Expert Report for the UK Covid-19 Public Inquiry

Module 9 – Economic response

The impact of the labour market interventions and the social security system on inequalities

Author: Dr Mike Brewer

Author statement

I confirm that this is my own work and that the facts stated in the report are within my own knowledge. I understand my duty to provide independent evidence and have complied with that duty. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

Mike Brewer

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Preamble

1. Since March 2020, I have been the Chief Economist and Deputy Chief Executive at the Resolution Foundation (RF), an independent think-tank focused on improving the living standards of those on low-to-middle incomes. Since 2021, I have been a Visiting Professor in Practice at the Department of Social Policy at the London School of Economics. Before that, I was a Professor of Economics at the University of Essex for nine years, and spent my earlier career as an economist in the civil service, and at the Institute for Fiscal Studies. My main areas of research are: poverty and inequality in the UK, and the design and operation of the UK's social security system. During the pandemic, I and others at the Resolution Foundation undertook research and commissioned surveys to understand the impact of the pandemic on the UK labour market and UK households' financial circumstances, and engaged in policy debates about the best way to protect households' financial circumstances, and the economy more generally. In this report, I refer to evaluations of the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme schemes carried out by HM Treasury and HM Revenue and Customs; I was commissioned by HM Revenue and Customs to provide a peer-review assessment of both of these at their interim stages.

2. Research assistance for this report was provided by Imogen Stone, a Researcher at the Resolution Foundation.

Scope of this report

3. This report is in three main sections. First, I discuss the labour market interventions introduced in the Covid-19 pandemic, then I discuss the social security system (both the changes made during the pandemic and the existing system). In both of these, I consider how well each ameliorated or exacerbated any pre-existing economic inequalities. The final section presents lessons that I draw having considered both areas. A glossary explains technical terms.

The labour market

4. In this section, I will assess how the Covid-19 pandemic affected the labour market, and the role played by the key labour market interventions introduced by the UK Government, which I take to be the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme, with a lesser role being played by the Kick Start programme.

5. In summary: the economic shock caused by the pandemic was felt very unevenly across the different sectors of the economy, and so was the impact on the labour market, with sectors like hospitality, non-food retail, and leisure suffering much more from the various lockdowns, restrictions on non-essential activities, and people's desire to avoid in-person contacts. These are sectors that disproportionately employ young and low-paid workers (and, in some cases, ethnic minority or disabled workers) and this is the main, but not the only reason, why the impact of the pandemic was so unequal. The labour market interventions reduced the extent to which this very uneven economic shock translated into outcomes for workers. In other words, although the labour market did become more unequal during the pandemic when considered along with factors like age, ethnicity, disability status or hourly pay, this would have been much worse without the labour market interventions.

6. There are concerns about the extent to which economic inactivity rose during the pandemic, and whether the labour market interventions did enough to prevent 'scarring'. The evidence is not definitive, but suggests that the rise in economic inactivity was not caused by the labour market interventions, or even the measures to shut down or restrict some areas of the economy. It will be very hard to ever truly know whether the pandemic did lead to much labour market scarring, but various pieces of evidence suggest that any scarring was mild.

7. In the rest of this section, I will first explain the inequalities in the UK labour market that existed before the Covid-19 pandemic in 2020, focusing on two aspects of the labour market – earnings and hours, and the employment contracts and conditions that determine workers' rights and job security – and explore inequalities on the basis of gender, ethnicity, disability and age. Then I move onto the impact of the Covid-19 pandemic itself. I will explain the impact that the pandemic had on different parts of the economy and the labour market, and summarise the main interventions that were introduced and how they helped mitigate against the negative effects of the pandemic. Then, I consider the issues of labour market scarring and economic inactivity, including the impact of Long Covid. Finally, I consider how the design of the labour market interventions influenced their ability to address inequalities stemming from the pandemic.

8. It should be noted that a lot of the evidence on the performance of the UK labour market in the pandemic comes from the Office for National Statistics' survey, the Labour Force Survey (LFS). In the past two years, concerns have been raised about the quality of estimates from the LFS (see ONS, 2025c). It is hard to know whether the concerns about the performance of the LFS post-pandemic also applied in the pandemic. The pandemic was a time where the labour market changed very quickly in many different ways, and the existence of the CJRS scheme made it difficult to collect consistent data, and both these mean that benchmarking the LFS against other sources of labour market data through the pandemic period is not especially useful. My view is that most of the concerns about the LFS relate to its ability to accurately estimate the level of the employment rate, but most of the evidence I cite below used the LFS to estimate which groups were disproportionately affected by labour market disruption. It is my judgement that those estimates will still be qualitatively correct, although it is possible that some of the evidence cited below might change when the ONS release new

weights for the LFS back to 2011 (as mentioned in ONS, 2025c). It should also be noted that most of the LFS evidence cited below was confirmed (in qualitative terms) by bespoke or smaller-scale surveys.

An overview of pre-existing inequalities in the UK labour market

9. Inequalities exist across several dimensions of the UK labour market: in pay and hours worked, employment rights and job security, and access to employment opportunities. In this section, I summarise evidence on inequality in pay and earnings, and in employment rights, and look at how labour market outcomes vary by age, gender, disability and ethnicity. Then I look at the differences between sectors, as that proved to be very important in understanding the impact of the pandemic on the labour market.

10. There are big disparities in earnings and hours across the pay distribution, although on some measures these were declining by the end of the 2010s. In particular:

    10.1. As of 2019, the UK had some of the highest levels of earnings inequality in the developed world (Giupponi and Machin, 2022). The gap between top and bottom earners (the 90:10 percentile ratio) increased to among the highest in the OECD, with the top 10% of full-time employees (i.e. the 90th centile) earning over three times that of the bottom 10% (the 10th centile). The ratio of median CEO pay to median full-time worker pay was 119:1.

    10.2. At the lower end of the pay distribution, the National Minimum Wage (introduced in 1999) helped to prevent an increase in inequality between bottom and middle earners (Giupponi and Machin, 2022). And overall, the big drop in real-terms earnings growth across the whole distribution in the 2010s meant a small reduction in inequality relative to the 1980s.

    10.3. Hours of work also play a role in understanding inequality in weekly earnings. In 2019, gross (i.e. before tax) median hourly pay for part-time employees was £9.94, relative to £14.90 for full-time employees (Office for National Statistics, 2019a). For male employees particularly, a decline in hours of work over the last two decades at lower wage percentiles has pushed up earnings inequality (Giupponi and Machin, 2022). For women, increases in hours at the bottom of the wage distribution has reduced earnings inequality.

11. But it is also important to think about dimensions of the labour market other than pay. In particular, employment contracts and conditions dictate access to employment rights and job security. For example, over the last few decades, there has been an increase in 'non-standard' forms of employment such as temporary, part-time, self-employed and zero-hour contract work arrangements. At the start of 2019, 63% of the workforce were in a standard employment arrangement, working as full-time employees (Office for National Statistics, 2019b), meaning over one-third of workers were in non-standard work. These types of arrangements are associated with greater job insecurity than standard employment, as workers are less protected by labour market regulations and social security benefits. In part, this is because some aspects of employment law and regulations were historically designed with the 'standard' employment relationship in mind – that of a permanent, full-time job with a direct, hierarchical relationship between employer and employee.

12. An important distinction when considering access to employment rights is between the employment status of 'workers' (sometimes known as 'limb (b) workers'), 'employees' and

the 'self-employed'. In this specific instance, a 'worker' includes anyone with a contract or arrangement to do work or services for a reward (money or a benefit in kind). 'Workers' are entitled to certain rights, such as the National Minimum Wage, statutory paid holiday and protection against unlawful discrimination and deductions from wages. Limb (b) workers on temporary or zero-hour contracts, or contracted by an agency to work for an employer, face uncertainty over pay and hours, likely with no certainty over continued employment or guaranteed hours of work. It is estimated there were 1 million limb (b) workers on zero-hour contracts by 2019, and analysis suggests these zero-hour contract workers earn on average £5 less per hour and work 10 fewer hours a week than the average employee (Giupponi and Machin, 2022).

13. An 'employee' is a worker under an employment contract, with an employment relationship that reflects the status of employee – providing a greater level of certainty over where, when and how the work is done compared to other employment types. 'Employee' is the status with the most rights, as employees get all the employment rights that limb (b) workers do, as well as extra rights to statutory sick pay, redundancy pay, parental pay and leave, protection against unfair dismissal and the right to request flexible working.

14. A 'self-employed' person refers to someone who runs their own business and is not covered by employment law as they are their own boss. Self-employed people are entitled to protection of their health and safety and rights against discrimination, as well as any rights set out in contracts with clients. The prevalence of self-employment has risen considerably, from 8% of workers in 1975 to over 14% in 2019 (Giupponi and Xu, 2020). This has been driven by an increase in 'solo' self-employment – sole traders or company owner-managers with no employees; in 1975, nearly half (44%) of self-employed people had employees, but by 2019, just 15% did. At the end of 2019, there were nearly 4 million solo self-employed workers in the UK. The growth in solo self-employment accounted for over a third (38%) of total UK employment growth between the first quarter of 2008 and last quarter of 2019. Median pre-tax earnings for solo self-employed workers were 30% lower than for employees in 2018-19. Solo self-employment is an important route for following on from unemployment or inactivity: in 2019, the solo self-employed were 45% more likely than employees to have been recently unemployed or inactive (in 2000, they were no more likely).

15. Although not all self-employed people are in insecure work, the non-standard work described above (limb (b) workers and self-employed) can be categorised as 'insecure work' (sometimes also referred to as 'precarious work'). Insecure work broadly refers to workers with insecure working arrangements due to uncertainty over working hours and pay, and lack of employment rights and benefits, meaning emergencies or changes to circumstances could cause a significant drop in income. By the time the Covid-19 pandemic began, it is estimated there were at least 2.4 million workers in insecure working arrangements (zero-hours contracts, agency work, casual or seasonal, and all other temporary work), and another 2 million low-earning self-employed people that were likely to experience job insecurity – amounting to roughly 13% of the workforce (McDonald and Sandor, 2020).

16. Some groups are disproportionately disadvantaged in the labour market compared to others. On average, women, people from some ethnic minority backgrounds, people with disabilities, and younger (aged under 30) and older (aged 60 and above) working-age adults are paid less than male, non-disabled and middle-aged workers. Workers also experience inequalities on the basis of geography, social class, education level and health status. I provide evidence on some of those points below.

17. Women experience inequalities in employment, working hours and hourly wages relative to men (Andrew et al., 2021):

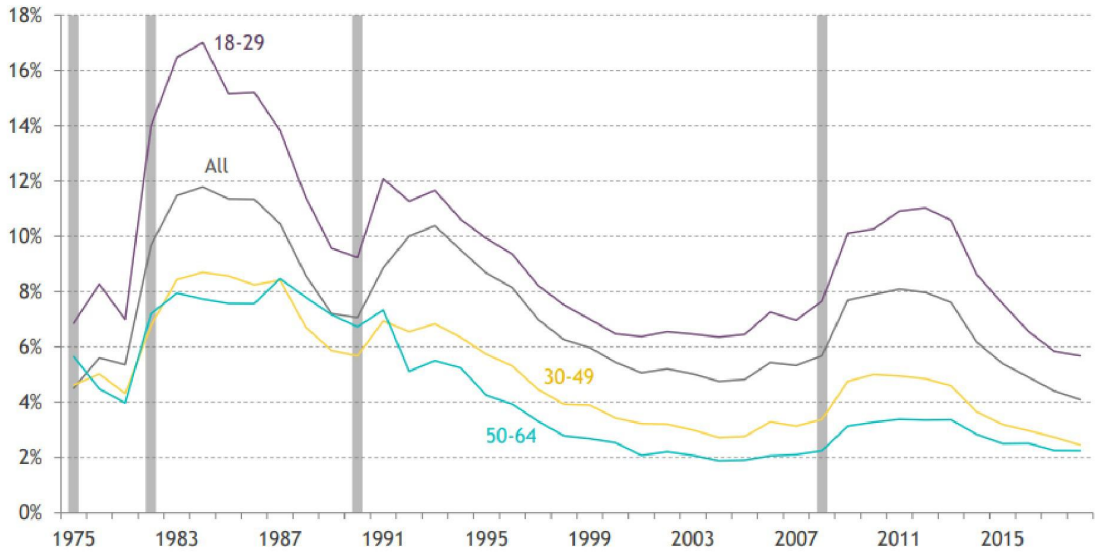
    17.1. The average working-age woman in the UK earned 40% less than her male counterpart in 2019. On average, women earned 19% less per hour than men. Gender pay disparities are a combination of gaps in employment, working hours and hourly wages. The minimum wage has been an important factor in reducing gaps for lower-paid women, but wages for highly educated women have not made the same progress. This is reflected in particularly large gender pay gaps for higher earners: the top 10% of female earners earn a fifth less per hour than the top 10% of male earners.

    17.2. Higher prevalence of career breaks and part-time working among women contributes to lower hourly earnings when older – in 2019, for women under age 40 working as full-time employees, the gender pay gap (the difference in average hourly earnings between men and women as a proportion of male average hourly earnings, excluding overtime) was close to zero; compared to women aged 50 or over working full-time, for whom the gap was over 15%. Looking at inequalities in earnings for parents indicates that gaps in work after having a child are a significant factor contributing to gendered labour market inequalities. Women's earnings fall when they become parents – seven years after the birth of a first child, women's earnings were on average less than half of men's.

18. Labour market outcomes vary by age group:

    18.1. Younger workers have always had higher unemployment rates than older workers (in the chart below, younger is taken to mean 18-29 years old), and have tended to be more affected by economic downturns (Bangham et al., 2019).

Figure 1: Unemployment rate by age group: UK



Notes: 'All' refers to those aged 16+. Shaded bars denote recessions.
Source: RF analysis of ONS, *Annual Labour Force Survey (1975-91)*; ONS, *Quarterly Labour Force Survey (1992-2018)*

Source: Bangham et al., 2019.

19. The experience of different ethnic groups in the labour market is varied, with large differences in outcomes among ethnic groups:

    19.1. In 2019, the proportion of White working-age adults in employment was 78% (UK Government, 2023). Among all other ethnic groups combined, the employment rate was 66%. But there is considerable variation among minority ethnic groups, with the Pakistani and Bangladeshi ethnic group having the lowest employment rate (56%), and Indian ethnic group with the highest (77%).

    19.2. The pay gap in median hourly pay between White workers and ethnic minority workers was 2.3% in 2019, which had fallen from a high of 8.4% in 2014 (Office for National Statistics, 2023). The pay gap was larger for ethnic minority men than women, and for people over 30 compared to aged 16 to 29. There was also considerable variation between ethnic minority groups (shown in Table 1) – median hourly pay was highest for full-time employees in the 'Mixed or Multiple ethnic group' (£12.49), and lowest for those in the 'Other ethnic group' (£11.50). There was also variation within these ethnic groups: median hourly pay for Asian workers varied from £10.55 for the Pakistani ethnic group, to those in Indian and Chinese ethnic groups, whose average hourly wages were £14.43 and £15.38 respectively. .

    19.3. Overall, ethnic employment rate gaps have reduced since the 1990s, particularly among men (Mirza and Warwick, 2022). Median earnings gaps have been more persistent.

20. Earnings by individual characteristics in 2019 are shown in Table 1.

Table 1: Median hourly earnings by type of employment, age group and ethnicity: UK, 2019

		Median hourly earnings (£)
All employees		13.28
	Male	14.68
	Female	12.02
Full-time employees		14.90
	Male	15.50
	Female	13.99
Part-time employees		9.94
	Male	9.66
	Female	10.00
Full-time employees by age group		
	16-21	8.53
	22-29	11.88
	30-39	14.76
	40-49	15.50
	50-59	14.14
	60+	12.04
Full-time employees by ethnicity		
	White	12.33
	Mixed or Multiple ethnic groups	12.49
	Asian or Asian British	12.40
	Black, African, Caribbean or Black British	11.63
	Other ethnic group	11.50

Source: Annual Survey of Hours and Earnings, Office for National Statistics.

21. Employment outcomes also differ by disability status. Disabled adults have a lower employment rate and experience disparities in pay relative to non-disabled adults.

    21.1. In 2019, the proportion of disabled adults (aged 16 to 64) in employment was 53.5%, compared to 81.6% of non-disabled adults (DWP, 2024b). Among disabled adults, there is wide variation in employment status by health condition: with highest rates for those with disfigurements, skin conditions and allergies (68%) and stomach problems (66%), and lowest rates among those with severe learning difficulties (21%) and autism (22%).

    21.2. There is a 'disability pay gap', which was 14.1% in 2019 (Office for National Statistics, 2024). Median hourly pay for disabled employees was £10.87, relative to £12.66 for non-disabled employees.

22. As I will show later, the impact of the pandemic on the economy and the labour market varied hugely by sector, and so we need to understand the extent of differences in pay between sectors, and also the differences in the characteristics of the workers in sectors.

23. Earnings vary considerably by sector, with high prevalence of low paid jobs concentrated in certain sectors:

23.1. In 2019, gross median hourly pay for all employees was £13.28. The variation across sectors ranged from median pay of £8.64 in accommodation and food services (hereafter 'hospitality'), the lowest-paid sector, to the highest hourly average pay of £20.49 in finance and insurance services. Median pay for each sector in 2019 can be seen in Table 2.

23.2. Sectors with below-average hourly pay were hospitality; activities of households as employers, undifferentiated goods-and services-producing activities of households for own use (this sector includes domestic jobs, such as cooks, gardeners and babysitters, where the household is the employer and consumer of the activity; and goods-producing and services-producing activities of households for their own use, for example farming, cooking and teaching, but only in the case these activities are for their own subsistence, and not engaging in market activities); agriculture; wholesale and retail; arts, entertainment and recreation; administrative and support services; and other service activities. Sub-sectors known to be some of the lowest paid include hair and beauty, childcare, cleaning, textiles, and social care.

