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Research Paper

The Coronavirus Job Retention Scheme (United Kingdom)

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I. Introduction:

Aim

The Coronavirus Job Retention Scheme, more commonly known as the furlough scheme, is probably the highest-profile of all the government support schemes introduced during the COVID-19 pandemic. Announced in March 2020, the scheme was initially planned to run until June 2020. It has since been extended multiple times, but it came to an end in September 2021. Under the scheme, private sector employers could furlough their employees, with the government paying 80% of pre-tax salary up to £2,500 per month.

This paper looks at data on how the scheme has been used, the state of the broader labor market, and experience in selected other advanced economies to evaluate the furlough scheme's effectiveness and suggest what type of support should remain beyond the 30 September deadline. In addition, we aim to set out some of the critical challenges facing the labor market, particularly around employment, in the comingyear.

Research Question

Generalized Question: Are state compensation schemes genuinely effective in supporting people employed by private corporations and controlling unemployment rates during extraordinary circumstances?
We evaluate the aforementioned by assessing how successful has the furlough scheme been and what should happen next.

Hypothesis

The furlough scheme was perhaps the most radical economic policy the UK government enacted in response to coronavirus. It did not save every job, but it successfully stopped millions of people from being made redundant during the height of the pandemic. It has also allowed businesses to get back up and running more quickly than in other countries – like the US – where similar support was unavailable. Nonetheless, as almost all public health restrictions have now been lifted, it was appropriate that the furlough scheme ended as planned on 30 September 2021to avoid propping up unviable jobs and slowing down the movement of workers to new roles with a better future. Suppose the government still wants to support some sectors – such as international travel – that remain heavily constrained. In that case, it should target support narrowly at those sectors rather than extending the scheme economy-wide.

The CJRS appears to have helped ensure that jobs returned quicker than they otherwise wouldhave. The US and Canada did not implement similar wage subsidy schemes, and in both countries, the number of jobs fell by over 10% during the early months of the pandemic. In bothcountries, employment has partially recovered, but even as economic output has bounced back, the number of jobs still lags pre-crisis levels, and employers have reported recruitment difficulties. In contrast, the UK, France, and Germany, which all had similar wage subsidy schemes, did not have falls in employment as significant. The number of jobs is now at or above December 2019 levels (see Figure 1) despite similar recoveries in output.

II. Methodology

We start initially by examining the types of people who remained on the furlough scheme in July 2021 (the latest point at which data are available). To shed light on their prospects should they lose their job, we then analyze re-employment rates amongst employees who have already been made redundant during the pandemic. This includes an examination of the characteristics of the people who have lost their jobs already, as well as the types of people for whom it has been hardest to find new work.

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We then consider how the number and type of job vacancies have changed over the last two years and how these trends may be necessary for people finding new jobs. We explore potential reasons for the very high levels of vacancies seen in some sectors, such as transportation and hospitality.

III. Literature Review

A report by the Institute for Government authored by Thomas Pope and Eleanor Shearer, (published on 10th September 2021) assesses the most radical economic policy the UK government enacted in response to coronavirus – and supports the government's decision to bring it to a close later this month. It recommends that any government extension of the furlough support scheme be restricted for sectors still badly affected by restrictions, like aviation. Furthermore, the paper finds that -

- Almost 9 million employees were furloughed and would have been at risk of losing theirjob without furlough in May 2020. There were nearly 1 million fewer jobs in November 2020 than March 2020, but by July 2021, employee numbers had almost recovered to pre-Covid levels.
- There are still over 1.5 million jobs being supported by the scheme, 800,000 of which are fully furloughed.
- Almost half of the jobs supported are now part-furloughed, meaning the employee is working some of the time. And jobs are more evenly spread across sectors,including those not directly affected by Covid, likemanufacturing.
- The labor market has recovered strongly. Job vacancies are now higher than pre-crisis levels in most sectors, even as people remain furloughed in those sectors. Economic growth relies on 're-allocation of workers from failing businesses to thriving ones, and the furlough scheme could now be slowing this down.

