Resolution Foundation

The Winter (Economy Plan) is coming

Chancellor ramps up economic support, but avoidable design flaws will limit its success in stemming a rise in unemployment

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Yesterday, economic policy caught up with the tighter social distancing restrictions announced earlier this week. The Chancellor introduced welcome new measures rather than sticking to plans to phase out help for workers and firms. His most significant policy was the Job Support Scheme (JSS), an extended, reformed and rebranded version of the existing partial furlough policy. Where firms choose to use it, this will provide very significant income protection for workers brought back for more than one-third, but less than all, of their usual hours of work.

But while the JSS will temper the coming rise in unemployment, it will far from halt it. Indeed, the policy has significant design flaws that could compromise its stated objective of ensuring as many people as possible keep working in 'viable jobs'. The requirement that employers fund half of the costs of the scheme means the incentives are strong for many firms to cut jobs rather than hours. Critically, this is particularly true in low-wage, high-employment sectors such as hospitality and leisure that are at the centre of the unemployment crisis we currently face. The Job Retention Bonus (JRB) offered to employers that retain furloughed workers until the end of January will help overcome some of these challenges. However, the JRB is poorly targeted and simply moves the jobs 'cliff edge' from October to early next year. The Chancellor should scrap the JRB and use the £7.5 billion earmarked for that scheme to ensure that employers do not need to make a material contribution to the costs of the JSS, increasing uptake and ensuring more people are able to keep doing some work and having their incomes protected.

With unemployment rising, households are starting to feel the living standards hit that government policy has, thus far, done an impressive job of protecting them from. Those losing their jobs this winter and moving onto Universal Credit (UC) will see far bigger income falls than when furloughed. As things stand, that will be deepened by plans to reduce the level of Universal Credit by £1,000 next April. The grim reality is that on the economic as well as the health side, this crisis is here to stay for some time to come.

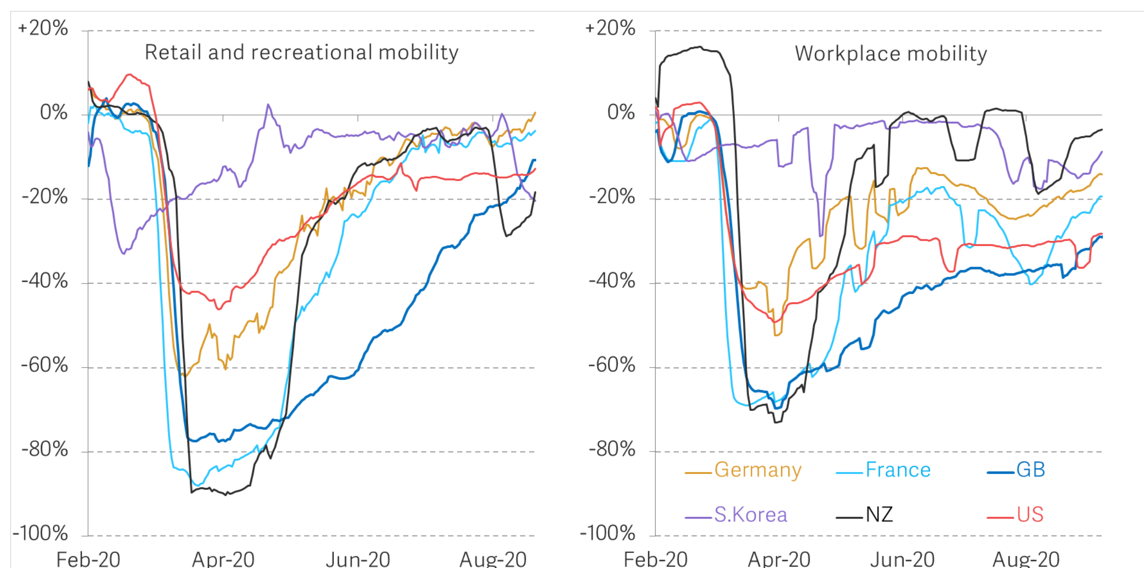
Yesterday the Chancellor brought economic policy back in line with the reality of a sharp rise in coronavirus cases and introduction of tighter social-distancing restrictions with his hastily-arranged Winter Economy Plan. In this note we briefly look at the economic context for the new measures announced yesterday, before providing a detailed evaluation of their likely impact.

Wishful thinking about a 'V'-shaped recovery is fading rapidly

The summer saw fast rebounds of economic activity from the extreme lows of lockdown, with output in July up nearly 20 per cent relative to its trough in April (although is still 12 per cent down on its pre-pandemic level), overall retail sales recovering strongly after the sector reopened fully in July, and the hospitality sector boosted by the Eat Out to Help Out in August. The over-optimistic talk of a full 'V'-shaped recovery this triggered was always misplaced and has faded fast in recent weeks in the face of evidence that the recovery has stalled while the virus caseload has risen. This week's Purchasing Manager Indices – a key short-term growth indicator – showed a slowing between September and August. Short-term activity indicators – such as the Google mobility data (Figure 1) – suggests that activity levels have stalled well short of previous norms.

Figure 1 **Improvements in mobility had stalled even before social distancing restrictions were reintroduced**

Change in Google mobility trends to places of work (per cent deviation from normal, seven-day moving average): selected countries, since 15 February 2020



Notes: The chart displays aggregated, anonymised data to chart movement trends over time by geography, across different high-level categories of places such as retail and recreation, groceries and pharmacies, parks, transit stations, workplaces, and residential. Location accuracy and the understanding of categorized places varies from region to region. Google recommends not using the data to compare places with different characteristics. The baseline is the median value, for the corresponding day of the week, during the 5- week period 3 January – 6 February 2020.
Source: RF analysis of Google, Community Mobility Reports.

