Job well done

18 months of the Coronavirus Job Retention Scheme

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The Coronavirus Job Retention Scheme (JRS) ends in just a few short days. Over the past 18 months, it has covered the wages of some 11.6 million people, and has provided for 2.3 billion days of furlough (both full and partial furlough) at a cost to the Government of almost £70 billion (in gross terms). And the JRS has been a great success: along with the other economic support measures, it has ensured that the worst recession for 300 years saw the smallest rise in unemployment of any recession in living memory.

As sectors such as hospitality have opened up since 2021, so the number of employees furloughed has fallen steadily, and it is now older workers, rather than the young, who are most likely to be on furlough. We estimate that there could be as many as 1 million people on the scheme when it ends on 30 September, with up to half of these furloughed in full. The risk of a rise in unemployment and inactivity when the scheme closes is still real, and this will happen exactly when Universal Credit is cut by £20 a week.

The pandemic has also revealed the limitations of the UK’s pre-Covid welfare system, and highlighted that policy makers had under-valued how important it is that the welfare system provides effective income protection. Such protection is needed both to prevent families from suffering hardship when buffeted by shocks, but also to help stabilise the economy as a whole. The need for increased income support for the unemployed and a welfare system that stands ready to help households in the face of future shocks should not be forgotten as the worst of the pandemic moves into the rear-view mirror.

The JRS, and the keeping of it throughout the pandemic, has prevented catastrophic rises in unemployment

Announced on 20 March 2020, the JRS was an unprecedented intervention in the UK labour market. A support system of some sort was entirely necessary given that the Government was requiring businesses to shut up shop to protect us all from Covid-19, and officials across
the Government worked at pace to implement a brand-new payments system which was ready ahead of schedule: as the National Audit Office said, "HMRC’s IT staff took four weeks to implement the CJRS scheme, compared with an average of around 18 months that they normally need to deliver major IT projects."

Without the JRS, unemployment would have risen very sharply whenever significant economic restrictions were imposed; as it was, the scheme’s continued existence throughout the crisis prevented catastrophic increases in unemployment. This was the worst recession for 300 years and yet the unemployment rate peaked at just 5.2 per cent, the smallest rise in any recession in living memory.

The scale of the intervention is still hard to comprehend. At the peak of the Covid-19 crisis, almost 9 million people were on the scheme (Figure 1), meaning that almost one-third of employees had their wages paid by this temporary support scheme during April and May 2020. 11.6 million employee jobs have been furloughed since March 2020, and, over the 18 months since the scheme has launched, the JRS will have paid part of the wages for around 2.3 billion working days (with employees either on full or partial furlough).

Figure 1  
Furlough rates peaked at almost 9 million in spring 2020, and are now approaching 1 million as the scheme reaches its end
Actual and estimated number of employees furloughed: March 2020 to September 2021, UK

Schemes like the JRS were introduced in many other countries, but the JRS is more generous than most international counterparts, replacing 80 per cent of previous wages,
compared to an initial replacement rate of 60 per cent (for individuals) or 67 per cent (for those with dependent children) in Germany, and 70 per cent in France. This generosity has helped individuals and families during the crisis, reducing the size of the living standards hit. But it has also helped the wider economy, acting as an automatic stabiliser and protecting household incomes despite GDP falling by 10 per cent in 2020.

The benefits of the scheme clearly outweigh the fiscal cost, but it is still worth remarking on just how much has been spent. Up to the end of August 2021, the scheme had cost (in gross terms, i.e. before the tax revenue on furlough pay is accounted for) £68 billion; its eventual gross cost through to the end of September will be slightly more this this – in the region of £70 billion, equal to the day-to-day schools budget in England over the same time period.

Despite the initial policy triumph and the success of partial furlough, there were some significant bumps in the road when it came to adapting the scheme to the evolving state of the virus

The first major and crucial change to the JRS was the introduction of partial furlough on 1 July 2020. This was an important change to the scheme, providing support to firms (and their employees) that could reopen but where demand (and supply) was still restricted. This change will have lessened the risk of economic scarring from prolonged periods of non-working, and also provided an income boost to those working part-time. The number of workers on partial furlough has varied between 1 and 1.5 million workers since it was introduced.

