

Written Evidence submitted by Dr Christoph Görtz, Prof Danny McGowan and Dr Mallory Yeromonahos.¹

The Coronavirus Job Retention Scheme: Insights on the design of the scheme and lessons for future lockdowns

1. The research underlying this written evidence has been undertaken based on research grant funding provided by the UKRI/ESRC (project ES/V015958/1). It studies the design of employment support schemes to mitigate the economic effects of the COVID-19 pandemic. The research was conducted at the University of Birmingham.

2. Our analysis uses probit regression analysis and a data set from the Understanding Society Database (USD) that follows over 16,000 households at 8 points in time between April 2020 and April 2021. The data is representative of the UK population and covers almost the entire time during which employees could be newly registered to participate in the Coronavirus Job Retention Scheme (CJRS).

3. Our research provides novel insights:

- The absence of a detailed employment support scheme created severe economic risks, because national lockdowns are only feasible in practice when supported by a job support scheme.
- Despite the extremely short implementation phase, the design of the CJRS minimises household financial distress. Only 2% of furloughed workers experience financial distress due to the CJRS.
- An 80% government contribution to furloughed workers' monthly wages minimises household financial distress at lowest cost to taxpayers.
- A more careful design of the CJRS could have built on other countries' previous experience of using furlough schemes to mitigate economic damage and abuse of furlough by employers.

Overview of the CJRS

4. Under the CJRS, the government contributes 80% of a furloughed worker's wage up to a limit of £2,500 each month. Employers have discretion about whether to pay the remaining 20% but

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the majority choose not to. The average furloughed worker experiences a 17% cut to their monthly wages. The furlough scheme officially closed on September 30, 2021.

5. Approximately 1.3 million employers furloughed 11.6 million jobs under the CJRS. On average, a worker is furloughed for 4.8 months. 30% of the UK workforce is furloughed at some point during the pandemic.

6. The government has spent £68.5 billion on the CJRS – equivalent to 8% of annual government expenditure.

Was the CJRS necessary? Will it be necessary in future?

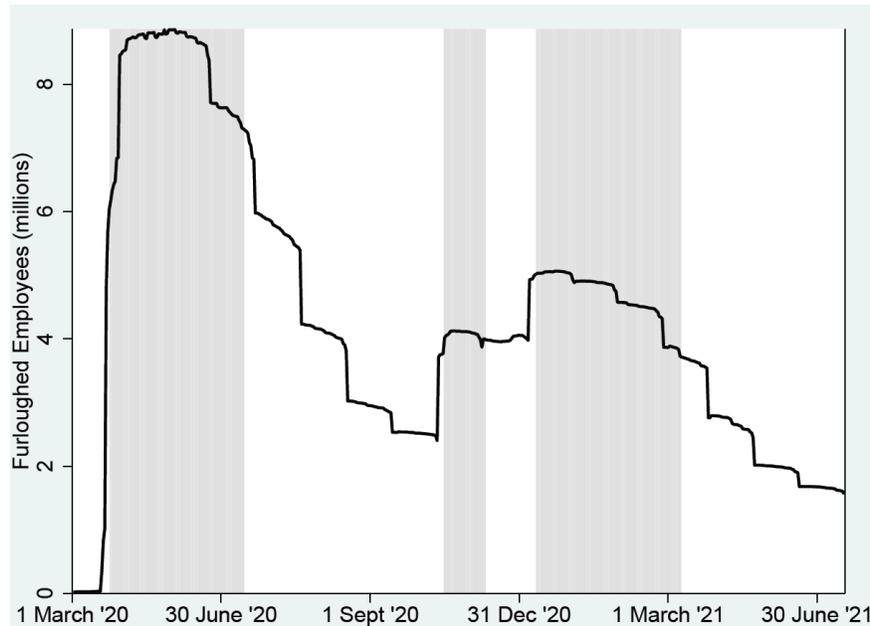
7. Implementing a national lockdown without the CJRS would not have been feasible in practice. The CJRS allowed employers to reduce labour costs during a period of acute strain when their businesses were closed.

The CJRS was a lifeline for employees and their families who would have faced unemployment and a dramatic reduction in their disposable income. By paying 80% of monthly wages, the CJRS limited the negative shock to households' income.

The CJRS was important for the economy as a whole as it prevented mass unemployment during lockdowns. It helped revive economic growth following the lifting of lockdown measures as retaining employer-employee links allowed firms to reactivate their operations without having to incur time and monetary costs of hiring new workers.

8. The government's risk assessment should incorporate national lockdowns, which should be complemented by the CJRS in response to future waves of infection. Figure 1 shows the incidence of furlough during the pandemic. The number of furloughed workers increases sharply at the beginning of each national lockdown. To prevent a sharp recession, any future lockdown requires reinstating the CJRS. Previous lockdowns were announced at short notice. The CJRS must be rolled out in tandem with a lockdown announcement. Currently, the CJRS has not been put on hold but ended. It is not apparent that the government has the required processes and apparatus in place to reinstate the CJRS at short notice without the implementation issues that arose during the scheme's initial introduction.

Figure 1: Incidence of Furlough and Lockdowns during the COVID-19 Pandemic



Notes: The grey shaded bars show the times of national lockdowns. Data source: HMRC coronavirus (COVID-19) statistics.

