

**Written evidence from Dr Prof Görtz, Dr Santosh Koirala and Prof Danny McGowan  
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**Cost-of-Living Crisis, Travel Chaos and Supply Chain Disruptions – A Targeted Furlough Scheme to Ease the Pain**

**Submitted by Dr Prof Görtz, Dr Santosh Koirala and Prof Danny McGowan.<sup>1</sup>**

1. The research underlying this written evidence has been undertaken at the University of Birmingham.
2. Our analysis uses multivariate regression applied to annual firm-level data for the years 2004 to 2021 from the FAME database provided by Bureau van Dijk. The database is comprehensive, containing over 1 million observations of UK firms and reports their annual revenue, employment and other variables.
3. Our research provides novel insights:
  - Instituting a Targeted Furlough Scheme (TFS) could mitigate recent adverse employment effects due to inflation, supply chain disruptions and worker shortages following the removal of COVID-19 restrictions.
  - The TFS allows firms experiencing a 15%+ contraction in annual revenue to furlough workers. The government would provide an 80% monthly wage subsidy. This prevents unemployment and shields workers from financial distress that arises following redundancy.
  - The TFS also allows firms experiencing large unexpected revenue falls to temporarily reduce staff to reduce costs and prevent bankruptcy. Furloughing workers prevents workers shortages once production returns to normal levels because firms can draw upon furloughed workers rather than try to hire new employees who may be scarce.
  - The cost of implementing a TFS in the United Kingdom is relatively low: between £444 million and £528 million per annum.
  - Countries like Germany and Switzerland used short-time furlough schemes outside the COVID-19 pandemic to dampen the adverse effects of recessions. The combination of limited costs to taxpayers and huge advantages to households and firms makes the TFS an appealing policy measure to help mitigating the adverse effects of the current crisis.

**Lessons from the Coronavirus Job Retention Scheme**

4. On March 23, 2020, the UK government implemented a national lockdown to curb the spread of COVID-19. Facing a sharp increase in unemployment as employers shut down their operations, the government announced the CJRS on March 20, 2020. The furlough scheme allows all UK employers with employees on a PAYE scheme to

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<sup>1</sup> Christoph Görtz, Professor of Macroeconomics, University of Birmingham, email: [c.g.gortz@bham.ac.uk](mailto:c.g.gortz@bham.ac.uk).

Santosh Koirala, Associate Professor of Finance, University of Birmingham, email: [s.koirala@bham.ac.uk](mailto:s.koirala@bham.ac.uk).

Danny McGowan, Professor of Finance, University of Birmingham, email: [d.mcgowan@bham.ac.uk](mailto:d.mcgowan@bham.ac.uk).

designate some or all employees as 'furloughed workers'. Under the scheme, employers may place some or all workers on temporary leave while keeping them on the payroll without working. The government pays 80% of furloughed workers' wages up to a maximum of £2,500 per month, as well as national insurance and certain pension contributions. Employers have discretion about whether to pay the remaining 20%, although most chose not to. The furlough scheme officially closed on September 30, 2021.