23.3. These lower-paid sectors also have larger proportions of workers with insecure employment conditions. As shown in Table 2, around two-thirds of workers in the household activities sector are self-employed, and over 40% of agriculture workers are self-employed. The lowest-paid sector, hospitality, has the highest proportion of zero-hour contract workers of any sector, at 23% (Office for National Statistics, 2025b). Other sectors with high shares of workers on zero-hour contracts are health and social work (21%), education (11%) and wholesale and retail (9%).

Table 2: Median hourly pay by sector, 2019, and proportion of self-employed workers by sector, Q4 2019

Sector	Median gross hourly pay (£), all employees, 2019	Proportion of self-employed workers, Q4 2019
Accommodation and food service activities	8.64	6.1%
Activities of households as employers; undifferentiated goods-and services-producing activities of households for own use	10.00	67.3%
Agriculture, forestry and fishing	10.02	42.8%
Wholesale and retail trade; repair of motor vehicles and motorcycles	10.20	6.8%
Arts, entertainment and recreation	10.55	27.7%
Administrative and support service activities	10.80	12.0%
Other service activities	11.52	35.7%
Transportation and storage	13.33	16.0%
Human health and social work activities	13.34	8.7%
Real estate activities	13.82	14.7%
Manufacturing	14.16	7.4%
Construction	14.81	35.8%
Water supply; sewerage, waste management and remediation activities	14.91	5.3%
Education	15.68	10.5%
Public administration and defence; compulsory social security	16.13	2.9%
Professional, scientific and technical activities	17.63	16.6%
Mining and quarrying	18.28	10.9%
Information and communication	19.22	12.8%
Electricity, gas, steam and air conditioning supply	19.65	8.7%
Financial and insurance activities	20.49	6.4%

24. Looking at varying characteristics of workers within sectors shows the following (all facts ultimately derive from the ONS's Annual Population Survey and are taken from (respectively): ONS, 2025d, 2025e, 2025f and DWP, 2024b).

    24.1. Of women in employment in 2019, nearly half (45%) were working in public administration, education and human health and social work activities. A further 19% of women in employment worked in the wholesale and retail and hospitality sectors; and 17% worked in the finance and insurance, real estate, professional, scientific and technical activities, and administrative and support services sectors. Taken together, 80% of women in employment worked in these sectors, compared to 53% of men.

    24.2. Sectors with the highest proportion of ethnic minority workers are transport and storage (19%), hospitality (18%) and human health and social work activities (17%). Those with the lowest are agriculture, forestry and fishing (1%), water supply, sewerage and waste management (6%) and construction (6%).

24.3. The distribution of people in employment by age group across sectors shows younger workers are concentrated in the wholesale and retail and hospitality sectors: 54% of 16- to 19-year-olds in employment work in these sectors, as do 32% of 20- to 24-year-olds. Less than a fifth of older workers work in retail and hospitality (16% of 25- to 49-year-olds and 15% of over 50-year-olds). The largest sectors of employment for middle-aged and older workers are public administration, education and human health and social work activities: roughly one-third of 25- to 49-year-olds (31%) and over 50-year-olds (33%) work in these sectors. Similarly, Bangham et al. (2019) found that, in 2018, 39% of people aged 18 to 29 were working in the three lowest paid occupations (elementary occupations; sales and customer service occupations; and caring, leisure and other service occupations), much higher than the average of 28% across all workers.

24.4. Disabled adults in employment are over-represented (relative to non-disabled adults) in the human health and social work activities sector, and slightly over-represented in the wholesale and retail sector, two sectors that were heavily impacted by the Covid-19 pandemic. In 2019, 16% of disabled adults in employment worked in the health and social care sector, compared to 13% of non-disabled adults. 13% of working disabled adults were employed in wholesale and retail, a slightly higher proportion than in the non-disabled working adult population (12%). Disabled and non-disabled working adults were equally as likely to be working in the hospitality sector, with 6% of each group employed in hospitality.

The main labour market interventions introduced during the pandemic

25. In what follows, I will focus on the main labour market interventions, which I take to be the following:

25.1. The Coronavirus Job Retention Scheme (CJRS), administered by HM Revenue and Customs (HMRC), covering businesses from 1 March 2020 to 30 September 2021, which refunded employers for some of the salary costs of employees that they had placed on furlough;

25.2. The Self-Employment Income Support Scheme (SEISS), administered by HMRC, consisting of five grants paid out between 13 May 2020 and 30 September 2021, which supported some self-employed workers (some self-employed people would additionally have been able to receive support through measures aimed at supporting businesses which varied across the nations of the UK; I do not consider them further);

25.3. Kickstart and Restart, schemes run by the Department for Work and Pensions (DWP) to support those at risk of long-term unemployment. The Kickstart scheme was launched in September 2020 and closed in September 2022, and the Restart scheme began in June 2021 and referrals are ongoing, currently until June 2026.

26. The CJRS and SEISS applied across the UK. Kickstart and Restart applied in Great Britain only, but Northern Ireland introduced a similar programme called JobStart, which I do not discuss further. As discussed later, Wales, Scotland and Northern Ireland introduced their own schemes to supplement SEISS by providing support for new self-employed workers; I discuss these briefly later. Wales introduced an Economic Resilience Fund, which aimed to plug the gaps in the support schemes already announced by the UK Government and

included grants to micro-businesses and sole traders who employed staff, and so will have overlaps with the SEISS. Wales also introduced a Wales Cultural Recovery Fund which, among other things, made grants to freelancers.

27. CJRS and SEISS were extremely large interventions. Together, the schemes supported 14.6 million jobs and self-employed individuals at a total cost of £96.9 billion. HMRC distributed SEISS grants worth £28.1 billion to 2.9 million individuals and CJRS furlough payments worth £68.9 billion to 1.3 million employers covering 11.7 million individual jobs. This equates to £9,700 per individual SEISS recipient and £5,887 per furloughed job (facts taken from NAO, 2022).

28. As the report by Dr Tetlow sets out, at the start of the pandemic, the overriding goal of all public policies was to support the lockdown so as to prevent a public health catastrophe (INQ000588130). The contribution of the labour market interventions (LMIs) to that overriding goal was to enable that public health response, and deal with the financial and economic impacts of lockdowns. Specifically, the LMIs had a number of direct aims:

    28.1. To prevent job losses so as to protect households from very large shocks to their income if they were laid off or put on unpaid leave (CJRS), and to protect households from very large shocks to their income if they saw their self-employment business dry up (SEISS);

    28.2. To protect employers from having to pay staff who could not do any productive work (CJRS);

    28.3. To enable employers to resume activities quickly when allowed, by preserving the connections between employers and employees (CJRS); and,

    28.4. To minimise the harm done to individuals and the economy from experiencing long periods out of work (Kickstart and Restart).

29. They also had, I would argue, a broader aim: to try to reduce macroeconomic instability; this would have been achieved directly by the way that the measures protected employers' profits and workers' incomes, but also indirectly, by reassuring households and firms that the UK Government was willing to act and able to act quickly, thereby reducing policy uncertainty and increasing confidence. To put it a different way, it seems very likely that the UK Government was concerned that, had it not introduced the LMIs (and the related policies that directly supported businesses), then the pandemic would have had not just short-term impacts on the UK economy but done serious long-term damage. In particular, it seems likely that, with no LMIs, many employees would have lost their jobs where their employers were unable to keep them on, and many self-employed workers would have been unable to undertake business as usual, particularly in those sectors where economic activity was essentially impossible during the Spring 2020 lockdown. The resulting hit to family incomes would have affected other parts of the economy. Furthermore, even after shedding workers, many businesses would have gone out of business, particularly in those sectors where economic activity was essentially impossible during the Spring 2020 lockdown. Even if the pandemic had been over in a matter of months, the economy would have been permanently harmed by the pandemic if businesses had let their employees go or gone out of business themselves. And households would have been permanently harmed, either by the rise in indebtedness that would have accompanied such a large income shock, or from being out of work for so long and losing their attachment to their employer.

30. This report focuses on the extent to which the LMIs protected households from very large shocks to their incomes, and the implications of this for inequality. I do not cover the impact of the LMIs on the macroeconomy more generally. I also do not discuss the way that the CJRS was extended multiple times: this is covered in Dr Tetlow's report (INQ000588130). I accept that the UK Government had to act extremely quickly in the early stages of the pandemic to design and implement these policies.

The impact of the Covid-19 pandemic on the labour market

31. Before we consider the effect of the LMIs, it is helpful to consider how the labour market changed during the time of the pandemic. In March 2020, the first national lockdown was announced by UK Prime Minister Boris Johnson, closing all 'non-essential' high street businesses and ordering people to stay at home, other than for essential purposes like buying food or for medical reasons (Brown and Kirk-Wade, 2021). Devolution of public health responsibilities meant each UK nation legislated their own regulations that determined their national lockdown restrictions. As such, the lockdown guidance and timing of restrictions varied across the UK. The ONS identified three main periods of restrictions (Office for National Statistics, 2021):

    31.1. Spring 2020 (March to May): The whole of the UK implemented lockdown measures from 23 March, which began easing from mid-May;

    31.2. Winter 2020 (October to December): England entered a tiered system of local restrictions in October, followed by a four-week lockdown in November. Wales, Scotland and Northern Ireland also implemented lockdown restrictions at points during this period;

    31.3. Early 2021 (January to March): By the start of January 2021, all UK nations had lockdown rules in place, which were gradually lifted from March onwards.

32. The full lockdown restrictions across all four UK nations required a range of high-street businesses to close, which broadly fit into four categories: businesses were completely closed; closed except for takeaways or deliveries; closed except for online orders; closed except for certain permitted activities (Barber et al., 2022). As lockdowns were lifted in the summer of 2020, restrictions remained for some businesses such as hospitality and leisure, which were subject to rules on social distancing and, from September 2020, had curfews introduced. Given this, it is not surprising that the onset of the Covid-19 pandemic and resulting lockdown restrictions had large impacts on the economy and the labour market. GDP fell by 9.7% in 2020, the steepest drop since records began in 1948 (Harari et al., 2021), and in the first lockdown, GDP was 25% lower than it was pre-pandemic.

33. But the impact on the labour market differed from previous economic downturns. In general, past downturns have been characterised by rising unemployment or stagnant pay growth. The impact of the Covid-19 pandemic was seen in hours worked and vacancies, rather than in unemployment, and the impact on earnings appeared to be very large, but this figure was distorted by so-called compositional effects (explained below). We can see this in Figure 2, which summarises the impact of the Covid-19 pandemic on the labour market, and compares it to the financial crisis (taken from Brewer et al., 2021). In particular:

    33.1. The largest labour market effects were on the number of job vacancies and total hours worked, which after four months had fallen by over 40% and 20% respectively. The large falls in these measures is in marked contrast to the downturn

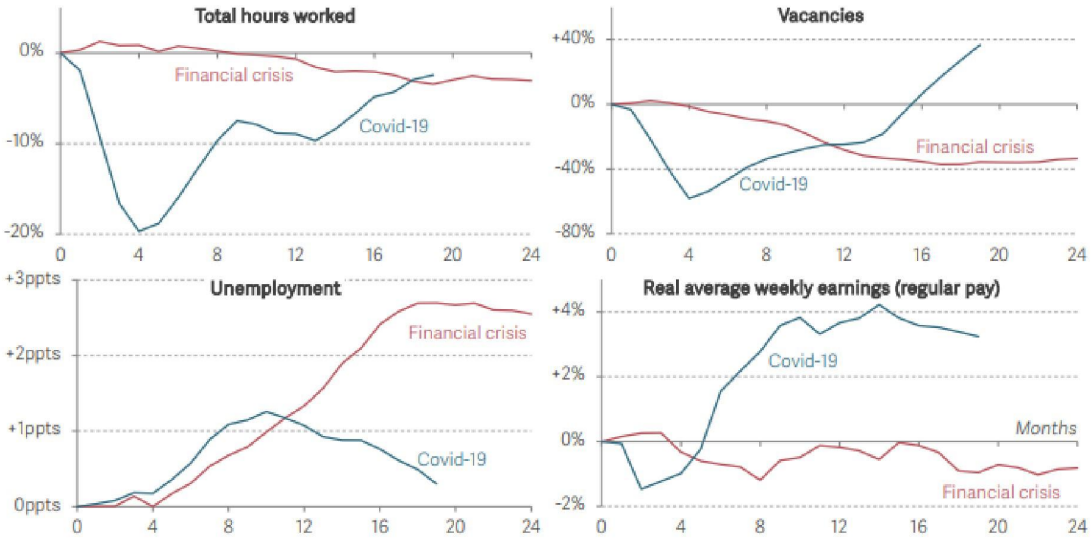
that followed the financial crisis, when there was a gradual decline in these measures. However, once restrictions eased in 2021, the number of job vacancies reached record highs, with over 1 million vacancies each month from July to October 2021. By September 2021, the number of vacancies was almost 40% higher than pre-pandemic and there were 1.3 unemployed people per vacancy, the lowest level since records began in the early 2000s. This is evidence of a very tight labour market.

33.2. Unemployment rose to 5.2% in the fourth quarter of 2020, up from 4% pre-pandemic. But by September 2021, the unemployment rate was 4.3%, only 0.3 percentage points above where it was before the pandemic began. This was a very small change in unemployment, both compared to the impact on GDP and compared to previous economic downturns; in the financial crisis, for example, unemployment was nearly 3 percentage points higher than pre-crisis after 20 months.

33.3. Although not shown in Figure 2, the number of payrolled employees fell by nearly 960,000 (3.3%) between February and November 2020, with the largest fall right at the start of the pandemic (there were 450,000 fewer payrolled employees in April 2020 than in March) (Office for National Statistics, 2025a). From December 2020, the number of payrolled employees gradually began to rise again, recovering to pre-pandemic (February 2020) levels in September 2021.

33.4. Real earnings appeared to grow rapidly during the pandemic, in contrast to the financial crisis, where they fell slightly. This was largely due to so-called compositional effects: this occurred because low-paid workers were more likely to lose their jobs than higher-paid workers, and so the average earnings among all those remaining in work rose (see ONS, 2022).

Figure 2: Change in hours worked, vacancies, unemployment and real average weekly earnings (regular pay) since the start of the 2008 financial crisis and Covid-19 crisis: GB/UK

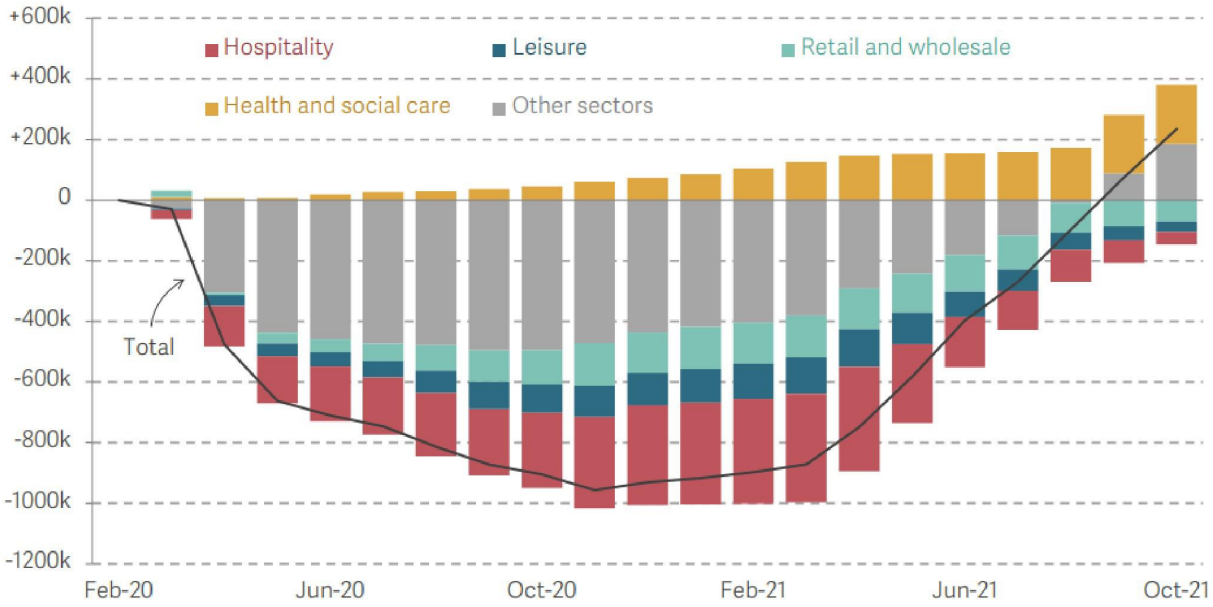


NOTES: The horizontal axes show the number of months since November-January 2008 (financial crisis) and December-February 2020 (Covid-19). Hours worked, vacancies and unemployment charts cover the UK; earnings chart covers Great Britain only.
SOURCE: Analysis of ONS, Labour market statistics.

Source: Brewer et al., 2021.

34. The impact of the pandemic on the economy and the labour market also varied hugely by sector, reflecting what counted as essential work in the initial lockdown, that some sectors continued to be affected by restrictions through 2021, and that some sectors found it easier than others to shift to remote working. In 2020 overall, the sectors that saw the largest falls in GDP (excluding the slightly unusual "activities of "Households as employers" sector) were: accommodation and food services; arts, entertainment and recreation; and other personal services (driven by significant falls in hair and beauty and washing and dry-cleaning) (ONS, 2021). The human health and social work sector saw a rise in GDP in 2020 compared to 2019. Although the sector names do not match perfectly, Figure 3 shows that the change in employment in key sectors broadly matches the sectors where GDP fell the most (note that this chart uses administrative data on employment, and not the LFS). Even by October 2021, employee jobs in retail, hospitality and leisure combined were 146,000 lower than pre-pandemic. And Figure 4, using data from a different source, shows that 58% of hospitality workers, 44% of leisure workers, and 21% of workers in the non-supermarket retail sector experienced labour market disruption at some point during the pandemic, more than other sectors (NB these are not shown). Blundell et al., 2022 reports that the sectors that were required to close in lockdowns, like hospitality and non-essential retail, shrank considerably in 2020 and 2021: by 2021, their workforce had reduced by 10% compared to 2019 levels, whereas in sectors that remained open, the workforce had increased by 1%.

