The labour market after the Job Retention scheme

Proposal for a part-time wage subsidy

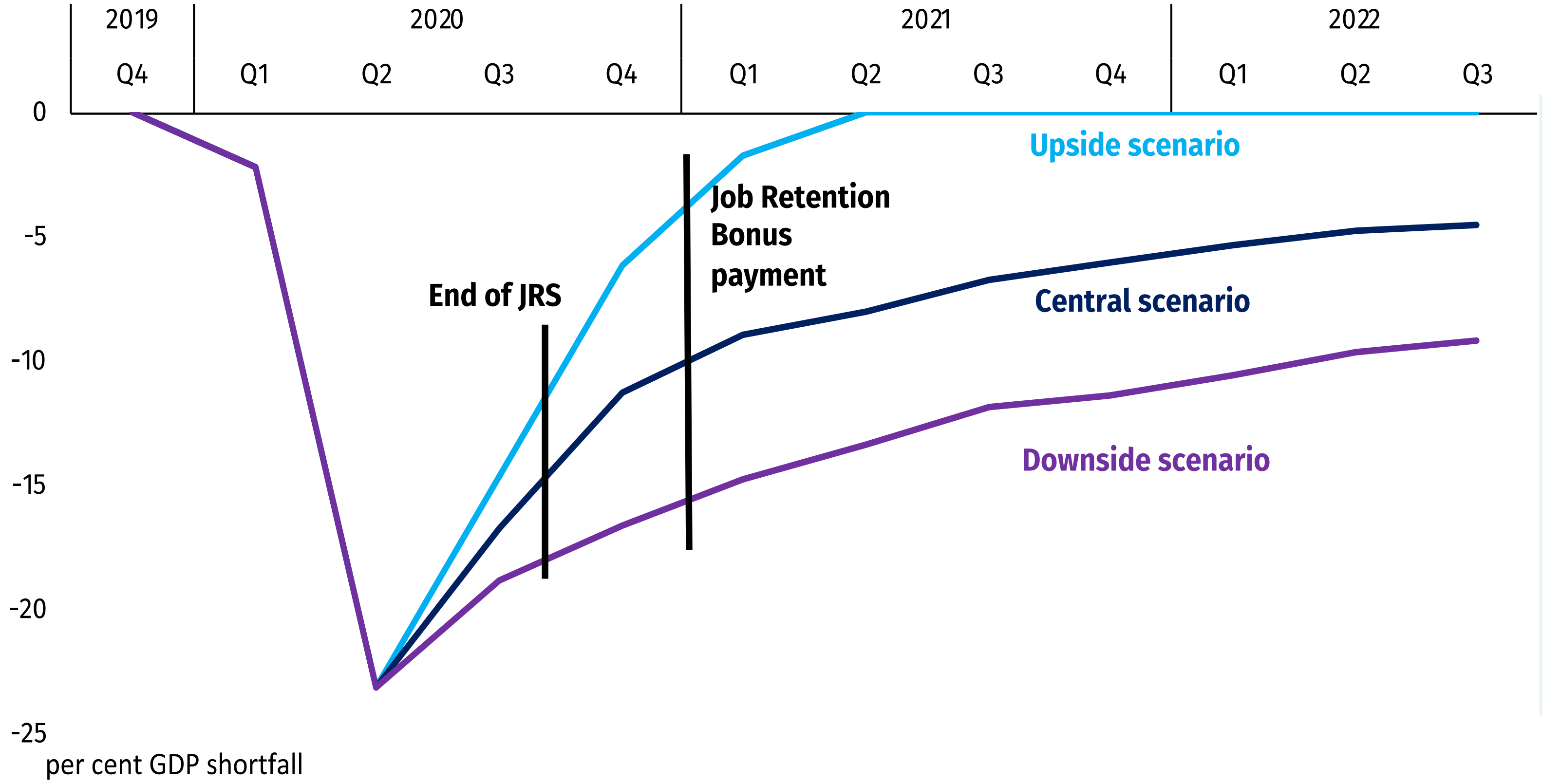
The progressive policy think tank

Carsten Jung, 9 Sep 2020

Job support schemes might be needed into 2021

Current job support schemes will end before recovery will have taken hold