The second shift was the announcement that the scheme would slowly phase out over summer 2020, with the expectation that it would close completely at the end of October 2020. (Businesses were also required to pay employer contributions towards auto-enrolment pensions and National Insurance on furloughed wages from 1 August 2020: this continued throughout the rest of the scheme). However, over the summer months, furlough policy making became somewhat muddled. In the space of a few weeks, the Job Support Scheme (JSS) was announced, then radically reformed into two component parts (one for firms mandated to close and another for firms that could stay open), before being scrapped a few days before the second national lockdown in England. This was the point at which the ill-fated, and deeply flawed, Job Retention Bonus was also quietly dropped. Figure 2 shows how the JRS has had seven different iterations since it was launched, alongside the different versions of the JSS.
The optimism bias that overtook economic policy making in the summer of 2020 clearly made for chaotic policy. But it also brought political difficulties, forcing the Government to wrestle with matching a one-size-fits-all economic support policy with different lockdown restrictions across the UK’s nations and English regions. The practical consequence was that this indecision would have led to lost jobs, as firms who expected the JRS to end laid off workers during October 2020, only to find that – with just a few days’ notice – the scheme was continued after all.

The JRS initially helped younger workers weather the pandemic, but it is older workers who are now more likely to be furloughed

As the impact of the pandemic and policy on the economy has shifted, so has the usage of the JRS. High-take up rates across wide swathes of the economy at the start of the pandemic gave way to an encouraging few months in the summer of 2020 in which retail workers in particular benefitted from the opening up of the economy: in July 2020 alone, the number of retail employees that were furloughed fell by 40 per cent, or over 500,000.

And, after further significant economic restrictions in early 2021, the re-opening of hospitality and leisure businesses has caused the age mix of those furloughed to shift drastically, such that older workers are now more likely to be furloughed than younger workers. As Figure 3 shows, in February 2021, over 22 per cent of 18-to-24-year-old employees were furloughed.
compared to 15 per cent of employees in their early 60s. By July 2021, things had reversed, with just 5 per cent 18-to-24-year-old employees furloughed compared to 6 per cent of employees in their early 60s, and 8 per cent of employees aged 65 and over.

Figure 3  **Older employees are now more likely to be furloughed than younger employees**

Proportion of employees furloughed, by age: February 2021 to July 2021, UK

This tilt towards older workers as the JRS comes to an end is a cause for concern, given the evidence on the challenges that older workers face when entering unemployment. Previous Resolution Foundation research has shown that older workers take longer to return to work after losing a job, and suffer a larger pay penalty when returning to work. If a higher share of older workers decide to take early retirement, this could be a lasting and damaging labour market supply shock from this crisis.

As many as 1 million people could still be on furlough (either in full or in part) when the scheme ends on 30 September

There are a range of estimates of how many people will still be on the JRS as the scheme ends on 30 September, and how many of these will move into unemployment or inactivity. The timeliest estimates for how many people are using furlough come from the ONS’s [Business Insights and Conditions Survey](https://www.ons.gov.uk) covering the period 23 August to 5 September. This suggests that around 1.4 million people are still furloughed, with 600,000 of these on full furloughed. If furlough numbers continued to fall in September at the rate they did over the summer, then around 1 million people could still be on furlough (either full or part) when the scheme ends.

It should not be assumed that all those will lose their jobs when the JRS ends. First, employers of the remaining fully-furloughed workers have been paying contributions
towards wages for three months now (and had been doing so for two months when the latest ONS survey was conducted). This ‘skin in the game’ suggests that they will not be making all of their fully-furloughed staff redundant when the scheme ends, even if they had not yet done so by early September. Second, the risk of unemployment is clearly much lower for those on partial furlough who are currently working for at least some of the time.