Figure 3: Change in the number of employee jobs since February 2020, by industry: UK



SOURCE: Analysis of ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted.

Source: Brewer et al., 2021.

35. We conclude this sub-section by looking at the impact of the Covid-19 pandemic on different groups of workers. In broad terms, workers that were younger and (to some extent) older, low paid, and Black, Asian and minority ethnic groups were more likely to experience labour market disruption. Research suggests that the fact that these groups were disproportionately impacted reflects the greater likelihood that these workers were working in those sectors more affected by the pandemic, or already in insecure work, but is not entirely explained by these factors.

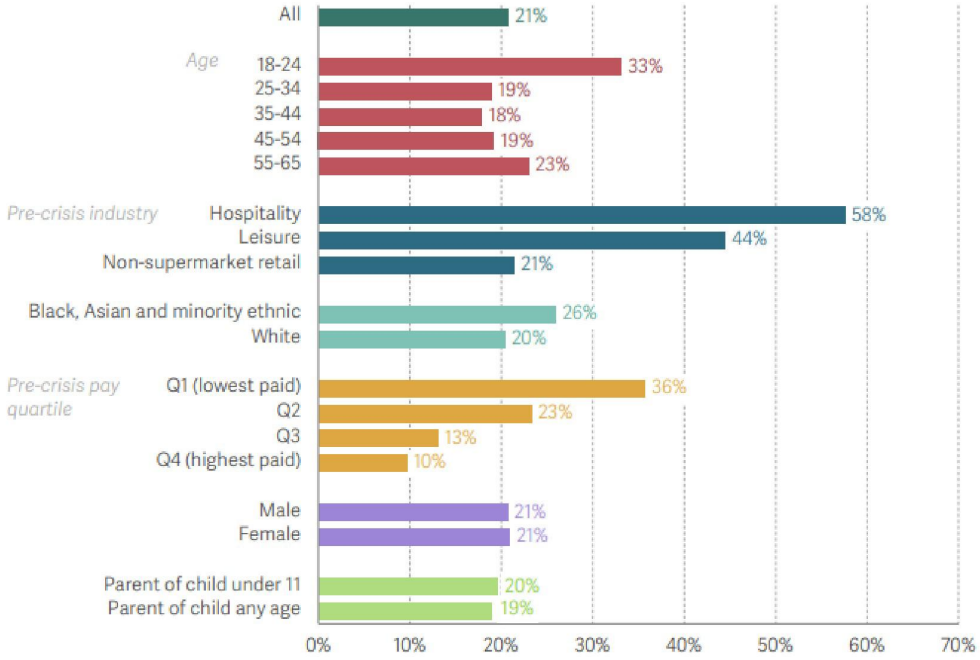
36. More specifically, Figure 4 (from Brewer et al., 2021) shows the proportion of people that experienced a form of labour market disruption (defined in the research as at least three months of being on furlough, unemployed, or without self-employment earnings) between February 2020 and October 2021 by individual characteristics. This analysis shows:

    36.1. By October 2021, one-in-five of all workers (21%) who were in work in February 2020 had subsequently experienced labour market disruption. But for 18- to 24-year-olds, this rose to 33% – with 55- to 65-year-olds being the other age group over the average, at 23%.

    36.2. 36% of workers in the lowest pay-quartile were affected, compared to just 10% of workers in the highest pay-quartile.

    36.3. 26% of Black, Asian and minority ethnic workers experienced labour market disruption, compared to 20% of White workers. By January to March 2022, the unemployment rate for minority ethnic groups was 7.1%, up from 6.2% pre-pandemic, compared to people from White ethnic groups, whose unemployment rate had fallen in the same time period, to 3.1% from 3.6% (all taken from Powell et al., 2022).

Figure 4: Proportion of respondents who were in work during February 2020 but subsequently went on to experience three months or more of unemployment, full furlough or being self-employed without work: UK, data collected 14-24 October 2021



NOTES: Base = all adults aged 18-65 who were employed in February 2020 (n = 4,640). Base by categories: 18-24 = 248; 25-34 = 1,228; 35-44 = 1,155; 45-54 = 1,200; 55+ = 809; Leisure = 171; Hospitality = 148; Non-supermarket retail = 115; Black, Asian and minority ethnic = 343; White = 4,118; Q1 (lowest paid) = 718; Q2 = 935; Q3 = 928; Q4 (highest paid) = 890; Male = 2,177; Female = 2,463; Parent of child under 11 = 1,017; Parent of child any age = 2,224. We use the shorthand 'leisure' to refer to the industry 'arts, entertainment and recreation'. Due to low sample size we are unable to further disaggregate ethnicities categorised under 'Black, Asian and minority ethnic'. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

Source: Brewer et al., 2021.

37. Other studies have similar findings on the relationship with age. People aged 16 to 24 accounted for 40% of the fall in employment between January to March 2020 and November 2020 to January 2021, and payroll data shows that 56% of employee job losses between March 2020 and March 2021 were among under 25 year olds. (Powell et al., 2022). Another study also found that, in September and October 2020, young people were more likely to not be working, have lost their job or had a fall in earnings, than older people (Major et al., 2020). In particular, people aged 16 to 25 were over twice as likely as older employees (aged 26 to 65) to have suffered job loss. Over one-in-ten (11%) lost their job, and just under six-in-ten (58%) had a fall in earnings. Overall, there was a much higher rate of being out of paid work for the younger age group: nearly one-in-five (18%) were not working, compared to just over one-in-ten (12%) of the older group.

38. Unsurprisingly, being on an insecure contract type meant a higher risk of losing work in the first lockdown. For example, Sandor (2021) found that workers on zero-hour and temporary contracts were four times more likely to lose their job than workers on permanent contracts. The risk of a significant drop in working hours (more than 25%) was over two-times higher for workers on zero-hour contracts compared to workers with permanent contracts.

39. The impact on self-employed people's income and hours was substantial and sustained, recovering slowly (but not fully) in the years following the pandemic:

    39.1. Around three-quarters (73%) of self-employed people reported less work than usual in April 2020 (Blundell and Machin, 2020). 60% of self-employed people reported their monthly income was less than £1,000, more than twice as many as did the previous year.

    39.2. In August 2020, outcomes for self-employed workers had marginally recovered, with just over half (58%) of self-employed workers reporting having less work than usual (Blundell et al., 2020). Around a third (32%) reported working fewer than 10 hours per week, and half (50%) of workers earned under £1,000 in August 2020.

    39.3. A year later – in August 2021 – the proportion of self-employed workers reporting lower hours than usual had reduced to 39% (Blackburn et al., 2021). 72% of this group attributed the reduction in their work to Covid-19 and the restrictions in place. Just under half (48%) of workers earned under £1,000.

40. Contrary to initial impressions, men and women saw roughly similar labour market outcomes, but those for women differed depending on whether they had children. In particular:

    40.1. Data up to March 2021 suggested men and women were roughly equally impacted by job losses, furlough and cuts to hours and pay (Slaughter, 2021). Although some of the sectors most affected by the pandemic are predominantly female, the same is true for some of the least affected sectors, including health and social care.

    40.2. At the height of the first lockdown in April 2020, the average fall in working hours was 30%, but for women with children this was nearly two-fifths (37%). In July 2020, when many restrictions had been lifted but schools remained closed, mothers' working hours were down on average by around a quarter (24%), compared to 13% of non-parents and 6% of fathers. Mothers were more likely to have quit or lost their job or have been furloughed since the start of the first lockdown: one-and-a-half times more likely than fathers (Andrew et al., 2020). On average, mothers were doing around 35% of the number of uninterrupted work hours that fathers did. In comparison, in 2014-15, this figure was 60% (Andrew et al., 2020).

41. The study cited above (Brewer et al., 2021) did not look at disabled workers, but evidence from the LFS suggests the employment rate of disabled people fell through the pandemic by more than it did for non-disabled people. This was matched by a greater rise in inactivity among disabled people than non-disabled people (Atay et al., 2021). Separate analysis from the very early stages of the pandemic found that disabled people who were employed before the Covid-19 pandemic were 4 percentage points more likely to have experienced a negative labour market outcome than people without a disability (SMC, 2020).

42. An important issue to understand is to what extent the unequal impacts by age, sex or ethnicity seen in the labour market can be explained by the fact that certain groups are more likely to work in the sectors that were more heavily affected by the pandemic. One piece of research estimated that sector was very important in predicting which workers were furloughed, but that contract type was more important in predicting which workers were made redundant, followed by age, and sector playing a minor role (Figure 51 of Gustafsson et al., 2021). Work on a different dataset also concluded that sector was the most important factor in predicting labour market disruption, but that low pay and age were also important (Brewer

et al., 2020). Ochmann et al. (2025) found that the greater incidence of flexible contracts among minority ethnic workers is part of the reason why they had worse outcomes than White British workers. As noted earlier, disabled workers were very slightly more likely to work in retail than non-disabled workers (Collard, Collins and Cross (2021) says the same, but without quantifying the difference).

The impact of the labour market interventions

43. Above, I described how the impact of the pandemic on the labour market was skewed towards certain sectors which were more heavily affected by the lockdown or social distancing rule: mainly retail, hospitality and leisure. And, as I described at the start of this report, these are also sectors which tended to employ people on lower-than-average wages, and using more insecure forms of employment.

44. Together, this gives us very good reasons to expect that the impact of the pandemic on the labour market in the absence of any LMIs would also have fallen disproportionately on less-advantaged workers and households. In other words, when thinking about inequalities, the core contribution of the LMIs is that they prevented what would otherwise have been a huge rise in income inequality along with very significant changes to labour market participation and household incomes that would have exacerbated pre-existing inequalities.

45. Evidencing this is, though, hard. The LMIs were not, in general, implemented in a way that allows one to easily estimate counter-factuals. 2020 saw many economic interventions implemented simultaneously, and at the same time as restrictions on what households and businesses could and could not do, and at the same time as a contagious and potentially deadly virus was highly prevalent (which would affect household and business behaviour directly even without any changes to public health or economic policies). There is, therefore, a limited amount of causal evidence of the impact of the LMIs. But estimates have been made by civil servants in a series of reports co-authored by HM Revenue and Customs (HMRC) and HM Treasury on the impact of the CJRS and the SEISS. A summary of both is as follows:

    45.1. HMRC and HM Treasury (HMT) undertook in-house evaluations of the CJRS (see HMRC & HMT 2022a & 2023a). The main focus of the evaluations is to estimate how many jobs were protected by the CJRS. The evaluation provides two estimates: one comes from comparing what happened to employees hired just too late to qualify for the CJRS with those who were just eligible (i.e. their employment began just before the cut-off date of 19 March 2020); the other relies on asking employers what they would have done without the CJRS. Both agree that (in very broad terms) about 4 million jobs were protected by the CJRS. In other words, around 4 million more people would have been out of employment had the CJRS not been in place. (For the other roughly 7 million jobs that used the CJRS, the implication is that, in the absence of the CJRS, either the employer would have continued to employ that person through the pandemic, or they would have been made redundant but found a different job.) It should be noted that the estimate is not meant to imply that those 4 million people would have been unemployed *forever* if the CJRS did not exist.

    45.2. HMRC and HMT also undertook an in-house evaluation of the SEISS (HMRC & HMT 2022b & 2023b). This was less extensive than the evaluation of the CJRS because it was limited to using HMRC's self-assessment data, which is slow to arrive, given most people have until 31 January to file for the financial year ending in

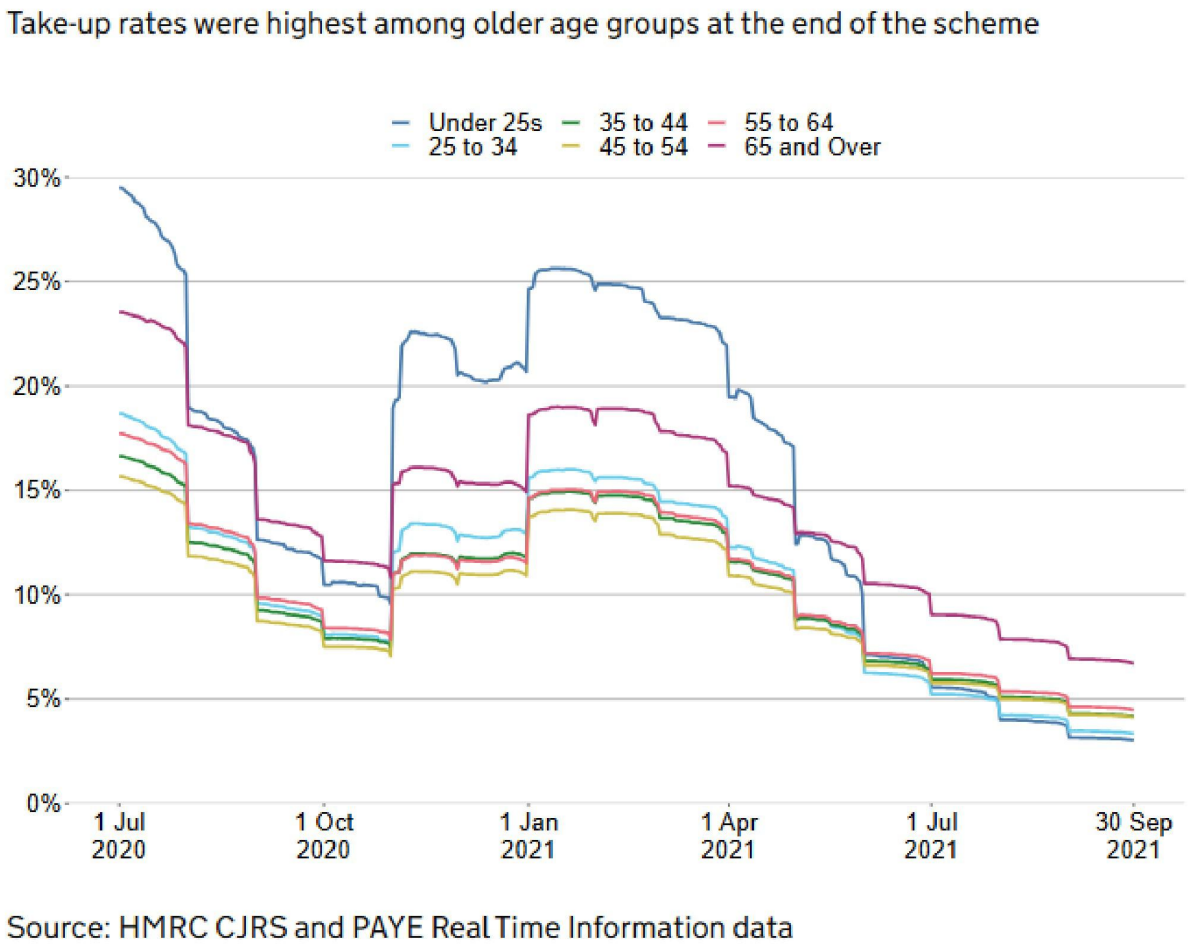
the previous April. But it estimated that eligible SEISS claimants were 2.8 percentage points more likely to remain trading in 2020-21 than those assessed as ineligible at the scheme's £50,000 average trading profits eligibility threshold for the first three SEISS grants. This is equivalent to the scheme helping around 70,000 individuals remain in self-employment in that year. It does not estimate longer-term outcomes.

46. So, given that the CJRS and the SEISS did protect some jobs, and allowed some people to remain in business as self-employed workers, then it seems reasonable to conclude that they prevented the unequal labour market impacts that actually occurred from being even worse.

47. We can learn more about the way that the LMIs mitigated any unequal impacts of the pandemic by looking at who was able to use or access or benefit from the schemes, while noting that these studies do not try to say what is the counterfactual to there being no CJRS or SEISS: they merely show how much CJRS or SEISS payments were worth to households in different parts of the income distribution (and, in some cases, they are limited to the initial March-June 2020 lockdown period). There are several pieces of relevant evidence.

48. Official statistics (HMRC, 2021b) show how use of the CJRS varied by age and sex. Their Figure 10, reproduced below, shows that the incidence of being furloughed was initially greatest for the under 25s and over 65s. As the pandemic went on, and especially after the 2021 restrictions were phased out, younger workers became much less likely to be on furlough, leaving older people as the most likely to be on furlough. The number of men and women on furlough was broadly similar (see Figure 9 in HMRC, 2021).

