Social mobility in the time of Covid

Assessing the social mobility implications of Covid-19

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The Economy 2030 Inquiry

The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation. The Inquiry's subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, the Net Zero transition and technology will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality. To achieve these aims the Inquiry is leading a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals. The work of the Inquiry will be brought together in a final report in 2023 that will set out a renewed economic strategy for the UK to enable the country to successfully navigate the decade ahead, with proposals to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

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Summary

At the time of writing, the Omicron variant looks set to lead to another wave of restrictions in early 2022. This would reverse the general trend in the labour market during 2021, which has recovered strongly as we moved out of the early 2021 lockdown. And, as the economy recovered over the past year, so the age profile of those who remained out of work tilted away from the initial concentration on younger workers and moved towards older workers. This was clearly good news for the younger cohorts.

But there are good reasons to think that, even if 2022 is relatively unaffected by Omicron, the pandemic will have had long-term impacts on the labour market outcomes of younger adults. There are two main mechanisms behind this. First, unemployment spells today can ‘scar’ individuals going forwards. Individuals who enter the labour market in recessions, or who suffer job loss early in their careers, end up with lower earnings than might be expected over the long-term. This is particularly pertinent in a world where the technological requirements of work are changing constantly and the skills that are required for work depreciate while off the job. Unemployment spells can also induce declines in mental health, reducing both productivity and reducing future labour supply. More subtly, the fall in earnings experienced by some in the pandemic can reduce the options available to displaced workers. Not only do these workers have less resources to finance reskilling, but they also have less resources to lean on while they search for a good job match during a spell of unemployment. Second, the labour market disruption caused by the pandemic can also affect those not yet in the labour force: for children and young people still in education, a fall in parental income or parental job loss have been shown to reduce attainment in school and, through this, have long-run impacts on lifetime earnings.

Covid-19 has also struck against a backdrop of concerns that social mobility in the UK is both low by international standards, and declining. Social mobility can be conceptualised in two ways: absolute and relative mobility. The former concept relates to whether individuals are better off (in some sense) than their parents were at the same age (and is related to discussions of intergenerational inequalities). The latter is often measured as the strength of the relationship between the income of one’s parents and one’s own position in the income distribution.

There are several ways in which Covid-19 could exacerbate the recent decline in social mobility. First, as is well known, the under-25s have borne the brunt of the economic fallout from Covid-19. Of those employed just before the pandemic began, 16 per cent of the under-25s reported being out of work at the start of this year (January 2021). And, across a number of measurements of psychological distress, Covid-19 has worsened outcomes for the young more than it has for older cohorts. These channels are likely to
worsen absolute mobility, as they disproportionately fall on, and diminish, the economic prospects of the under-25s. But the incidence of the economic fallout has been unevenly distributed across socioeconomic lines within young people, and this suggests that relative mobility will also weaken. For example, those under 25s who grew up as a child in the least-affluent households (the bottom fifth of the household income distribution) were over twice as likely to have transitioned out of work between April 2020 and March 2021 compared to those who had grown up in the top 80 per cent. Similarly, the percentage of under-25s who had grown up in the least-affluent backgrounds that reported that they were financially secure declined from 65 per cent before the pandemic hit to 54 per cent by early 2021; this contrasts with an increase in financial security among those who had had a more affluent upbringing. Among children, those who lived in households in the bottom 20 per cent of the income distribution 18 per cent had a parent lose their job. This contrasts with 9 per cent for those residing in the top 20 per cent, compounding the inequalities in lockdown learning. These greater job losses among the parents of the least-affluent children, the greater unemployment and lower financial resources among young workers from the least-affluent families, and the greater skill depreciation among those same workers, will all serve to strengthen the link between economic origin and destination for the generation most affected by the economic fallout caused by Covid-19.

This briefing note, which forms part of the Economy 2030 Inquiry, documents the unequal impact of economic shocks on the young and assesses what these shocks mean for social mobility. The findings highlight the need for policies that are targeted towards the young, and particularly towards policies that prevent the already-strong link between young people’s economic origin and destination cementing itself further over the coming decades.

