IPPR Future Welfare State Programme

RESCUE AND RECOVERY

COVID-19, JOBS AND INCOME SECURITY

Clare McNeil, **Carsten Jung** and **Dean Hochlaf**

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SUMMARY

We are entering a period of high unemployment with stifled job creation. The government's response to the unemployment crisis so far relies on a quicker bounce back in economic activity than either the Office for Budget Responsibility or the Bank of England are predicting. No plans have been put in place to protect jobs or businesses in the event of future local lockdowns once the government's Job Retention Scheme (JRS) ends, or indeed if there is a second wave requiring national lockdown measures.

In the first 'stabilisation and rescue' phase of the crisis, the government introduced a range of emergency measures to preserve jobs and support incomes. In the next phase of the crisis that we are moving into, the job of the government is to support the economic recovery. In the case of the labour market it must do this by stimulating the economy through large-scale public investment to support the creation of new jobs and help for some workers to switch to new sectors.

However, given the highly unpredictable course of the virus, we cannot entirely move out of the 'rescue' phase. In the event of further local lockdowns or a second wave, businesses and workers need the certainty of knowing that viable jobs and incomes will be protected. Ending the JRS before the economic recovery has taken hold risks a far worse unemployment crisis with longer lasting economic damage as a result. 'Rescue *and* recovery' must therefore be the twin approach for government in the next stage of the crisis.

For many people in this crisis, the state has not been able to insure them against sickness and sometimes catastrophic falls in income. Our social security system should be acting as an 'automatic stabiliser' in this recession, smoothing incomes and helping to maintain a level of demand in the economy. However so long as benefit levels are low and coverage is poor, it will not fulfil this function. While this is a comprehensive challenge and will be the focus of forthcoming work from IPPR, the government can and must go further to prevent growing debt and destitution in this crisis.

Key findings

- The government's JRS will come to an end before the economic recovery has begun to take hold. We find that **three million** of the estimated four and a half million jobs currently still being supported by the scheme may still need that support in October, because of a continued shortfall in demand.
- We estimate that **one million** jobs currently being supported by the JRS could be lost permanently, in the sectors most heavily affected by the crisis so far, such as hospitality, retail, entertainment, manufacturing, support services and construction. However, we also find that around **two million** of the jobs would be viable if wage subsidies were extended into the new year.

- Those facing the greatest disadvantages are most at risk of being made redundant. Disabled people, carers, those in the shielded group and those with caring responsibilities are all significantly more likely to be in formal or informal stages of redundancy proceedings than the general population.

Recommendations

- The government needs to continue to preserve viable jobs in the short-term, until the economic recovery has taken hold, which the OBR suggests will not be before spring 2021.
- We therefore propose that from October the government's Job Retention Scheme should be replaced with **'Coronavirus Work Sharing Scheme' (CWSS).** Unlike the current scheme, it would encourage businesses to keep their employees in work rather than 'furloughing' them, as in countries like Germany, France and Denmark. We estimate that at least two million of the three million jobs we suggest are at risk could be supported by such a scheme.
- The scheme would not be supporting unproductive jobs because only the hardest hit firms should be eligible for the scheme. However, in the event of local lockdowns or a second wave, any business should be able to apply to the scheme. And as at present, those who cannot work because of additional caring responsibilities or who are shielding should also be eligible for the scheme.
- We find that the cost of the **Coronavirus Work-Sharing Scheme** for November 2020-March 2021 would be approximately £7.9 billion. But this needs to be assessed in light of the costs of Universal Credit for newly unemployed people over the same period which would be a *minimum* of £1.5 billion without further government intervention to prevent unemployment. This is much lower than the current spend on the scheme partly because far fewer people would be on the scheme.[1]
- In the event of further local lockdowns or a second wave, businesses and workers need the certainty of knowing that viable jobs and incomes will be protected, so affected businesses and their employees should automatically be given access to the Coronavirus Work-Sharing Scheme.
- We also call for £30 billion a year investment in public infrastructure to help create new jobs and for government to support for workers who need to switch jobs, as well as a range of measures to protect incomes.
- Finally, to prevent a growing debt and destitution crisis the government must go further to protect those living in the private rented sector, by extending the ban on evictions for another six months. And for those who are out of work, government must maintain the emergency increase to Universal Credit, remove austerity-era measures such as the two-child limit and benefit cap and increase the child element in Universal Credit and tax credits by at least £20 per week to support struggling family incomes.

[1] We note that the Universal Credit spending estimate is highly conservative as it does not include the additional elements of support received through Universal Credit, for example for housing, child and disability costs, so the true relative net cost of the scheme is likely to be lower.

THE IMPACT OF COVID-19 WILL ENTRENCH EXISTING WEALTH AND INCOME INEQUALITIES

The impact of Covid-19 on household incomes so far has been highly unequal. Not only have those on the lowest incomes or in insecure work been worst affected by the economic impact of the crisis so far, but the pandemic has exposed how little compensation those who lose their jobs receive through our social security system.

The UK's welfare system provides a very poor level of earnings replacement and benefit levels bear no relation to the actual costs of making ends meet (McNeil et al 2019). Because of the complex eligibility criteria for Universal Credit, many who are in need of support lose out. Due to these weaknesses, the government was forced to introduce a range of reforms from scratch in the Coronavirus outbreak. It increased the baseline payment for Universal Credit and tax credits and increased Local Housing Allowance rates. It also had to rapidly develop new temporary policy initiatives to support incomes - the Job Retention Scheme (JRS) and Self-employment Income Support Scheme (SEISS).

However, even with these unprecedented and relatively generous schemes in place (for those who were eligible), three million people according to some estimates,[2] are still ineligible for any financial support from government at all. Both schemes are now being withdrawn, despite the ongoing economic impacts of the pandemic. We consider the implications of the withdrawal of these schemes below.

The extra financial pressures created by the pandemic are storing up a debt crisis for the UK. Many households were in a deeply precarious position coming into the crisis. In recent years one in six UK adults were reportedly over-indebted (House of Commons 2018). While the wealthiest fifth of households saw their savings increase in the first months of the crisis, lower income families were more likely to see the amount they save each month fall (Bangham and Leslie 2020). But while the discretionary spending power of the low paid has been significantly impacted, they must continue to pay their rent with no equivalent to the mortgage holiday for homeowners (Berry et al 2020) with the effect that they are under greater financial pressure than those most able to weather the crisis.