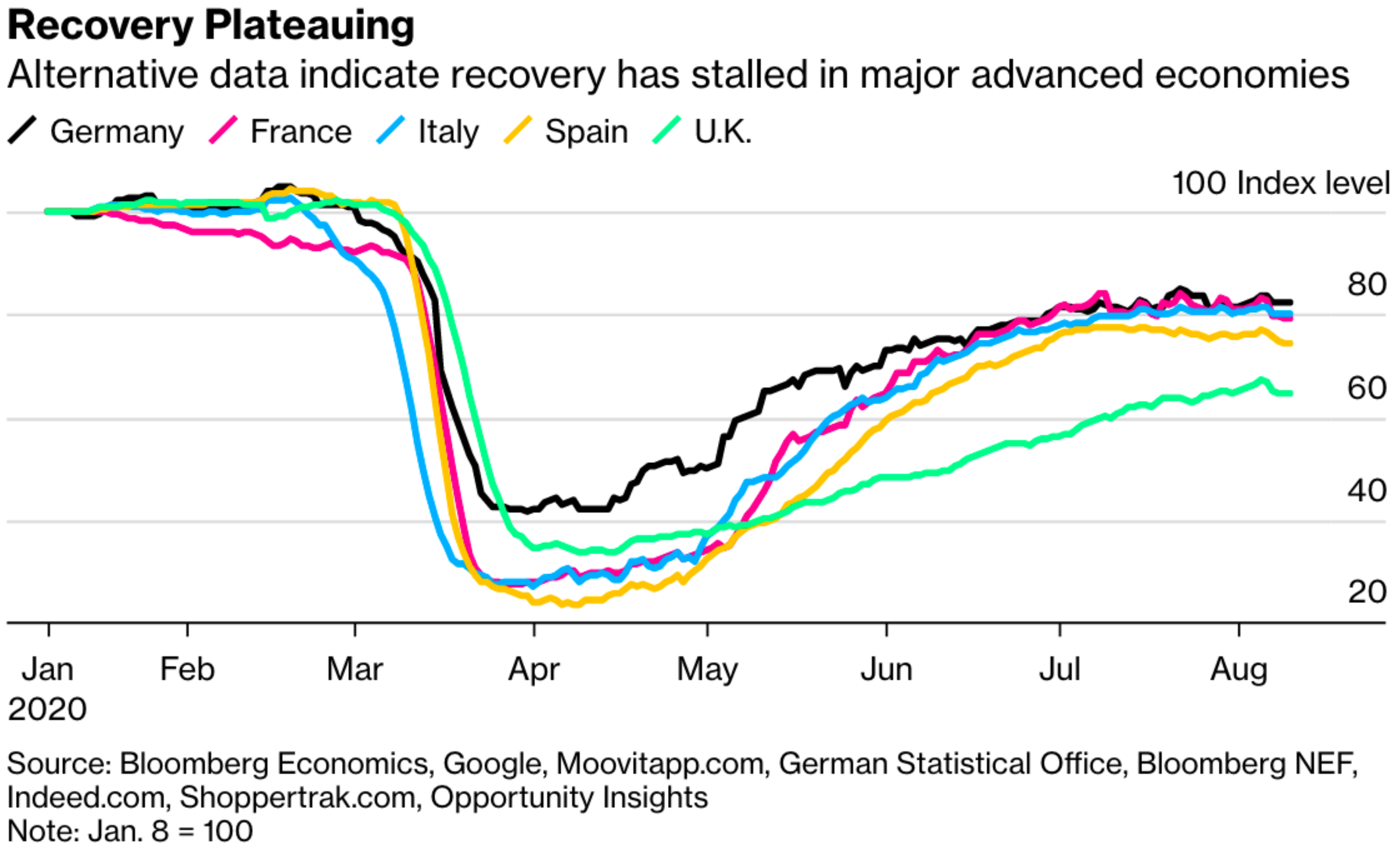
GDP shortfall compared to pre-crisis forecast



Source: OBR (2020).

- Current schemes are set to end before the economy has substantially recovered.
- Even in an upside scenario, economy only returns to where it was before in Q2 2021.