Young workers have borne the brunt of the economic fallout from Covid-19

The latest labour market statistics show a strong surge in the number of payroll employees, as the economy returned to normal towards the end of 2021. But there has, of course, been significant turbulence in the labour market since the onset of the pandemic.¹

The experience of workers since the onset of the pandemic has differed markedly according to their gender, their level of education, and whether or not they entered the

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¹ Office for National Statistics, Labour Market Overview, UK: December 2021
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'Covid era' as self-employed or employed. But one of the most striking differences has been between workers of different ages. Figure 1 gives an indication of the extent to which labour market losses since March 2020 have befallen the young rather than their older counterparts, using monthly Covid-19 waves from the 'Understanding Society' survey to plot the fraction of those employed in January 2020 who reported being out of work in the months after March 2020. It shows that, in each survey month, transitions out of work remained at a higher level for under-25s than for older workers.

FIGURE 1: Younger workers were much more affected by the labour market shock from Covid-19 in the first year of the pandemic

Proportion of respondents aged 18-to-64 employed in January/February 2020 who subsequently reported being out of work, by age

NOTES: All estimates are for those aged 18-64 who reported being employed at baseline (January/February 2020). Estimates are constructed using cross sectional survey weights also collected at baseline. Data were collected in April, May, June, July, September and November 2020, and January and March 2021. Remaining points are linearly interpolated.

Of those surveyed in January 2021, during the lockdown at the start of this year, around 16 per cent of those aged under 25 who reported being in work in January 2020 were out of work. The same number for those aged over 25 stood at just under 6 per cent. As the economy reopened through 2021, that gap fell. In the latest Understanding Society data, collected in March 2021, the absolute gap in employment to non-employment transitions

is back at the same level as it was in April 2020: 4 percentage points. This is in line with many other indicators that show that, as the economy reopened, the labour market hit from the pandemic tilted away from younger workers and towards older workers. But this relative recovery for younger workers should not make us forget the substantial differences in the incidence of job loss that occurred during the first 12 months of the pandemic.

The top panel of Figure 2 gives a more complete overview by plotting the fraction of under-25 respondents who were employed in January 2020 but have experienced a period of jobless since. Those aged under 25 are more than twice as likely to have reported a period of joblessness than those aged 35-to-54.

The results in the top panel are bad news for young workers. There is a wealth of evidence showing that individuals who enter the labour market in recessions, or those who suffer job loss early in their careers, suffer lower earnings than might be expected, both contemporaneously and in following decades. Disadvantaged groups and those with lower-level qualifications are known to be particularly susceptible to long-term scarring. Unemployment spells early in one’s career have been shown to carry wage penalties of between 13 and 21 per cent by the time one reaches age 42. These long-term negative effects of job loss are not confined to wages, but also extend to other determinants of labour supply and productivity such as health outcomes and – at the most extreme end of the spectrum – mortality. The main mechanism here is that spells out of work lower the future earnings potential of younger workers if their skills depreciate while they are out of work. This is particularly pertinent in a world where the technological requirements of work are changing constantly and where on-the-job skill acquisition is key to productivity.

But these results say little about how losses have been distributed within the under-25s. The bottom panel of Figure 2 exploits the longitudinal nature of Understanding Society and matches individuals with the income of the parents as recorded in earlier waves of the survey. The pandemic is likely to reduce relative mobility if labour market losses fall more heavily on those from less-affluent backgrounds. As can be seen from Figure 2,

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3 Recent evidence shows that the labour market for young people has not yet recovered. 6 per cent of women and 19 per cent of men aged 18-24, who reported having worked prior to the pandemic, reported not being in work (either furloughed, unemployed, or self-employed without work) in October 2021. See: M Brewer, C McCurdy & H Slaughter, Begin Again? Assessing the permanent implications of Covid-19 for the UK’s labour market, Resolution Foundation, November 2021.


the transitions into non-employment have overwhelmingly been among those from the least-affluent backgrounds: over 40 per cent of those who grew up in the bottom 20 per cent of the income distribution have made at least one transition into non-work since the first survey wave in April 2020, more than double the percentage of those brought up in households in the top 80 per cent of the income distribution.