Those living in the private rented sector (PRS) are more likely than those living in other household tenures to have been adversely affected, with 36 per cent of private sector renters seeing their income fall by 20 per cent or more (Citizens Advice 2020a). They are also less likely to have savings to fall back on. A ban on evictions for those living in the PRS comes to an end in August 2020, and yet measures to support landlords such as mortgage holidays and a ban on house repossessions will stay in place until October 2020. The housing charity Shelter

[2] See: https://www.excludeduk.org/excluded-uk-an-inclusive-alliance-for-the-excluded

suggests that 227,000 private renters will be at risk of eviction when the ban is lifted.[3]

The precarious position of households coming into the crisis, coupled with the impact of the crisis, means that a significant rise in the numbers of people living in poverty and destitution over the coming year is highly likely. The National Institute for Economic and Social Research (NIESR) estimates that over one million working age adults will be forced into destitution by the end of 2020 (Bhattacharjee and Lisauskaite 2020). IPPR has also estimated that an additional 200,000 children will be pushed into poverty compared with a pre-Covid poverty line by the end of the year, taking the total number of children living in poverty in the UK to four and a half million (see Parkes and McNeil 2020).

These likely increases in poverty and destitution will highlight the low levels of insurance provided by out of work benefits. Since the 1980s, the value of out-of-work benefits has fallen relative to average wages, as they have been infrequently uprated. Between 2016 and 2020 they were not increased at all despite inflation over the period. When combined with the impact of austerity-era welfare policies (the benefit cap, two-child limit and bedroom tax) which remain in place and the possible withdrawal of the emergency increase to Universal Credit in April 2021, falling out of work represents a catastrophic loss of income for many.

WE ARE ENTERING A PERIOD OF HIGH UNEMPLOYMENT AND STIFLED JOB CREATION

The outlook for unemployment is the decisive factor in how long-lasting the economic damage of the crisis will be. Although the lockdown has been eased, diminished demand has continued, with some sectors, such as retail, leisure and hospitality, unable to return to normal.

The Office for Budget Responsibility (OBR) projects that unemployment could rise to 11.9 per cent in its 'central scenario' and 9.7 percent in its 'upside scenario'.[4] There are several reasons to assume that unemployment could rise to the levels closer to the OBR's 'central scenario'. Firstly, the sectors most affected by the social distancing measures - retail, hospitality, leisure – are labour intensive, providing many jobs for a diverse range of workers.

Secondly, even prior to Covid-19, many firms were experiencing financial difficulties. UK earnings had declined for three straight quarters leading into 2020 and profits were a third lower in 2019 than in 2007 in real terms (ONS 2020a). These financial pressures have undoubtedly been intensified by the lockdown, increasing the likelihood that many firms will face acute financial distress. Employers in this position are likely to freeze recruitment and cut staff

[3] See: https://england.shelter.org.uk/media/press_releases/articles/230,000_renters_at_risk_of_covid-eviction_when_the_government_ban_lifts
[4] The OBR highlights a downside scenario where unemployment reaches 13.2 per cent which is consistent with lockdown measures being re-imposed to some degree, but not with a second wave of infections requiring re-imposition of a full lockdown.

to reduce costs, while new firms are likely to delay entering the market (Gregg 2020a). For the self-employed too, reduced demand will make it challenging to resume work. These effects are likely to lead to stifled job creation as well as high unemployment.

Research from Citizen's Advice (Citizens Advice 2020b) shows that the risks of redundancy are not being faced equally. Disadvantaged groups and those with caring responsibilities are far more likely to be facing redundancy than the general population.

- One in four disabled people (27 per cent) are facing redundancy
- One in two people who are extremely clinically vulnerable to coronavirus (48 per cent) are facing redundancy
- Two in five people with caring responsibilities (39 per cent), either for children or vulnerable adults, are facing redundancy
- Three in 10 people with children under 18 (31 per cent) are facing redundancy, compared to less than one in 10 (7 per cent) of those who don't have children under 18.

The latest official figures show that there are already almost 700,000 fewer people in paid work in July than in March. If the OBR's central scenario materialises, unemployment could rise to over four million by the end of the year. The number of young people out of work is already the highest it has been since 2015. There are also some worrying signs of economic inactivity rising, with more people reporting that they are not working but also not looking for a job (ONS 2020a).

Limiting a drift of people away from the labour market will be key to preventing long-term economic damage, otherwise known as hysteresis. Abrupt increases in unemployment have negative impacts that reach far beyond the immediate hardship endured by those laid off (Gregg 2020a). Often, high levels of unemployment are 'persistent' in that it takes much longer for them to go down than to go up: once people fall out of employment, they start losing skills and productivity. Their spending power diminishes and those who remain in employment feel the pressures of uncertainty, and likely increase precautionary savings to weather the storm. Together, this can suppress demand further, squeezing business profits. A vicious cycle can ensue, sustaining and worsening the economic crisis.

THREE KEY CHALLENGES FACING THE UK'S LABOUR MARKET

The government introduced a range of measures in July to help limit the coming jobs crisis. In response to the particularly acute challenges that face young people in a recession (Quilter-Pinner et al 2020), the government has invested £2 billion in a 'Kickstart' scheme to support the direct creation of high-quality jobs for young people at risk of long-term unemployment as recommended by IPPR previously.

The Treasury has also invested in doubling the support people who are unemployed for over three months receive from a Jobcentre work coach, an expansion in traineeships and investment in apprenticeships, as well as a number of other measures to support training. It announced £5.6 billion of already allocated funding for public infrastructure and decarbonisation to help support job creation. Finally, it has invested up to £9.4 billion in a 'Jobs Retention Bonus' of £1,000 for every employee supported by the JRS who is retained in work until January 2021.