IV. Tables & Graphs

Referenced Figures

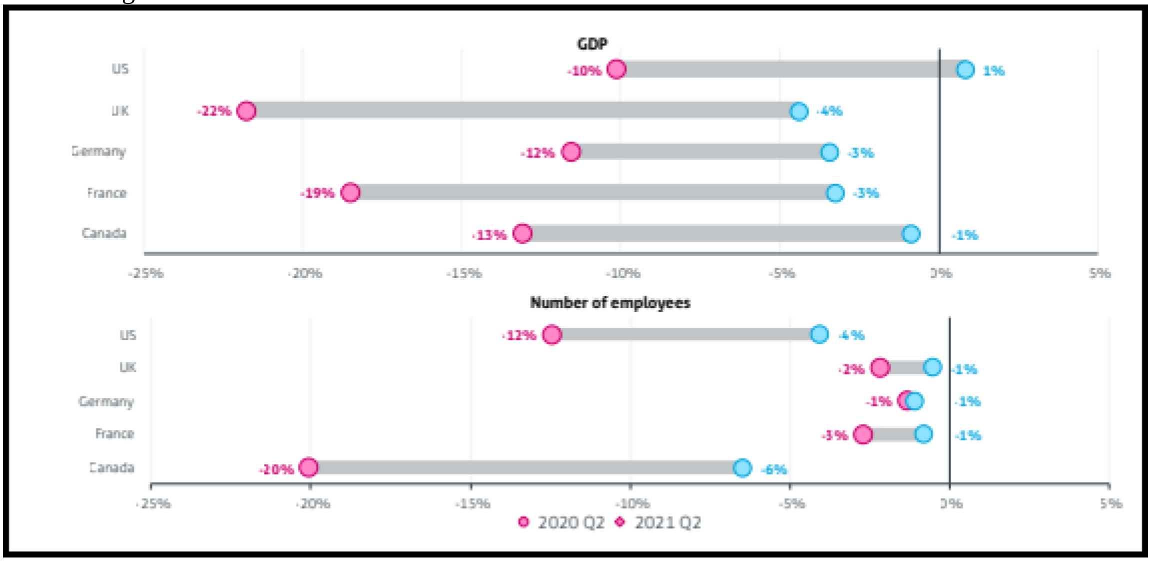

Figure 1: GDP and employment growth since 2019 Q4 in 2020 Q2 and 2021 Q2 in advanced economies
Source: Institute for Government analysis of OECD, StatCan, ONS, Insee, and FRED data

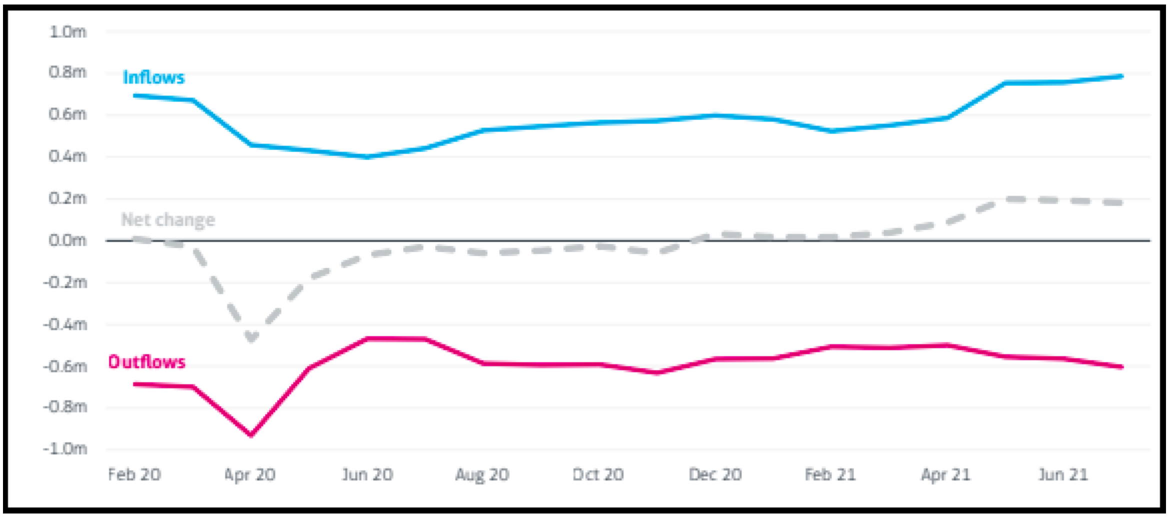

Figure 2: New job starts (inflows), job exits (outflows), and net change each month
Source: Institute for Government analysis of HMRC, payroll statistics, July 2021.