Figure 5. Total proportion of eligible employments on furlough by age of employee, July 2020 to September 2021



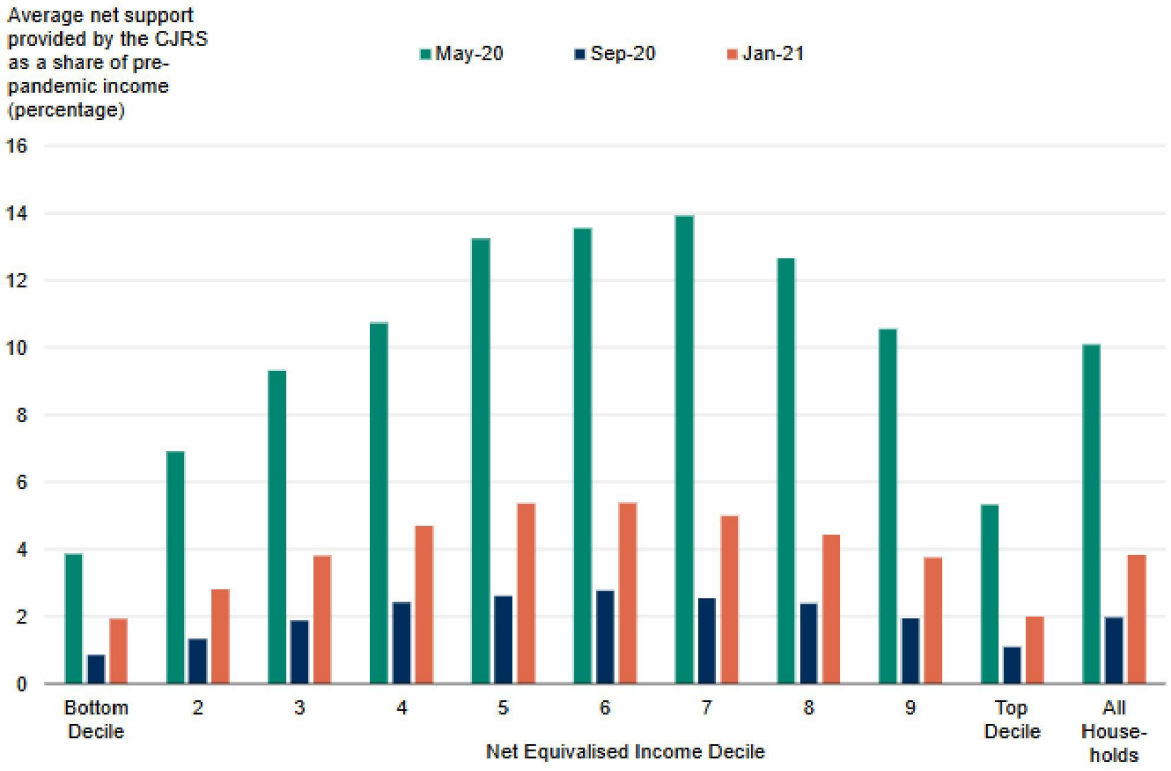
Source: Figure 10, HMRC,2021.

49. HMRC did not routinely collect data on the ethnicity, disability status, religious beliefs, sexual orientation or marriage status of those benefitting from the CJRS or SEISS. The official evaluation of the CJRS (HMRC & HMT, 2023a) presents estimates of whether use varied by ethnicity or disability (based on survey data, because administrative tax records do not contain information on people's disability or ethnicity). It concludes that the CJRS seems to have been used less by some BME groups, but that sampling error means that these estimated differences are not statistically significant. It concludes that the CJRS seems to have been used more by disabled people, but that sampling error means that this estimated difference is not statistically significant.

50. As well as how CJRS payments varied by age of recipient, there are also estimates of how the payments varied across the income distribution. The official evaluation of the CJRS (HMRC and HMT, 2023a) examined how much CJRS payments were worth to households, and how this varied across the income distribution (see their Figure 5.1, reproduced below, or their Table 5.1 for the exact values). This shows that, when assessed as a percentage of income, CJRS payments peaked in the middle of the income distribution (decile groups 5-7). The payments were worth less as a fraction of family income at the top of the income

distribution primarily because payments under the CJRS were capped at £2,500 a month. And the payments were worth less as a fraction of family income at the bottom of the income distribution primarily because fewer adults in these households were in work pre-pandemic. But the pattern also reflects which sort of employees were furloughed at all, and where furloughed employees are in the pre-pandemic income distribution.

Figure 6. Estimated average net income support provided by the CJRS as a proportion of pre-pandemic net household income, all working-age households, by net equivalised working-age household income decile



Source: HM Treasury tax and welfare microsimulation model

Note: The findings are compared to the counterfactual scenario where, instead of being on furlough, these workers are unemployed.

Source: Figure 5.1, HMRC and HMT,2023a.

51. These estimates from HMT and HMRC are similar to those in other work that looked at which sort of households received the CJRS, SEISS (as well as the welfare changes during the initial part of the pandemic). For example, Brewer and Tasseva (2021) also find that the value of the payments made under the CJRS, when assessed as a proportion of net income, peak in decile groups 5-7 (see their Figure 1 below). (See also Bronka et al., 2020).

Figure 7. Estimated impact of the crisis and policy response to Covid-19 as a proportion of pre-pandemic net income

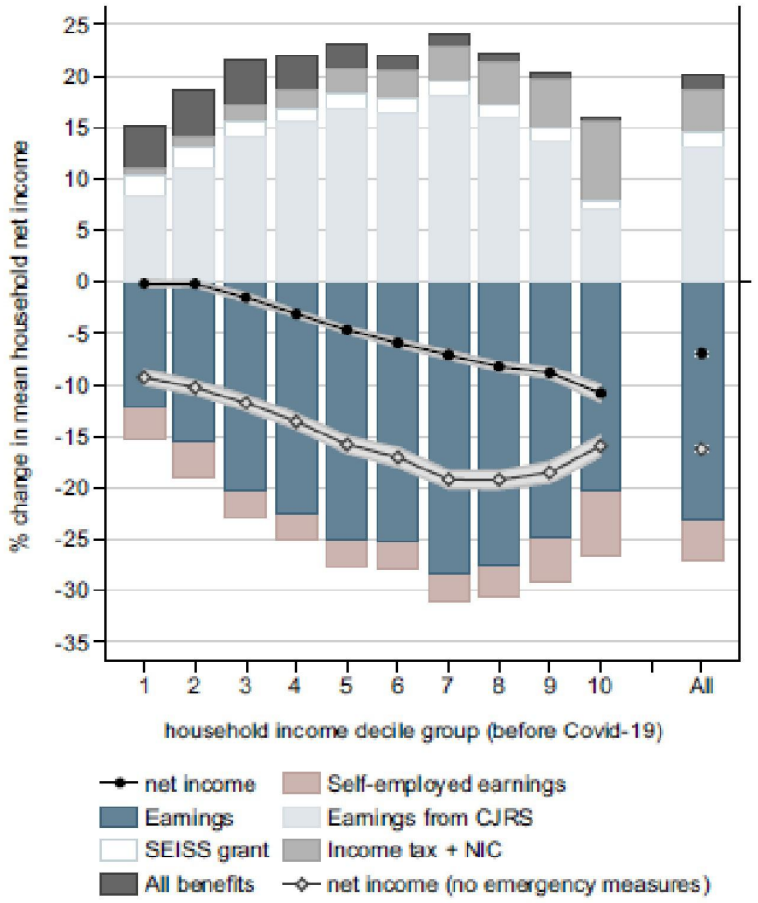


Fig. 1 Impact of the crisis and policy response to Covid-19 on mean net income by decile of *pre-crisis* income. *Notes:* The figure shows the distributional impact of the employment and earnings shocks and the UK policy response, i.e. the *baseline* versus scenario *D*. Changes in net income are broken down by income source. Additional results for the change in net income in the absence of the Covid emergency measures (i.e. CJRS, SEISS and increases to UC and other means-tested benefits) are also shown. Results based on average monthly estimates. Changes in income based on equivalised household net income. *Source:* Own calculations using UKMOD and FRS

Source: Brewer and Tasseva, 2021.

52. As with the CJRS, HMRC had very limited data on the protected characteristics of the SEISS recipients. The only relevant analysis in the HMRC evaluation of the SEISS (HMRC and HMT, 2023b) showed that take-up of SEISS was higher in more deprived areas of the country (as measured by the Index of Multiple Deprivation), which is reassuring from the perspective of inequalities. The evaluation also reported estimates from survey data that suggests that take-up is no different between people with and without a disability, but small samples mean we can't be very confident about this finding.

53. None of the HMRC and HMT evaluations tries to say what is the causal impact of these programmes on hardship directly.

Did the Covid-19 pandemic lead to labour market 'scarring'?

54. 'Scarring' in the labour market is a piece of economic jargon that refers to the idea that there could be long-term negative impacts on workers from experiencing periods (and especially long periods) out of work. The suggestion is that having a period out of work may cause people to have permanently lower wages or slower wage growth, or mean that people are at higher risk of future unemployment or inactivity. The pre-pandemic literature on scarring tended to highlight that scarring is particularly worrying among young people; this is because the first few years in the labour market are a time of rapid progression and promotion, and so it can be very hard for young people to make up for spending several months or years out of work. Conversely, scarring may be less of an issue for more experienced workers. Research has also shown that disabled people who move out of work tend to be slower to return to work than non-disabled people (Atay et al., 2021). However, it is less clear whether this finding reflects that it is more damaging for disabled people (than non-disabled people) to spend time out of work, or whether there are other factors going on; it may be, for example, that a deterioration in their health led some disabled people to have to stop work and that would also make them less likely to move back into work.

    54.1. Sometimes 'scarring' is used to talk about the whole economy: this describes a situation where a temporary economic downturn or shock leads to a permanently smaller or slower-growing economy (see, for example, Haskell, 2021). It is outside the scope of this paper to discuss all of the economic interventions introduced in the pandemic (including loans to businesses), but, in my view, many of them were concerned with trying to minimise the extent of scarring at the level of the whole economy, by preventing firms from going bust or workers from being made redundant. But this report focuses on whether workers might have experienced scarring from spending time out of work during the pandemic, and to what extent the labour market interventions helped prevent that.

55. We may never know to what extent the pandemic led to widespread labour market scarring. The best academic studies on the subject (not about the Covid-19 pandemic) compare people who were laid off from a job with otherwise-equivalent workers who were not, but the pandemic was a labour market shock that in principle could affect all workers. Other lines of academic studies compare outcomes for young people who do or do not join the labour market as an economic shock occurs, but it will take a number of years before we can compare the cohort of young people who graduated school or university in summer 2020 to those doing the same in subsequent years (and even when we can, we might be worried that subsequent cohorts of young people would have their labour market experience permanently harmed by their experience of the pandemic when in education).

56. But it is worth considering what available data on unemployment suggests.

    56.1. At a very high level, the unemployment rate remained very low through the pandemic (as I showed earlier) and recovered back to normal extremely quickly compared to previous economic crises. By spring 2023, the unemployment rate among 16- to -24-year-olds was 11.4%, half as high as the financial-crisis high of 22.5% in 2011 (from Murphy, 2023). This doesn't mean there was no scarring, but it does suggest that any scarring must be small.

    56.2. A more detailed look at labour market flows (reported in Cribb and Salisbury (2021)) also suggested that there was limited reason to be concerned about people who lost their job. It is true that employees who were made redundant between April 2020

and June 2021 fared worse than those made redundant in the three years 2017-19. In particular, an employee made redundant since April 2020 had a 36% chance of finding a new job within three months of redundancy and a 56% chance of finding one within six months, slightly lower than the respective rates of 44% and 66% before the pandemic. But these outcomes are not as bad as they were between 2007 and 2010, when the three- and six-month job re-employment rates for redundant employees were 30% and 51% respectively. This suggests that any scarring was limited, at least compared to previous downturns.

57. On the other hand, the unusual way in which the pandemic affected the labour market impact means we need to look beyond unemployment. This is because, as covered above, there were a lot of people during the pandemic who were not working for long periods of time but did not appear in statistics as "unemployed" (which requires people to be actively looking for work and ready to start work immediately), either because they were "economically inactive" (so not looking for work), or because they were furloughed for long periods of time (which means they would count as being "employed").

    57.1. I discuss economic inactivity more below, where the consensus seems to be that this was in fact a rather temporary and limited phenomenon, and concentrated among older workers, where there is less reason to be concerned about scarring.

    57.2. There was a concern that the CJRS might have had unwelcome scarring impacts because (it is argued) it discouraged people from finding new work (compared to a world where there was no CJRS scheme and these workers were made redundant), and a worker could have been furloughed and not working for many months. But it looks like the majority of people who were still on furlough just before it ended were able to find work after: a small-scale survey estimated that 88% of respondents who were furloughed in September 2021 were in work in October 2021. If this was representative of the population, this would imply around 136,000 of the 1.1 million on furlough in September were not working in October (Brewer and McCurdy, 2021). A later analysis done using HMRC's administrative data concluded that 90% of employees on furlough in September 2021 were employed in January 2022 (OBR, 2022).

58. A specific way that the Covid-19 pandemic could have led to scarring impacts at the level of the economy is via Long Covid. If the UK's labour force suffered an overall loss of health (due to Long Covid), leading to a fall in the employment rate or number of hours that can be worked, then that would count as an example of scarring at the level of the whole economy. One estimate was that the labour market impact of Long Covid is equivalent to around 110,000 workers being off sick (Waters and Wernham, 2022), and another study estimated that 80,000 people had left work due to Long Covid (Reuschke and Houston, 2022). (One study estimated that in autumn 2021, 600,000 adults were working less or not at all because of the pandemic (Brewer et al., 2021), but the majority of these people were referring to mental health issues or fear of catching the virus, rather than Long Covid; only around 100,000 mentioned Long Covid explicitly.)

59. In autumn 2021, the Office for Budget Responsibility thought that the pandemic would permanently reduce the UK's GDP, and that some of that would come from increased inactivity and unemployment: these together were estimated to amount to 0.4% fall in potential output (OBR, 2021). But the Bank of England thought that "much of the fall in participation during the pandemic is judged to be temporary", with any scarring impacts offset

by increased participation among women, perhaps enabled by more working from home possibilities (Bank of England, 2021).

60. The UK Government did introduce two policies that were intended to reduce directly the incidence of labour market scarring: the Kickstart and Restart programmes operated by the Department for Work and Pensions (DWP). Kickstart was aimed at 16- to -24-year olds on Universal Credit (UC) and at risk of long-term unemployment and provided subsidised employment; Restart was aimed at people aged 25 or over who were unemployed, and who had been unemployed for between 12 and 18 months (and so didn't actually take effect until mid-2021); it provided coaching and tailored support. The principle behind both programmes is that long periods out of work can harm people's future job prospects or earnings, and so providing subsidised employment or intensive support in finding work can prevent this. The programmes were similar to ones implemented during the financial crisis in the late 2000s (the Future Jobs Fund). There have been a number of government-run or government-commissioned evaluations of these schemes, and reports by the National Audit Office (NAO, 2021; NAO, 2022; DWP, 2024; Elmore et al., 2024). I draw on those in what follows.

    60.1. The DWP has estimated the causal impact of Kickstart, and concluded that, for every 100 people that went on Kickstart, an extra 11 would be in employment two years after their start date thanks to the programme (DWP, 2024a). It also found that an additional three people would move off UC for every 100 people that went on Kickstart. These central estimates are very similar to a similar scheme that operated in the aftermath of the financial crisis (the Future Jobs Fund). Although this is not presented as an estimated impact on scarring, it means that its participants were more likely to be in work two years later than if they had not been on the programme, which is consistent with it reducing or preventing scarring. The DWP did undertake a cost-benefit analysis, which took account of the long-run impact of Kickstart on participants; this found that the programme did not save the Exchequer money, but that there were significant gains to participants and the employers. (It should be noted that there are some concerns about the reliability of these estimates, but the report does as much as it can to mitigate this issue, and the DWP had input from their external group of methods experts when undertaking the work).

    60.2. Restart seems to have been a less successful programme, although the criticisms seem to revolve mostly around how DWP contracted with private companies to deliver the programme (because the DWP failed to plan for a world where far fewer people would go on to the schemes then they had planned) rather than the specifics of the actual interventions. No causal evaluation was undertaken of the programme but the Restart Scheme successfully supported participants to achieve sustainable employment outcomes and other outcomes (including well-being, qualifications, proximity to the labour market and job-searching skills). Although this cannot be taken as a causal estimate, Restart participants were more likely to be in work than non-participants.

61. My overall assessment is that Kickstart was a programme that delivered benefits to its participants, but that many of the participants would have found unsubsidised work anyway. Two factors may have led to the relatively weak performance. First, the fact that there were more lockdowns after spring 2020 meant many of the young people who started to claim UC at the start of the pandemic were on UC for over a year before the scheme could get going at scale. Also, as the programme began to scale up, the economy was reopening, which

increased the risk that the UK Government was subsidising jobs that would have been created anyway. Restart was a well-designed and sensible programme, but the labour market conditions improved faster than DWP was expecting such that its arrangements for contracting with private providers proved poor value for money. But the principle of providing help to those at risk of long-term unemployment was sound. Unfortunately, the available evidence does not allow us to say whether changes to the design of KickStart or Restart would have improved the value for money or done a better job at preventing or minimising scarring impacts.

The changes to economic inactivity during the pandemic

62. One of the important labour market changes seen during the pandemic was a rise in 'economic inactivity' or just 'inactivity'; this refers to people who are not in paid employment and are also not actively seeking, or not able to start, paid employment. However, as discussed at the start of this note, it has become clear that the pandemic led to major issues with the Labour Force Survey (LFS), the household survey which provides the ONS's estimates of inactivity. The ONS have also reweighted the LFS since the pandemic, which means that if the analysis cited below were repeated, the numbers would be slightly different. In what follows, I will use estimates from the LFS where they are consistent with broader evidence from other data sources, but the exact figures should be seen as uncertain.

63. Estimates at the time were that, between the start of the pandemic and November 2021, the number of working-age people (aged 16- to -64) in employment fell by 541,000 (Brewer et al., 2021). At the same time, unemployment rose by only 83,000 for this group. This gap was made up by a big rise in working-age inactivity: 364,000. The first year of the Covid-19 pandemic saw a larger fall in labour market participation among working-age adults than we had seen in any economic crisis or recession over the last four decades. There was also a rise in economic inactivity among people aged 65 or over.