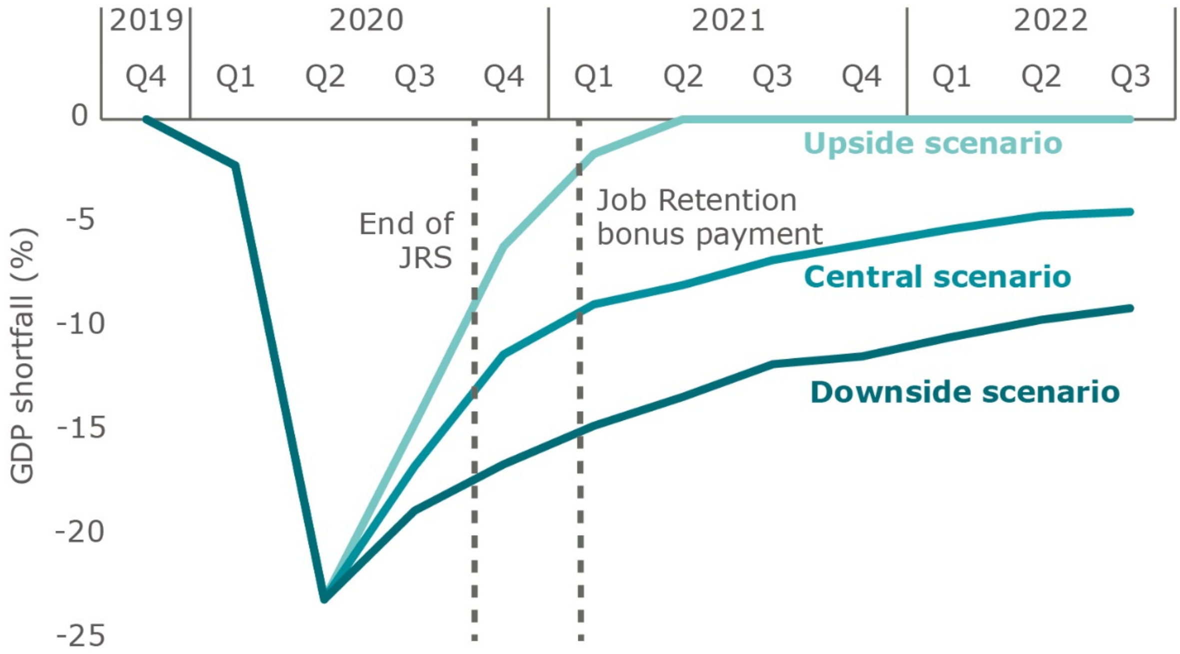
While it is positive that some action has been taken, and the willingness in particular to invest in supporting young people is to be welcomed, taken together these measures would only be sufficient if the UK were on track for a swift bounce back in economic activity and few ongoing impacts from the pandemic. As we have seen, the OBR's central scenario suggests this is unlikely to be the case. Furthermore, there are three complex and interlinked challenges facing the UK's labour market that need to be understood in order to arrive at an appropriate policy response to match the scale of the challenge.

1. The Job Retention Scheme is being withdrawn before demand stabilises and does not sufficiently incentivise part-time work

We find that the planned phase-out of the JRS will come too soon to prevent significant job losses. Figure 1 shows that at the point at which the JRS will be completely phased out, overall demand is still expected to be around 15 per cent below the pre-crisis trend, based on the OBR's central scenario for GDP shortfall below trend. It also shows that the Job Retention Bonus will be paid when demand is still around 10 per cent below trend in the OBR's central scenario.

Figure 1: The Job Protection Scheme is being withdrawn before demand stabilises

Quarterly change measured as a percentage of GDP



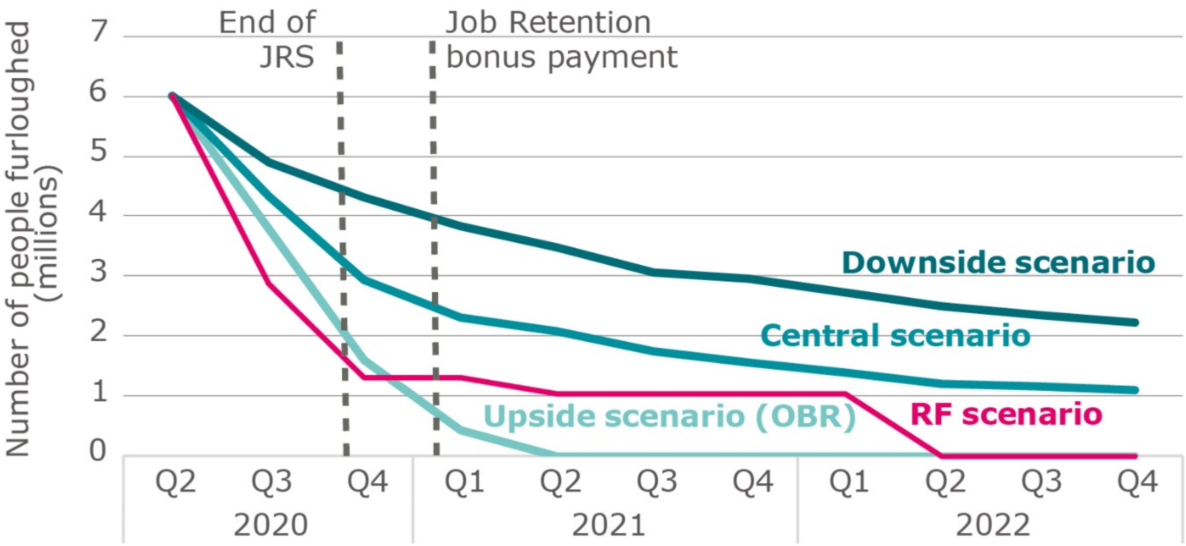
Source: IPPR analysis of OBR (2020)

The end of the JRS is expected to lead to a sharp rise in unemployment. Our analysis of the OBR central scenario shows that there could be a work shortage for as many as three million workers by the end of October, when the scheme is currently set to end (figure 2). That would imply an increase of almost nine percentage points in unemployment. The outcome would be similar to the OBR's estimate of a 2.7 million increase in unemployment by Q4 compared to pre-crisis levels. In our best-case scenario, we could still expect 1.5 million job losses as the scheme ends. In our worst-case scenario, the ending of the JRS could lead to more than four million job losses, an almost 12 percentage point increase in unemployment.

These figures are unlikely to transpire in full as some people who are unemployed might become 'economically inactive' - no longer looking for work, and so actual increases in unemployment are likely to be somewhat lower.