The recovery might not be V-shaped

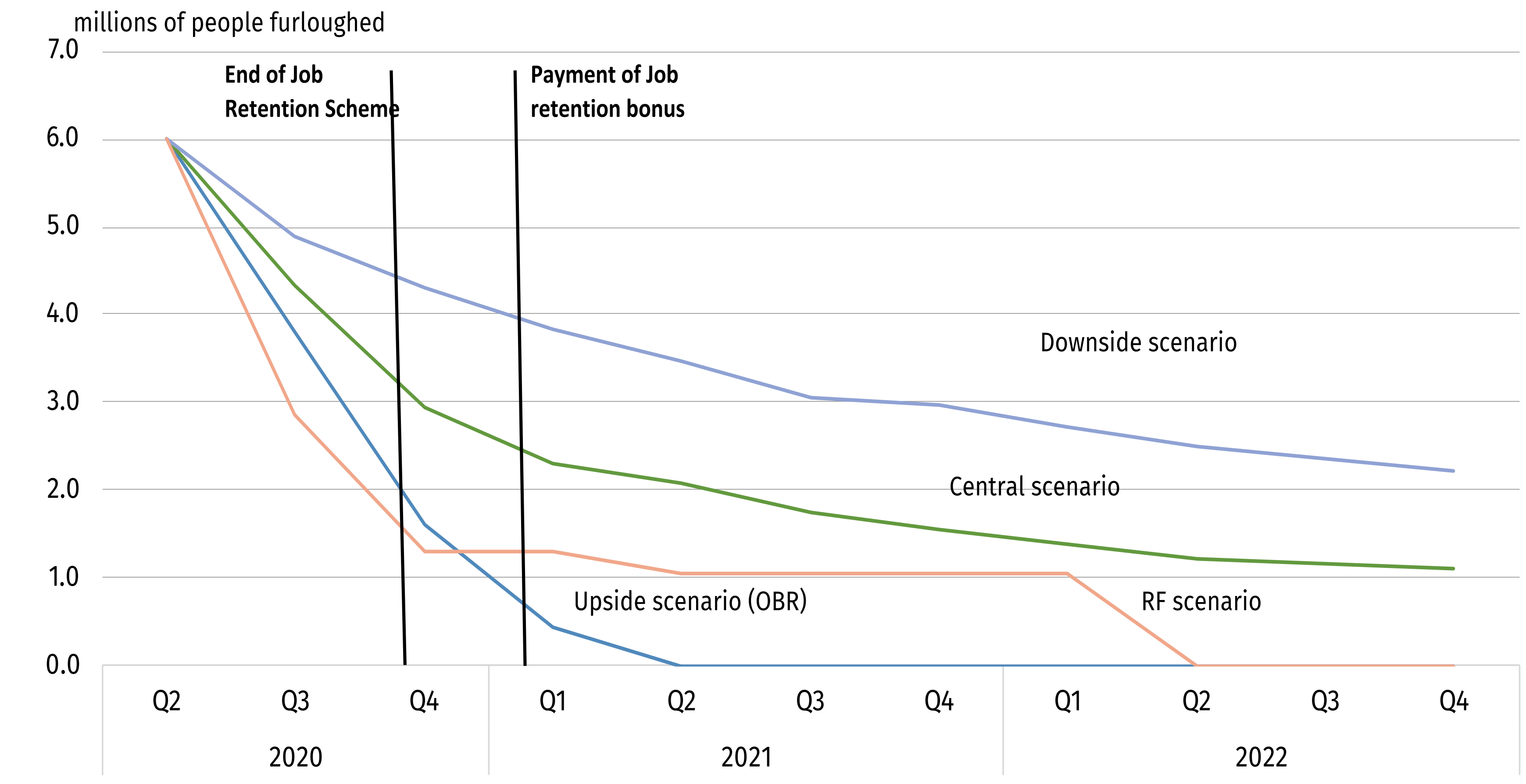


- Data from across Europe indicates that lockdowns might take longer to unwind than in initial optimistic scenarios.
- UK outcome might be closer to the OBR’s central scenario.

Source: Bloomberg (2020).