64. Overall, there was a 0.3 percentage point fall in the labour force participation rate (the participation rate is the sum of the employment rate and the unemployment rate; it is also called the labour market activity rate; those people who are not 'active' in the labour market are said to be 'inactive') for working-age adults between 2019 and 2021 (comparing the three months to August for each year). The youngest and oldest workers saw the biggest falls in labour market participation: a 0.8 percentage point drop for 16- to 24-year-olds, and 1.2 percentage points for 55- to 64-year-olds (Brewer et al., 2021), but attention has focused on inactivity among the older group (Boileau and Cribb, 2022), in part because it turned out to be a more permanent change.

65. Among younger people, some of the rise in inactivity represented more young people in full-time education, or not engaging in paid work while they are in full-time education. For others, the rise in inactivity may have represented voluntary (and desired) early retirement. It is important to note that the number of people who are economically inactive for health reasons rose by only around 150,000 through the pandemic (ONS, 2021c, cited in Brewer et al., 2021). (We cited earlier studies suggesting that Long Covid had led to around 100,000 fewer workers, and this will be captured in the numbers quoted above).

66. Among older people, researchers seem to agree that the rise in economic activity was fairly broad-brush and was not concentrated among particular sub-groups. Leaving the labour force was not concentrated among those in the hardest-hit sectors, nor was it found among those with lower skills. Indeed, it was workers in the public sector that had the biggest risk of

moving out of work (Brewer et al., 2021). Research using a different study concluded that the rise in economic inactivity among older people did not look to be driven primarily either by poor health or by low labour demand leading to people being unable to find work and becoming discouraged, and the researchers concluded that it looked more consistent with a lifestyle choice to retire in light of changed preferences or priorities (Boileau and Cribb, 2022).

67. It is important to think about whether the design of the CJRS and SEISS considered the potential impacts on inactivity.

    67.1. There are reasons to think that they could have increased inequality. It is possible that, because the CJRS provided people with generous earnings replacement and the SEISS provided a potentially large supplement to their income, then people may have worked less as a result (indeed, I discussed earlier how the SEISS appears to have done that for some self-employed people). This criticism can be made about any scheme that provides workers with earnings replacement or income protection: in a world where there is generous earnings replacement or income protection, then we would expect people affected by an economic shock to work less or make less effort to look for work than in a world where employees made unemployed or self-employed workers whose business dries up get no significant earnings replacement or income protection. But for this to have had an impact on economic activity permanently, then it would need to be the case that these impacts persisted after the CJRS and SEISS programmes had finished.

    67.2. Instead of a furlough scheme, the other leading policy suggestion would have been an expanded unemployment insurance scheme, where the incomes of laid-off workers are protected, but the link between employees and their (former) employers is broken. Such a response does not preserve the link between employers and employees - and so might make it harder for firms to start up again when restrictions eased – but may provide stronger incentives for employees whose job has temporarily closed to look for other work.

    67.3. It can be argued that the design of the CJRS was better suited to crises of short durations, or to periods where large parts of the economy have been shut down, than it was to crises of long durations. In the UK, the CJRS was in existence for 18 months, which is a long time for a furlough-type scheme to operate (although countries including France and Germany that have permanent short work or furlough-type schemes did extend their duration during the pandemic). In principle, someone could have had a large fraction of their earnings paid for by the UK Government for 18 months (although their employer would also have had to have made some contribution) without them needing to do any work at all in that period. Although some sectors were still feeling some impacts of the pandemic in mid-2021, large parts of the economy were back to normal, and there were plenty of vacancies available. It is possible that having a furlough scheme with such a long duration did push up inactivity

68. On the other hand, the Treasury did try to mitigate the impact of CJRS on inactivity by requiring employers to cover a proportion of furloughed employees' salary; this would have given employers an incentive to make redundant those furloughed employees whom they did not expect to rehire). And the research I discussed above about the rise in economic activity does not seem to find a strong link between workers being furloughed and those who moved

into inactivity: the evidence here is that there was little difference in the rate of moves into inactivity between workers in sectors heavily affected by restrictions and those in the public sector. HMRC and HMT considered this in their final evaluation of the CJRS (HMRC & HMT, 2023a), and concluded that "the observed increase in inactivity among older workers is largely independent of whether they were on furlough or not. It is likely to reflect a number of other factors, such as health conditions and lifestyle choices, about the age of retirement… Qualitative employee research found evidence that employees placed on furlough reassessed their personal circumstances, priorities and longer-term career options. This resulted in changes to working patterns and working roles, both during and post-CJRS, which aligned with some older individuals finding value in new hobbies. This impact could be attributable to the experience of being on furlough, or to their response to the Covid-19 pandemic as a whole." And the evidence suggests that the overwhelming majority of those on the CJRS at the time it closed did move back into employment.

69. Overall, the evidence suggests, therefore, that the CJRS and SEISS did not themselves contribute significantly to the rise in economic inactivity. The rise in inactivity, which was concentrated among older individuals, was broad-based. It does not seem to have been driven by health concerns or experience of labour market disruption. And, as discussed earlier in this report, the two programmes introduced by DWP to help those at greatest risk of long-term unemployment were well designed at preventing long-term inactivity or unemployment among young people, but the rapid rebound of the UK labour market during 2021 meant that the programmes achieved less than expected.

Were there aspects of the designs of the labour market interventions which affected their ability to reduce the impact of the pandemic on inequality?

70. I have argued above that, to the extent that these LMIs and other economic interventions prevented a larger economic downturn, or prevented more people from being scarred by long-term unemployment, then they also prevented labour market inequalities from worsening. Below, I consider whether the details of the schemes' implementations affected their ability to ameliorate or exacerbate any pre-existing economic inequalities.

71. There are two broad features of the CJRS that would lead us to think that it was a well-designed scheme from the point of view of addressing inequalities.

    71.1. It was a very broad-brush scheme, by which I mean that it was relatively easy for employers to access it, and payments were made quickly, and it was very popular among employers and their employees. The amount of salary reimbursed by the UK Government was capped, which concentrated support on low-to-middle earning employees, who would have needed it more (as well as reducing the total cost to UK Government).

    71.2. On the other hand, the key eligibility condition for a job to be eligible for the CJRS was that it began before a certain date (for the initial phase of the CJRS, this was before 19 March 2020); this excluded people who had only very recently started a job. This means that people with higher-than-average job turnover would have been more likely than other employees to be ineligible. This might suggest that the CJRS had a bias against younger workers or those with loose links to the labour market. However, it is hard to think how else the scheme could have been designed.

72. But there are two drawbacks of the rules regarding who could be furloughed and receive the CJRS.

72.1. Employers were not supposed to use furlough for employees who were off sick or self-isolating unless they were clinically vulnerable. Given the known issue of a lack of support for people who were self-isolating (covered in Module 7), changing the rules to allow employers to furlough employees who were self-isolating would have eased the burden on employees who might otherwise be reliant on Statutory Sick Pay (SSP) or unpaid leave, something which predominately affected lower-paid workers, and might have increased compliance with self-isolation (discussed more in Reed et al., 2021).

72.2. There was a short period of time when the guidance was not clear that the CJRS could be used for employees who had caring responsibilities (i.e. because schools and nurseries were open only to children of key workers in spring and summer 2020, or because of care for sick or disabled people). Specifically, the initial guidance on 26 March 2020 did not mention this group (HMRC, 2020a), but this was changed by 9 April 2020 (HMRC, 2020b). In January 2021 it was made even more explicit that furlough could be used for employees who had to cut their hours because of caring responsibilities. But the initial statement may have led to some parents with children having to work while schools were closed to most children even though their employer could have put them on furlough.

72.3. More broadly, it is important to recognise that employees didn't have a right to access the CJRS or be furloughed. Instead, it was up to employers to decide whether to make use of it and which employees to put on the CJRS. If an employer did not want to engage with the CJRS and chose instead to make an employee redundant – or, for an employee on a zero-hours contract, simply to offer them no hours of paid work – or to not furlough an employee who was having to do more unpaid care or home-schooling, then there was nothing the employee could do about it. In this sense, the CJRS was of least use to those employees with the least labour market power, or to those on zero-hours contracts (even though their jobs were technically eligible to have been furloughed). These issues were particularly relevant at the start of the pandemic: although the CJRS was invented and implemented very quickly (it was announced on 20 March 2020), this was 4 days after lockdown was announced, and 8 days after people with symptoms were asked to self-isolate. It may well have been the case that some employers (particularly in hospitality) had already started to shrink their workforce before 20 March. The initial date for a job to be eligible for the CJRS was set at 28 February, but this was later extended to 19 March for precisely the reason that employers may have let staff go in the first half of March; employers were allowed to re-hire employees who had had their contracts terminated in that period and put them on the CJRS. But there was almost nothing that an employee or ex-employee could do if their employer did not want to do this – an employee had no direct way to access the CJRS.

72.4. Similarly, although employers could put on furlough those employees who could not work because of caring responsibilities, employees themselves didn't have a right to go on furlough when schools were closed to most pupils. This may have contributed to some of the pressure felt by parents (and predominantly women) during certain parts of the pandemic (see Fawcett Society, 2020).

73. The rules regarding who could receive the SEISS have some small implications that are important for inequalities.

73.1. The key eligibility requirements for the initial SEISS grant were that you had to have filed a self-assessment form in 2018-19; you had to get at least half your income from self-employment (assessed over 2016-17 to 2018-19); and you had to have less than £50,000 in self-employment income. The cap at £50,000 was, presumably, intended to cap the cost, and to avoid paying grants to those with the least need for it; on the other hand, it is noteworthy that the CJRS payments were capped for high earners, whereas the SEISS excluded high earners altogether. It was the need to have filed a self-assessment form in 2018-19 that caused many issues, as this excluded newly self-employed individuals, a group that is disproportionately likely to include the young or those who are more frequently changing their form of employment, and so this restriction could be seen as (slightly) worsening existing labour market inequalities. (The rules changed slightly for subsequent grants, as discussed below).

73.2. A more minor point is that a different way in which the SEISS scheme worsened inequalities is by paying grants to people on middle-to-high incomes who had no need of the support; this happened because there was minimal verification in the SEISS scheme that self-employed people were genuinely affected by the pandemic. Indeed, the HMRC and HMT evaluation shows that, on average, the SEISS *increased* claimants' incomes above pre-pandemic levels (i.e. the value of SEISS payments exceeded the loss of pre-tax earnings, on average), and Public Accounts Committee (2023) reports that "data weaknesses also contributed to the first three of the five SEISS grants providing £3.5 billion to people whose self-employed incomes had increased during 2020–21". (The fifth and final grant changed this slightly, with different levels of grant depending on the fall in turnover; HMRC, nd).

74. As I discussed above, the Kickstart scheme was available to young people (16-24) claiming UC and deemed to be at risk of long-term unemployment, as assessed by work coaches in Jobcentre Plus. This programme was aimed at those who were newly out of work and limited to a group for whom the scarring impacts of not being in work are the greatest (i.e. young people). As such, it looks well designed to try to mitigate any inequality-enhancing impacts of the pandemic. But there are some small ways in which the operation of the scheme might be relevant for the way it affected inequalities. First, the scheme relied a great deal on employers to create the positions and to decide who to hire, and this may have meant that unconscious (or even conscious) biases were affecting who was able to get a KickStart position. For example, nearly all employers (94%) said that a candidate's attitude or level of motivation was an important factor when selecting Kickstart employees, something which is very difficult to measure objectively (DWP, 2023). Second, it seems that the Kickstart scheme performed less well for young people with health issues: almost half (47%) of young people with such a health condition left their Kickstart placement without completing the full six months, compared to just over a quarter (28%) of those without a reported health condition (cited in Murphy (2023)).

75. The issue of some workers being excluded from both the CJRS and SEISS was raised by campaigners during the pandemic. The main groups of workers in this situation, some of which I have referred to above, were as follows:

75.1. The newly self-employed (i.e. those without the required history of self-assessment tax returns);

75.2. limited company directors who paid themselves via dividends (if they were employed by their company, then they could be put on furlough, but this would not cover their dividend income, and they could not claim support from the SEISS);

75.3. short-term PAYE workers or those who recently changed jobs (who missed the date cut-off for eligibility to the CJRS);

75.4. self-employed earning over £50,000 a year (so earning too much to be eligible for SEISS);

75.5. anyone whose self-employment income was less than half of their total income, who could not have received the SEISS;

75.6. employees denied furlough by employers.

76. An early estimate was made that around 3 million people fell into these categories – this estimate came from trying to think separately about how many people fell into each of these categories of people who were ineligible for support. This estimate was widely used at the time by the campaign group ExcludedUK (and is also given in a NAO report which gives the best possible breakdown of it). A different estimate was provided by academic researchers who estimated that 3.8 million people had lost earnings as a direct result of the pandemic and had not received support through the CJRS or SEISS (Collard, Collings, Evans and Kempson, 2021). It should be noted, though, that not all of this 3.8 million were necessarily 'excluded' from support; instead, the research is just capturing people who did not receive any support from the CJRS and SEISS.

77. Of these 3.8 million, the most common reason for not receiving support is that they were an employee who was made redundant. About half of the 3.8 million had no earned income, and the other half saw their earnings reduced by the pandemic. The research was clear that the absence of income was causing difficulties: three-quarters of the excluded said (in early 2021) that they felt anxious about their financial situation, compared with 45% of the rest of the population.

78. Compared to the rest of the working-age population, these 3.8 million were more likely to be in their 40s; have dependent children; and own their own home with a mortgage. But it is important to realise that this is a very varied group. About half would have been classified pre-pandemic as being an insecure worker, in the sense that they were contract or agency workers; on zero-hours contracts; or gig workers (i.e. obtained work through platforms like Uber, Fiverr or TaskRabbit), or marginal workers, in that they had a tenuous connection to the labour market or only worked a very small number of hours a week. On the other hand, it was also estimated that 10% of self-employed people in the excluded group have a personal income of over £50,000, above the ceiling to claim SEISS or UC (all facts from Collard, Collings, Evans and Kempson, 2021). So the group who were not able to access CJRS or SEISS includes many people who would be thought of as being in a vulnerable position, as well as some people who would be regarded as well-off.

79. Proposals were made to allow some of these groups to access support. Thinking about the SEISS, where an estimated 1.8 million people were ineligible for policy or administrative reasons (this figure was estimated by NAO, 2022), then one can imagine that some of the following reforms could have reduced the number of people who did not qualify for support:

79.1. The bar on receiving support (set at £50,000) could have been removed, or a less generous scheme introduced for those whose pre-pandemic income was above £50,000. I presume that the Treasury were keen to keep some limit so as to reduce payments to those who would have less need for it, but the result was a clear difference between the way that even very well-paid salaried employees could be put on furlough (albeit with a cap in payments £2,500 a month) but a previously high-earning self-employed worker might not be eligible for any SEISS.

79.2. I am not clear why the Treasury added a requirement that the SEISS was available only to self-employed workers whose self-employed income was at least half their total income. Such a rule means the SEISS didn't support those for whom self-employment is a minor part of their income. It may be that the UK Government took this as an indication that, for these individuals, self-employed income wasn't vital to their overall well-being and so was less important to provide support. But the impact of the rule was that there were differences between employees and the self-employed: an employee could see more of their pre-pandemic earnings supported than someone who was partially an employee and partially freelance. The 50% rule could easily have been modified so as to allow more workers with some self-employed income to claim.

79.3. New self-employed workers could not claim SEISS, as HMRC required evidence of self-employed income in 2018-19 for the initial SEISS grants. By imposing this restriction, HMRC ensured that it had an estimate of annual income for all the eligible self-employed people via their tax returns (tax returns for 2019-20 were not due to be submitted until January 2021). Two suggestions were made to HMRC for altering this. First, some people suggested that SEISS could have been subsequently extended to those who had self-employment income in 2019-20, as confirmed by their tax return. Although the UK Government initially indicated such a change would represent a significant fraud risk (because people would have a financial incentive to overstate their income in 2019-20 if they knew it would determine the value of any SEISS grant), the fourth SEISS grant was extended in this way (this was the grant paid between February and April 2021), but it did not allow any retrospective claims to cover the first nine months of the pandemic. Second, a different scheme could have been set up for new self-employed workers; in fact, this is what happened in the devolved nations (in Scotland, the Newly Self-Employed Hardship Fund; in Northern Ireland, the Newly Self-Employed Support Scheme; in Wales, the Start Up Grant, part of the Economic Resilience Fund). I do not know why the UK government did not follow the examples in Scotland and Northern Ireland, but it may be that the schemes in Scotland and Northern Ireland (which required people to establish the nature of their business) were more time-consuming and complicated for applicants and the authorities than was the application process for the SEISS.

79.4. Some people argued for a bespoke scheme to be set up for company directors who are paid via dividends. It would, though, have been very difficult to establish who was genuinely a company director (as opposed to someone who just received income from dividends), and whether such individuals' businesses had been genuinely affected by the pandemic. Together, these mean that such a scheme would have been a very large fraud risk.

80. Of course, if our primary concern is inequality and inequalities, then it's not clear that all of the changes above are a priority, or would have represented good value for money. As the research I cited above found, if we are thinking about the excluded group from the point of view of inequalities, then probably a more significant issue is the roughly quarter of those who were estimated to be in that position because their employer chose to make them redundant, something which automatically means that support cannot be provided through the CJRS. Less important from the point of view of inequalities is the exclusion of some well-off self-employed workers from the SEISS.

The social security system

81. In this section, I will discuss the performance of the UK social security system, highlighting those aspects of the system that were changed in the pandemic and whether they exacerbated or created new inequalities.