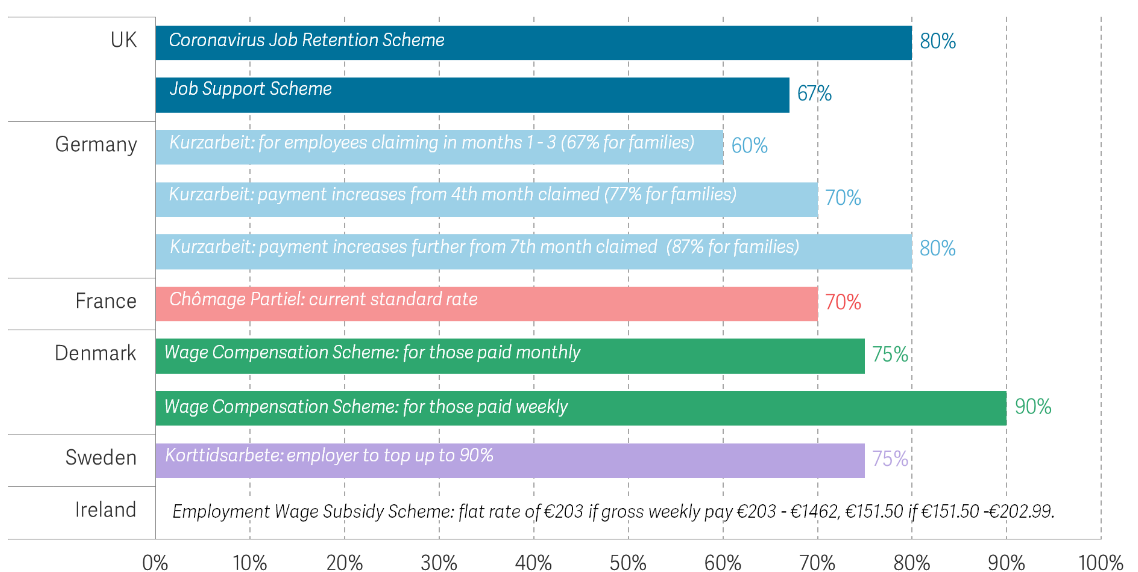
But it is the rise in the virus case load and this week's introduction of new social distancing restrictions, more than individual items of economic data, that have forced the Chancellor to change the nature and timing of his economic policy making. Rightly judging that you can't ramp back up social distancing restrictions while pushing ahead with plans to phase out economic support, the Chancellor has shelved plans for a full Budget in November, replacing it with the Winter Economy Plan he set out yesterday.

The new Job Support Scheme builds on the partial furlough policy

The cornerstone of the Chancellor's Plan is the new Job Support Scheme (JSS), an initiative which will come into operation in November 2020. While this was presented as a wholesale replacement for the Job Retention Scheme (JRS), the JSS is in reality a six-month extension of the 'flexible furlough' element of the JRS that allows employees to return to work for fewer hours than they usually work with government paying elements of their wages for the hours not worked. There are, however, significant changes to its operation. It will be open to all SMEs as well as large firms that can demonstrate losses as a result of the pandemic, and is due to run until end-April 2021 giving businesses some welcome certainty over the winter months. Under the scheme, employees must be working at least one-third of their usual pre-coronavirus hours to be eligible for support. In this respect the JSS is similar to policies in some other European countries (see Figure 2).

Figure 2 **The Job Support Scheme is marginally less generous than short-time work schemes in other European countries**

Gross replacement rates of government short-time work schemes: various, 2020



Notes: Increased payment for 'families' under Kurzarbeit relates to workers with one or more dependent children living in their household. Danish scheme relates to the wage replacement costs for firms likely to make over 30 per cent of their employees redundant.
Source: HM Treasury, Winter Economic Plan; Institute for Government, 'Coronavirus: how have different countries supported workers through the crisis?'; Bundesministerium für Arbeit und Soziales, 'Erfolgsmodell Kurzarbeit wird verlängert', 16 September 2020; Service-Public.fr, 'Chômage partiel : quels seront mes revenus?', 31 August 2020; Revenue.ie, 'Employment Wage Subsidy Scheme', 22 September 2020.

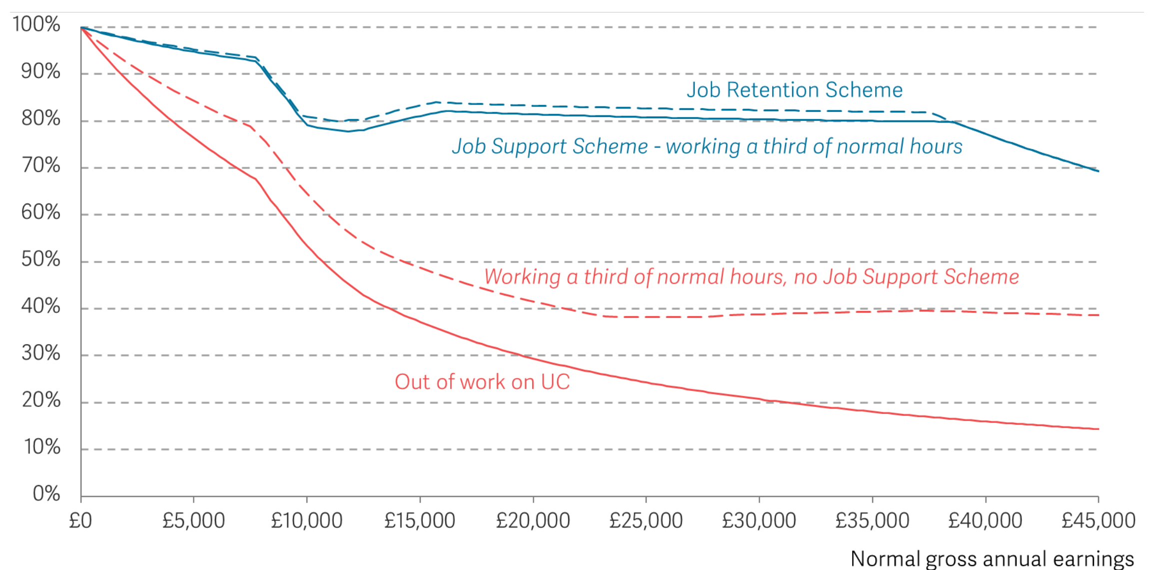
It is important to consider the impact of the scheme distinctly for employees and employers, because while the scheme provides significant protection for employees able to benefit from the scheme, they are only able to do so if the incentives for employers lead to them actually using it. From the employees' perspective the JSS ensures that for every pound of their usual salary that a worker forgoes due to working short hours, they will receive 67p in support. This puts the JSS broadly in line with generosity of schemes in other countries when it comes to the level of income protection it provides workers.

For employees on to the Job Support Scheme, the level of income protection remains generous – and much greater than they would receive on Universal Credit

By continuing to pay workers two thirds of their wages for the hours they do not work, the JSS will provide at least a similar level of income protection as under full furlough in the JRS, as Figure 3 illustrates. The key difference for the employee is that they will now have to work at least a third of normal hours for that income. Workers doing a majority of their previous hours will actually see a higher net income on the JSS than when *fully* furloughed on the JRS.

Figure 3 **For those that get it, the Job Support Scheme will provide as much income as the Job Retention Scheme**

Income replacement rates for a single person home-owner without children, under the existing Job Retention Scheme, or working a third of their normal hours with and without the Job Support Scheme, or out of work, by pre-coronavirus earnings: UK, 2020-21



Notes: Modelled on the Universal Credit system, where adult is aged 25 or over.
Source: RF analysis using the RF microsimulation model.