Optimal design of the CJRS

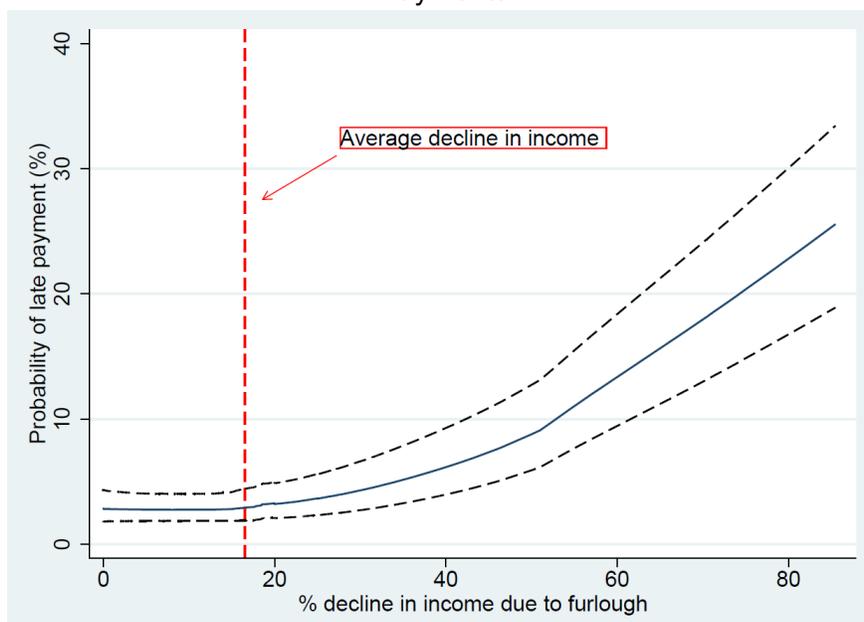
9. Other countries (e.g. Germany, Switzerland) had furlough schemes in place in response to previous crises and used them effectively to mitigate the effects of the 2007 Financial Crisis. In contrast, the UK government had no contingency plans for an employment support scheme before the first national lockdown in March 2020. Design of the CJRS was therefore ad hoc and was ignored as a policy measure to alleviate risk.

10. Other countries have furlough schemes with different characteristics compared to the UK's and have other social security measures. For this reason, only limited lessons can be learned from these schemes. Our research sheds light into whether the design of the CJRS is effective in preventing household financial distress and provides guidance on whether the CJRS design results is an effective use of taxpayers' funds.

11. The CJRS increased the level of financial distress, measured through late housing or bill payments, in the UK by 2 percentage points. We find that during the pandemic, a furloughed worker is 30% more likely to be late on housing payments and 9% more likely to be late on bill payments, relative to a non-furloughed worker. Despite these large relative effects, due to the low incidence of financial distress among non-furloughed workers, the CJRS increases the incidence of financial distress among the UK workforce only by 2 percentage points. The design of the CJRS appears to be successful in mitigating strong rises in the number of households experiencing financial hardship during the COVID-19 pandemic.

12. Our evidence shows the scheme is well designed from a taxpayer’s perspective. Estimates show an 80% government contribution to furloughed workers’ wages minimises the incidence of financial distress at the lowest cost to taxpayers. Figure 2 illustrates the predicted probability of financial distress across the distribution of furlough-induced decline in income. For income declines between 0% and 20% (the range where employers make no wage contributions), the curve is essentially flat. In this region, the probability of financial distress is invariant to the furlough-induced decline in income. An implication of this result is that increasing the extent of government support from 80% to 90% of monthly wages would have little effect on reducing the incidence of financial distress. In contrast, the probability of late housing payments increases rapidly for furlough-induced income declines above 20%. For example, the probability of being late on housing payments is 6.5% for a 40% decline in income, but almost 25% for an 80% income decline. Most individuals who experience such large declines in income tend to be those with high pre-pandemic earnings whose income falls to £2,500 per month.

Figure 2: Share of Income Lost due to Furlough and Probability of Late Mortgage, Rent or Bill Payments



Notes: This figure shows the median predicted probability of late payment on either housing or bill payments (the solid blue line), and 95% confidence intervals (the black dashed lines).

Future CJRS design improvements

13. For households experiencing financial distress due to being furloughed, complementary social security measures are vital in future to prevent household default on their financial obligations. Going into the pandemic, many households had insufficient savings and among those experiencing furlough, their financial situation has not improved. Repeated future lockdowns will worsen the situation.

The CJRS prevented mass unemployment and the resulting widespread household default. In the absence of the CJRS, workers would be made redundant and would have to cover expenses solely from unemployment benefit. This would require dramatic adjustments to household expenditure which are difficult at short notice. Alternatively, households could draw down their savings. However, 45.7% of furloughed individuals could not have covered the shortfall at all, because they did not have any monthly savings prior to the pandemic. They would have been in substantial financial difficulties without the CJRS. Among the remaining workers, half saved less than 13.4% of their take home pay prior to the pandemic. Given the average person is furloughed for 4.8 months, they would have needed 22.7 months prior to the pandemic to accumulate the savings buffer necessary to survive furlough.

14. In future the CJRS requires monitoring to ensure compliance with the scheme's guidelines so that taxpayers' money is used prudently. Approximately 33% of workers have been asked by their employer to work while furloughed either part time or on an ad hoc basis. Moreover, firms do not need to provide evidence that they are in need for support through the CJRS, as in other countries (e.g. Australia, Canada, Denmark, Ireland, Sweden). This constitutes a risk to public finances.

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