82. I will argue that the changes to social security benefits (chiefly: the £20 a week uplift to UC and the Working Tax Credit, and the increased generosity of Local Housing Allowance) made a considerable difference to the incomes of low-income households. Although there are issues with data, overall levels of poverty and deprivation did not seem to increase during the pandemic. But, from the point of view of the impact on inequalities, there are a number of criticisms. First, the £20 a week uplift did not apply to all benefits in the social security system, and it is unclear why, especially after the uplift went on for 18 months, and when this meant that many people receiving disability or carers benefits were not seeing any uplift. Second, the UK Government's response was motivated by the idea of cushioning any income losses from redundancy, and put a lot less weight on the fact that the pandemic, and the lockdown period in particular, put up everyday costs for millions of low-income households. Finally, there was a very large difference in outcomes between people who were put on furlough and those who were made redundant and had to rely on the social security system for income replacement.

83. I begin by giving an overview of the social security system. I then describe in some detail how the pre-pandemic social security system should act to protect incomes of people who have to stop work through unemployment or sickness. I then describe the changes made in the pandemic and examine their impact. Finally, I consider whether more changes could have been made with the aim of minimising the impact of the pandemic on inequalities.

An overview of the UK's social security system

84. It is helpful to think of there being four sorts of social security benefits in the UK:

    84.1. 'Universal', in that the criteria for eligibility do not relate to income and do not make reference to whether someone has previously paid National Insurance contributions. Currently, Child Benefit and Personal Independence Payments are examples of universal benefits.

    84.2. 'Contributory', in that the criteria for eligibility include reference to whether the claimant has previously made National Insurance contributions. In 2020, contributory JSA (c-JSA) and contributory ESA (c-ESA) were examples of contributory benefits. In many other countries, the value of contributory benefits is also linked in some way to the claimant's previous level of earnings; these are often called 'earnings-related' benefits. However, c-JSA and c-ESA were 'flat rate', in the sense that the value of the benefits was the same for everyone who was eligible.

    84.3. 'Means-tested', in that the criteria for eligibility include reference to the income of the claimant and their partner, and perhaps also their financial wealth. The value of the benefits that are paid will also depend upon this income or financial wealth. In 2020, UC, Income Support and the Tax Credits are all examples of means-tested benefits.

    84.4. 'Crisis support', which are benefits that are usually provided on a discretionary basis to households experiencing some form of temporary or acute need. Since the 2012 Welfare Reform Act, English local authorities have been responsible for designing

and administering discretionary crisis support through Local Welfare Assistance (LWA) schemes. Northern Ireland, Scotland, and Wales have developed their own national crisis support (e.g. the Scottish Welfare Fund, the Discretionary Assistance Fund in Wales, and Discretionary Support in Northern Ireland). In addition, all English local authorities and all the devolved nations operate a system of Discretionary Housing Payments.

85. Compared to some continental European countries, the UK has relatively few contributory benefits for working-age households, and there is also almost no link between the level of people's previous earnings and the amount of benefits that they are entitled to (among non-pensioners): instead, most benefits are flat-rate.

86. At the start of the pandemic, the main social security benefits in Great Britain were operated by DWP, and tax credits were administered by HM Revenue and Customs (HMRC). Key differences between the devolved nations and the situation in England were as follows:

86.1. In Northern Ireland, all social security powers are devolved other than those operated by HM Revenue and Customs (principally Child Benefit and the Tax Credits). By long-standing convention, Northern Ireland maintains "parity" with social security, child maintenance, and pensions systems in Great Britain, and this is an important limitation on the ability of the Northern Ireland Executive and Assembly to diverge from UK Government policy (Hobson et al., 2022).

86.2. The Scotland Act 2016 devolved significant welfare powers to the Scottish Government, principally covering benefits paid in respect of disability, gave it the power to create new benefits, and gave it some ability to modify the operation of UC. But this still leaves the vast majority of spending on social security in Scotland as reserved matters, including all means-tested benefits, such as UC and the benefits and tax credits it is replacing; the c-JSA and c-ESA, income-related JSA and ESA; retirement age benefits, such as the State Pension; and HMRC benefits and tax credits (Hobson et al., 2022).

86.3. There were no meaningful differences between Wales and England.

87. At the start of the pandemic, local authorities had a minimal role in the social security system: local authorities in England were responsible for designing, funding and operating their own schemes that offered discounts on Council Tax (known as Council Tax Reduction schemes) as well as local welfare assistance schemes (with equivalent national schemes operating in Scotland and Wales). But their role was expanded during the pandemic, especially with the self-isolation support payments, covered in Module 7.

88. An important distinction during the pandemic was between the so-called 'legacy benefits' on the one hand, and UC (UC) on the other hand (the 'legacy benefits' include: Income Support, income-related Jobseekers Allowance, income-related Employment and Support Allowance, Housing Benefit, the Child Tax Credit, the Working Tax Credit). In the early 2010s, the UK Government announced its intention to replace several means-tested benefits and tax credits (i.e. Income Support, income-related Jobseekers Allowance, income-related Employment and Support Allowance, Housing Benefit, the Child Tax Credit, the Working Tax Credit – it is these that are referred to as 'the legacy benefits') with a single benefit, called UC. But this replacement was a gradual process: UC began to be paid to some claimants in the early 2010s but it had not been fully phased in when the pandemic began. Because of this, it was no longer possible to make a claim for any of these legacy benefits in early 2020; only UC

could be claimed. But there were still around 1.6 million people receiving the legacy benefits ESA or JSA, as well as 2.5 million families receiving a tax credit (HMRC, 2021a).

89. This distinction between legacy benefits and UC is important because UC operated on new IT infrastructure, and was 'digital by default'; by contrast, other DWP benefits ran on systems that were much older. This proved to be important in two respects.

    89.1. First, when there was a surge of claims for UC around March-May 2020, with 2.6 million claims over eight weeks, peaking at 75,000 claims a day. Over the first two months of the pandemic, the estimated number of excess claims for UC was equal to 13 months of excess claims to the legacy JSA during the financial crisis (all from Brewer and Handscomb, 2020). But the UC system held up, at least when comparing it to the experience in some other countries, or when the tax credit system first went live in 2003. It seems very unlikely that the designers of UC expected the UK to experience a pandemic, but the fact that the main means-tested benefit was a modern one meant that there were very few operational delays in getting money to claimants.

    89.2. The distinction also mattered when the UK Government wanted to rapidly change the value of entitlements, or other rules, of social security benefits or tax credits. The legacy benefits rely on IT systems that are decades old, and require a few months' notice to adjust the value of the payments, and it is difficult for the benefits to be changed at times other than the start of the financial year.

90. Another important difference between UC and the legacy Tax Credits is that the legacy Tax Credits operated on an annual basis, in that the value of entitlement was expressed in annual terms, and it depended on a claimant's income in the current or previous tax year. By contrast, UC operates on a monthly basis, in that the value of entitlement is expressed in monthly terms, and depends on a claimant's income in the previous month.

91. Finally, it is also worth noting upfront the differences between how the social security system treated employees and the self-employed. There are two key ways in which self-employed people were treated differently in the 2020 social security system:

    91.1. The contributory benefit c-JSA works differently for employees and the self-employed. In particular, self-employed people cannot claim c-JSA at all; this is because c-JSA is intended for employees who are not in work because they have been made redundant by their employer, or their fixed-term employment contract has come to an end. But self-employed workers do not have an employer or an employment contract. (Relatedly, and as covered by Module 7, self-employed workers are not eligible for Statutory Sick Pay (SSP); this is because, in early 2020, SSP was not really a social security benefit and was more an obligation on employers, and the self-employed do not have an employer.)

    91.2. Self-employed workers are allowed to claim the means-tested benefits, both the 'legacy benefits' and UC. If they claim UC, then a rule known as the 'Minimum Income Floor' assumes that, after the first year of business, they have self-employment earnings equivalent to working at the national minimum wage for a number of hours a week deemed appropriate for their family circumstances. This effectively prevents self-employed people from claiming UC and reporting a very low level of earnings; it can be thought of either as a way to reduce fraudulent claims for UC, or to prevent UC subsidising unprofitable forms of self-employment.

How would the UK's pre-pandemic social security system have responded in an economic crisis?

92. In broad terms, the purpose of the social security system for non-pensioners can be thought of in three ways:

    92.1.1. To provide a form of 'earnings replacement insurance' to households through income replacement in cases where someone cannot work, typically because of unemployment, health issues or caring responsibilities;

    92.1.2. To minimise hardship and destitution by providing a basic safety net of income to everyone, albeit sometimes with conditions attached to the receipt of social security benefits; and,

    92.1.3. To reduce inequalities between different groups by providing additional support to households with additional costs or needs, such as having children, high housing (rental) costs, or additional costs caused by ill-health or disability.

93. In normal times, the latter two of these are more important and where the majority of the money is spent. But the pandemic highlighted the importance of the first of these aims.

94. The social security system is also described by some people as being an 'automatic stabiliser'. By this they mean that it contributes automatically to helping to stabilise the economy, in that the total value of payments made through the social security system goes up as the economy weakens (and vice versa). If we think about a negative economic shock, like the pandemic, then this automatic stabilisation happens in two ways.

    94.1.1. The UK has some benefits that are paid explicitly to people who are unemployed (e.g. the legacy benefit Jobseekers Allowance), and so more money will be being paid out in these social security benefits when there are more unemployed people; and,

    94.1.2. We have other benefits that are means-tested against claimants' income, and so the value of entitlements will automatically increase when claimants' earnings fall.

95. The social security system does this automatically without there having to be a specific policy change or decision taken by government. But it is worth considering exactly what this would have meant in practice under the social security system in operation at the start of the pandemic. First, let's consider the case if an employee lost their job. There are two ways in which they could have received support:

    95.1. They may have been able to claim c-JSA. As discussed above, c-JSA is a contributory benefit; to be eligible, the person would generally need to have worked as an employee within the last 2 to 3 years and paid sufficient Class 1 National Insurance contributions. The exact conditions are complicated (and can be found here https://www.entitledto.co.uk/help/jobseekers-allowance), but the implication is that this will exclude people new to the labour market or who do not have a strong employment record (because they will not be able to show a record of contributions), or those on very low weekly earnings (because contributions are not made at all on earnings below the lower earnings limits, which was £120 a week in April 2020

(https://www.gov.uk/government/publications/benefit-and-pension-rates-2020-to-2021/benefit-and-pension-rates-2020-to-2021). c-JSA payments can be made for a maximum of six months.

95.2. Alternatively, they may have been able to claim UC. As discussed above, UC is means-tested against the income of the claimant and their partner, and also looks at their financial wealth. This means that someone with a working partner, or where the person or their partner together have more than £6,000 of financial capital, may be entitled to nothing (claimants with more than £16,000 of financial capital will definitely have been entitled to nothing; claimants with between £6,000 and £16,000 will have seen their entitlement reduced, perhaps to nothing, thanks to a rule known as 'tariff income'). UC payments can be made indefinitely.

96. Second, if an employee was unable to work through sickness and either their entitlement to SSP had run out (SSP is payable for a maximum of six months) or they weren't entitled to SSP at all, then there are two ways in which they could have received support:

96.1. They may have been able to claim c-ESA. As discussed above, c-ESA is a contributory benefit; to be eligible, the person would generally need to have worked as an employee within the last two to three years and paid sufficient National Insurance contributions. As with c-JSA, the exact conditions are complicated, but the implication is that this will exclude people new to the labour market or who do not have a strong employment record (because they will not be able to show a record of contributions), or those on very low weekly earnings (because contributions are not made at all on earnings below the lower earnings limits, which was £120 a week in April 2020. c-ESA payments can be made for a maximum of 12 months unless the illness or disability severely limits what the claimant can do.

96.2. Alternatively, they may have been able to claim UC. As discussed above, UC is means-tested against the income of the claimant and their partner, and also looks at their financial wealth. This means that someone with a working partner, or where the person or their partner together have more than £6,000 of financial capital, may be entitled to nothing (claimants with more than £16,000 of financial capital will definitely have been entitled to nothing; claimants with between £6,000 and £16,000 will have seen their entitlement reduced, perhaps to nothing, thanks to a rule known as 'tariff income'). UC payments can be made indefinitely.

97. In both the cases above, c-JSA, c-ESA and the standard allowance of UC were all worth £74.35 a week for a single person aged 25 or over in April 2020, irrespective of the person's previous earnings, with those whose illness or disability severely limits what they can do receiving slightly more through c-ESA (https://www.gov.uk/government/publications/benefit-and-pension-rates-2020-to-2021/benefit-and-pension-rates-2020-to-2021).

98. Third, if – because of unemployment, being unable to work through sickness, or having had their earnings reduced by their employer – an employee needed more help with additional costs (such as for children or rental costs or help with mortgages), then the only option was to claim UC. UC pays higher amounts for couples, compared to single people, and pays additional amounts to families with children, and it also pays additional amounts to those people who have rental costs. But because UC is means-tested against the income of the claimant and their partner, and also looks at their financial wealth, then someone with a working partner, or where the person or their partner together have more than £6,000 of

financial capital, may find they are entitled to no additional support (claimants with more than £16,000 of financial capital will definitely have been entitled to no additional support; claimants with between £6,000 and £16,000 will have seen their entitlement to additional support reduced, perhaps to nothing, thanks to a rule known as 'tariff income').

99. Finally, as discussed above, all of this would also apply to a self-employed person except that they could not claim c-JSA.

100. So, in summary:

100.1. Most single people who were employees and could not work because of unemployment or ill-health would be able to receive the basic £74.35 a week of support, and would also receive extra for children and rental costs if they had less than £6,000 of savings (if they had between £6,000 and £16,000 of savings, then they may have been entitled to some additional support for children and rent).

100.2. People who could not work because of unemployment or ill health and who lived with a partner would be able to receive the basic £74.35 a week of support if they had made sufficient National Insurance contributions, or if their partner had a sufficiently low income and together they had less than £6,000 of savings. They could receive extra for children and rental costs if their partner had a sufficiently low income and together they had less than £6,000 of savings (if they had between £6,000 and £16,000 of savings, then they may have been entitled to some additional support for children and rent, provided their partner also had a low income).

100.3. Self-employed people whose income fell for reasons other than sickness could receive support if they (plus any partner) had less than £6,000 of savings and either they had no partner or their partner had a sufficiently low income (if they had between £6,000 and £16,000 of savings, then they may have been entitled to some support, provided their partner also had a low income).

101. As should be clear, had the UK Government not introduced the CJRS, SEISS and the changes to the social security system, then some families would have seen large changes to the take-home income in the event of losing their job or being unable to work through ill health.

The main changes to the UK's social security system

102. I am taking the key pandemic-related changes to the UK's social security system as being as follows (with costings taken from https://researchbriefings.files.parliament.uk/documents/CBP-9309/CBP09309_Covid_Cost_Tracker_data.xlsx) :

102.1.1. an increase in the value of UC entitlements of £20 a week, and an equivalent annual rise in the Working Tax Credit. This increase was initially announced on 20 March 2020, initially for a year, and was extended once before finally expiring on 30 September 2021. This was by far the most significant and expensive change, costing around £8.5 billion;

102.1.2. the resetting of Local Housing Allowances to the 30th percentile of local rents, costing £2.1 billion by June 2022 (because this was a permanent change, the costs continued after the pandemic had ended);

102.1.3. the pausing of the Minimum Income Floor between March 2020 and July 2021 (£845m); and,

102.1.4. the pausing of the requirements that some recipients of UC and Jobseekers Allowance had to take steps to look for work (called 'conditionality') between March and July 2020, after which they were gradually reintroduced (not separately costed).

103. As explained above, these changes applied automatically throughout Great Britain. There were only minor changes made by the devolved administrations, reflecting the limited nature of what was devolved to them in 2020. For example, Scotland paid an additional payment of £231 to recipients of Carer's Allowance in June 2020 and December 2021 (on top of the standard Carer's Allowance Supplement), and Wales paid a one-off payment of £500 in 2022 to recipients of Carer's Allowance, in recognition of the burden placed on them during the pandemic).

104. In addition to these changes to the main social security system, more money was given to local authorities in England to support people who were struggling to afford food and other essentials, through the Local Authority Emergency Assistance Grant for Food and Essential Supplies (summer 2020; £63 million), then the Covid Winter Grant Scheme (winter 2020; £170 million), then the Covid Local Support Grant (2021) (spring 2021; £40 million). The increased funding reflected that local authorities' usual crisis support systems were under much greater demand, but was also intended to enable local authorities to support families with children through the 2020 school holidays.

105. There were similar increases in funding for, or changes in eligibility to, discretionary schemes in the devolved nations (i.e. the Scottish Welfare Fund and the Discretionary Assistance Fund in Wales). A final change which is partly relevant is the introduction of self-isolation support payments (and similar schemes in Scotland, Wales and Northern Ireland), which were discussed in Module 7, and which I do not consider further. The increased funding reflected that local authorities' usual crisis support systems were under much greater demand, but was also intended to enable local authorities to support families with children through the 2020 school holidays.

106. We can think of the rationale for the changes mentioned in paragraph 103 as follows:

106.1. The £20 uplift to UC (and the equivalent increase to the Working Tax Credit; from this point on I shall not explicitly mention the WTC but it should be taken as read that I am referring to both) meant that any family receiving UC would be getting £20 a week more than had the change not been made (by "family" here, I mean a "single adult or couple claiming UC, along with their dependent children"). Around 6 million families (as defined above) benefited from this (or the change to the WTC). The then-Chancellor described the purpose as "to strengthen the safety net" (HMT, 2020), but DWP Ministers and officials have given more detail. For example, Neil Couling, who was then Former Senior Responsible Owner for the implementation of UC at DWP, in a webinar said that, in effect, Ministers had asked him if help could be provided only to those directly affected by the pandemic (in that they had lost their jobs or seen their earnings fall considerably), but that that had turned out to be

impossible; therefore, a change was made affecting every recipient of UC, which Mr Couling described as a windfall gain to those existing recipients (see Resolution Foundation, The safety net in action? UC's role in the crisis and the recovery, 2020; Mr Couling says this about 18 minutes into the video). A statement consistent with Mr Couling's points can be found in INQ000588162, Annex H, which discusses the uplift to Universal Credit. That says that the initial objective was to have a welfare package that "would provide additional support for those on the lowest incomes losing their jobs or suffering from a reduction in earnings if their hours were reduced" (para. 11), with the key point being that the aim was not to help everyone already on Universal Credit. But, as para 12 says, "DWP and HMRC were facing significant operational delivery pressures…[t]herefore it was paramount that any additional support was straightforward to deliver, as well as able to be rapidly implemented/operationalised by a government department." (para. 12). I take this to mean that the departments considered, but ruled out, creating a bespoke scheme only to help those whose earnings fell or were made redundant. Para. 13 says that "Increases to other welfare and benefit payments provided by the government were considered by DWP and HM Treasury officials. However, the government's objective was to support those most financially exposed or disadvantaged, as a direct result of the pandemic."

