

Launching an economic lifeboat

The impact of the Coronavirus Job Retention Scheme

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Daniel Tomlinson

Today marks the opening of the Coronavirus Job Retention Scheme (JRS), a scheme entirely without precedent in the UK. Its primary objective is to share the economic pain of this crisis by keeping unemployment much lower than it otherwise would have been. Indeed, although we estimate that non-working could increase by as much as 11.7 million in Q2 2020, this is heavily tilted towards use of the JRS (8.3 million employees). Unemployment could still rise sharply to 3.4 million (10 per cent) in Q2 2020, but because of the JRS it will not reach catastrophic levels.

This note examines where in the labour market the impact of this crisis will be most acutely felt, setting out sectoral breakdowns of JRS take-up and increased unemployment. We find that it is employees in the lowest-paying hospitality and retail sectors who are most likely (50 per cent more than average) to be affected. As many as 3.1 million employees (46 per cent) in these sectors could be furloughed, with an additional 800,000 workers in this part of the economy becoming unemployed. In contrast, only 4 per cent of those working in the highest-paid sector, finance and insurance, are likely to be furloughed.

The scheme's higher-than-expected scale means that the JRS is now central to both combatting and understanding this crisis. It is important that the Government publishes regular data on scheme processing, take-up and payments, as well as considers carefully how the scheme could be improved to support the economy further.

Take-up of the Coronavirus Job Retention Scheme is much higher than initially anticipated

The Coronavirus Job Retention Scheme (JRS) will be launched today, on 20 April 2020. The JRS is central to the Government's response to this crisis, and so understanding the likely scale of its impact on different sectors of the economy and on the public finances is crucial.

From today, businesses will be able to apply to have the 80 per cent of the wages of furloughed employees (up to a cap of £2,500) paid by the Government. As well as minimum employer pension contributions (of 3 per cent for eligible auto-enrolled employees), the

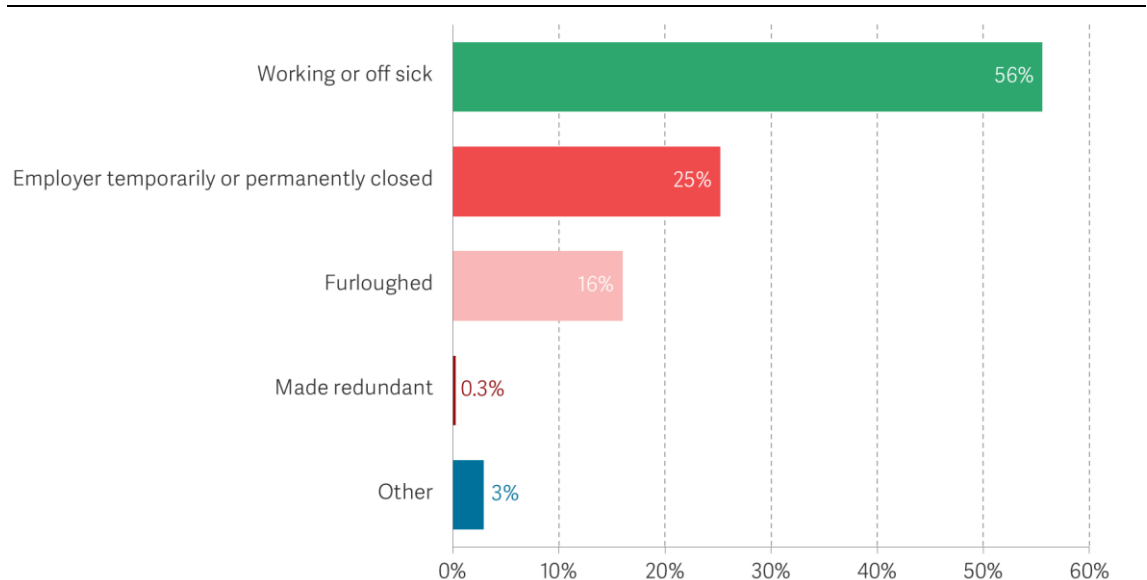
Government has also committed to paying employer National Insurance. Employees will still pay Income Tax and employee National Insurance on their furloughed wage.