The difference between unemployment, or working fewer hours without the scheme, and being on the JSS is very stark. A single adult homeowner earning £20,000-a-year who loses

their job also loses over 70 per cent of their net income, compared to 58 per cent if they saw their hours cut by two thirds without the JSS. This compares to a fall in income of just 19 per cent if they work a third of their previous hours and are supported by the JSS.

As ever families with children will tend to have higher replacement rates, but the same major improvement in income protection for workers placed on the JSS rather than losing their jobs or simply having their hours cut remains very clear. For a low-income dual-earner home-owning couple with three children, if one adult lost their £20,000 per year job, the family would lose over 30 per cent of their household income. If instead the adult moves onto the JSS, working a third of their previous hours, their household income will fall by just 8 per cent.

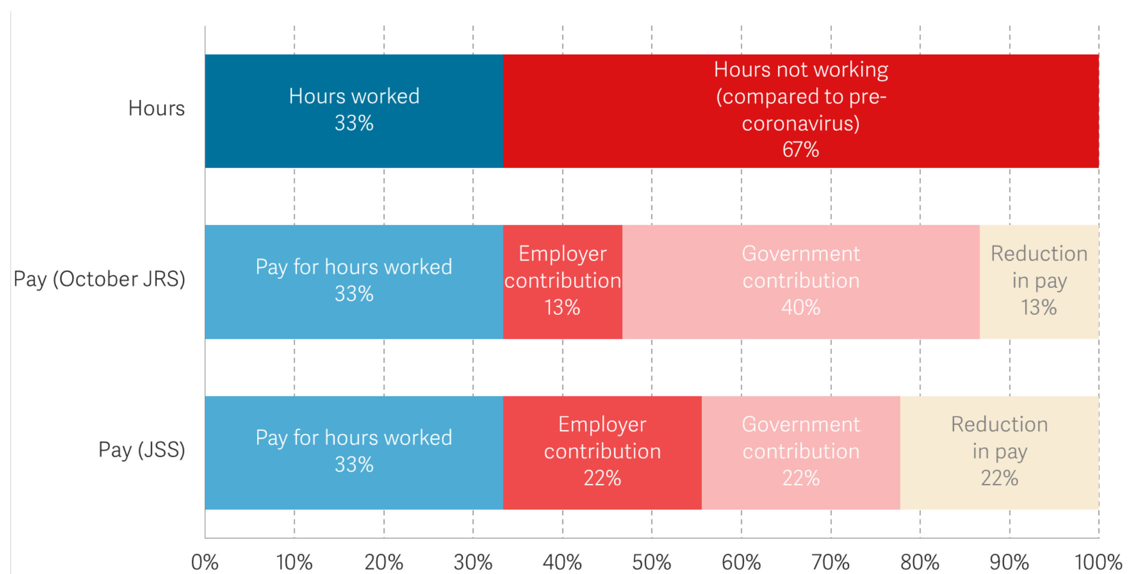
While the Job Support Scheme remains generous for employees, it is much less so for employers

While the JSS offers significant income protection to workers that are placed on it, that will only happen if employers use the scheme. So we turn now to examine the scheme from an employer's perspective. Figure 4 shows illustrates how the new system will work in more detail and why the JSS is best thought of as a tweaked extension of partial furlough within the JRS. Here there are several key differences with the current scheme that go beyond the minimum hours requirement. First, support to the employee will be slightly less generous under the new scheme: under the JRS, someone working one-third of their previous usual hours would have seen a 13 per cent reduction in pay compared to the pre-coronavirus period; under the JSS, the same employee sees their pay reduced by 22 per cent compared to pre-coronavirus levels.

Second, the Chancellor is now requiring a much larger contribution from employers to the cost of the scheme, asking them to pay half of the 67p the worker receives for each £1 of lost wages from the hours they do not work, in addition to the wages for the hours the employee works. The Government pays the other half up to a cap of £698 per month. That means almost twice as big a payment for hours not worked (£312 a month) as the employer would have had to cover under the JRS for an employee on the average furloughed wage (£1,400 per month), working one-third of their usual hours. Clearly the cash cost to employers of non-worked hours diminishes the more hours the employee works, meaning firms are more likely to make use of the scheme when only small hours reductions are in play.

Figure 4 **Employees will receive less support from the Job Support Scheme than the Job Retention Scheme, while employers will contribute more**

Wage replacement elements for an employee working one-third of pre-coronavirus hours, under Job Retention Scheme and Job Support Scheme



Source: RF analysis of HMT, Winter Economy Plan.

The Job Support Scheme does not give employers much incentive to cut hours rather than jobs, a key design flaw

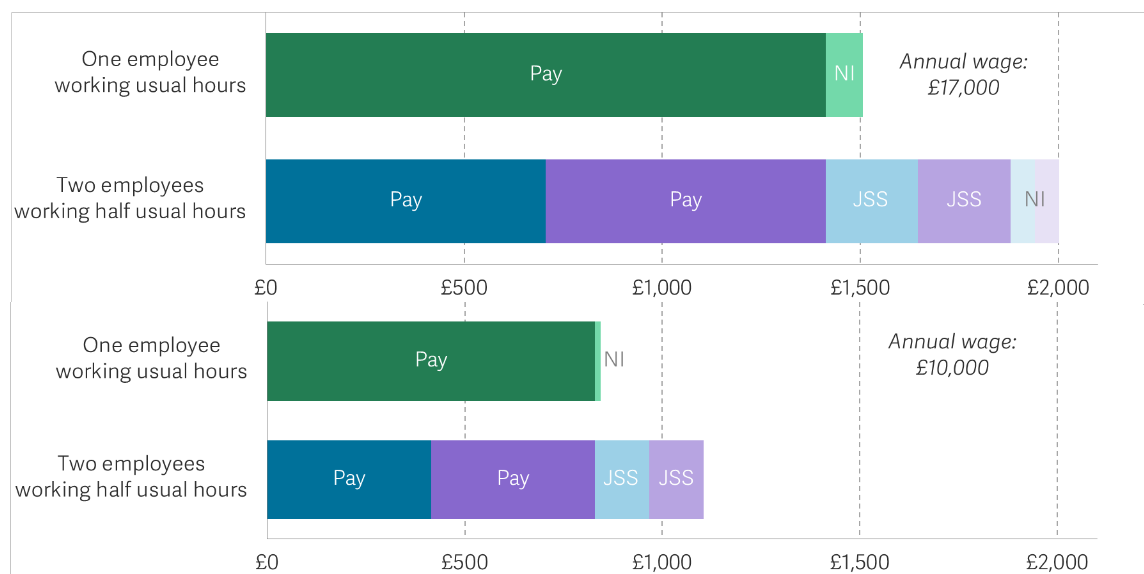
The Chancellor's objective for the JSS is to "protect as many viable jobs as we can", with his definition of viable being that there is currently some work to do. This is in contrast to the full furlough scheme's support of (temporarily) non-viable jobs in the middle of the lockdown.