106.2. Local Housing Allowance is the part of the social security system that provides support for people with rental costs. The maximum amount that someone can receive varies according to local area and to the composition of the household, and these maximum values are called (confusingly) local housing allowances. During the 2000s, the equivalent benefit had operated in a way that meant that these maximum values were changed every year in line with local rents. Pre-pandemic, the UK government had last done that in April 2013, when they were set at the level of the 30th percentile of local rents. Since then, these local housing allowances had either been frozen or changed by a fixed national amount, with no regard to the growth in local rents, which on average had grown by much more. By resetting the local housing allowances, the UK Government was returning the generosity of the system to how it was in 2013. The result was that Local Housing Allowance provided much more support to low-income renters, and particularly to those in parts of the UK where rents had grown the most since 2013.

106.3. As discussed above, the Minimum Income Floor in effect prevented self-employed people from receiving the maximum entitlements to UC (other than in their first year of business), so removing the Minimum Income Floor allowed self-employed people to be treated identically to previously employed individuals who found themselves out of work or in sectors that had been shut down.

106.4. In normal times, some recipients of UC and Jobseekers Allowance have to take suitable steps to look for work as a condition of receiving the benefit. These were suspended, as imposing these restrictions was incompatible with the rules governing the Spring 2020 lockdown. It also made little sense to require people to look for work when many sectors had been shut down and the number of vacancies in the economy was much reduced.

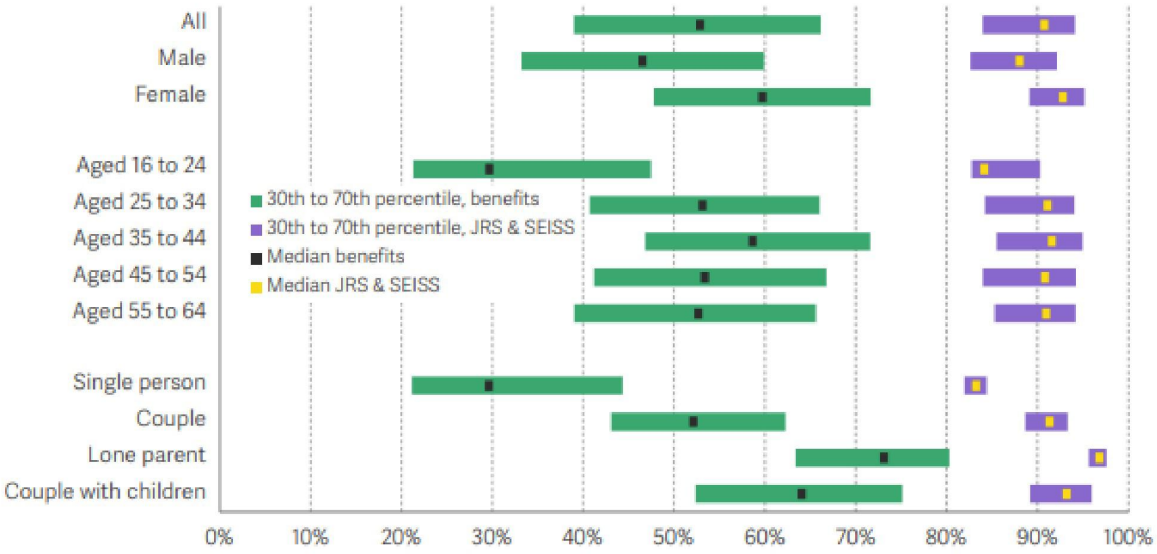
107. In summary: the first two of these changes simply meant that the social security system became more generous to its recipients. The UK Government did not explain the rationale behind the £20 a week uplift in detail, but it could have reflected that people who lost their job

or saw their earnings cut substantially in the pandemic would almost certainly have found it harder than in usual times to find new employment, and so the additional generosity of the social security system was to prevent or reduce the extent of financial hardship caused by the pandemic. The third of these changes recognised that, in the pandemic, self-employed people were in some cases prevented from working at all, and so it was no longer reasonable to assume that any self-employed person with no income was being fraudulent or unnecessarily unproductive. The final change recognised that it made little sense to require people to look for work when many sectors had been shut down and the number of vacancies in the economy was much reduced.

108. In my view, all of these were sensible changes to have made, although there is no way of judging whether £20 a week was the "right" increase in generosity, or whether the 30th percentile is the "right" place to set local housing allowances.

109. But it is important to note that the support provided by the CJRS or SEISS to affected workers was much greater, and provided much more income protection, than the support provided by the social security system. At one level, this can be seen in the spending figures: the average self-employed person received £9,700 in SEISS grants; the average furloughed job was supported to the tune of £5,887, whereas the rise in UC entitlements would have been worth at most £1,500 over the 18 months it was in operation. This is shown in Figure 20 of Brewer and Handscomb, 2020, reproduced below. This chart measures the degree of income protection by the 'replacement rate', which expresses the income someone would get when out of work or after being furloughed as a percentage of their income when in work, with all calculations being done after subtracting personal taxes due and adding social security benefits, and by considering the combined income of couples. It shows that, after being furloughed, the typical family (defined as in 109.1) with a furloughed worker would have a net income of over 90% of their regular income, whereas the typical family where someone was made unemployed would have an income of around 53% of their in-work income ('typical' here means these are the median values across the entire working-age population). As Dr Tetlow says in her report (INQ000588130), citing Nickson et al. (2020), the UK Government did not explain why self-employed people needed to be provided with more support than that offered through UC.

Figure 8: Family income replacement rates when earner stops working, is furloughed or claims a self-employed grant by selected characteristics, latest policy: UK, 2020-21



NOTES: Replacement rates shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. Job Retention and Self-Employment Support Schemes assume only full take-up of government support subject to cap. Support for self-employed assumed to be continuous. Partner income held constant. Full roll-out of UC and full take-up of benefits assumed.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

Source: Figure 20, Brewer and Handscomb, 2020.

110. And we should note that there were changes called for at the time but which didn't happen: the most significant were changes to entitlements of any of the legacy benefits, or changes to the benefit cap; I discuss those later.

The impact of the social security interventions

111. No research has tried to identify the causal impact of the social security changes because of the difficulty in estimating what would have happened without the changes (i.e. the counterfactual). But we can learn something from examining which sorts of households benefited (and by how much), and by tracking measures of poverty, living standards or hardship throughout the pandemic.

112. We showed earlier in this report an estimate of how households at different parts of the income distribution benefited from the changes to social security as well as from the key labour market interventions. That figure, shown earlier in this report as Figure 7, shows that income from social security benefits increased the most for households at the bottom of the income distribution (broadly speaking, decile groups 1-3). However, that increase in income from social security benefits reflects both the pandemic changes to social security benefits described above, and the normal operation of the social security system (i.e. the 'automatic stabiliser' idea discussed earlier, whereby total entitlements to social security benefits rises as people move out of work or see their earnings fall). So an additional analysis tried to split

the relative contributions of these two factors. The results of that are reproduced below. The left-hand panel shows how the pre-pandemic automatic stabilisers would have protected incomes from the labour market changes in Spring 2020: the impact of the automatic stabilisers was to provide extra support to households worth just under 5% of their pre-pandemic income, of which most comes from a reduced liability to income tax, with this protection being greater for higher-income households. The additional impact of the pandemic changes to the social security system is shown in the right-hand panel; this is concentrated among lower-income households, and is worth about 3% of incomes overall in the bottom two decile groups. Together, this evidence confirms that both the normal operation of the social security system and the pandemic-specific changes played a role in supporting incomes through the pandemic, particularly among lower-income households.

Figure 9. Impact of the pandemic and the policy response to Covid-19 on mean net income by decile and tax-benefit policy

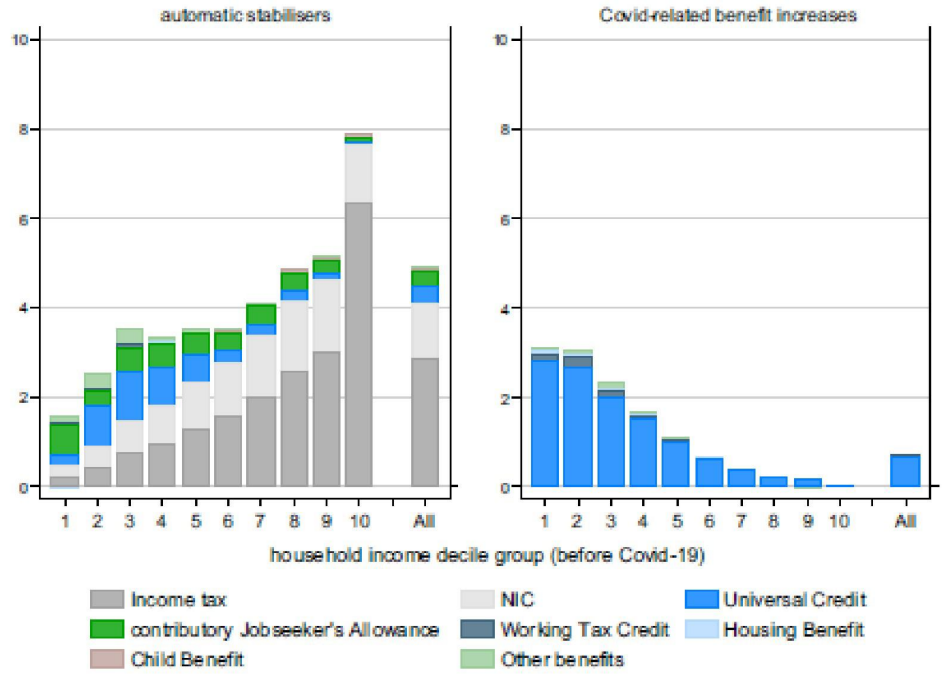


Fig. 4 Impact of the crisis and policy response to Covid-19 on mean net income by decile and tax-benefit policy. *Notes:* Left plot shows impact of automatic stabilisers, i.e. the *baseline* versus scenario *C*. Right plot shows impact of Covid-related benefit increases, i.e. scenario *C* versus *D*. Results based on average monthly estimates. Changes in total net income and the contribution of earnings changes, CJRS subsidies and SEISS grant are omitted. Changes in income based on equivalised household net income. Other benefits include the Council Tax Reduction, Child Tax Credit, Income support, income-related Employment and Support Allowance, income-based JSA, Pension Credit, Scottish benefits (Sure Start Maternity Grant and Best Start Grant). No simulations to Statutory Sickness Pay. *Source:* Own calculations using UKMOD and FRS

Source: Figure 4, Brewer and Tasseva, 2021.

113. Other studies agree that the beneficiaries of the pandemic changes to the social security system were concentrated towards the bottom of the income distribution (see, e.g., Figure 3 of Bronka et al., 2020, or Chart 1.J in HMT, 2021). Indeed, these latter two pieces of analysis both suggest that the pandemic changes to the social security system actually meant that, on average, the income of the poorest households was higher than it would have been had the pandemic not happened. Obviously this will clearly be the case for someone who was not in

paid work before the pandemic, but was receiving UC: such a household would have seen no fall in earnings but a £20 a week rise in UC payments. What might be surprising to some is to learn that this impact is greater, on average, than the impact of the pandemic-induced job loss and reduced earnings. (However, this finding does not account for the fact that the pandemic may have increased costs, especially for low-income households; I discuss this later.)

114. Another way to think about the impact of the pandemic changes to the social security system is to use surveys that track poverty or deprivation or food insecurity or similar through the pandemic. Results from the Household Below Average Income survey, a long-running study run by the Department for Work and Pensions, suggest that the proportion of the population experiencing food insecurity was lower in 2020-21 than in 2019-20 or subsequent years; that typical disposable income of the poorest fifth of the population in 2020-21 was higher than its equivalent in 2019-20; and that measures of material deprivation were lower in 2020-21 than in 2019-20 or subsequent years. So these all suggest that, on average, there wasn't an increase in the number of households with a low income or experiencing disadvantage. A similar finding is arrived at by Blundell et al. (2022), which reviewed several pieces of research that examined the impact of the pandemic on living standards; it concluded that: "It is notable that although these papers do not all come to an identical conclusion, none of them estimates a regressive impact of the pandemic. It appears that its effects on incomes were either neutral or progressive." By this, they mean that the impact of the pandemic on household incomes seemed to be either equal across the income distribution, or more severe (in proportional terms) among higher income households.

115. But there are two sets of reasons to think this might not be the full story. First, as I discussed earlier about the LFS, the pandemic itself created challenges for the normal operation of the key government surveys, including the one that lies behind the HBAI publication. The DWP's own assessment concludes that: "the composition of the raw FYE 2021 sample was skewed towards older participants, owner occupiers and fewer households with children than in 2019/20," and that users should heed the warning that: "Figures for FYE 2021 are subject to additional uncertainty and may not be strictly comparable with previous years" (both from DWP, 2022).

116. Second, it seems very likely that there was a huge range of changes to households' financial circumstances during the pandemic, much more so than in normal times, and this can be hidden in aggregate statistics. In particular, several studies find that, on average, households that went into the pandemic with better financial health were more likely to see their financial situation improve than other households, meaning that inequalities would have increased. For example, Collard, Kempson and Evans (2021) concluded that "[t]he pandemic has exacerbated the financial resilience gap that already existed prior to March 2020." And a study of the families of teenagers found that 52% of disadvantaged households reported worse financial health over the pandemic, compared to 34% of others, and 22% of professional households reported an improved financial situation, over twice that of working class households (10%). (Cullinane et al., 2023). Other studies have found that groups that went into the pandemic with worse-than-average financial health were more likely to see a deterioration in their financial circumstances than other groups. For example, Collard, Collings and Evans (2021), surveying a range of studies, finds this to be true for some ethnic minority groups, and for disabled people.

117. So the pandemic may have increased inequalities in the financial health of households: some people saw substantial improvements because their spending fell considerably during

lockdowns and when there were restrictions affecting the hospitality and leisure sector, and this reduced expenditure translated into them paying off debts or mortgages or increasing savings, on average; others saw a fall in income and an increase in essential costs. But we need to be careful from drawing implications from these sorts of studies about the efficacy of the pandemic changes to social security specifically (which is the subject of this report). This isn't because their income rose, but because their spending fell considerably during lockdowns and when there were restrictions affecting the hospitality and leisure sectors; this reduced expenditure translated into them paying off debts or mortgages or increasing savings, on average. It is clearly not the fault of the social security system that some richer households used the pandemic to improve their financial position through saving. But in the next sub-section, I consider issues with the social security changes made during the pandemic.

What were the problems with the social security changes made during the pandemic?

118. The research I discussed above shows that, in general terms, both the normal operation of the social security system and the pandemic-specific changes played a role in supporting incomes through the pandemic, particularly among lower-income households, and that, on average, this seems to have prevented widespread hardship during the pandemic. But these results do not apply in every situation, and there were some groups who fared less well than others in part because of policy choices made about the social security system. I discuss those below.

119. First, one crucial point is that the £20 a week increase to UC and WTC was not mirrored in many other social security benefits, including c-JSA, c-ESA, Carers Allowance and Personal Independence Payment (PIP), meaning that people receiving these benefits did not see an increase in their income unless they or someone else in their family were also receiving UC. It could be argued that this lack of action worsened inequalities, because the benefits that were not increased include the main benefits for carers (Carers Allowance), and the main benefit supporting people with disabilities or long-term health conditions (PIP).

120. The situation was more subtle with the legacy means-tested benefits. The £20 a week increase was not made to the old benefits of Income Support, income-based Jobseekers Allowance or income-based Employment and Support Allowance, something which was noted and criticised at the time. However, the DWP argued that anyone receiving these legacy benefits could choose to claim UC instead; this would stop their claim of the legacy means-tested benefit and begin a new claim of UC, and in this way, they could access the additional £20 a week. On the other hand, some recipients of these legacy means-tested benefits would have found themselves worse off if they had claimed UC, because entitlements were not the same under the two systems. In particular, those people who transitioned to UC through the DWP's 'managed migration' process after receiving a Migration Notice letter would have received transitional protection, an additional amount to make up the difference if a person's UC entitlement ends up being less than their previous benefits. But those making the switch to UC voluntarily would not have received transitional protection, and so it remained the case that some recipients of the legacy IS, JSA and ESA missed out on the £20 a week (Maddison and Schwendel, 2020).

121. It is not entirely clear why the UK Government took the approach that it did, but I will consider two possibilities.

121.1. In the webinar cited earlier, Mr Couling said that the legacy benefits could only be uprated once a year, and that this needed 5 months' notice (and this is confirmed in Tetlow (2022). But it does feel harsh justice that the £20 a week increase was in effect for 18 months without there being any increases to these other benefits. The more recent experience of the cost of living crisis shows one way that the DWP would have addressed the problem: in 2022, the UK Government introduced a policy that paid one-off sums to people who are receiving certain benefits, including the legacy means-tested benefits, through the Cost of Living Payments (https://www.gov.uk/guidance/cost-of-living-payment). It could have used a mechanism like this during the pandemic to provide equivalent support to recipients of benefits other than UC and WTC.