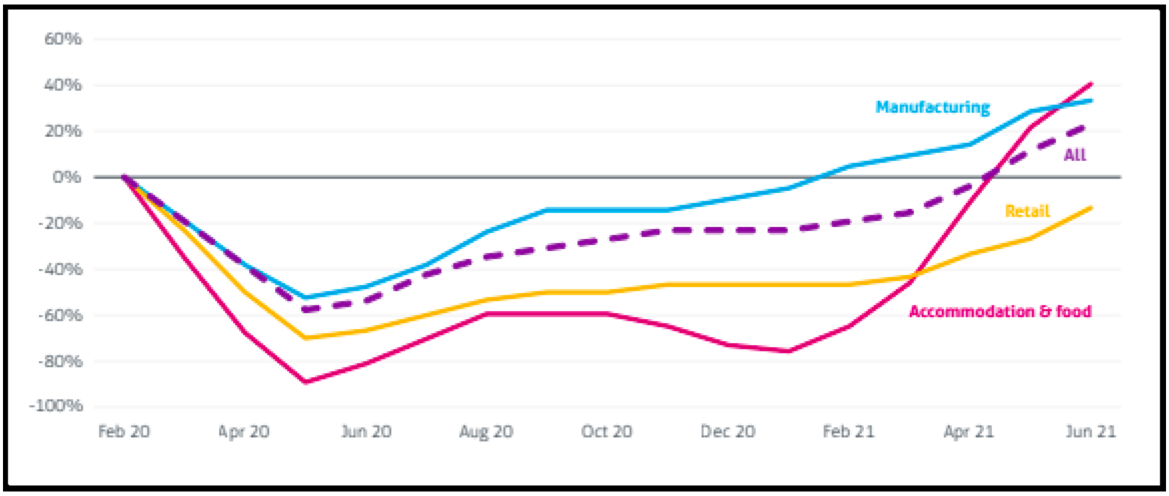

Figure 3: Number of vacancies in selected sectors: change since February 2020
Source: Institute for Government analysis of ONS, vacancies by industry, July 2021.

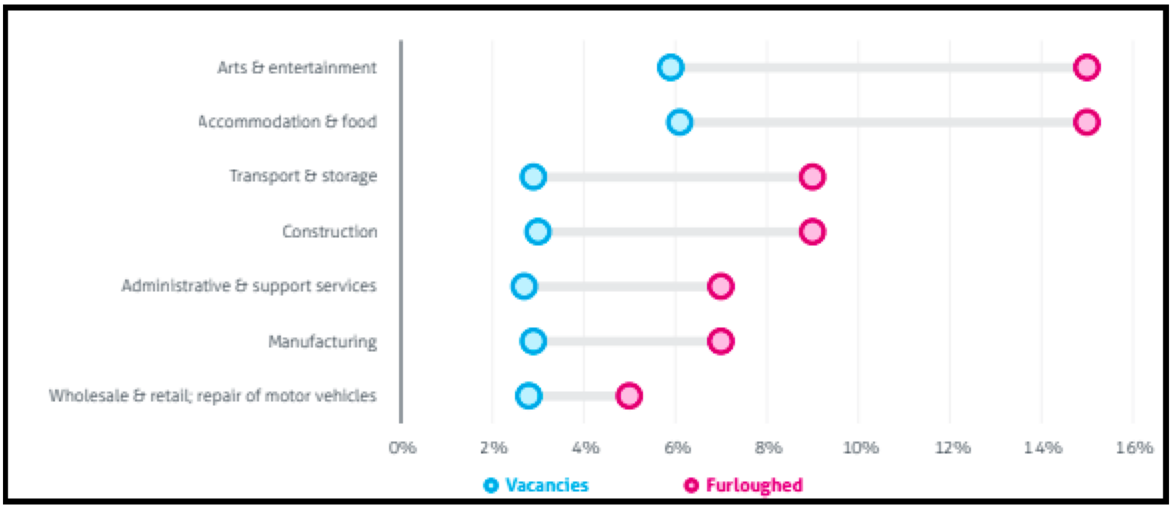

Figure 4: Available vacancies vs. furloughed employees (as a % of total jobs) in selected sectors, July 2021
Source: Institute for Government analysis of ONS, vacancies by industry, August 2021 and HMRC, Coronavirus Job Retention Scheme Statistics, September 2021.

