income and consumption, this is not the case for the broad range of capital taxes (see, for example, Mirrlees Review 2011). Raising revenue through corporation taxation and wealth taxation, for example, is much more effective and efficient with international co-operation and coordination.

Just as more joined-up thinking within countries is a necessary part of economic prosperity, so too is sharing between countries in areas that can be mutually beneficial, without infringing intellectual property rights. One example of this highlighted here is how training needs to be adapted in the light of the changes in technology and the demand for skills brought about by the COVID pandemic. Countries face many interconnected and common post-COVID challenges, which add to the global issues such as AI and climate change. Each country may be at a different point in their trajectory in their policy response or have different approaches to addressing the same issues. There are synergies to be found, however, in learning from experience elsewhere to devise and adapt national policies. An improved digital infrastructure facilitates communication and dissemination between national officials and policy-makers, in a much more convenient and efficient manner than in the past. However, an international body with a specific remit needs to facilitate this sort of coordination.



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