### FIGURE 2: Young people from the poorest families were more than twice as likely as others to experience job loss in the pandemic

Proportion of respondents having recorded at least one transition into joblessness between January/February 2020 and March 2021, by age and family income quintile when growing up: age 18-to-64 (top panel), age 18-to-25 (bottom panel)

NOTES: All estimates are for those aged 18-64 who reported being employed at baseline (January/February 2020). Estimates are constructed using cross sectional survey weights also collected at baseline. Respondents aged under 25 are matched to the net household income quintile of their parents when the respondent was closest in age to 11.5. For joint matches, when respondents are matched at both age 11 and 12, the age 11 household income quintile is used.


The economic fallout has widespread implications for the young

The impact that Covid-19 has had on the labour market has been different from previous recessions. The widespread adoption of working from home, the highly unequal sectoral impact, and the radical measures – particularly the furlough scheme - taken by the Government to stem job losses mean that the recession, even at its peak, has looked little like the Great Recession of the late 2000s and the recessions that hit the UK in the
80s and 90s.10 Taken together, these differences mean that while we have seen a striking fall in output, there has not been a commensurate rise in unemployment.

Given this, will the shadow cast by Covid-19 over the careers of young workers be comparable with that cast in previous recessions? It is difficult to measure exactly the loss of human capital and work-related skills for those out of work. However, the Understanding Society survey does collect a number of variables that speak directly to the wider implications of Covid, two of which – subjective financial security and the battery of questions from the general health questionnaire (GHQ) – tell us something about how individuals might be affected over the medium- to long-term.

Figure 3 plots data for two representative waves of adults aged under 25: the first comes from the 2018-2019 period, and the second is from March 2021 (the latest wave of data available from Understanding Society). The figure shows the proportion of individuals who report that their financial situation can be thought of as comfortable, and it highlights a worsening of the financial security of the under-25s who grew up in the bottom 20 per cent of the income distribution. Of the sample of respondents in the 2018-2019 period, 64 per cent reported that they were ‘alright’ or ‘comfortable’ financially. This falls to 54 per cent when under 25s in the post-Covid-19 wave are considered.

This fall alone is not trivial, but the more striking finding is that the gap in subjective financial health between those originating from the poorest families and those from the most affluent has widened since the onset of the pandemic. This is in part driven by an increase in the proportion of those who grew up in the top 80 percent of households who now report financial comfort. A number of factors are likely to contribute to this discrepancy: the incidence of job loss, and the lost earnings pursuant to this, has been much higher among the least-privileged, and those who are the most affluent to begin with have had their spending reigned-in more due to restrictions on dining out, travelling, and other social activities.11 Together, this means that it was been the higher-paid who have been most likely to increase savings and the lower-paid who have been mostly likely to see debt rise.

And this leads to a more subtle linkage between the labour market and the future mobility prospects of the young. The consequential fall in income from the pandemic reduces levels of liquidity. Unemployed individuals who lack assets are less able to undertake (costly) reskilling, and less able to endure longer spells of job search in order to find a job match that is best suited for their skill set. For those displaced from

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their employers, this can lead to low-quality job matches as the unemployed rush to supplement their income with the first job offer that comes their way.12

**FIGURE 3:** Young people from the poorest families are more likely to report financial difficulties during the pandemic

Proportion of under-25 respondents reporting that their financial situation is currently ‘alright’ or ‘comfortable’, by quintile of family income as a child

NOTES: All estimates are for those aged 18-25. Respondents aged under 25 are matched to the net household income quintile of their parents when the respondent was closest in age to 11.5. For joint matches, when respondents are matched at both age 11 and 12, the age 11 household income quintile is used. Baseline estimates are taken from wave 10 of Understanding Society.