The JRS now looks to be even more integral to the Government's response to this economic crisis than first anticipated. Our own estimates based on the limited survey evidence available to-date, as well as the Office for Budget Responsibility's (OBR's) estimates, point to take-up being much higher than the three million [reported](#) as the Treasury's initial assumption.

For example, results from the latest Office for National Statistics (ONS) business survey, conducted over the two weeks to 5 April 2020, imply that over eight million people (41 per cent of private sector employees) may make use of the scheme, if all employees at closed businesses are furloughed rather than made unemployed.

Figure 1 **Four-in-ten employees have been furloughed or work for a temporarily closed employer**

Status of private sector workforce: UK, 23 March 2020 to 5 April 2020



Notes: These figures are compiled from a survey of a large cross-section of the UK business population, with 5,316 businesses responding. Although they have not been weighted to accurately reflect responses by employer size, they are the most reliable source of information on firms' actions in relation to the JRS available to date.

Source: RF analysis of ONS, Business Impact of Coronavirus (COVID-19) Survey (Wave 2), 16 April 2020.

Surveys of business intentions also point to high levels of take-up. Resolution Foundation analysis of a recent British Chambers of Commerce [survey](#) found that firms were intending to furlough 48 per cent of private sector employees. The Chartered Institute of Personnel and Development (CIPD) [found that](#) 52 per cent of businesses are planning to make use of the JRS.

As many as 11.7 million people could be furloughed or unemployed in the coming months

Although the JRS will substantially limit the growth of unemployment, the evidence is clear that the scale of unemployment increases over the coming weeks will still be

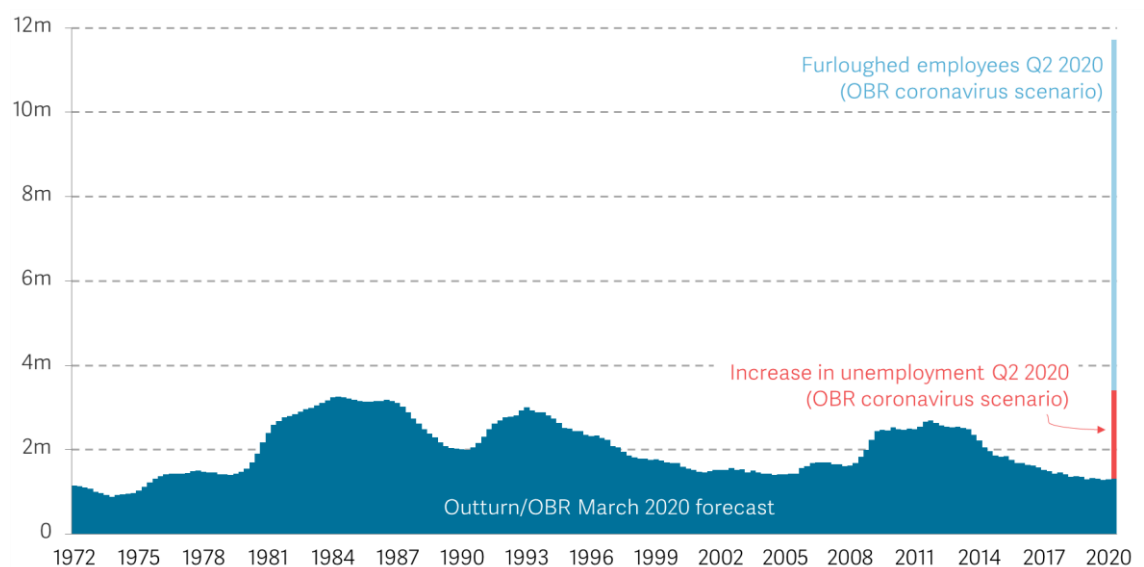
unprecedented. A staggering [1.4 million people have made a new claim to Universal Credit](#) (UC) in the past four weeks alone (around 240,000 claims being the usual amount over the same time period). Some of these claims will be from those who are still working but have experienced large hours reductions (or whose pay has fallen due to being furloughed); others will be applying due to heightened uncertainty at the present time. But most new claims will be a product of moves into unemployment.