121.2. It is possible that the UK Government did not want to increase these other benefits. As I discussed earlier, the initial desire behind the £20 a week increase was to provide additional income replacement or insurance to those who lost their job or saw their earnings fall considerably, and it was only because it was not possible to limit the additional generosity to such people that everyone on UC or WTC gained from the £20 a week (INQ000588162; Annex H paras 11-13). If the primary motivation behind the £20 a week increase was to provide additional income protection, then there would be no need to increase the value of benefits like Carers Allowance or PIP (because they are not designed to provide income protection when people lose their jobs or cannot work due to ill-health); on the other hand, this cannot explain why c-JSA and c-ESA were not increased: these are two benefits designed to provide income replacement or insurance.

122. Second, the increase in UC was also set at £20 a week for all families receiving UC (defined as in para 109.1), regardless of how many people were supported, so it was the same increase for a single adult as for a couple with four children, for example. This means that the increase was a different proportional increase for different families, and, more importantly, that the extra payments did not match the extent of 'need'. Again, it is not clear why DWP took this decision, but its decision does make more sense if (as stated by Mr Couling) the rationale behind the change was to provide additional income replacement or insurance to those who lost their job or saw their earnings fall considerably, rather than to provide a general, across-the-board, support to all those receiving UC and WTC.

123. Third, it is not clear why the UK Government did not increase the benefit cap; not increasing the benefit cap meant that families affected by, or close to being affected by, the cap did see any rise in their overall income from the additional £20 a week. In August 2020, there were 170,000 households that had their benefits capped (DWP, 2020). This outcome could be seen as the benefit cap operating as intended, but the result was that 170,000 out-of-work households on low incomes were denied additional support during the pandemic.

124. The UK Government's decision to limit the £20 a week uplift to the non-legacy means-tested benefits, and to not vary it by household or family size, are both easier to rationalise if (as stated by Mr Couling, as cited above) the rationale behind the change was to provide additional income replacement or insurance to those who lost their job or saw their earnings fall considerably, rather than to provide a general, across-the-board, support to all those receiving UC and WTC. But there is good evidence that the pandemic, and especially the periods of lockdown, made day-to-day life more expensive for low-income households. For example, during the Summer and Autumn of 2020, families with children estimated to be in the lowest pre-pandemic income quintile were twice as likely to report an increase in

spending (36%) than a decrease (18%) (Brewer and Patrick, 2021). Accounts from parents on a low income identify a number of reasons why this has been the case:

124.1.1. having children at home more has meant higher spending on food, energy and ways to entertain or distract children when so many outdoor leisure activities have been curtailed;

124.1.2. remote schooling was expensive, especially for those families with children that have had to buy a laptop or arrange for broadband access, for example;

124.1.3. a reduction in promotions, difficulties obtaining particular items, and the need to avoid the risk of infection, forced some families to use more expensive food stores that are closer to home or will deliver;

124.1.4. charity shops were often closed, removing a source of cheap household items and children's toys; and,

124.1.5. restrictions on household mixing and non-essential trips have constrained family and community support, while vital free services such as libraries have often been closed over the period.

125. These findings are confirmed in broad terms by other surveys of low-income households receiving means-tested benefits, including CPAG (2020) and Maddison (2020) (covering families with children). Atay et al. (2021) and Maddison and Schwendel (2020) report similar findings for disabled people. And another small-scale study of families on UC concluded that: "In working households and among people who had been furloughed, or were now working from home, the combination of reduced travel to work costs and fewer opportunities for non-essential spending meant that household finances often improved. A higher UC payment and fewer spending opportunities enabled some working families to put aside small savings for the first time. More typically, non-working couples and families with children for whom UC was their main or only source of income were more likely to report that being confined indoors for long periods and home schooling had increased their living costs. The uplift had often therefore made a significant difference to these families." (Griffiths, 2021). And a review piece conducted by researchers from the Institute for Fiscal Studies (Blundell et al., 2022) found that, although spending on items like hospitality and leisure fell considerably during the pandemic, these areas of spending were much less important to low-income families than to better-off families, and any savings for low-income families did not outweigh the extra spending elsewhere.

126. The UK Government did provide small amounts of additional funds to local authorities to directly support vulnerable households, but arguably the best policy to support households for the additional financial costs imposed by the pandemic would have been a generalised increase in the amount of support provided by the social security system, ideally done in a way that was proportional to their needs or their entitlement.

127. A final point, which is more of a note of a limitation rather than a criticism, follows from the point made in Figure 8, which shows that the amount of income protection provided by the CJRS or SEISS was, in general, much greater than that experienced by those who lost their jobs and missed out on these schemes, and had to rely on the social security system instead. And this was the case even after the £20 a week uplift. This point does emerge from some of the research on how people's financial circumstances changed during the pandemic, with studies finding that those who were made redundant tended to fare worse than those

who were put on furlough and received the CJRS. For example, Collard, Kempson and Evans (2021) report (Table 3) that redundancy was the biggest single predictor of whether a household experienced a deterioration in their health through the pandemic. But it is not obvious how the UK Government could have addressed these easily. It could have increased UC rates by more than £20 a week, but that would have benefitted not just those who lost their job but also those whose labour market status was unaffected by the pandemic.

What lessons might be learned?

128. When thinking about the labour market interventions, I accept that the UK Government had to act extremely quickly in the early stages of the pandemic to design and implement these policies. But my conclusions are:

128.1. HM Treasury and HMRC should do work now to improve the design of the CJRS so that it is ready to be implemented immediately when a similar crisis occurs in the future. I have argued that, from the point of view of inequalities and protecting household incomes, the CJRS was well designed. But HM Treasury and HMRC could do more work now to design mechanisms to reduce the incidence of fraudulent claims from employers who were claiming CJRS payments from HMRC while still having their furloughed workers undertake work for them (discussed in Public Accounts Committee, 2023).

128.2. HM Treasury and HMRC should consider whether, in future furlough schemes, employees should have a right to be placed on furlough, or a right to make a formal request to their employer that they be placed on furlough (similar to the rights employees have to request flexible working; see Acas (n.d.)), at least during periods of time when employers do not have to make any contributions themselves to furloughed employees' earnings. It is difficult to estimate what difference this would have made in the Covid-19 pandemic. If such a scheme had been in place, it is possible that there would have been fewer redundancies, and more people placed on the CJRS; this would have increased the cost of the labour market interventions, but provided greater income protection to households. It is also possible that some people who were employed through the pandemic and not put on the CJRS might have instead been put on the CJRS instead (e.g. parents, when schools and nurseries were only open for key workers, or those shielding). This would have increased the cost of the labour market interventions, but might have reduced the stress felt by some employees with caring responsibilities or those shielding.

128.3. HM Treasury and HMRC should also consider whether, under future furlough schemes funded by the UK government, employers should be allowed to use furlough to cover instances where employees cannot work due to self-isolation obligations.

128.4. The initial rounds of the SEISS had many flaws, although some of these had been remedied by the time of the fifth and final grant (such as the arbitrary nature of the exclusion restrictions, and the fact that it was very hard for HMRC to restrict payments only to people who were genuinely affected by the pandemic), although not all of these were relevant from the perspective of minimising the impact of the pandemic on inequality, which is the topic of this report. HM Treasury and HMRC should look to significantly improve its design now, before the next crisis occurs. The steps taken should include:

128.4.1. in order to reduce the amount of money spent unnecessarily, investigate ways to limit payments to those definitely affected by the pandemic (or whatever is the future economic shock), or to claw back the grant if claimants' turnover ends up not falling.

128.4.2. review whether the requirement to have at least 50% of income from self-employment was necessary, on the grounds that a scheme that also paid money to those with less than 50% of income from self-employment would be able to provide a more widespread form of income protection.

128.4.3. Learn from the schemes in Wales, Scotland and Northern Ireland that provided support to recent self-employed workers to determine whether it would be able in future for the UK Government scheme to relax the restriction to have submitted a recent tax return that includes self-employment income; this would mean that fewer people would be excluded from any future scheme.

128.5. KickStart and Restart were sensible interventions to pursue, even if change in the economic environment from when they were first announced limited their value for money. Both schemes were limited to people claiming UC, which was unfair for those few receiving legacy benefits, but this will not be an issue in future crises, as the transition off legacy benefits has essentially finished.

128.6. It is clear that HMRC holds little data on its customers that allow it to assess how its interventions affect inequalities defined by ethnicity, disability status, religious beliefs, sexual orientation or marriage status. HMRC should consider whether it should collect this data even where it is not required for the operation of policies.

129. When thinking about the social security system and the changes made in the pandemic, my conclusions are:

129.1. UC coped with unprecedentedly high volumes of claims in early 2020, and so the UK Government should be reassured that, if an economic crisis similar to that caused by the spring 2020 lockdown occurs again, UC will be able to respond rapidly to provide additional support.

129.2. The DWP and HM Treasury should recognise that providing an additional £20 a week to all claimants of UC and WTC meant that support was not tailored to household need; it provided a much larger boost to the incomes of single adults with no dependent children who received UC than it did to (for example) families with children receiving UC. The departments should take steps so that any temporary support provided in future through UC or through ad hoc payments (like the Cost of Living Support) can be varied by household composition.

129.3. The DWP and HM Treasury should recognise that lockdowns and the sort of restrictions on work and daily life imposed in the pandemic put up costs, particularly for low-income households, and that low-income households will need additional support to compensate for this. Such support would ideally be provided through the social security system through proportional increases in all benefit rates, rather than via discretionary schemes administered by local authorities. The fact that this was not done in the pandemic, and the £20 a week increase was limited to UC and WTC, will have increased inequality between disabled people and unpaid carers (i.e. two groups of recipients of social security benefits who were not receiving UC) and others in society.

130. When thinking across both the labour market interventions and the social security changes, it is clear that there was a very large difference in the amount of income protection provided to

people whose jobs were protected by furlough or who could claim the SEISS, and those who missed out on both (either because they were made redundant, or they were not eligible for SEISS) and had to rely on protection provided by the social security system. This seems unfair, and is hard to rationalise. Fixing this situation by providing more income protection through the social security system would reduce the extent to which a temporary public health or economic shock has permanent impacts on the economy; it is also possible that people might be more accepting of public health restrictions if their household income were affected less. Two recommendations follow from this:

130.1. HM Treasury and HMRC should consider how any future CJRS-like scheme could better take into account the increasing numbers of people in 'non-standard' forms of work, such as zero-hour contracts, agency and temporary workers, which provide lower job security than those in full-time permanent jobs. This group, already at risk of variable hours and income, must be able to access income support schemes in the case of reduced hours or job loss. This may require programmes other than the CJRS that can deal with the range of circumstances.

130.2. HM Treasury and DWP should consider whether the social security system provides enough income replacement in the event of job loss or sickness. If the UK Government concludes that the UK's social security system should have more income replacement, then it could have a more generous means-tested social security system in general, or it could introduce a specific benefit in the event of unemployment where the value of the benefit depends on an employee's previous earnings. For example, Brewer and Murphy (2023) proposed that unemployment insurance (something similar to c-JSA in the current system, but not necessarily with the same conditions for entitlement) should be paid at 65% of previous wages, up to a cap set at the median earnings of £2,260 per month, for at most three months. The current UK Government has proposed something similar, although without saying anything about generosity, in a recent Green Paper (para 151ff of DWP, 2025). More generally, the UK Government could reflect on why it deemed it necessary for the SEISS to provide the self-employed with a degree of income protection far in excess of that provided under UC, when it did not provide similar income protection for those employees made redundant because of the Covid-19 pandemic.

130.3. As mentioned above, giving employees a formal right to request going on furlough might also reduce the number of employees who were made redundant, and thereby improve the extent to which households' incomes were protected from the economic shock of the pandemic.

131. I have been asked to think specifically about whether the labour market and welfare interventions took sufferers of Long Covid into account.

131.1. In my view, the issue of Long Covid is not especially relevant for the design of the LMIs, which were intended to prevent job loss, and to protect incomes of employees or self-employed people whose jobs were affected by the pandemic or the restrictions on activity.

131.2. But the experience of those with Long Covid highlights that the UK's social security system is not very generous when it comes to supporting people who cannot work because of their health. Unlike payments made under the CJRS, the level of Statutory Sick Pay was a flat-rate, and workers on very low earnings were entitled to

nothing (Brewer and Gustafsson, 2020). The value of social security benefits for those who cannot work because of their health (provided through c-ESA or the health component of UC) is also unrelated to people's previous earnings. In addition, the UK's social security system has no explicit provision for those people who remain in work, but have to work fewer hours because of their health, or for people who have a fluctuating health condition: individuals in this situation will not be entitled to SSP, and may not be entitled to c-ESA. I do not think that the UK Government should have devised a new scheme or benefit explicitly for people with Long Covid, because I cannot think why sufferers of that condition should be given more financial support than sufferers of equally disabling conditions, but the Covid-19 pandemic does highlight that the UK's social security system is not very generous when it comes to supporting people who have to cut their hours, or cannot work at all, because of their health, or who have fluctuating conditions.

132. A general conclusion that comes from reviewing the evidence cited in this report is that it is there was little real-time official data or evidence on the financial circumstances of households during the pandemic, and very little that allowed for distributional concerns to be investigated in detail, or that allowed for inequalities according to age, ethnicity or disability status to be explored. I accept the points made in Dr Tetlow's report (INQ000588130) that the ONS did draw on a range of new types of data to provide real-time insights into the health of the economy, but it is not clear that this was especially helpful for understanding distributional concerns or issues to do with inequalities to be investigated in more detail. It was striking that the majority of studies that looked specifically at household income or other measures of a household's financial health had to use surveys or data sets commissioned by organisations outside of central government and the ONS. To help the UK Government understand better the impact of future health shocks or economic crises on household inequalities – something that is important both for general public policy purposes, but also for informing decisions on what sort of policy response is needed – HM Treasury and the ONS should work together to identify how best to track the distribution of household incomes and living standards in real time.

132.1. The lack of data on households' financial circumstances stands in stark contrast with the labour market, where the ONS was able to draw on a great deal of official data, from surveys commissioned by the ONS or from administrative data sources., and on the workings of the economy more generally, where the ONS made very good use of a wide range of novel data sources. However, I note that its focus on these sorts of new initiatives is one of the factors blamed for the ONS's recent poor performance (Devereux, 2025). Future leaders of the UK's statistical bodies have a difficult balance to strike between ensuring the coherency and accuracy of our core economic statistics and being able to innovate at pace when crises occur.

133. I also endorse the recommendations made in Dr Tetlow's report (INQ000588130) that limitations on what data is held by the UK Government did restrict the nature of the interventions to directly support households. In particular, there is no administrative data source about UK households. A household-level dataset would have allowed for better targeting of support to those in most need and would, as Dr Tetlow says, also have been of use during the energy crisis of 2022.

Annex 1: List of figures

Annex 2: List of tables

Annex 3: References

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Annex 4: Inquiry documents

Document	INQ
Tetlow, G. Economic policy making systems and structures	INQ000588130
Module 9 corporate witness statement of HM Treasury	INQ000588162

Annex 5: Glossary

benefit cap	A rule that limits the total value of social security benefits that can be paid to a household https://www.gov.uk/benefit-cap
Coronavirus Job Retention Scheme (CJRS)	An HMRC-run scheme that paid employers for some of the wages for employees that had been furloughed https://www.gov.uk/guidance/claim-for-wages-through-the-coronavirus-job-retention-scheme
Council tax reduction schemes	Schemes run by English local authorities that offset some of a household;s council tax liability https://www.gov.uk/apply-council-tax-reduction
economic inactivity	People not in employment who have not been seeking work within the last 4 weeks or are unable to start work within the next 2 weeks (NB the opposite of this is known as "economic activity")
employment rights	Employment rights encompass the legal protections and entitlements afforded to workers in the UK. These rights vary based on employment status (employee, worker, or self-employed) and include aspects like minimum wage, paid holiday, rest breaks, protection from discrimination, and various statutory entitlements like sick pay and family leave.
GDP	Gross Domestic Product, or a measure of the size of the economy https://www.ons.gov.uk/economy/grossdomesticproductgdp
Kickstart	The Kickstart Scheme provided funding to employers to create jobs for 16 to 24 year olds on UC https://www.gov.uk/government/collections/kickstart-scheme
Labour Force Survey	A household survey run by the LFS and traditionally used to estimate the employment, unemployment and inactivity rates https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey
legacy benefits	A term used to refer to: Jobseekers Allowance, income-related Employment and Support Allowance, Housing Benefit, the Child Tax Credit, the Working Tax Credit. These are the benefits that are being replaced by UC.
limb (b) worker	https://www.gov.uk/government/publications/employment-status-and-employment-rights/employment-status-and-employment-rights-guidance-for-hr-professionals-legal-professionals-and-other-groups#section-2-introduction-to-employment-status

real-terms	Real or real-terms means that the financial values have been adjusted to remove the impact of inflation over the relevant time period
Restart	The Restart Scheme will give UC claimants who have been out of work for at least 9 months enhanced support to find jobs in their local area. https://www.gov.uk/government/publications/restart-scheme
Scarring (or labour market scarring)	Labour market scarring refers to the long-term, negative impact of unemployment (or other negative employment experiences) on a worker's future employment prospects and earnings
Self-Employed Income Support Scheme (SEISS)	An HMRC-run scheme that gave some self-employed people grants if their business had been affected by the pandemic https://www.gov.uk/guidance/return-to-your-claim-for-the-self-employment-income-support-scheme
Unemployment	People who are not in employment, but have been actively seeking work within the past 4 weeks, and are available to start work within the next 2 weeks.
UC	A means-tested benefit for working-age claimants that supports people who are out of work or in work and on a low income https://www.gov.uk/universal-credit