The mental health of the young has declined at a faster rate than that of their older cohorts

Skill depreciation is a well-known channel through which time out of work ‘scars’ workers, but there can be other mechanisms through which unemployment spells cause scarring. Time out of work can lead to poor mental health which in turn can affect productivity and even the ability to work at all.13 Understanding Society collects a series of questions – referred to as the GHQ – to detect psychological distress among participants.14 Figure


14 A detailed discussion of the GHQ can be found in M Hankins, The reliability of the twelve item general health questionnaire (GHQ-12) under realistic assumptions, BMC Public Health, 8, 2008.
4 plots differences in standardised GHQ scores across age groups before and after the onset of Covid-19. The differences in Figure 4 are shown relative to adults aged 18-to-25, with lower standardised scores corresponding to better mental wellbeing (across a number of measurements). The figure highlights that, although mental health appears to be better among older age groups even before Covid, the absolute size of the gap more than doubles, in standardised units, by March 2021. In other words, young people’s mental wellbeing has deteriorated at a greater rate than that of their older counterparts.

**FIGURE 4:** Age differences in well-being have widened in the pandemic, with younger people more likely to see mental health deteriorate

Standardised differences relative to those aged 18-to-25 on the 12 component GHQ score (lower scores indicate better well-being), by age

As mental health has no natural scale, it is difficult to interpret changes in mental health outcomes over time and across groups of individuals. In order to aid interpretability, Figure 5 shows responses to specific components of the GHQ for two sets of survey respondents split by age. Comparing outcomes across the two panels, one can see that the vertical bars are significantly higher for all four components for the under-25s in March 2021 compared to same-age respondents in the 2018-2019 period. Whether
it be a loss of confidence, feelings of worthlessness, problems overcoming difficulties, or feelings of unhappiness or depression, those aged under 25 are more likely to be suffering from these issues since the onset of Covid-19.

FIGURE 5: Young people were particularly likely to report problems overcoming difficulties, or believing that they were worthless

Proportion of respondents reporting to be doing either worse or much worse than usual on the relevant subcomponent, by age

NOTES: Baseline estimates are taken from wave 10 of Understanding Society covering 2018 to 2019. Estimates are weighted using cross-sectional weights

It is not only young workers whose prospects have been affected by the labour market disruption caused by Covid-19

Job loss and reductions in earnings have the potential to affect not only young workers, but also those currently in education. Research is beginning to uncover a strong and robust link between the job loss of parents and child outcomes such as grade retention, college enrolment, and attainment in school. The Economy 2030 Inquiry | Social Mobility in the Time of Covid 2030.resolutionfoundation.org

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But, again, the data can be split by the household income of the parents to get a better idea of which parents have been most at risk of job loss. Figure 7 pools together data from all of the Covid waves in Understanding Society and plots the fraction of parents who have transitioned out of employment at any point since April 2020, broken down by the age of their children and their household income quintile as in wave 10 of Understanding Society (i.e. pre-pandemic). The top panel is motivated by research showing that the relationship between child development and income varies by age, and the bottom panel looks at the relative mobility implications of parental job loss. There is little relationship between children’s age and the likelihood that their parents experienced job loss, but there is a strong socioeconomic divide. Children who lived in families in the bottom 20 per cent of the (pre-pandemic) household income distribution are twice as likely to have had a respondent parent lose their job as those residing in the top 20 per cent. In line with earlier evidence looking at the socioeconomic gradient in job loss among under 25s, the large discrepancy here is between those at the bottom and the rest, with job losses among parents in the middle of the income distribution being similar to job losses among those at the top.

NOTES: Parents are those with a child aged 17 or below in the household in the relevant wave. Estimates are constructed using cross sectional survey weights also collected at baseline. Data are collected in the periods April, May, June, July, September, and November 2020 alongside data in January and March 2021. Remaining points are linearly interpolated.