Additional Figures

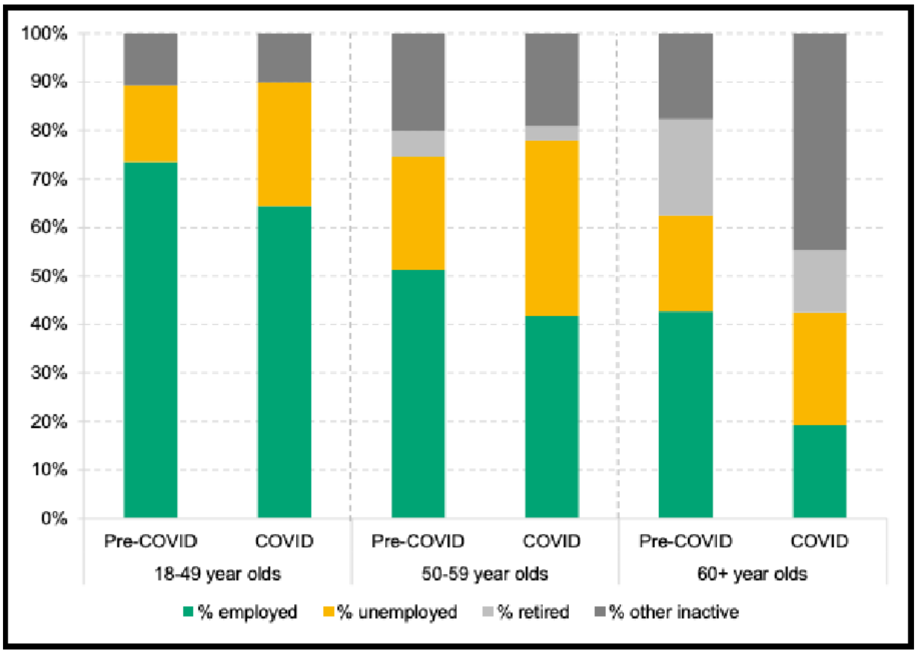

Figure 5: Economic activity of older employees made redundant, within six months of losing job
Source: UK Quarterly Labour Force Survey, 2017Q1–2021Q2.