The OBR's coronavirus reference scenario forecasted that unemployment would rise by 2.1 million between Q1 2020 and Q2 2020. This would push the unemployment rate to 10 per cent (above the post-financial crisis peak of 8.5 per cent), and implies a total of 3.4 million unemployed people in the coming months, a higher number than was even reached in the early 1980s.

Figure 2 shows this increase in unemployment alongside estimates for JRS take-up of 8.3 million in Q2 2020. This figure is broadly in line with both the [Resolution Foundation's estimates](#) of JRS take-up, and the OBR's judgement in their coronavirus reference scenario that one-third of employees could be furloughed. Taken together, these figures imply that a total of 11.7 million people could be either unemployed or furloughed in this quarter.

Figure 2 **Over 11 million people could be unemployed or furloughed over the next three months**

Unemployment level and furloughed employees, outturn and various forecasts: UK



Source: RF analysis of OBR, Economic and Fiscal Outlook, March 2020; OBR, Coronavirus reference scenario, April 2020.

In the absence of the JRS, an unemployment avalanche would be taking place right now. Unemployment might not have reached the heights of 11.7 million in Q2 2020, but would have certainly been elevated significantly above the 3.4 million projected in the OBR's scenario.

It almost goes without saying that such a counterfactual would have been very harmful, both to the millions of additional unemployed people and to the broader economy. In the short

term, extra unemployment would not only have led to more families suffering very large hits to their living standards, but would have also acted to deepen the hit to GDP via households' spending power.

In the longer term, a key aim of the JRS is to speed up the economic recovery as restrictions are lifted, by keeping employees attached to employers. The costs of the extra time taken to search for, apply for, and enter work, and of delinking acquired skills from the roles in which they are productively used, are very large. In minimising these costs, the JRS will play an important part in speeding up the recovery, as well as limiting the depth of the downturn.

Unemployment and use of the furlough scheme is set to be concentrated in some lower-paying sectors

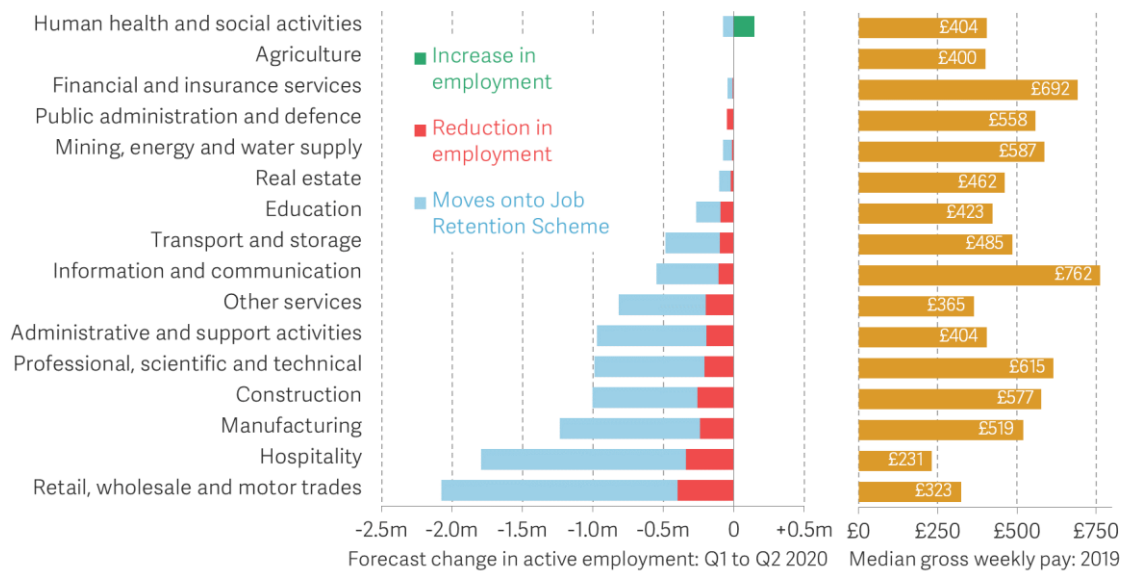
Having set out the unprecedented scale of the increase in non-working that could be taking place across the UK right now, we turn here to providing estimates of how this shock is spread across the sectors of the economy.