FIGURE 7: Children who lived in families in the bottom 20 per cent of the household income distribution are twice as likely to have had a respondent parent lose their job as those residing in the top 20 per cent

Proportion of children aged under 18 having recorded at least one incidence of parental job loss between January/February 2020 and March 2021, by age and quintile of family income

NOTES: Parents are those with a child aged 17 or below in the household in the relevant wave. Estimates are constructed using cross-sectional survey weights also collected at baseline. Baseline income quintile is calculated from household income in wave 10 of Understanding Society using household weights and OECD equivalence scales. Should wave 10 data be missing, parents are matched with a record in wave 9. SOURCE: Analysis of Understanding Society Covid waves 1-8.

The job losses among parents at the bottom of the income distribution are particularly worrying when set against findings elsewhere that highlight how the poorest children have lost more schooling than their more affluent peers since April 2020.\textsuperscript{17} The net effect of economic turbulence in the home and fewer learning resources during periods of school closure are already being felt among the least privileged students in the UK, with initial evidence suggesting that disadvantaged pupils lost about half a month more learning than non-disadvantaged pupils in secondary reading, and around a month more learning in mathematics at the primary school level.\textsuperscript{18}

\textsuperscript{17} L Elliot-Major, A Eyles & S Machin, Unequal learning and labour market losses in the crisis: consequences for social mobility, CEP discussion paper, 1748, February 2021.

\textsuperscript{18} Department for Education, Understanding Progress in the 2020/21 Academic Year, October 2021.
The size and distribution of the labour market shock from Covid are likely to bear down on relative and absolute measure of social mobility

The findings set out in this note all suggest there are good reasons to think that Covid-19 will have worsened absolute and relative measures of social mobility.

Here, absolute mobility relates to whether individuals are better off (in some sense) than their parents were at the same age (and is related to discussions of intergenerational inequalities). Our findings that young people are more likely to have suffered labour market disruption than older workers, combined with the widespread disruption for those in education, all give compelling reasons to think that Covid-19 will have led to a permanent reduction in the earnings potential of younger cohorts. Relative mobility, on the other hand, is often measured as the strength of the relationship between the income of one's parents and one's own position in the income distribution. Here, it is the unequal nature of the shock among children and young adults that is bearing down on mobility, with poorer children more likely to be affected by parental job loss, and young adults who grew up in poorer families more likely to be affected by labour market disruption and experiencing financial distress. These both give very strong reasons to think that Covid-19 has increased future inequalities in labour market outcomes of these younger cohorts, and has strengthened the link between family background and an adult’s own outcomes. And the findings in this note come on top of evidence suggesting that mobility in the UK may well be falling over time, and is low compared to other OECD countries.

How should policy makers respond? The effects of scarring are known to be much smaller for those who avoid falling into repeated spells of joblessness and long term-unemployment, and so the policy response to the pandemic should aim to prevent years of precarious employment for the young, often disadvantaged, individuals who have been affected the most by Covid-19. And there is ample room for improvement when it comes to increasing labour market efficacy. The UK performs poorly when it comes to ‘skills mismatch’ in the workforce. Greater opportunities for adult training and reskilling can be created by simplifying an overly complex vocational training and apprenticeship system. Firms in expanding sectors of the economy can also be incentivised, via human

19 For an alternative perspective where class occupational measures are used see: E Bukodi & J Goldthorpe, Social Mobility and Education in Britain, Cambridge University Press, December 2018.
20 For changes over time, see: J Blanden, S Machin & S Rahman, Generation gap: young Britons less likely to do better than their parents, Centre Piece, 24(3), Autumn 2019. For comparative evidence, see: A Broken social elevator: How to promote social mobility, OECD, June 2018.
21 Getting skills right: United Kingdom, OECD, November 2017.
22 See, for example, the recommendations in: House of Lords, Skills for every young person, Youth Unemployment Committee, Report of Session 2021–22, HL Paper 98, November 2021.
capital tax credits, to take on new workers and provide them with the training they need. By better aligning the skills that young workers have with the needs of a fast-changing labour market, persistent bouts of joblessness can be avoided, and labour market scarring can be minimised, for those hit the hardest by the pandemic.
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The Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics. It is funded by the Nuffield Foundation.

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