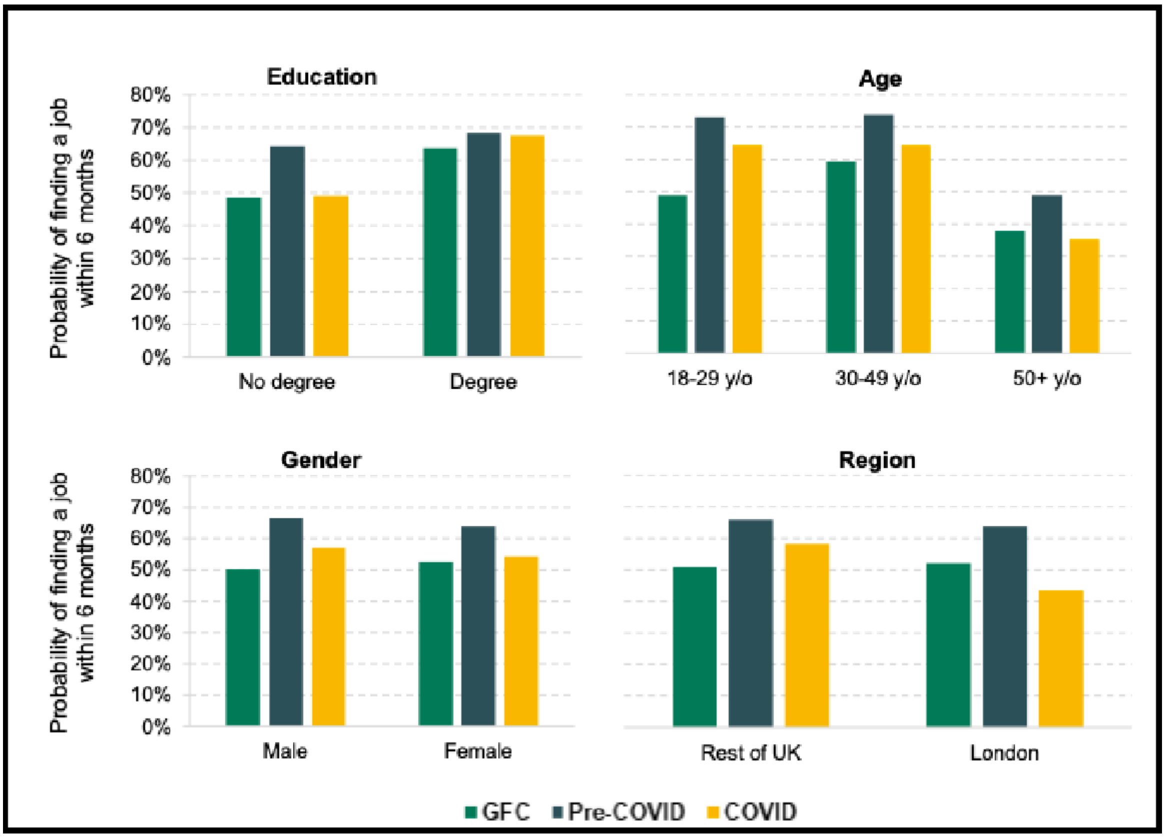

Figure 6: Six-month re-employment rates for redundant employees, by education, age, gender, and region
Source: UK Longitudinal Labour Force Survey, 2007Q4–2021Q2.