Our analysis of the OBR's coronavirus reference scenario reveals the extent to which unemployment increases and JRS take-up differ across sectors of the economy. This is based on the simplifying assumption that changes in output provided by the OBR map onto employment changes in a uniform way across sectors, and that the propensity to make use of the JRS (as opposed to workers becoming unemployed) is also uniform across sectors (see notes to Figure 3 for more detail). This latter assumption does not account, for example, for the greater threat of firms in some sectors like hospitality going bust altogether during this crisis than firms in other sectors, as implied by [earlier ONS business survey data](#).

The results of this analysis provide a clear indication of which parts of the economy and which people might be most affected by this seismic economic shock. One key finding is that 'active' employment could fall by almost four million in hospitality and retail, with 3.1 million employees in these sectors (46 per cent) paid through the JRS in Q2 2020 and an additional 800,000 employees becoming unemployed. Almost four-in-ten of all furloughed employees could be from these two sectors alone, sectors which account for one-quarter per cent of private sector employees in normal times. In other words, employees in hospitality and retail are 50 per cent more likely to be furloughed than average.

As Figure 3 shows, these are the two lowest-paying parts of the economy, with typical employee pay in 2019 in hospitality of just £231 a week (£8.20 an hour) and typical weekly pay in retail, wholesale and motor trades only £323 a week (£9.24 an hour). For comparison, typical pay across the whole economy is £455 a week (£12.16 an hour). Low pay is linked with lower levels of savings, and so this finding – that the lowest-paid sectors are some of the most affected by this crisis – brings home the importance of the JRS. For example, almost two-thirds of low-to-middle income families in the UK [have no savings at all](#). Insulating these families from the big income shock of a job loss is very important indeed.

Figure 3 **Some of the hardest-hit industries employ the lowest-paid people**
 Forecast change in active employment and level of median gross weekly pay (2019), by industry: UK



Notes: Changes in output by sector published in the OBR’s ‘Coronavirus reference scenario’ are used to estimate changes in employment and moves onto the JRS. This involves the simplifying assumptions that output maps onto employment in the same way across sectors, and that the propensity to make use of the JRS is also uniform across sectors. Implied changes in Workforce Jobs from OBR output changes are scaled to match the OBR’s totals for JRS take-up and the unemployment increase in Q2 2020. Alternative output reductions are used for the education and health sectors, where output changes are very unlikely to reflect employment changes. In education, rather than a 90 per cent fall in output, a 20 per cent fall is assumed. In health, rather than a 50 per cent increase in output a 20 per cent increase is assumed. JRS assumptions in health are predicated on a 5 per cent fall in output among non-public sector health employees.
 Source: RF analysis of OBR, Coronavirus reference scenario, April 2020; ONS, Workforce Jobs (JOBS02); ONS, Public sector employment by industry (EMP03).

There is by no means a direct relationship between pay in each industry and the magnitude of the fall in active employment implied by the output falls in the OBR’s scenario, but it is striking that some of the hardest-hit sectors are the ones with the lowest-paid employees. At the other end of the pay distribution, the analysis presented in Figure 3 implies that only 4 per cent of those working in the highest-paid industry, finance and insurance, will be furloughed.