This is a classic argument for a short-time working scheme, aiming to keep more people working some hours in sectors that are seeing falls in activity by encouraging firms to cut hours worked rather than entire jobs. However, the scale of the employer contributions in the JSS means that, while its objective may be similar to that of schemes like the German 'Kurzarbeit' scheme, it is in fact a very different beast.

Indeed, the scheme actually gives employers no incentive to retain two members of staff working half-their previous hours, as opposed to one of them on those full previous hours, as Figure 5 illustrates. The average previously-furloughed worker would cost the firm £1,500 per month once employer NICs are added to their £1,400 per month salary. In contrast, employing two workers at the same wage level half-time would cost the firm over £2,000 per month once the JSS contributions are factored in – a third more. For firms with employees paid below £1,100 per month, the situation is slightly better: splitting one job between two workers at this wage level means both would fall below the employer NICs threshold, although this does not offset the additional costs of the JSS in full.

Figure 5 **Under the Job Support Scheme, employing two half-time workers is more expensive than one worker full-time**

Pay, Job Support Scheme (JSS) and Employer National Insurance costs, by example wage levels: UK, November 2020



Notes: We assume that under the JSS, the firm will be required to pay employer NICs not just on the pay earned for hours worked but also on the employer JSS contribution (as is currently the case under the JRS).
Source: RF analysis of HMT, Winter Economy Plan.

Considered in isolation, then, the JSS will allow some firms to retain workers where they have a strong preference for doing so separate from the existence of the JSS (for example given high costs of recruitment or training) but the scheme itself provides no incentive for firms to cut hours rather than jobs, seriously limiting its ability to stem the increase in unemployment this Autumn.

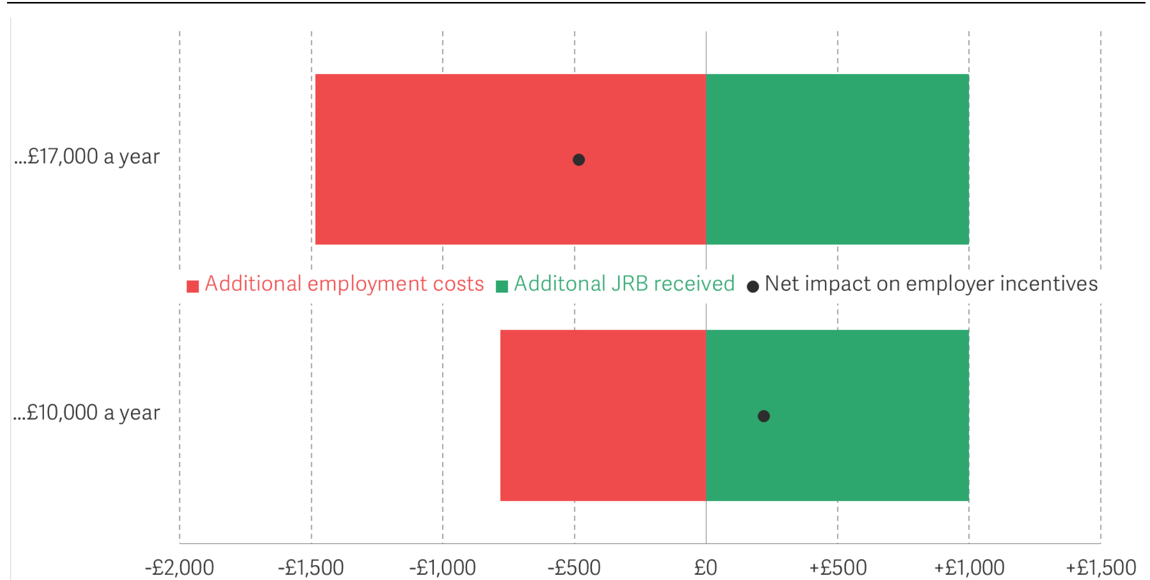
It is also worth considering the interaction of the JSS with the Jobs Retention Bonus (JRB), the one-off payment of £1,000 that firms can claim at the end of January 2021 for each previously furloughed worker they have continuously employed up to that point. Because the JRB is a flat rate payment per worker, it can provide some incentive for retaining more workers on lower-than-usual hours. This is the case when the JSS costs to the employer of non-worked hours are outweighed by additional JRB payments (we assume firms treat previous costs of full or partial furlough under the JRS as sunk costs at this point that do not influence the cost-benefit analysis of which workers are retained or let go now).

Unfortunately, this does not solve the problems with the incentives the JSS creates for employers for three reasons. First, because the JRB is a one-off payment, it merely shifts the jobs cliff edge to the end of January from the end of October (while the JSS continues for a further three months). While firms using the JSS must commit to no redundancies during it's use those can kick in immediately afterwards.

Second, even in the short term it only creates an active incentive to cut hours rather than jobs for workers within a narrow band of earnings. For the incentive to exist workers need to be sufficiently low earning that the JSS costs are outweighed by the flat rate bonus, as Figure 6 sets out. The tipping point where there is an incentive for firms to retain two previous full-time workers on half their usual hours rather than make one redundant and keep the other on full time is where their monthly pay is below £1,020. But they need to not be the lowest earners because to qualify for the bonus they must be earning above £625 a month between November and January. As a result, three-in-ten hospitality workers would not qualify for the JRB, even before any reduction in hours. Obviously the JSS will be used by firms in a variety of ways beyond this stylised example of keeping two staff on half-time vs. one on full-time, but it is illustrative of the general point that just 10 per cent of employees fall within this Goldilocks 'just right' zone: earning more than £625 a month, but less than £1,020. The sheer complexity of when it will, and won't, make financial sense to cut hours rather than jobs is another major barrier to the scheme having the desired impact.

Figure 6 **The Jobs Retention Bonus creates an incentive for firms to use the Job Support Scheme for lower-paid workers**

Impact of employing two people at half their usual hours for three months compared to employing one person full-time for three months, by annual salary: UK, November 2020



Notes: We assume that under the JSS, the firm will be required to pay employer NICs not just on the pay earned for hours worked but also on the employer JSS contribution (as is currently the case under the JRS).
Source: RF analysis of HMT, Winter Economy Plan.