Figure 2: In October, almost 3 million people could still require the Job Retention Scheme to remain in employment

Projected demand for the Job Retention Scheme



Source: IPPR 2019 analysis of OBR (2020), RF (2020), HMG (2020) and Bank of England (2020)

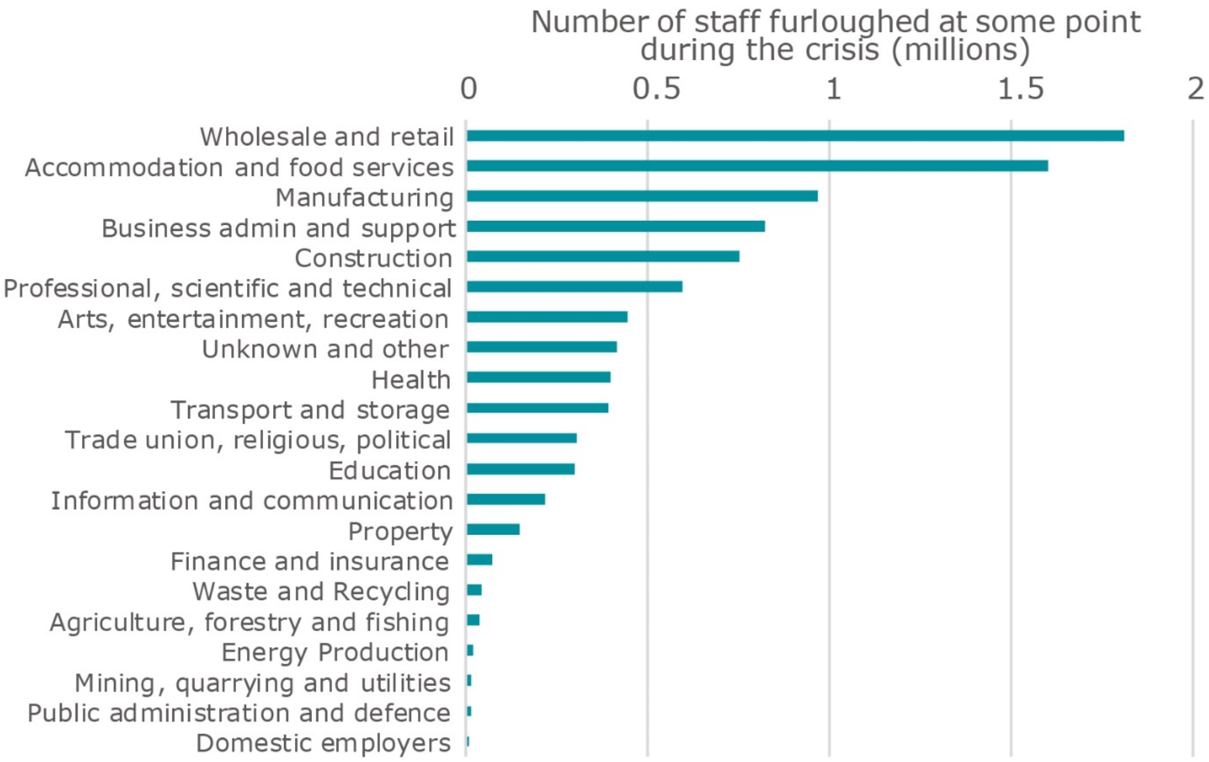
Note: For a discussion on methodology, see annex.

It is worth noting that not all jobs supported by the JRS might return if the scheme is extended. The OBR's central scenario assumes that even in 2022 the economy will remain 3 per cent below its pre-crisis trajectory. Building on this, our analysis suggests that more than one million jobs may never return, while more than three million could return over the next two to three quarters.[5] Jobs permanently affected might be in sectors most heavily affected by the crisis so far, such as hospitality, retail, entertainment, manufacturing, support services and construction (figure 3). Thus, for some jobs in sectors permanently decimated, workers will have to transition to alternative forms of employment. As we outline below, this will require historically unprecedented levels of 'sector switching' that can be fostered through targeted investment and employee support.

[5] These sum to the around 4.5 million jobs, similar to what Tomlinson (2020) estimates are still on the JRS in Q3 2020.

Figure 3: Retail, hospitality, manufacturing and construction and amont the industries with the largest number of people on the Job Retention Scheme, and are those which could take the longest to recover

Job Retention Scheme uptake by sector



Source: HMRC (2020)

Besides the planned too early phase out of the JRS, there are other problems with the current scheme. Importantly, it does not sufficiently incentivise firms to bring staff back to work part-time. The employers National Insurance and pensions costs they must pay from August followed by an increasing contribution to wage costs mean they will be more likely to return some workers to full-time working and lay off the rest to keep costs low (Gregg 2020a). There is a way of addressing this risk. 'Short-time working' schemes such as in Germany and France (see box 1), instead incentivise companies to retain a larger number of workers on fewer hours.

The government's job retention bonus of a one-off payment of £1,000 for every worker who continues in employment until the end of January 2021 is intended to address this. But is a relatively low reward for firms to hold on to workers for three months and therefore is likely to have a limited effect. Below, we suggest that a part-time subsidy to bring workers back to work would be more effective in encouraging companies to retain the maximum number of employees. While the economy is in recovery, a focus on part-time work will allow firms to share work between workers (see Jung, Roberts and Statham (2020) for a case study in manufacturing). This will reduce scarring effects for individual employees and the economy as a whole.

2. Job vacancies could remain low without further action

Official figures show that since April 2020 there has been a fall in the numbers of people moving into work compared with pre-Coronavirus levels. This can be explained in part by the fact that job vacancies have collapsed to 370,000 - a reached an all-time low of 330,000 in June 2020. This fall occurred across all sectors, but particularly in the wholesale, retail, accommodation and food services sectors (ONS 2020a). Experimental monthly data shows a small uptick in the last few months. This could pre-figure the start of a recovery but overall levels remain very low.

The government's announcement of investment in infrastructure may help address this as one of the 'multiplier' effects will be the creation of new jobs. However, it has been estimated that at least £40 billion of investment would be needed over the next two years to stimulate job creation to the level needed to create the numbers of jobs required (Gregg 2020b).

3. Unemployed workers may not easily transition into newly created jobs

Even if additional stimulus spending did result in the levels of job creation needed, it cannot be assumed that this will automatically reduce the scale of the unemployment crisis.

This is for several reasons. The scale of workers moving from hard hit to less hard hit or unaffected sectors would need to occur on a historically unprecedented scale for the UK (Cominetti et al 2020). Most workers typically move within sectors rather than between them, so without support and training to switch jobs the risk is that workers remain unemployed. The age and skills level of the worker will also affect their likelihood of finding a job in a different sector. Those working in the hardest hit sectors have a lower than average level of qualifications which means that they may face difficulties in finding work in roles which have a skills entry requirement (ibid).

The younger age profile of those working in the hardest hit industries and who are most at risk of redundancy offers more hope, as younger workers are more likely to switch jobs than those aged over 35. In conclusion, policymakers need to consider how to facilitate the reallocation of employment, especially to younger workers.