The need for jobs supports extends into 2021

The GDP scenarios suggest extended need for job support schemes



- 3 million people might still need job support when the JRS ends in October.
- 2 million of these could be viable once demand recovers over the next year.
- But 1 million jobs might be permanently lost.

Source: IPPR analysis of OBR (2020) and Bank of England (2020). Note: Given the absence of time series data on the number of furloughed workers, we used the Bank of England estimate of 6m for Q2 2020. Time series data has since been released by HMRC showing that the number of workers on furlough was about 1 million higher than the BoE estimate, meaning our estimates likely are on the conservative end.

The solution: Coronavirus Work Sharing Scheme (CWSS)

- **Extend the JRS until March 2021** (with employer contributing 20% of wage +NIC and pension)
  - *This will maintain incomes for hours not worked.*

- **Introduce a part-time work subsidy of 10%, for all hours worked part time**
  - *This is based on economic first-principles: subsidise directly the activity that you would like to encourage (returning to active work on a part-time basis).*

- **Open the scheme up to new firms, but introduce criteria for better targeting**
  - *Based on lockdown restrictions and a quantitative metric* *(see slide 9)*

The rationale: make part time work profitable for firms

Example: a firm has only 50% of demand

Option A: Keep all workers on, letting them at 50% of full time

vs

Option B: Keep only 50% of workers at full time

Use **part-time subsidy** to make this more profitable

The following condition needs to hold to make Option A more profitable for the employer:

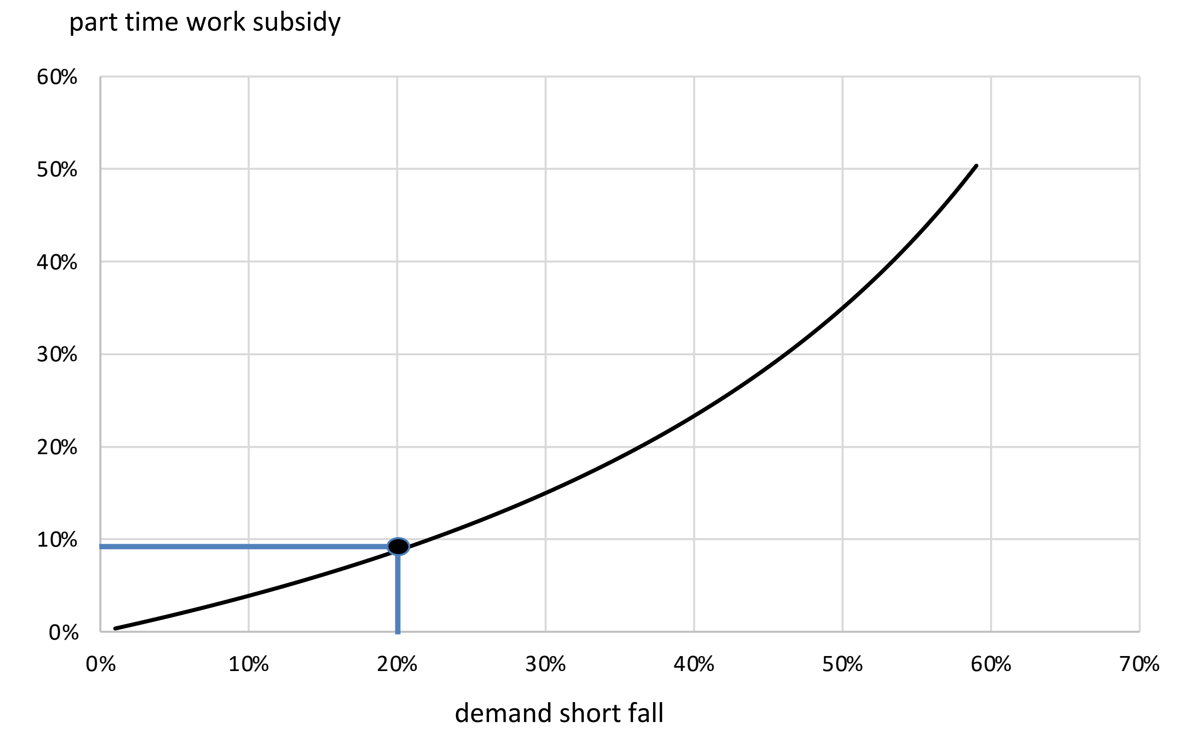
$$\mathbf{X} < 1 - \left(\frac{\alpha}{1-\alpha}\right)(y + \tau)$$