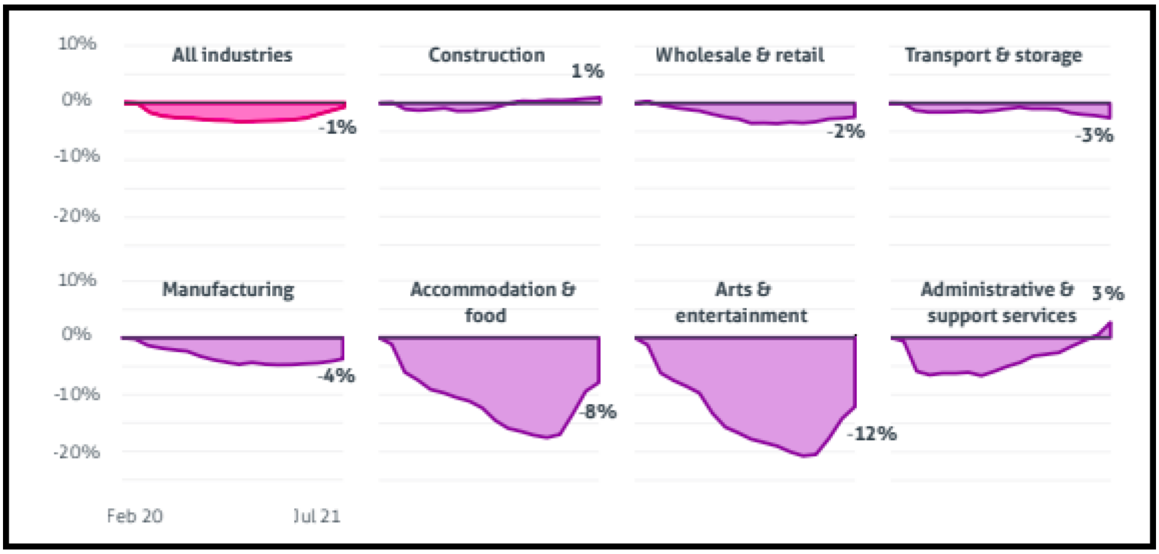

Figure 7: Change in employment by sector

Source: Institute for Government analysis of HMRC, payroll statistics, July 2021

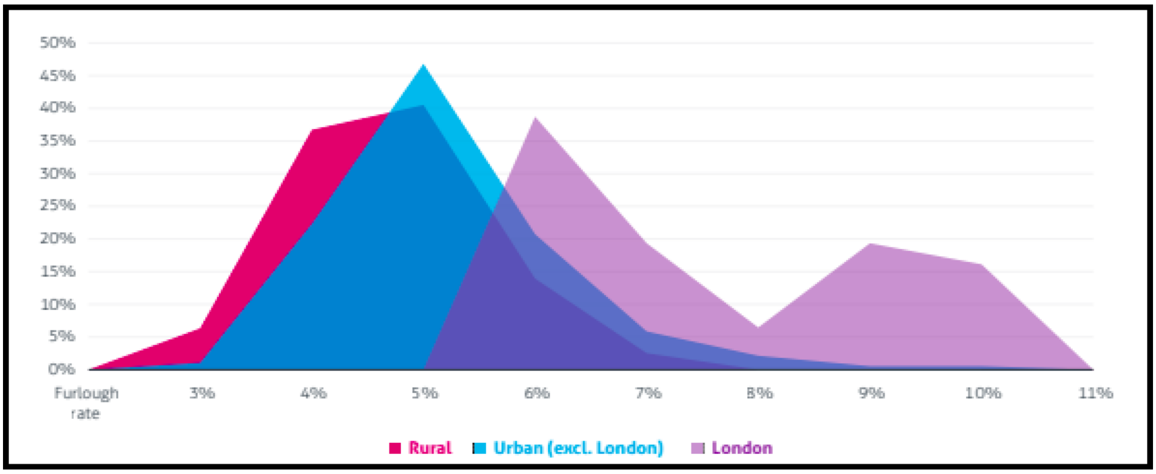

Figure 8: Distribution of furlough rates for rural, urban (excluding London), and London local authorities, June 2021

Source: Institute of Government analysis of HMRC, Coronavirus Job Retention Scheme statistics, June 2021 and ONS, urban/rural classifications of local authorities.

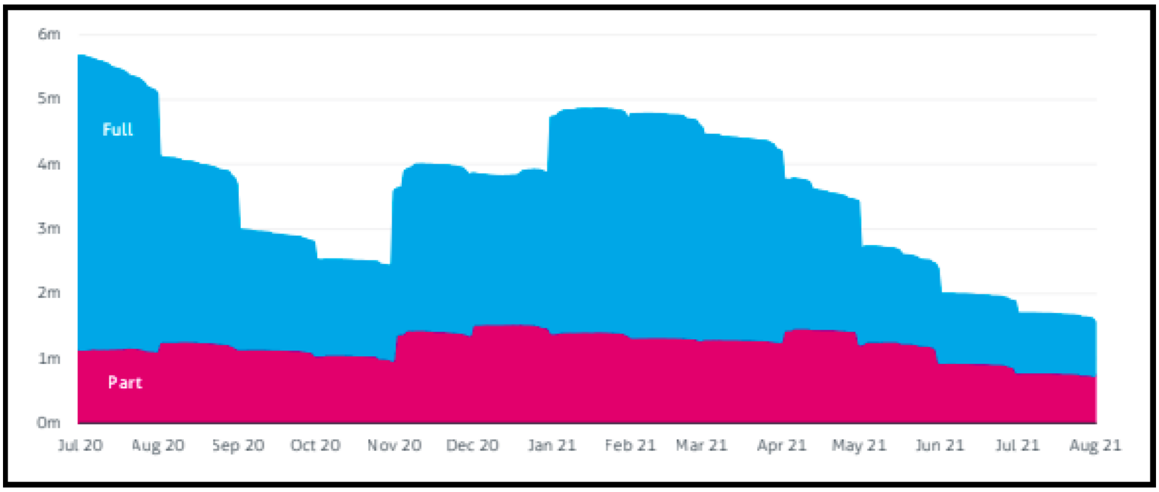

Figure 9: Number of employees on full and part furlough

Source: Institute for Government analysis of HMRC, Coronavirus Job Retention Scheme statistics, September 2021

Table 1: Composition of those made redundant: global financial crisis (GFC), pre-COVID and COVID-19 pandemic