BOX 1: 'Short- time Work' schemes and Covid-19

Across the world countries have fallen back onto 'short-time work' schemes to preserve employment during the course of the pandemic. These offer a subsidy for temporary reductions in the number of hours worked in firms affected by temporary shocks. Evidence suggests that they can have large positive effects on employment and can be more effective than other wage subsidies or unemployment insurance for the goal of to save jobs and businesses and to accelerate economic recovery (Guipponi and Landais 2020).

STW schemes are generally triggered during economic difficulty, exceptional circumstances or if a company is undergoing a transformation or restructure. They are always introduced for a time-limited period, typically ranging from three to 12 months, including:

- **Germany** – The Kurzarbeit scheme is a short-time working scheme that has long been a feature of the German labour market. Under the scheme, firms may reduce worker's hours, with the government subsidising 60 per cent of the hours not worked (67 per cent for parents) but this increases in line with duration on the scheme to 80 per cent (87 per cent for parents). Social security contributions are also reimbursed by the government in the wake of the pandemic, and payments can be made for an extended 12-month period.

- **France** – the 'Activite Partielle' scheme allows firms to receive compensation to cover 70 per cent of the gross remuneration of staff who have had their hours cut, with a minimum hourly compensation of €8.03, including a requirement that total remuneration does not fall below the statutory minimum wage. To incentivise training, workers in training receive 100 per cent of the net hourly wage. Short-time work for up to 12 months is allowed and this is renewable.

- **Denmark** – under the temporary wage compensation scheme, the government has subsidised 75 per cent of salary costs for employees that would have otherwise been fired. Self-employed people are entitled to a 90 per cent replacement rate of lost wages. This has been extended until the end of August. The scheme applies to private companies that face notice of redundancies for at least 30 per cent of staff or more than 50 employees.

Source: (ETUC 2020)

Importantly, wage subsidies have not just been the preserve of countries that went into lockdown. In **Japan**, if firms that could demonstrate they had been adversely impacted by Covid-19, were allowed to offer their workers paid leave subsidised by the government. In **Sweden**, a short-time work allowance meant firms could reduce the hours available for workers, with the government subsidising hours not-worked. This highlights that the need for wage subsidies goes beyond the lockdown.

WHAT ARE THE OPTIONS FOR GOVERNMENT?

The government's response to the unemployment crisis so far can be characterised as a risky gamble. The package of measures would only be sufficient in the event that economic activity returns to close to normal in the coming months. Given this is unlikely, and unemployment could reach levels not seen since the Great Depression of the 1930s, policymakers must urgently introduce further measures.

Governments around the world are operating in a context of extraordinary uncertainty. This will be the case until a reliable vaccine or treatment can be found, or an innovation such as mass testing is introduced. It is very difficult to judge, for example, whether those sectors worst affected by social distancing such as hospitality, high street retail and live entertainment are experiencing a temporary or more persistent decline. In the face of such uncertainty, policy needs to be highly flexible (even if this requires a slight trade-off with efficiency) and adjusted regularly according to economic conditions or public health developments.

It is now clear however that frequent local lockdowns[6] and a second wave of the virus are distinct possibilities, and yet the government has not set out plans for how it will protect businesses and incomes in the event of either. While public spending cannot be limitless, applying austerity logic in this context will result in an even deeper recession. The OBR[7] and the Financial Times[8] among others have argued that this is not the time for unwarranted fiscal conservatism.

Next phase of the crisis: kickstarting economic recovery while protecting incomes

In the first 'stabilisation and rescue' phase of the crisis the government introduced a range of emergency measures to preserve jobs and support incomes. In the next phase of the crisis that we are moving into, the job of the government is to support the economic recovery. In the case of the labour market it must do this by stimulating the economy through large-scale public investment to support the creation of new jobs and help for some workers in the difficult task of switching to a new sector.

However, given the highly unpredictable course of the virus, we cannot entirely move out of the stabilisation and rescue phase. In the event of further local lockdowns or a second wave, businesses and workers need the certainty of knowing that viable jobs and incomes will be protected. Having clarity around what level of insurance can be expected - in the form of a reformed furlough

[6] See: https://www.bbc.co.uk/news/live/world-52947574?ns_mchannel=social&ns_source=twitter&ns_campaign=bbc_live&ns_linkname=5edce0907f5c2306713dd10c%26North-west%20mayors%20sound%20concern%20over%20local%20lockdown%20plans%262020-06-07T13%3A12%3A18.998Z&ns_fee=0&pinned_post_locator=urn:asset:9c3d84fc-c1b6-4ea0-ac9e-5af1bd140e84&pinned_post_asset_id=5edce0907f5c2306713dd10c&pinned_post_type=share
[7] See: https://cdn.obr.uk/OBR_FSR_July_2020.pdf
[8] See: https://www.ft.com/content/e15a3156-e39f-4008-887f-354daab5a5f8

scheme - could also help alleviate some of the tensions in the labour market which are created by the current uncertainty, and even help encourage job retention and new hiring.

In normal recessions, the loss of jobs is an inevitable consequence, with some industries fading and new ones emerging. This process can be important for economic progress. However, in this recession, some organisations and businesses are failing not because of a lack of consumer demand or interest, but because of the application of ongoing social distancing measures.

In addition to kickstarting the recovery therefore it should also remain a policy objective to prioritise job preservation in the form of ongoing wage subsidies, at least until the economic recovery has taken hold, which the OBR suggests according to its central scenario will be by the end of Q1 2021. Over this period, meeting this objective would have wider benefits for productivity and growth than simply allowing people to move onto Universal Credit. At the same time, greater conditionality should be introduced to ensure that ongoing financial support is not directed at firms which are in long-term decline.

Reducing economic insecurity and supporting incomes

The final objective must be to reduce economic insecurity and support incomes. There is inadequate support for those who have been excluded from the government’s schemes, including the self-employed, or those who are ineligible for Universal Credit, for example because of their partners earnings or level of savings. There is a lack of support for those at risk of eviction in the private rented sector and there has been no resolution to the huge public health problem posed by those who cannot afford to self-isolate.

Finally, there is no satisfactory solution for those who are forced to ‘shield’ to protect their health on an ongoing basis or those with caring responsibilities whose income could continue to be impacted the crisis. We set out some immediate measures that could be taken to alleviate these problems here but will set out more comprehensive solutions in future papers as part of this programme.

Below we set out recommendations for the government in pursuing three key policy objectives to limit the rise in unemployment and lasting economic damage.