Share of part-time wage paid by employer

Demand shortfall

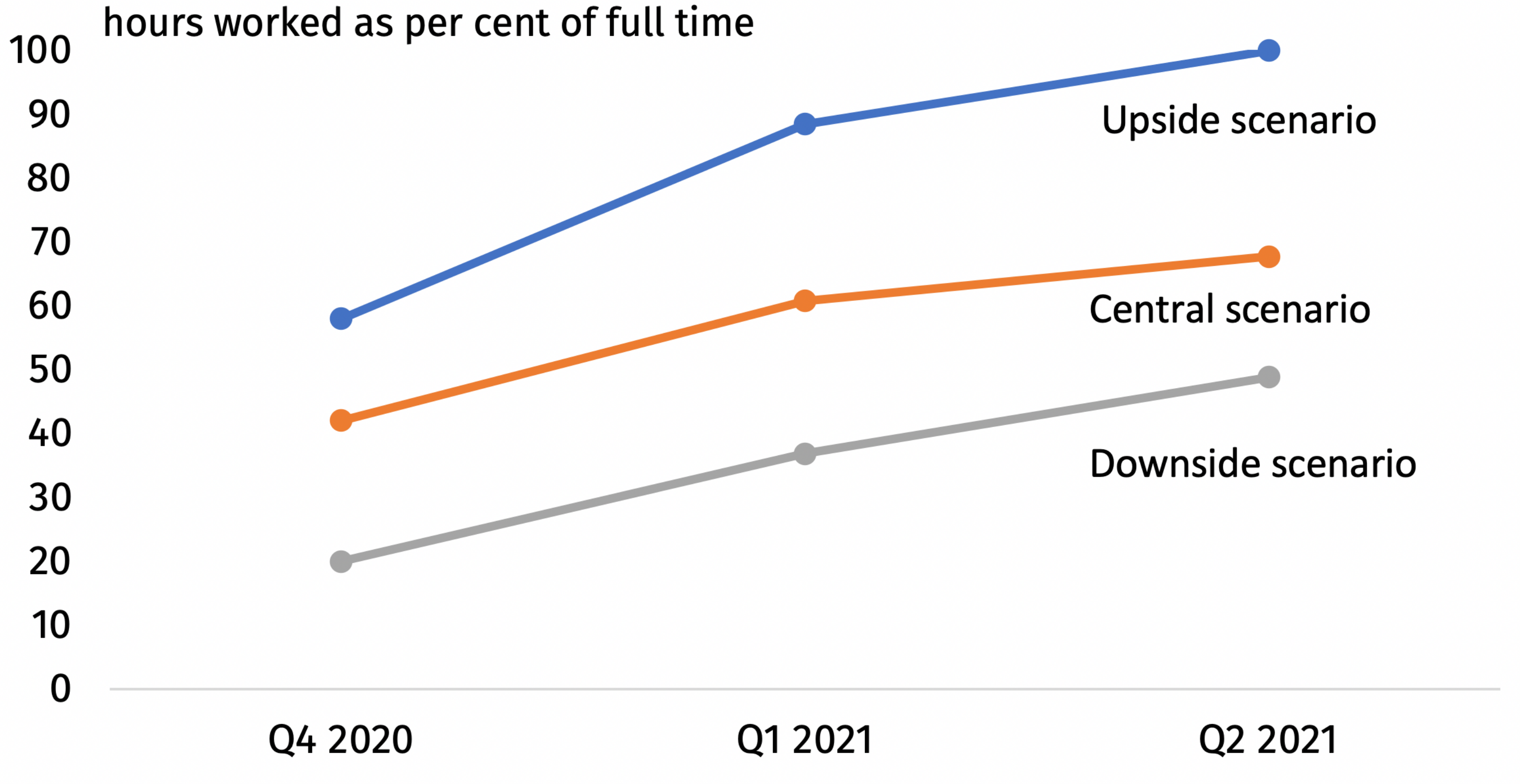
Employer contribution to non-worked hours

NIC and pension contribution as % of wage



Part time working would be the bridge to recovery

Over the next months people would move gradually towards returning to full time work



- In the upside scenario, all workers would be back to full time in Q2 2021.
- In central scenario, people would be back at 70% in Q2.
- In spring, the scheme could be reviewed and criteria could be adjusted.