Category	GFC (2007Q4–2010Q1)	Pre-COVID (2017Q1–2019Q4)	COVID (2020Q2–2021Q2)
By industry			
Agriculture, mining and utilities	2%	2%	2%
Construction	12%	15%	9%
Manufacturing	16%	9%	8%
Retail and transport	20%	22%	24%
Accommodation and food	7%	5%	3%
Professional and administrative	26%	26%	33%
Public sector	13%	17%	15%
Arts and entertainment	2%	2%	2%
Other	2%	2%	4%
By region			
London	10%	12%	16%
Rest of UK	90%	88%	84%
By gender			
Male	65%	56%	55%
Female	35%	44%	45%
By age			
18–24	19%	12%	13%
25–29	13%	10%	13%
30–39	23%	22%	20%
40–49	22%	21%	21%
50–59	18%	26%	23%
60+	6%	9%	10%

Source: UK Quarterly Labour Force Survey, 2007Q4–2021Q2.

V. Results & Analysis

Now that the furlough scheme has ended, some of those who were on furlough in Summer 2021 would have lost their jobs. In order to examine the type of workers who appear most at risk, we examine the composition of those furloughed as of July 2021 (the latest data available). Table 1 shows the absolute number and the percentage of furloughed employees by industry, region, gender, age bracket, and education group.

The aggregate furlough rate of 5% of employees in July 2021 masks considerable heterogeneity between groups. Unsurprisingly, furlough rates are much higher in some industries, particularly those hit hardest by lockdowns and other public health restrictions. For example, 15% of those employed in accommodation & food and arts, entertainment & recreation were still furloughed in July 2021. Around 6% of those employed in professional and administrative industries were on furlough in July 2021 – similar to the economy-wide average. However, because these industries (which include scientific and technical industries, finance, business services, and real estate) aresuch large employers, they represent a quarter of all people furloughed (400,000).

Around two-thirds of those on furlough do not have a degree, over half are the only working adult in their household, and just over a third neither have a degree nor live with another working adult. This is concerning since these groups tend to be more vulnerable to economic shocks. Those without degrees have lower earnings, lower savings, less job market security, and in thepast, have suffered higher unemployment rates during recessions, while those without additional earners in the household are less likely to have a second income stream to fall back on. Hence, if maderedundant,theseworkersareatrisk of persistently low living standards, particularly as the support provided by universal credit is considerably less generous than that provided by the furlough scheme. This is compounded by the end of the £20 per week universal credit uplift at the end of September 2021.

We also find that employees living in London and workers aged 60 and above are disproportionately likely to be furloughed, and have been throughout the pandemic. The high furlough rate amongst older workers is potentially troubling: if made redundant, many of these workers might never return to employment, as was the case during the 2008−09 recession in the United States.

VI. Evaluation

A) Job turnover has returned to pre-crisis levels, indicating a more dynamic labor market

The strength of the labor market can be judged not only by the number of people employed but also by how people are moving between jobs. A dynamic labor market – one in which new jobs are created rapidly (and unproductive jobs end) – is a driver of economic growth. Thisreallocation of people to more productive businesses and jobs away from less productive onesmakes the economy overall more productive.

At the start of the pandemic, the number of new jobs starting (inflows) fell dramatically and remained below pre-crisis levels until April 2021, as Figure 2 shows. After an initial increase in job losses (outflows), these also fell below pre-pandemic levels. In effect, people were much less likely to move jobs during the pandemic. Lower outflows are explained by the protection of businesses and jobs by government policy when in 'normal' (non-pandemic) economic conditions some would otherwise have ended.* At the same time, inflows were much lower because businesses were much less likely to be hiring people and employees were less likely to risk taking up a new job if their existing one seemed viable during a period of high uncertainty. The CJRS also applied only to jobs that existed before 23 March 2020 rather than any createdafter that.

Since April, the number of new job starts has increased too far above pre-crisis levels. This reflects the return of demand to some sectors and net growth in employees overall. The number of outflows has also increased (although less quickly than inflows) back towards pre-pandemic levels. This return of churn in the labor market is a positive sign – and a signal of a return of a healthy labor market.

B) Vacancies have also returned to pre-crisis levels and are getting harder tofill

A strong labor market is also one in which many employers are looking to hire. The fall in job starts during the pandemic largely reflected that most businesses were not looking to hire during a crisis. Even in September 2020, the number of job vacancies posted was around 40% below pre-crisis levels – and it was 75% below in the accommodation and foodsector.