1. Replace the Job Retention Scheme with a Coronavirus Work-Sharing scheme, which should also be accessed in the event of local lockdowns or a second wave

Rather than ending the Job Retention Scheme in October, it should be replaced by a **Coronavirus Work-Sharing Scheme.** It should be time-limited, as with any scheme of this kind, and we recommend the scheme is extended until end of March next year when consumer demand will be easier to predict and economic output is expected to have increased slightly to 8 per cent below the pre-crisis trend.

While there are widespread concerns about the level of public spending extending the scheme would require, we find that under our central scenario, the monthly cost of this extension would be about a fifth of the monthly cost of the JRS so far (see annex).

We estimate that the scheme's cost from November this year to Q1 next year would be £7.9 billion, while the minimum cost of Universal Credit claims for the newly unemployed over the same period would be £1.5 billion. This is a very conservative estimate, as it does not include the cost of additional UC elements for housing, children or disability (see annex). Besides the direct benefits of preventing unemployment, the extension of the scheme would also have benefits for economic growth, including reducing the long-term economic scarring we would expect to see as a result of high levels of unemployment. For example, NIESR (Lenoël, Macqueen and Young 2020) find that extending the scheme by an additional eight months would mean GDP would be around 0.2 per cent higher and public debt 0.2 percentage points lower than if the scheme was ended as planned.

At the level of the individual and company, extending the scheme would also help keep people in work, with the mental health benefits work brings and the chance to maintain or develop skills, while firms would not lose the valuable experience and skills of the employee. For those unable to work because of caring responsibilities it would offer the chance to work more flexibly, while for those who have been shielding and can return to work on reduce hours it would allow for more staggered working hours.

This would reduce fear and uncertainty among employers which may otherwise worsen the unemployment crisis. This would undo the work of the furlough scheme which was attempting to maintain jobs that could be viable once an economic recovery has taken hold. As with the virus, there are also good reasons for 'delaying the curve' of job losses, with less risk for example of Jobcentre Plus and Universal Credit systems becoming overwhelmed.

A key argument against short-time working schemes is that they prevent economic efficiency by maintaining some workers in 'zombie jobs' that have effectively already been lost. As we have already seen, we estimate that some one million jobs currently supported by the furlough scheme are likely to be permanently lost, as a result of structural declines that have been accelerated.

These jobs should not be kept on life support: instead tighter conditionality around which companies are eligible for the scheme should ensure that only those jobs which are viable are supported by the state. However workers on reduced hours should be offered training to upskill or retrain to prevent this risk.

Recommendations

Rather than ending the Job Retention Scheme in October it should be replaced by a **Coronavirus Work-Sharing Scheme (CWSS)** to encourage part-time working, which should be extended into 2021.

- As under the JRS in October, the scheme should subsidise non-working hours at 60 per cent, with the employer contributing an additional 20 per cent. However, we have seen the current scheme does not go far enough to encourage part-time working, with the risk that some employees will be laid off while the rest work full-time, rather than distributing work more evenly.

- In order to encourage employers to bring more of their employees back to work at least part-time, the scheme should also introduce a part-time work subsidy of 10 per cent for all hours spent working. The rate is calculated to make part-time work attractive, in a scenario based on a 20 per cent demand shortfall (see annex).

- The joint subsidy for worked and non-worked hours should be capped at £2,500. The employer would continue to pay NICS and pension contributions for worked and non-worked hours as will be the case in October. In France, their short time working scheme includes a requirement that total remuneration for workers must not go below the statutory minimum wage - a similar requirement should be considered for the UK.

- In contrast to the JRS which was open to any company, under the CWSS only those businesses which are viable over the medium-long term should be able to benefit. Certain conditions should be met to assess whether businesses should continue to receive the subsidy. Criteria for this could include: i) taking into consideration the social distancing restrictions affecting a sector, ii) the degree of demand shortfall for a business and iii) businesses performance as compared with the remainder of the industry's performance to assess whether or not the business is facing a structural problem. These criteria would be established by parliament and could be reviewed on a regular basis.

- The government has been doing more consultation with businesses at a sectoral level in this crisis and with trades unions. Building on this it should establish 'sectoral recovery panels', as proposed by the TUC (TUC 2020), which should oversee the assessment process. As with the process for a similar scheme established by the Welsh government during the financial crisis, these should include government officials and representatives from relevant sectoral trade bodies and trade unions. Once in place, these arrangements could then be activated in the event of any future use of the scheme, as is standard in many other countries (see box 1).

- Equally given the need to put measures in place quickly, in the short-term this assessment could be carried out by Treasury and HMRC according to one or more of the criteria above. These conditions could be reviewed on a monthly basis for maximum flexibility, and to ensure the scheme is slowly phased out as the economy begins to recover, currently expected towards end Q1 2021. In conjunction with this new conditionality from November, new firms and workers should also be able to apply for the scheme. We estimate that at least two million of the three million jobs we suggest are at risk could be supported by such a scheme.

- There are two other groups who should be eligible for the scheme: those with extreme vulnerability to Coronavirus (who are 'shielding') and those with caring responsibilities that have been increased by the crisis. For example, while the government aims to open all schools from September, there may still be significant disruption for working parents. These groups should continue to be eligible for the scheme, given the benefits of maintaining their attachment to employment. For these groups, the conditionality outlined (above) should not apply to the businesses applying on their behalf.

- Despite the government's relaxation of the requirements for those with extreme vulnerability to Coronavirus, many people who are shielding are too concerned about their health to return to work. For this group an improved version of statutory sick pay should be on offer - a higher rate of SSP over 54 weeks which should be extended to those under earnings limit, as previously proposed by IPPR (Davies et al 2017).

- While workers are working reduced hours, their productivity and skill set could be enhanced through a drive towards upskilling and, where appropriate, retraining. This could be done via introducing a temporary 'personal learning credit' worth up to £700 a year linked to the part-time furlough scheme (Dromey and McNeil 2017). The training programmes suitable could be developed between management and unions, and in line with national and local economic strategies.

Local lockdowns and a second wave

Local lockdowns have already been implemented in the UK and represent a controlled decline in social and economic activity. While the requirements for businesses and organisations to cease operating may not always be as far-reaching as in the initial lockdown, discouraging local populations from social interaction will spill over into economic activity.