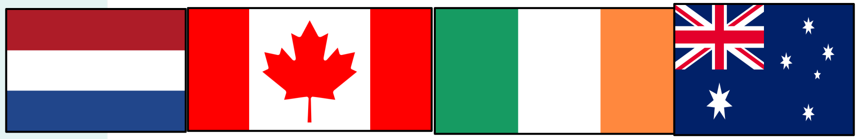
Note: these scenarios assume that all those on the JRS in Q3 2020 move on the job-sharing scheme. If fewer people move on the scheme, the share of full-time hours worked will be lower.
Source: IPPR analysis of OBR (2020) and BoE (2020).

The debate is shifting towards subsidies for hours worked

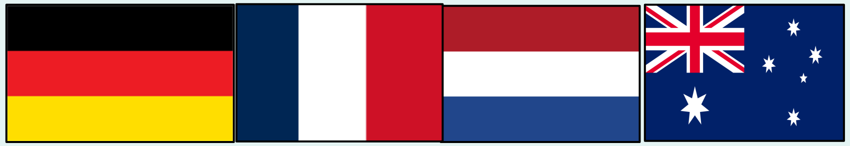
Reaping the benefits of a work subsidy:

- It keeps people in active work (rather than on furlough, out of work)
- It stabilises incomes, serving as a fiscal automatic stabiliser
- OECD (2020): "wage subsidies may provide incentives for firms to maintain higher hours and increase them more quickly when conditions improve."
- OECD: "such subsidies [are] especially useful in countries with low costs of shedding workers" (like the UK)
- Keeps people in work and with income even if they later transition
- Hours not worked could be used for upskilling & training (as proposed in Germany)

Examples of work subsidy schemes:



Examples of countries that are extending their schemes far into the new year:



Targeting the scheme

The economics of the scheme would prevent firms from propping up ‘zombie jobs’:

- The employer contribution to non-worked hours of 20% is a **disincentive for keeping people on full-time furlough.** Therefore, unviable jobs would likely be shed, as simply putting people on full-time furlough would be loss-making.
- The 10% part time work subsidy in turn would ensure people do return into active work.

Criteria could be to approve firms that:

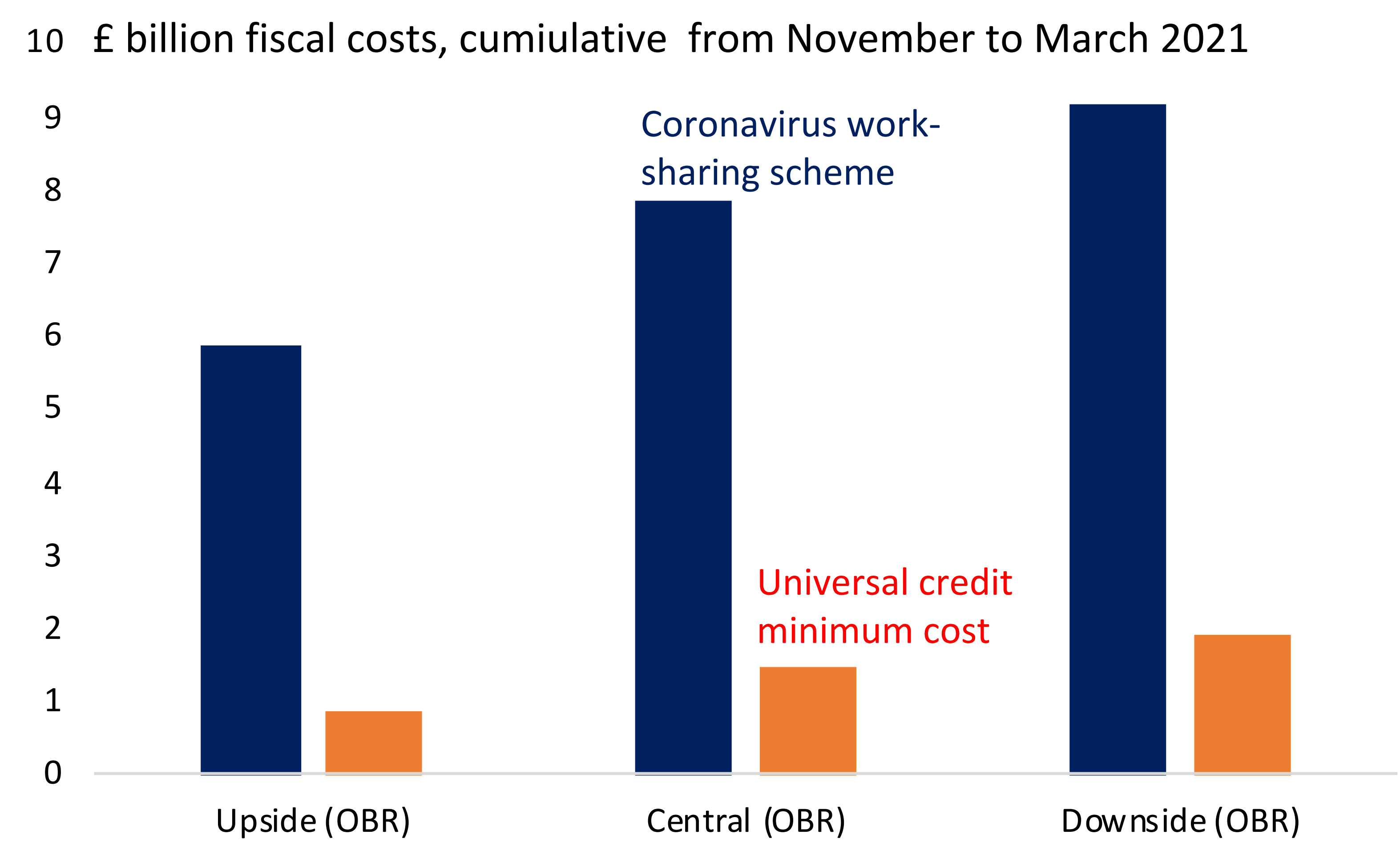
- Are in a sector that is still **affected by social distancing** measures, in a way that is impacting sales.
- Are located in an area experiencing a **local lockdown**.
- Are evaluated based on a **quantitative metric**: for instance the degree to which sales have been impacted by the pandemic. In the UK, this could for example be calculated using VAT-related data collected by HMRC.

International examples for criteria:

- **Japan** uses 10% reduction of sales as a metric for application for their job retention scheme.
- In **Germany** firms can request support if 10% of their workforce are affected by cuts in working hours.
- In the **Netherlands**, the requirements is a 20% quarterly loss in turnover.
- To avoid moral hazard, the **Netherlands** also require submission of a summary of the turnover loss at the end of the subsidy period, accompanied by an auditor’s report.

The fiscal costs of the work sharing scheme

The cumulative cost of the scheme would be a fraction of the JRS so far, mainly because fewer people would be on it and hours worked are subsidised at only 10%



Job support policy options post October 2020

	Pros	Cons
1. End the JRS	• Short-term cost savings	• Dynamically inefficient by not preserving viable jobs (NIESR, 2020)
2. Extend the JRS	• Maintains incomes	• Does not prevent layoffs
3. Extend JRS + part-time work subsidy (= IPPR's CWSS)	• Maintains incomes • Prevents layoffs by incentivising spreading work between employees temporarily	• Need to ensure part-time work is not classified as full time
4. Introduce work subsidy (= RF proposal)	• Simple to implement • Prevents layoffs by making labour cheaper across the board	• Prevents layoffs less effectively than part time subsidy, by not boosting work sharing • Does not maintain incomes for hours not worked
5. Increase job retention bonus	• Simple to implement • Prevents layoffs by incentivising spreading work between employees temporarily	• Deadweight given it's a flat payment • Unclear how it feeds through to worker incomes • Doesn't help cash flow poor firms • Needs ensuring that people are actually working before payout