However, Figure 3 shows that in most sectors the number of vacancies is now at or above February 2020 levels (seasonally adjusted). In some sectors – especially hospitality – this is helping to offset job losses during the crisis. In other sectors, such as manufacturing, it may reflect a broader strength in demand. The only sector in which vacancies remain substantially below pre-crisis levels is retail. This may reflect continued uncertainty about city centers which – as we noted above – have recovered less quickly during the crisis.

Vacancy rates have increased above pre-crisis levels in sectors where many employees remain on furlough, although the number of employees furloughed still exceeds vacancies in all sectors (Figure 4). This indicates that while some businesses in those sectors are still struggling and may never recover, other businesses are growing. This partly reflects the differing pace of recoveries regionally – for example, more workers are furloughed in London, but more vacancies are available elsewhere. Either way, it points to a short-term 'friction' in the labor market between where jobs are available (across different businesses or possibly also geographically) and where unemployed and furloughed workers are. In general, a labor market where some employers are losing workers while others are hiring is what we would expect to see when the economy is functioning normally. But the furlough scheme, which is helping businesses to keep workerswho are not currently fully employed, may be slowing down this normal, healthy process.

Survey data collected from employers shows that filling vacancies have become more difficult. The Bank of England reports 'availability of staff' indexes based on surveys of firms, which suggest that vacancies were harder to fill in summer 2021 than they had been at any point since at least 2005. Meanwhile, the Bank of England's agent reports (based on interviews with businesses) also find growing difficulties. This is despite the fact that the total number of employees is still below pre-crisis levels, the number of unemployed people (looking for work but without a job) is still above pre-crisis levels, and more than 1.5 million employees are being supported by the furlough scheme. The Bank of England interprets this as further evidence of 'frictions' in the labor market – in other words, there is not a good match, in terms of required skills and geography, between the jobs available and the people searching.

The return of a dynamic labor market and more job opportunities means that those who are on furlough when the scheme comes to an end will have much better job prospects than would have been the case earlier in the pandemic. In October 2020, when the government had intended to end the scheme, the alternative for those employees not placed on the Job Support Scheme would probably have been unemployment because there were few other job opportunities. However, now there are more job opportunities than before the crisis. Employers are also finding those vacancies harder to fill, so in so far as the furlough scheme is slowing the reallocation of people to jobs with better prospects, the labor market's health further supports ending itsoon.

VII. Conclusion

A) The furlough scheme has been successful and mostly achieved its primaryobjective

The scheme has protected most jobs. The number of employees was never more than 800,000 lower than pre-coronavirus levels. In some sectors, almost all jobs have been affected by the pandemic in some way and many would probably have been lost – at least temporarily – in the absence of the scheme. But there are now only a little over 1.5 million jobs being supported by the scheme, and employment has almost returned to pre-crisis levels.

The UK has managed to protect jobs as successfully as France and Germany, two countries with similar wage subsidy schemes. The experience of Canada and the US, where more people were allowed to become unemployed initially and employment has recovered more slowly (even though the hit to economic output in those countries was smaller than in the UK and it has recovered more quickly in the short term), is an insight into what might have happened in the UK in the absence of the furlough scheme. Furthermore, the difficulties employers are now experiencing in hiring workers in those countries support the rationale for the CJRS: that retaining employer-employee links would allow the economy and labor market to operate more smoothly once the pandemic receded.

B) The rationale for the scheme no longer applies if restrictions do notreturn.

Throughout most of the crisis, the labor market was depressed. Few people were leaving their jobs, and businesses were not looking to hire. However, that has changed. Job vacancy postings are now above pre-crisis levels overall – and are approaching pre-crisis levels even in sectors like accommodation and food, where 15% of employees are still furloughed. The total number of employees in the UK has recovered almost to pre-crisis levels. The movement of people from unviable jobs to new jobs in growing, more productive businesses is usually an essential driver of economic growth. As few businesses were looking to hire during the worst of the pandemic, there was little risk that the CJRS was slowing down this reallocation because the alternative to being furloughed was probably unemployment. However, now that there are other jobs to go to, there is a risk that the scheme will stop people in unviable jobs searching for new jobs, or at least make them search less intensively.

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