Without interventions to protect jobs and businesses, this could pose a severe economic shock to areas which are vulnerable to a second wave and result in a two-tier recovery. In Leicester, a local lockdown prompted the government to allow firms that had initially participated in the JRS to re-furlough staff. This sets a clear precedent on the need to subsidise wages in local areas under lockdown.

We propose the following recommendations to help ease economic pressures under local lockdowns:

- Establish a clear criterion that warrants access to the CWSS. Based on the number of cases and the infection rate, the government, in partnership with Public Health England, should develop an objective threshold at which government support is available.

- In the event of local lockdowns or a second wave requiring national measures, the proposed means-test criteria should be temporarily relaxed, and the level of subsidy could return to that offered by the JRS in July 2020.

2. Significantly scale up job creation and support reallocation of workers

The government's recent announcement on infrastructure investment committed little new money to the cause (OBR 2020, IFS 2020), and therefore is likely to only have a limited impact on job creation. It will not result in anything like the number of jobs needed to offset the lob losses expected. As IPPR has previously argued (Jung and Murphy 2020) now is the time to move the country towards a sustainable economic recovery, by deploying public investment to kick-start projects that are 'jobs rich', can help improve struggling health, care and childcare provision and help the transition to a net-zero emissions economy.

Those sectors benefiting from this investment should be required to use it to create wider public benefits. Sectors such as construction are heavily reliant on an ageing workforce and have a poor record on gender and ethnic diversity. While individual firms have demonstrated best practice in creating apprenticeships through public funding, this practice is not yet widespread.

Any new investment should therefore come with sector-level requirements to take on apprentices for major infrastructure projects or public services. Jobs created through stimulus spending in periods of high unemployment often favour workers with existing skills (McNeil 2011) so this could also help create more opportunities for those likely to be worst affected by the recession, including young people or those with fewer skills.

Recommendations:

Government should invest at least an additional £30 billion per year in public clean infrastructure, as well as funding health and social care reform. We have estimated these two alone could create up to 1.6 million jobs over the next ten years, distributed geographically evenly across the UK over the next decade (Jung and Murphy 2020). These jobs could be generated by:

- Improving the energy efficiency of homes, preparing them for the switch to low-carbon heating systems such as heat pumps and district heating, and building new zero-carbon social housing, which could generate 560,000 jobs

- Supporting 700,000 new jobs in social care and health care, which would meet growing need over the next decade while being in line with a low-emission economy. The government should also invest in our struggling childcare sector to create new jobs.

- Investing in better and more sustainable public transport, including rail and electric bus services in our towns and cities – which could generate more than 230,000 jobs

- More jobs would be created by investing in tree planting and peatland restoration across the UK (46,000), in the nationwide charging infrastructure needed for electric vehicles (47,000), and in other areas to support the environment

This investment should come with requirements *across sectors* for firms to take on apprentices as a requirement of receiving the investment. For major housing and energy efficiency investments for example, agreements could apply to the building and plumbing trades.

In addition to support job creation and new hiring, Gregg (2020b) has proposed raising the earnings threshold at which employer National Insurance contributions start – for example for the first £10,000 above the current threshold. This could be targeted at young people (18-24) given the particular disadvantages they face in the labour market and because they are most likely to switch sectors.

Finally, Fujita et al (2020) have suggested that policymakers should try and encourage younger workers into essential occupations such as those in the public sector to facilitate sector switching. However entry-level requirements may be a barrier for many workers.

3. Reduce economic insecurity and support incomes

For many people in this crisis, the state has not been able to insure them against significant (and sometimes catastrophic) falls in income. This is not impacting everyone equally: as we have seen, those who are disabled, have an extreme vulnerability to Covid-19, who have children or other caring responsibilities, are not eligible for statutory sick pay, are more likely to be at risk of losing their income.

As well as rising levels of homelessness, poverty and destitution, this will result in the accrual of debts which will increasingly be unsustainable. The effect of this will not only be personal misfortune, but the vicious cycle described above, where diminished spending power suppresses demand, which holds back the recovery and prolongs the recession.

Our social security system should be acting as an 'automatic stabiliser' in this recession, smoothing incomes and helping to maintain a level of demand in the economy. However as benefit levels are so low and coverage is poor, it is not well equipped to play this role. While this is a longer-term challenge, a number of changes now could help it perform this function.

Recommendations:

- Maintaining the emergency increase to Universal Credit and tax credits brought in at the beginning of lockdown beyond next April 2021 and extending this to legacy benefits. Removing the Universal Credit austerity-era measures, the two-child limit and benefit cap, as well as introducing a range of other measures IPPR has proposed to improve Universal Credit, including removing the savings limit, which excludes many people particularly the self-employed from receiving support in the current crisis (McNeil et al 2019).

- With measures like the two-child limit and benefit cap still in place, it makes sense to prioritise couples with children for additional spending, for example through a £20 weekly increase to the Universal Credit child element and child tax credits.[9] Directing a greater level of spending at children rather than couples through Universal Credit could also help single parents who are likely to be one of the groups hardest hit by the recession'.

- Increasing child benefit by at least £10 a week per child would have the added benefit of being more likely to reach women, who have been financially worse hit by this crisis, and would help stabilise family incomes. Forthcoming work from IPPR will set out options here in more detail.

A functioning childcare sector is also vital to supporting incomes in allowing parents to work. The childcare sector has been severely impacted by this crisis and to this end, proposals for emergency funding for the sector (Stephens et al 2020) should urgently be considered alongside these proposals.

In order to reduce the insecurity experienced by those living in the private rented sector, particularly for those at risk of eviction, we recommend two changes for housing policy in England.

- While measures to support landlords during the pandemic have been extended, the ban on evictions for those living in the PRS comes to an end in August. We recommend that this should be extended for another six months. In Wales, the government recently introduced similar measures to help tenants, with landlords having to give tenants six months notice of eviction.

[9] Though without the removal of the benefit cap some families would not fully benefit from these increases.

- We also propose that there should be more help for those in the private rented sector, by increasing the local housing allowance to cover 50 per cent of market rates. At the current 30 per cent of the market rate there are too few properties for people to move into if they experience a drop in income.

Other ideas proposed include rent and mortgage freezes, potentially as a 'right to request' specifically targeted at those in financial difficulty. It has even been suggested that there should be a write-off of rent arrears accrued during the crisis or more generally of household debt as part of an effort to 'reset' the economy after the crisis. These ideas must be properly examined, given the economic dangers of widespread over-indebtedness.