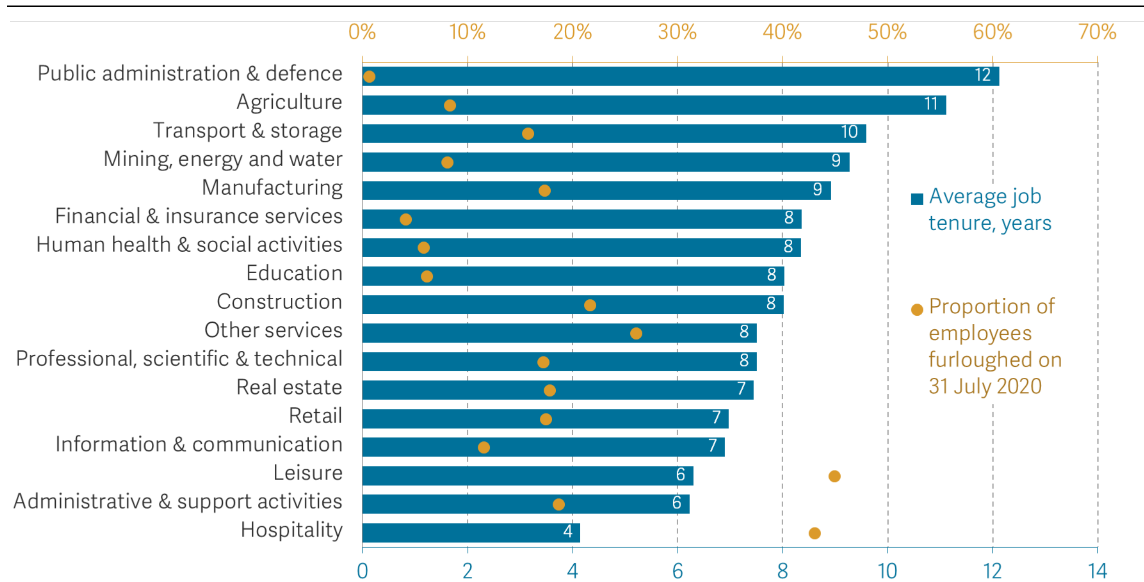
Of course, an employer's decision to retain or let workers go during this downturn will not be based simply on short-term economic considerations: most will wish to keep employees if they can reasonably do so in order not to lose accumulated knowledge. It stands to reason, then, that firms with higher skilled and/or more strongly attached staff are more likely to

absorb the additional costs of the JSS in order to keep employees onboard than those with a more transient or replaceable workforce.

But this will limit the role of the JSS in limiting job losses where they are at risk of being most significant in this crisis – the hospitality and leisure sectors. In fact, those two sectors are both the biggest users of the JRS to date and the two sectors with the weakest attached employees (measured by average tenure), as Figure 7 sets out. Given this, it is reasonable to assume that the JSS will not be as successful as schemes of the same type in other countries which have largely been measured on their effectiveness in retaining highly skilled workers (most obviously, the [German Kurzarbeit scheme] in protecting the manufacturing workforce during the financial crisis).

Figure 7 **Workers in sectors that have made significant use of the JRS scheme are also the weakest attached to their employers**

Average number of years spent in job, by sector: UK, 2019-20



Source: RF analysis of ONS, Labour Force Survey.

The Chancellor could overcome these major incentive problems by scrapping the Job Retention Bonus and using the savings to reduce the employer contribution in the Job Support Scheme

We estimate that the number of people currently furloughed could be in the region of 3 million; if this many people used the JSS as the Chancellor has set it out, and worked half their usual hours while doing so, then its cost over six months would be £4.2 billion (Figure 8).

However, the analysis above illustrates that it would be better for the Chancellor to abolish the JRB altogether and put the money to use in the JSS, reducing the employer contribution to close to zero. While this would increase the cost of the JSS itself, doing so may well end up

saving HM Treasury money, even before the effects on employment are accounted for. For example, if all but 2 million of those who have been furloughed since March are still with their employer on 31 January 2020, then the JRB will cost £7.6 billion. It would take very high take-up of the JSS (4 million employees) and a heroic assumption that all of these 4 million people work just the minimum required (33 per cent of their pre-coronavirus hours) to mean that the cost of totally removing almost all employer contributions would match the saving from scrapping the JRB.

Figure 8 **The cost of the Job Support Scheme is highly uncertain, but will be much lower than the Job Retention Scheme**

Indicative costings of the Job Support Scheme: UK, November 2020-April 2021

	Low hours worked and low take-up	Half-time working and medium take-up	Low hours worked and high take-up
Average usual hours worked by employee on JSS	33%	50%	33%
Proportion of usual hours covered by government	22%	17%	22%
Average monthly wage of employee on JSS	£1,413	£1,413	£1,413
Average cost per employee per month	£312	£233	£312
Scheme take-up (m)	1.0	3.0	4.0
Monthly cost (£bn)	0.3	0.7	1.2
Total cost over six months (£bn)	**1.9**	**4.2**	**7.5**

Source: RF analysis.

Switching to this approach would simplify incentives, meaning firms would be broadly indifferent between the two-on-half/one-on-full options, with a slightly stronger incentive in the case of lower-paid employees to choose short-time work due to interaction of the scheme with NICs contributions. Some nominal contribution could be included within the scheme to reduce the risk of misuse (e.g. requiring employers to pay NICs and minimum auto-enrolment contributions as was the case in August for users of the JRS).

This approach would make for a much clearer policy, still focused on 'viable' jobs where there is some work to be done, but better suited to delivering the Chancellor's stated policy aim of "giving businesses who face depressed demand the option of keeping employees in a job on shorter hours rather than making them redundant".

The new JSS is accompanied by a matching extension of the support for self-employed workers

The Chancellor also announced a small, and considerably less generous extension to the Self-Employment Income Support Scheme (SEISS), which – like the JRS – was due to run out in October. Two more grants will be paid, notionally covering the period from November 2020 to April 2021. The first grant will cover 20 percent of average monthly trading profits, paid out in a single instalment covering 3 months' worth of profits, and capped at £1,875 in total. The generosity of the second grant has yet to be determined. The generosity of support – at 20 per cent of previous profits – is intended to be close to that provided to employees who are benefiting from the JSS, for whom the maximum government subsidy is 22 percent of earnings. However, it is in reality much lower than the income protection being provided to employees on the JSS (discussed above), and far less generous than the two grants covering the self-employed in the first six months of the crisis, which were paid at 80 and then 70 percent of previous earnings. As ever, with the generally poorly-targeted approach to providing support to the self-employed, these payments will be too generous to many who have only seen small reductions in their work, while also being much smaller than the loss of income for those worst affected.