But the risk of a modest rise in unemployment is still real, particularly in sectors like travel and aviation where things are still not yet back to normal. As Figure 4 shows, half of employees in passenger air transport were furloughed in late July. Things will have improved since then, but the high rates shown in Figure 4 demonstrate that, although activity has increased in general over recent months, some parts of the economy are still far from normal. The planned cut to Universal Credit in October – which will return the real value of unemployment benefit to its lowest level since the early 1990s – will mean that any employees who do enter unemployment when furlough ends will receive £20 less a week in unemployment benefit than if the uplift was maintained.

Figure 4  **Furlough rates in late July were still very high in some sectors**
Proportion of employees furloughed, by detailed industry group: 31 July 2021, UK

It is important to be cognisant too of the length of time that some people will have spent on furlough during this crisis. Some of those still fully-furloughed may have been in this position for a very long time. Earlier this year, we found that over 60 per cent of those fully-furloughed in May had been so for seven or more months, and half of those fully-furloughed then had been so for 10 or more months. Given the damaging effects that long periods out of work can have on subsequent job prospects and future earnings, we need to take seriously the fact that some of those who will move from full furlough to unemployment in October will not have worked for many months. It is welcome, therefore, that Jobcentre Plus advisers have...
the discretion to fast-track formerly-furloughed workers onto the Government’s Restart scheme, rather than waiting for them to be unemployed for the required length of time.

The JRS demonstrates how important it is to protect families from income shocks, and how the UK’s pre-Covid welfare system could be improved

The emergency schemes implemented during the Covid-19 crisis were implemented at pace, with broadly impressive results. As these schemes come to an end, however, the lessons that policy makers can learn from their implementation and impact should not be forgotten.

First, the JRS provides us with a reminder of just how important it is to protect incomes from the shock associated with job loss. The JRS was a response to the specific circumstances of the pandemic when the Government required people to cease work and stay at home, but job loss in more normal times can be just as random or unpredictable for individuals. In general, the hit to family incomes when individuals move from work to benefits in the UK is much larger than that experienced when individuals moved from work to the Government’s Covid-19 support schemes (i.e. the JRS or the Self-Employed Income Support Scheme, or SEISS). Figure 5 shows the difference between the replacement rates in these two scenarios: the typical family income replacement rate would have been 50 per cent for a move onto benefits (and was only 53 per cent after the £20 a week uplift) compared to 90 per cent for a move onto the JRS. And the income shock in this crisis from job losses has been larger in the UK than in comparator countries such as France and Germany in part because the support received by the unemployed is lower.

Figure 5  Government support schemes provided considerably higher replacement rates than those received when moving from work to benefits

Family income replacement rates when earner stops working, is furloughed or claims a self-employment grant, by earnings decile: UK, 2020-21

Notes: Replacement rate shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. £20 per week boost to Universal Credit is not included. Full roll-out of UC
Second, the success of the JRS does not mean that the scheme was without flaws. The need to design and implement a scheme at speed meant that opportunities for fraud have been higher than policy makers and taxpayers would have liked. 1 And the scheme also contained some hard edges, with the newly-employed, for example, not able to be furloughed. These challenges were almost inevitable, though, given the need to have a programme set up within weeks and operating at scale. But these lessons need to be learned before the next crisis hits.

Overall, as this scheme winds down in just a few days’ time, it’s safe to conclude that it is job well done. The JRS, along with the other economic support measures, have ensured that the worst recession for 300 years saw the smallest rise in unemployment of any recession in living memory. The scheme has paid the wages of almost 12 million people at some point over the past 18 months, maintained millions of attachments between workers and firms, and has demonstrated just how important income protection in maintaining living standards. Income insurance has macroeconomic benefits during crises, but individual job losses outside of recessions still cause hardship. We now need to translate the successes of the JRS into a more effective welfare system in good times as well as bad.

1 HMRC’s initial assumption was that 5-10 percent of spending would be fraudulent. It has said it will update that estimate at the end of 2021, but it has also said that it expects to recover over £1 billion in JRS payments over the next two years.