CONCLUSION

The main conclusion of this paper is that as a result of the huge uncertainties facing any government operating in this pandemic, policymakers must be ready to act or change course depending on economic and public health developments. It is clear the government response to the unemployment crisis so far, welcome though it is, is not well calibrated to the prospect of ongoing impacts of the virus or a deep recession.

As we move into the next phase of the crisis, the government should adopt a twin approach of 'rescue and recovery'. As well as firing up the economic recovery through large-scale investment in sustainable infrastructure and urgently needed public sector jobs, the government must continue to support jobs in the hardest hit sectors until the economic recovery takes hold, by extending and reforming its job retention scheme.

Our proposal is for a Coronavirus Work-Sharing Scheme, based on similar 'short-time working' approaches as in Germany, France and elsewhere, which have previously helped to prevent large-scale increases in unemployment during recessions. This would build on the impressive innovation of the Job Retention Scheme, evolving it into a labour market institution that could be drawn upon in the event of future disruptions.

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ANNEX

1. Projecting demand for the Job Retention Scheme

Our JRS scenarios assume that that the number of workers on the scheme is proportional to the degree of demand shortfall in the economy. In other words, we calculate to what extent workers being furloughed was caused by the demand shortfall in Q2 and use the OBR demand scenarios to model the need for the JRS going forward. This is in line with Bank of England (2020) analysis which shows the degree of furloughed workers per industry was proportional to sectoral GDP impact. We also assume that all unemployment comes from people formerly on the JRS rather than from people not formerly on the scheme. We use the Bank of England's estimate that on average, in Q2 2020, six million people were on furlough, consistent with Tomlinson (2020). The unemployment peak we obtain is somewhat higher than that of the OBR (approximately 0.2 million higher in the central scenario and about 1 million in the downside scenario). This is partly because the OBR assumes that 80-90 per cent of people on the JRS will be able to return into work, even if the economy still far below its potential.

2. Costs of the CWSS proposal

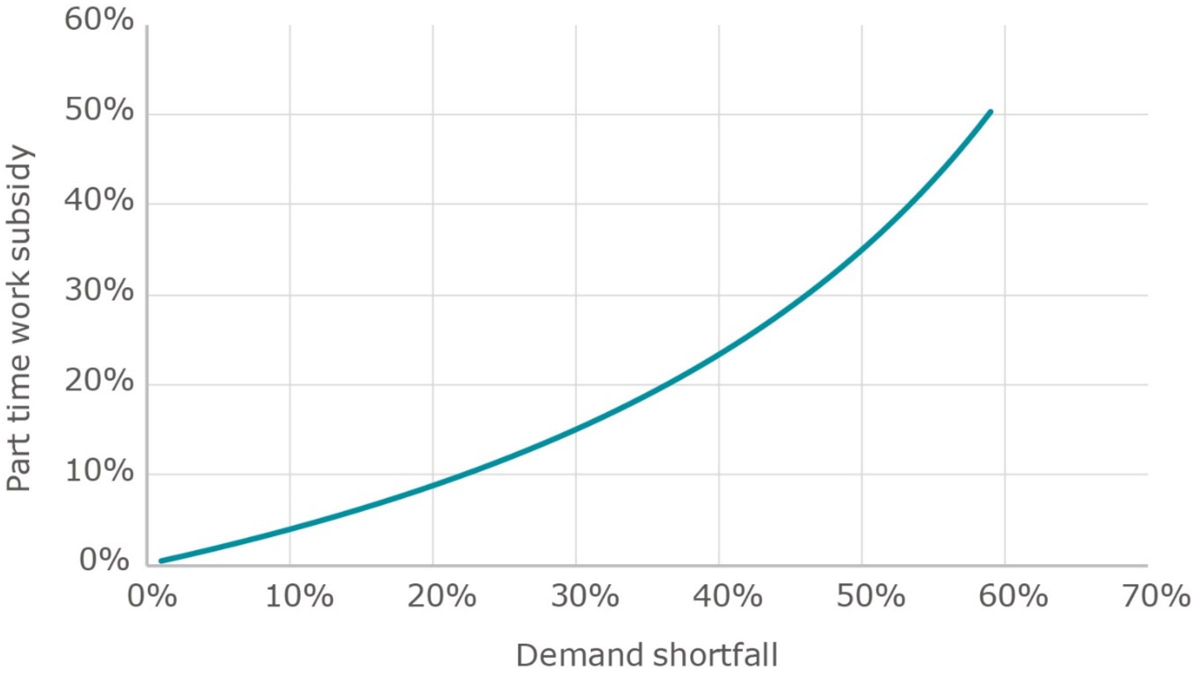
For our costings we assume that work would be shared between the workers on the JRS in Q3, starting in November. Building on the OBR's central scenario, those would about 40 per cent of their usual hours in Q4, increasing to 60 per cent in Q1. In other words, rather than keeping only 40 per cent of their workforce, firms would keep all of their workforce, working 40 per cent in Q4 2020 and 60 per cent in Q1 2021. This assumes that the reduced demand is equally shared between all workers on the scheme. Other modelling assumptions include that the average wage subsidised is equal to the average wage supported through the JRS so far. Note that we do not include costs of those accessing the scheme because of shielding/caring responsibilities, or for those new workers or firms that may choose to access the scheme. In addition our analysis assumes that those who lose their job when the JRS ends do not find new jobs before Q2 2021. This is based on the fact that vacancies in May to July were less than half than what they were the same period last year (ONS 2020b).

For the Universal Credit calculations, we assumed that all workers who leave the scheme while there demand has not returned, will lose their job. We also made the simplifying assumption that only 50 per cent of all newly unemployed workers would as a minimum receive the standard allowance, based on analysis of Understanding Society data on the proportion of workers who are the sole worker in their "benefit unit", and thus guaranteed to be eligible for UC. Overall, this is likely to be a very conservative estimate, given the additional costs of the housing, disability and children elements of UC.

3. Calculating the size of the part-time subsidy

The part time subsidy should be set such as to incentivise businesses to share work between their staff until demand has recovered. This depends on (i) the NIC and pension contribution and (ii) the contribution for hours not worked and (iii) the degree of demand shortfall. The relationship between demand shortfall is plotted below, assuming an employer NICs and pension contribution of 15 per cent and a non-worked hours subsidy of 60 per cent to which the employer contributes 20 per cent. For a demand shortfall of 20 per cent, the part time subsidy needs to be around 10 per cent to incentivise part-time work for all workers over full-time work for a few.

Figure A1: Calculating the size of the part time subsidy



Source: Authors' analysis

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