The scheme will be limited to self-employed individuals who are currently eligible for the SEISS and are actively continuing to trade but are facing reduced demand due to coronavirus. By making these restrictions, the Treasury is rightly hoping to target the grants more, excluding those whose profits have been unaffected or those who self-employment business had already come to an end. Importantly, the Treasury has not widened eligibility to the set of self-employed workers who missed out on the previous scheme because they were new to self-employment, or they paid themselves in dividends as owner-managers.

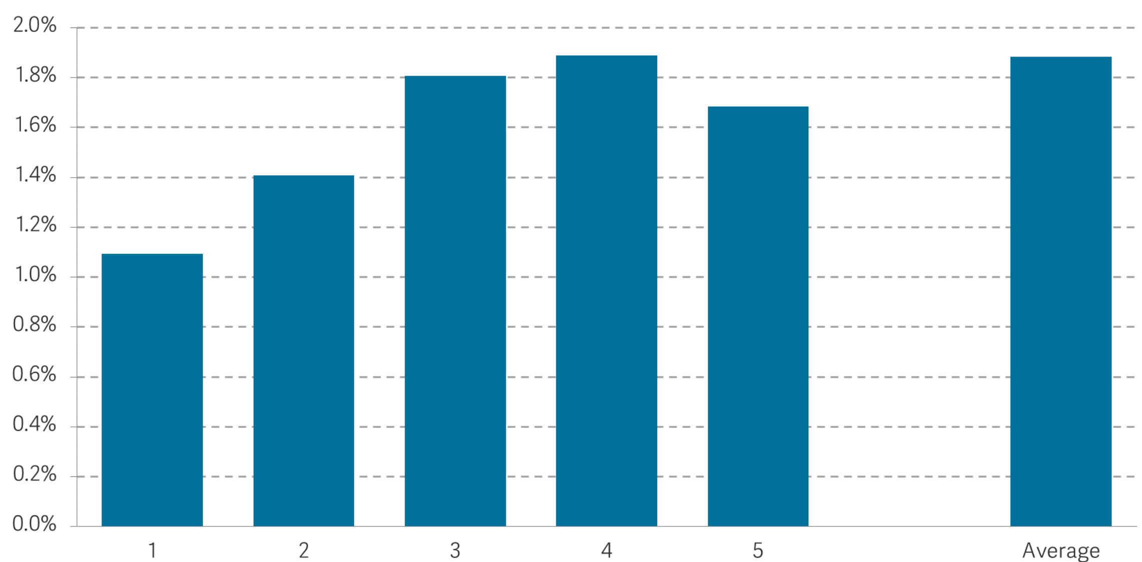
The lower rate of VAT in hospitality and tourism has been extended

The Chancellor confirmed that the reduced rate of VAT for food, non-alcoholic drinks, accommodation and attractions will continue until March 31, the end of this tax year (it was due to end on 12 January), saying that it should benefit over 150,000 businesses employing 2.4 million people. Businesses benefiting from this have the choice over how much of the tax cut to pass on to customers. If they do pass some or all on, then the cut in post-tax prices should encourage greater activity in these areas. If they do not pass on some of the tax cut, then the VAT cut is effectively improving firms' balance sheets. Given that the Treasury's aim is to support businesses in these badly-affected sectors, the Government is probably fairly relaxed about the split between these two effects. The original VAT cut was estimated by HM Treasury to cost £4.1 billion, but the OBR estimated just £2.5 billion (as they were more pessimistic about consumer spending). Assuming the cost-per-month of the extension through to 31 March is the same as the initial six months – and we should recognise that

spending in all these areas will be affected by households' perceptions about the risks of catching Covid-19, as well as the public health restrictions in place in early 2021 – then the new extension will cost between £1.1 and £1.8 billion. Figure 9 shows that, if the cut is passed on, then it will benefit those households who eat out and spend money on UK accommodation and attractions, with the benefits being slanted slightly to high-spending households compared with low-spending households.

Figure 9 **Extending the VAT cut – if reflected in lower prices – will give a small living standard boost to relatively high-spending households**

Estimated savings from VAT cut as proportion of household spending, by spending quintile: UK

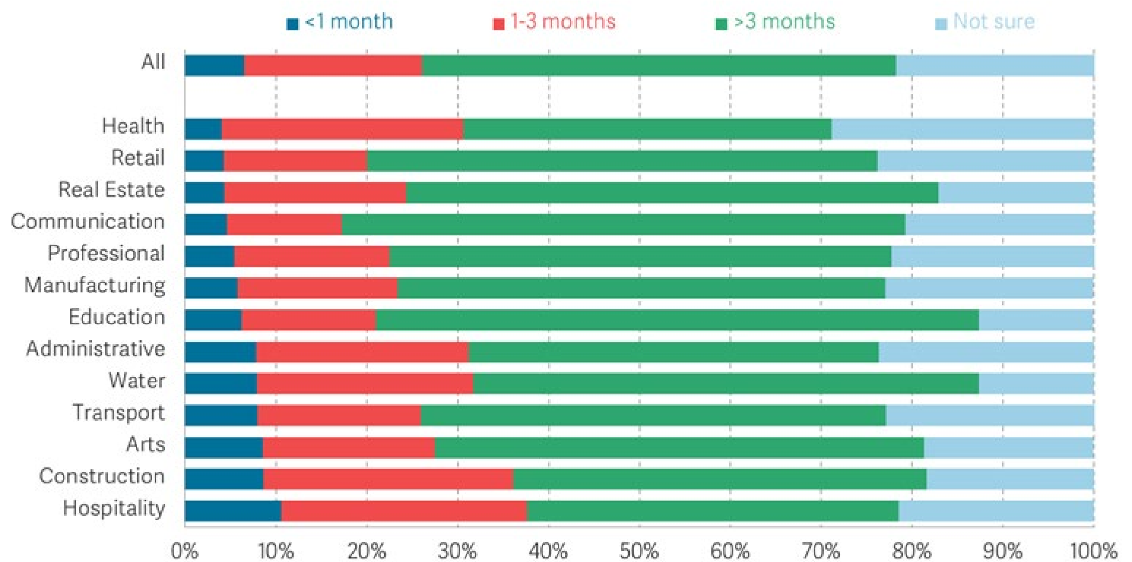


Notes: Based on pre-coronavirus spending patterns and assuming full pass-through of the VAT cut into lower prices.
Source: RF analysis of ONS, Living Costs and Food Survey.

Yesterday's announcements provide welcome support for a corporate sector that has tougher times ahead

So far, the Government's support schemes appear to have been effective in helping the corporate sector weather the crisis. A key measure on this is the extent of falls in firms' cash reserves which are vital to allowing continued operation. Here the news has been better than expected: even after the shocks of the last six months just 7 per cent of business are reporting cash reserves that can last less than one month (Figure 10). This reflects the unprecedented extent to which corporate balance sheets have been protected by the wide-ranging package of economic support from the Government. Only a fifth of businesses have not applied for the JRS or taken advantage of loan/grant schemes from the Government.