The Coronavirus Job Retention Scheme may well have the largest fiscal cost of any intervention

The high take-up of the JRS means that it is likely to be the component of the Government’s coronavirus response measures with the largest fiscal cost. The OBR estimates that it could cost in the region of £42 billion over three months, with take-up of 8.3 million.

Resolution Foundation estimates of the cost of the scheme are similar. We estimate that with take-up of between seven million and 10 million over three months, the scheme could cost between £30 billion and £40 billion in gross terms. Tax is to be paid on furloughed wages as normal and the JRS will mean lower benefit spending too, so the net cost to the Exchequer of the scheme will be at least one-third lower than this. Further, if some

restrictions are lifted sooner than three months and businesses find ways to adapt to the new world of social distancing, many workers could spend less than three months being paid through the JRS and the costs of the scheme could fall commensurately.

However, [evidence from past pandemics](#) suggests that social distancing measures could be in place for much longer than three months. Although not necessarily of the same intensity as those currently in place, restrictions on business activity and individual movement could well be the norm for many more months to come.

Already, the Chancellor has [extended the JRS to the end of June](#), and has committed to doing whatever it takes to support people and firms through this crisis. At the current assumed run-rate, an extension of the scheme by an extra month could lead to an additional £12 billion being spent (in gross terms) if 8.3 million workers are furloughed for the full additional month. More likely is a scenario in which, with some social distancing measures lifted, a smaller number of businesses use the scheme for less than the full month. Regardless, this extension is further evidence that doing “whatever it takes” doesn’t come cheap.

The Government needs to provide regular updates on scheme take-up

The significance and expense of the JRS means that it is important that the Government provides regular updates on the scheme’s take-up, processing and payments. This data is necessary both because it will allow us to know how the scheme is operating, but also to aid understanding of the nature – and severity – of the crisis we’re experiencing.

Data on the number successful payments made, the number of employee beneficiaries and the total cost of the scheme will all be important, and should be published regularly by the Government through the gov.uk website.

[The Treasury has said](#) that future decisions on the scheme will be informed by the need for “responsible management of the public finances”. Any decision to change the scheme to this end, for example through a reduction in the cap or the 80 per cent replacement rate below this, will be made much easier if a well-informed public debate on its costs has taken place. Just as information is key in informing how to respond to a health crisis, so is it integral to good decision making in an economic crisis.

There’s a strong case for extending the scheme to cover shorter-hours working

At present, the JRS only supports those entirely ceasing work for their current employer. This follows on from the scheme’s primary aim of reducing unemployment and maintaining the match between employees and firms. But this consideration shouldn’t prevent the JRS from being used to provide further support to individuals and the wider economy.

The lack of provision for those facing reductions in working hours, which [survey evidence suggests](#) is taking place in almost 30 per cent of businesses, risks deepening the economic contraction by providing a strong incentive for workers to stop working altogether in order to

benefit from the scheme. If extending the scheme to cover shorter-hours working leads to increased costs, then the Government could consider a reduction in the replacement rate from its current 80 per cent level or a lowering of the generous £2,500 monthly cap.

Conclusion

On the day of its launch, the scale and significance of the Coronavirus Job Retention Scheme should not be overlooked. This necessary and sizeable intervention has undoubtedly already acted to stave off an avalanche of unemployment, even if we are still on course for the unemployment rate to climb as high as 10 per cent in Q2 2020. It's important, too, that the sectoral nature of this crisis, and the JRS's role in it, are well understood. Rising unemployment and high take-up of the JRS are likely to be concentrated in lower-paying parts of the economy, such as hospitality and (non-food) retail. Focus must also remain on the scheme's implementation and impact, which will only be possible via regular publication of government data on its use. Design improvements must be considered too; the best lifeboats make room for as many people as is practically possible.