5. Throughout 2020 and 2021 the CJRS was used by 1.3 million employers and supported 11.7 million jobs. At the peak in May 2020, it applied to 8.9 million jobs. Approximately one quarter of the workforce experienced furlough at least once during the pandemic. The scheme is widely considered as the key policy measure that supported households and firms during the pandemic.
6. Implemented in a hurry, the CJRS was an expensive blanket scheme, costing almost £70 billion which equates to 8% of 2021 government expenditure. The nature of the Covid-crisis required a swift response. Research suggests that the CJRS was successful in mitigating household financial distress and in maintaining employee-employer relationships. While many countries, such as France, Germany and Switzerland, use carefully designed short-time work schemes amongst their set of permanent automatic stabilizers, the CJRS was not sustainable over longer periods of time and was not designed for this purpose. Any future short-time work scheme used in the UK could build on the positive experience with the CJRS, but it should entail a carefully targeted design to make the scheme financially sustainable so that it can serve amongst the set of other automatic stabilisers during future recessions.
7. Particularly during lockdowns in 2020 and 2021, the CJRS supported workers by preventing mass unemployment and simultaneously eased firms' financial constraints by allowing them to reduce labour costs. Once lockdown restrictions were removed, it helped to revive economic growth as retained employer-employee links allow firms to quickly reactivate their operations without having to incur time and monetary costs of hiring new workers. Research shows the UK government's 80% contribution to a furloughed worker's monthly wage up to a limit of £2,500 each month was effective in minimizing the incidence of household financial distress at the lowest cost to taxpayers.
8. During the CJRS scheme's existence, multiple drawbacks became apparent. The CJRS was effectively available to all firms as employers could self-assess whether their finances had been detrimentally affected by the pandemic. In addition, cases of fraud have been reported where employees have been forced to continue working while furloughed. The lack of eligibility requirements and compliance monitoring exposes public finances, and taxpayers, to potentially high costs as firms that experience non-COVID-19 related financial difficulties may use the scheme. A further unintended consequence is that zombie firms remain active rather than closing down which hampers productivity growth and prevents the best firms from growing their market share. A furlough scheme should be flexibly designed to provide support to firms most in need, both between sectors and across regions, rather than allowing all employers to access it.

### **The Design of a Targeted Furlough Scheme**

9. The TFS we propose incorporates the effective elements of the CJRS — an 80% contribution to a furloughed worker's monthly wage up to a limit of £2,500 each month —

but supplements it with eligibility and compliance monitoring measures for employers and support for employees at the poverty line. Eligibility is monitored, as is the case in other countries, through management accounts and bank statements. Corporations need to demonstrate that turnover has fallen by at least 15% year-on-year to qualify for wage support. This approach is used in Ireland. These features ensure support is rapidly provided to businesses in hard-hit sectors and regions, but also ensure taxpayers' money is spent prudently while also limiting competitive distortions. Compliance will be monitored under the TFS through random HMRC inspections to verify that only eligible firms use it. Fines would be issued in the cases of misuse. This would obviate the issue that workers are asked by their employer to commit furlough fraud by demanding they continue working while furloughed. Where large numbers of firms apply, self-assessment coupled with subsequent HMRC inspections to verify eligibility would be feasible.

10. For people at the poverty line, even small adverse income shocks lead them to struggle paying their bills. The 20% income reduction under the CJRS implied that many households at the poverty line experienced severe financial difficulties. In fact, over 80% of furloughed individuals that earned the minimum wage experienced severe financial difficulties under the CJRS. The TFS shields workers at the poverty line by providing a 100% wage contribution. The additional 20% government contribution for these individuals would have amounted to just 1% of total CJRS spending during 2020 and 2021. For these workers, the additional 20% of wage contributions under the TFS could be provided by the government, but alternatively they could also be covered by employers as a condition for permission to furlough workers.

Summary of the key elements of the Targeted Furlough Scheme (TFS):

- UK government contributes 80% to a furloughed worker's monthly wage up to a limit of £2,500.
  - A 20% additional contribution to wages of furloughed individuals who earn the minimum wage, potentially funded by mandatory employer payments.
  - Eligibility is subject to a 15% decrease in company turnover over the past month.
  - Compliance is monitored by random HMRC inspections with penalties for misuse of the scheme.
11. Our proposed Targeted Furlough Scheme (TFS), as a policy measure delivers the benefits of a short-time work program outside a pandemic setting. The TFS retains the successful elements of the CJRS and incorporates additional eligibility criteria and monitoring to provide effective targeted support for those firms in need while using taxpayers' funds prudently. Our estimates show the program would have been much cheaper than the CJRS while delivering similar benefits. This makes it a useful tool for UK policy makers to dampen the adverse effects of future recessions on households and firms.

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