Figure 10 **Business balance sheets have remained resilient during the crisis so far**
Share of businesses reporting different levels of cash reserves, by industry: UK, 24 August to 6 September 2020



Source: RF analysis of ONS, Business Impacts of Coronavirus (COVID-19) Survey.

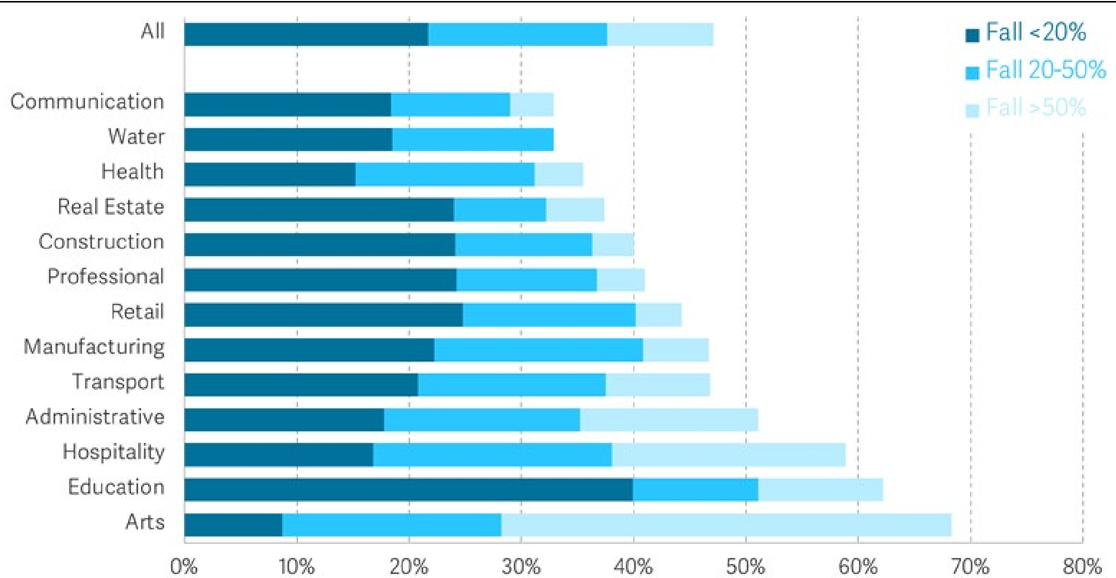
But the outlook is more difficult. Indeed, around 14 per cent of businesses report that costs currently exceed turnover, meaning that cash reserves will be declining, or require additional external funding. And perhaps more importantly, given that businesses' current costs are being subsidised by the JRS, almost half of businesses report turnover below pre-coronavirus expectations and a quarter report turnover has fallen by more than a fifth (Figure 11). With no clear improvement in the outlook for the virus over the next six months, the corporate sector faces a significant challenge.

Against this backdrop it is welcome that the Chancellor extended the time period over which firms can make delayed tax payments. He also renewed to the end of this year the window over which firms can access the existing government-guaranteed loans. These schemes were due to close in the coming weeks, with over £57 billion of such loans having been made to date. As well as allowing more firms to access these loans, he extended the time period for repayment.

It was also announced that a new successor loan scheme will begin in January. This is likely to see both a lower government guarantee and a smaller subsidy for those taking out the loans (the existing Bounce Back loans see no interest charged or repayments needed in the first 12 month). This may end up looking like an expanded form of the existing Enterprise Finance Guarantee, that sees lenders charged a fee for issuing loans with a 75 per cent government guarantee.

Figure 11 **Half of firms report turnover below pre-crisis expectations**

Share of businesses reporting turnover has fallen as a result of coronavirus, relative to normal levels for this time of year, by industry: UK, 24 August to 6 September 2020



Source: RF analysis of ONS, Business Impacts of Coronavirus (COVID-19) Survey.

Whatever the specific nature of future measures, it is likely that more support will be required. Given the duration of this crisis it will become a higher priority to find ways to support the corporate sector without saddling it with more debt. In our previous work we proposed an Income-Contingent Loans Scheme as a better way to extend support to troubled firms that takes account of the performance of the business and avoids pushing them to the brink of insolvency.

Taken together yesterday's announcements will reduce – but far from halt – the coming rise in unemployment

It is inevitable that the pandemic, and the huge economic fallout it has caused, would feed through to rising unemployment. That process is now well underway. While the headline unemployment rate has barely increased – ticking up 0.2 percentage points to 4.1 per cent in the three months to July – more timely indicators are less reassuring. For example, the recent RTI payroll data showed that employment was down by 695,000 in August compared to March. And Insolvency Service data, which measures notifications of firms planning more than 20 redundancies, shows that more than 300,000 redundancies were planned in June and July alone – more than six times the rate for the same period last year. All this points to falls in employment even while the JRS remains in operation. And with that scheme ending entirely next month with potentially 3 million workers still on it, the JSS – with the challenges identified above – is unlikely to prevent a significant rise in unemployment. The exact scale of that near-term rise is highly uncertain, but even with the JSS in place, the 1.2 million increase forecast by the Bank of England in August is more than possible.

And the rise in unemployment, combined with planned benefit cuts, mean a grim outlook for living standards

Given that very significant government support protected household incomes from the full force of the pandemic's hit to GDP in its early stages, rising unemployment is the point at which household incomes start to be seriously impacted. Flowing off furlough and onto unemployment benefits is not just a matter of moving between schemes, but means a very significant fall in income, as Figure 3 shows. While a worker on £20,000 a year would have had 83 per cent of their income covered by the JRS when furloughed, when they are made redundant UC will only replace 29 per cent of their former take-home income. UC's basic level of support for a single adult (excluding any housing or child-related support) is only £94 a week (around £4,900 a year): a level considerably below the absolute poverty line of £150 a week.

