

# COVID-19 summary of external research

January 2021

*This newsletter series presents a digest of external research that the Greater London Authority is making available for the benefit of external stakeholders in tackling the COVID-19 crisis. These summaries have been prepared under challenging circumstances and to short timescales. They are not intended to be comprehensive and exhaustive and they do not represent the full body of evidence on which Mayoral Policies are or will be based.*

## 1 Introduction

The City Intelligence Unit's newsletter highlighting key external research to support the COVID-19 response and recovery is back after the Christmas break.

Some important topics highlighted below include: the effectiveness of COVID-19 restrictions to reduce the reproduction number; macro-economic scenarios for the UK economy; the impact of COVID-19 on productivity, on low-paid workers, on the future of work, and on local government finances; specific challenges for London on unemployment, and on its population growth; and how the COVID-19 pandemic will affect the levelling-up agenda.

## 2 Summary of external research

A key question that a number of commentators have grappled with over the past few months is the **relative effectiveness of alternative COVID-19 restrictions**. A [recent econometric study by Asian Development Bank economists](#) published in *Covid Economics* on 7<sup>th</sup> January seeks to provide an evidence-based answer to this question using panel data from a large number of countries. They find that the largest reductions in  $R_t$  (the reproduction number) are driven by gathering bans and school closures, followed by use of masks, mass testing, and workplace closures. Considering the impacts on GDP associated with workplace and school closures, the paper highlights the importance of moving beyond these measures to more targeted strategies.

Closer to home, a few organisations such as the [Resolution Foundation](#), [PWC](#) and the [IMF](#) have published **scenarios for the UK economy** in the wake of the further restrictions introduced from November onwards. None of them reflects the impacts of the third national lockdown just yet, but still they predict a rather more modest return to GDP growth in 2021 than most other scenarios published towards the end of last year. The latest World Economic Outlook by the IMF expects growth of 4.5% (down from a previous estimate of 5.9%) only climbing to 5% in 2022.

One of the most debated issues in terms of long-term economic growth performance is the **long-term impact of the current crisis on productivity**. In a recent working paper, economists at the [Bank of England](#) look at this question from the perspective of multi-factor productivity (i.e., a measure of

productivity that adjusts for changes in quality of labour and in availability of capital stocks). Based on a large monthly firm panel survey, they estimate that COVID-19 will reduce this measure of productivity in the private sector by up to 5% in 2020 Q4, falling back to a 1% reduction in the medium term. The longer-term scarring – they argue – is due to reduced R&D investment and to managers' time being diverted towards dealing with the pandemic.

Back in December, an article in the [Economist](#) had painted a more positive picture and pointed to the possibility of a **post-pandemic productivity boost**, partially driven by automation/AI and by the efficiency benefits of cloud technology/remote working. However, the article's authors noted that this would require complementary investments by the public sector (e.g., digital infrastructure, skills).

Whatever the future outlook for productivity and economic growth, a number of recent reports have once again highlighted the severe **socio-economic consequences of the pandemic**. As the [Joseph Rowntree Foundation](#) noted in their *Destitution in the UK 2020* report, destitution was showing rapid growth in scale and intensity even before the pandemic. Meanwhile in a new year message highlighting its interim findings, the [IFS Deaton Review on inequalities](#) highlighted the stark impact that COVID-19 has had in exacerbating inequalities among different groups in society when looking at impacts by job remuneration and employment status, geography, ethnicity and age, as well as increasing inequalities in education.

Low-paid workers are also likely to be disproportionately affected by the current lockdown. An Institute for Employment Studies report, [Laid Low](#), finds that in this current lockdown it is likely that around two thirds of low-paid workers – or four million people in the UK – are either temporarily laid off or working fewer hours than normal. This is double the rate of work disruption for staff who are not low paid. Employment loss has been driven by falls in a range of lower-paying jobs – particularly in food services and manufacturing, hospitality, residential care and construction.

In a more forward-looking report, the [Resolution Foundation's Living Standards Outlook 2021](#) looks at the impact of the Government's support on incomes over the last year and how things might be expected to change over the next year, focussing on the withdrawal of the Universal Credit uplift and how that would affect the overall income distribution and levels of relative poverty. It concludes that a living standards recovery in the next few years depends on timing the withdrawal of economy support closely to the easing of public health restrictions, a strong fiscal stimulus, and moving a post-Brexit and post-Covid UK onto a path of faster productivity growth.

Also looking at the future, but in terms of the impact of new technologies from a workers' perspective, the [Commission on Workers and Technology](#) published their final report in December. This was a joint research initiative from Community and the Fabian Society hosted by the Changing Work Centre. They found that the COVID-19 crisis is accelerating the take-up of job-replacing technologies, with a disproportionate impact on low-skilled workers. However, they go on to make a series of recommendations to turn risks into opportunities, including a major overhaul of adult training and skills to help workers adapt.

The crisis will also continue to impact **local government finance**. In their latest look at this issue, the [IFS](#) concludes that the extra COVID-19 funding being provided by the Government to Local Authorities for 2021 does not look unreasonable if the impacts of the pandemic largely recede by summer as the vaccination programme rolls out. At the same time, it warns that greater pressures may emerge in subsequent years due to the long-term impact of the crisis on demand for local services, which points to a funding gap unless there are large increases in council tax and/or additional government funding or devolution of revenue streams to councils.

It is also clear that the crisis continues to raise particular **challenges for London**, with the latest [GLA Economics Labour Market Update](#) pointing to unemployment in London increasing faster than across the

UK, with London also registering the single largest fall across the UK's nations and regions in the number of paid employees based on HM Revenue and Customs data.

There has also been a lot of coverage in the media recently about a possible large fall in the population of London. The first wave of [stories](#) followed the publication of PwC's [2021 Economic Outlook](#), which suggested that London's population could be on course to fall by as much as 300,000 in a year.

A week later saw a second wave, following the publication of an ESCoE [blog post](#), which suggested that an even more dramatic fall – as much as 700,000 – may have already occurred by September 2020. While both pieces illustrate many of the possible negative effects that the pandemic and Brexit may have on the city's population growth, in each case the authors rely on less than ideal data and methods to try and quantify the impact. A recent ONS [blog post](#) highlights some of the challenges faced in trying to quantify the impact of the pandemic on the UK population.

The [Barlett Annual Review](#) asks the question 'will COVID-19 cause a big city exodus?'. In trying to answer this question, Max Nathan considers many of the same issues as the PwC and ESCoE reports, finding that the implications for the future of cities remain far from certain, and that much still hinges on how effectively cities and institutions respond and adapt to the current crisis.

Richard Brown (Centre for London) and Mark Kleinman (King's College London) argue in an [On London](#) blog piece, that the emerging impacts of COVID-19 in London place a particular spotlight on the need for public policy to help rebuild the capital's strength and therefore, ultimately, the UK's strength.

Across the UK the [Cities Outlook 2021](#) just published by the Centre for Cities concludes that COVID-19 has made **levelling up** at least four times harder. There is also a real new risk of 'levelling down' for some places in the South because their dominant local industries have been particularly badly hit. In London, while there has been a big impact on retail and hospitality in the centre, the authors find that this appears to be linked to the large share of jobs than can be done from home and that activity should start coming back once people return to the office (although it is worth noting that loss of tourism is likely to have had a much bigger impact on expenditure in the Central Activity Zone, as highlighted by [GLA Economics analysis](#) published in October).