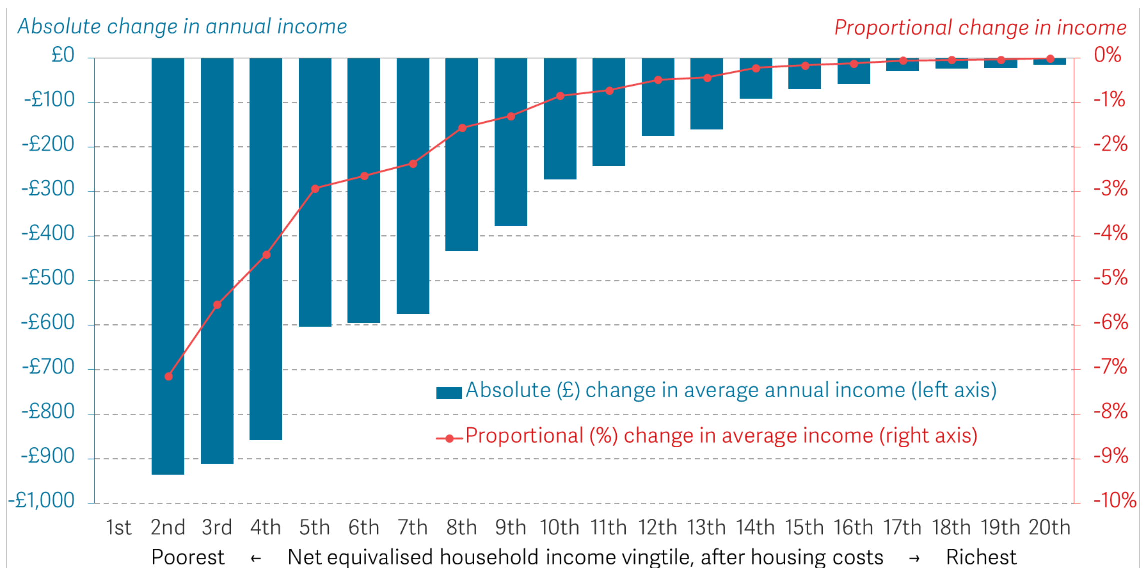
But, as well as the likely rise in unemployment this winter hitting living standards, there is a risk of a further blow in the spring, because on current plans, policy is still set to change from supporting incomes to cutting them. In the early months of the crisis, changes in benefit policy – not least a very welcome £20 a week boost to tax credits and UC – meant that the incomes of the poorest were relatively well-protected. But this boost is currently only intended to go up to March 2021.

The planned withdrawal of the £20 a week (£1,040 a year) boost would be a significant mistake. It is inconceivable that the labour market will be in full health by April, even assuming a rapid vaccine roll-out: the crisis will by no accounts be 'over'. Second, there is the question of the basic adequacy of the benefit system. The £20 a week boost can be seen as a reflection of the fact that out-of-work support was not adequate when we entered the crisis and – without the boost – certainly won't be adequate in future. And third, ending the boost would mean withdrawing perhaps £8 billion from disposable incomes in 2021-22, precisely from those groups and places that need it most to support spending and the economic recovery in 2021-22.

As Figure 12 shows, the losses from this withdrawal would be very large – with the average income of the bottom half of the population falling by £600 (with this average calculated including pensioners and others who would be unaffected). In Scotland, the South of England and the East Midlands, around one in four non-pensioner households are set to lose over £1,000. But in Northern Ireland, Wales, the West Midlands, and the North of England, that rises to around one in three households.

Figure 12 **Removing the Universal Credit and Tax Credit benefit boost in April 2021 will have a very large negative impact on disposable incomes**

Impact on average household income by vingtile, of not retaining UC & tax credit boost in 2021-22: UK



Notes: We exclude the bottom 5 per cent, due to concerns about the reliability and volatility of this group's income data.
Source: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

Vital decisions remain about econmic policy

The new measures provided a timely response to the tightening of social-distancing restrictions last week. Such a swift change of tack is helpful and necessary given the increase in infections, but the significant change in policy was once again made without the OBR costing the measures or providing any update to its economic forecasts. Moreover, given that the Treasury are still reviewing its fiscal rules, we lack a framework for anchoring medium-term expectations of future policy. Whatever your views about the Chancellor's decision to cancel the Budget (and clearly now is not the time to start raising taxes) this lack of a fiscal framework, or of OBR scrutiny of plans as they are worked up and announced, is unwise during a period in which fiscal policy is playing a crucial macroeconomic stabilisation role, given that monetary policy is constrained.

And there remain significant policy issues that the Government will need to address in the coming months that did not feature in the Winter Economy Plan. As well as the key decision over whether to extend the £20 per week increase in Universal Credit, other welfare decisions need to be taken that will have important implications for the amount of support available in the coming months to those who have lost their jobs during the crisis. For example, the nine-month grace period on the Benefit Cap is coming to an end in November for those who started their UC claim in April: for those with children and high housing costs, this could see yet another income shock. Furthermore, the old-style Jobseeker's Allowance and Employment Support Allowance did not see the £20 per week rise alongside Universal

Credit, and many (including us) have called for their rates to be levelled-up to match. Finally, the six-month entitlement period of contributory JSA will soon be coming to an end for those who lost work as the crisis began, and this will expose another group to the tough means-tests (including of savings) in UC, meaning that some of those who lost work in March will soon be relying on their savings, or any partner's earnings, instead. Finally, there is also the question of whether to continue with the Triple Lock protection for the State Pension at a time when average earnings are set to fall. Despite not having a Budget this autumn, there are plenty of key decision that need to be made.

And it is notable that missing from the announcements was any major policies to stimulate the economy and new hiring. Of course, the measures taken to support firms and subsidise short-time working will serve as a boost to activity compared to a world where they didn't happen. But, as the Treasury seem to have taken the position that they are happy to see a large big labour market shake-out over the next few months – with jobs that are not allowed to continue under current restrictions or no longer profitable coming to an end – it was surprising – and worrying – that there were no additional measures taken to encourage job creation by the private sector, or to support direct job creation by the public sector. Policies like this will be vital if those shaken out from their old jobs are to find new jobs: as we argued earlier, the underlying rate of job creation in the UK economy will be far lower than the size of the imminent flows into unemployment.

If things get worse, the Government will need to be ready to provide more support once again – the time to start planning for that eventuality is now

If the outlook for the health crisis (or the economy) deteriorates, policy will need to adjust rapidly once again – so it makes sense to start planning the policy response now. In particular, economic policy makers should prepare now for how they would respond to another national lockdown, while striving to avoid that situation taking place.

As set out in our previous work, although the policy objectives in a second wave should largely match those in the first lockdown, the approach should evolve to overcome some of the shortcomings of the response to the first lockdown, and to learn from the experience of the crisis so far. For example, for families we should aim for broader, and more equitable, coverage of support schemes. For example, while a return to the JRS would be desirable, the disparity in generosity of such in-work support and that provided to those who lose their jobs should be reduced (by lowering the earnings replacement for high earners under the JRS and increasing the basic and couples' elements in UC temporarily). It will also be important to prepare to provide more generous support to firms. Here the key will be recognising that the impact that the crisis is having on balance sheets will grow over time. If this happens simply providing additional liquidity support will not be enough. Our proposals for delivering support via Income-Contingent Loans would help to overcome this challenge.