The narrow corridor

The new Job Support Scheme might save only 230,000 out of 2 million viable jobs

Carsten Jung and Henry Parkes

October 2020

Find out more: www.ippr.org/research/publications/the-narrow-corridor

Summary

On 24 September, Rishi Sunak unveiled his 'Winter Economic Plan', which included a redesigned version of the Job Retention Scheme – the Job Support Scheme (JSS). Together with the Job Retention Bonus (JRB), which is due to be paid out at the end of January, its purpose is "to protect viable jobs in businesses who are facing lower demand over the winter months due to coronavirus".

We argue that, with their current design, the JSS and JRB are unlikely to achieve this objective as they do not make it sufficiently profitable for firms to preserve viable jobs on a part-time basis over winter. **We estimate that these schemes will save only about one in ten viable jobs**. We define as viable, jobs which are likely to come back once demand returns as restrictions are eased. Previously we have estimated that two million viable jobs are at risk of being lost as a result of the recession triggered by the Covid-19 pandemic (McNeil et al 2020). **We find that the new schemes will only save 230,000 of these jobs. As such, 1.8 million viable jobs which could otherwise be preserved will be lost**, at great individual and wider economic cost.

To prevent job losses **the government should make the Job Retention Bonus (JRB) proportional to wages for hours worked part-time** (up to a ceiling of £2500). This would replace the flat payment with a proportional one, paid in monthly instalments instead of a one-off. This in effect would be a part-time subsidy that would encourage work sharing until demand recovers. It should only be provided to firms that qualify for the JSS. This more targeted approach would save money and jobs. Some of the saved money could be used to increase the government contribution to non-worked hours by 10 percentage points, thereby reducing the employer contribution by the same amount. This would further boost job retention at struggling firms.

This 'JRB+' would have the advantage of benefitting those workers who need support and are outside the narrow corridor of wages for which the scheme currently acts as an incentive to keep workers on. The timing

of the JRB+ should also be aligned with that of the JSS, to make sure that their joint benefits are effective until April.

Crucially, this is a design issue and not a question of overall funding. We estimate the JRB+ together jointly with the JSS would cost slightly less than the money set aside for the JRB.

On 9 October, the Chancellor announced an extension of the JSS. It funds a full-time furlough scheme for firms forced to shut entirely due to strict lockdowns. This is a crucial measure to support areas most heavily affected. Though it will be important to monitor whether it indeed reaches all businesses hit by restrictions. This extension however does not change our overall estimate for jobs losses that will occur in the majority of firms that do continue trading.

The flaw of the current job support schemes

The core flaw of the current set up is that it benefits only workers sitting within in a narrow wage corridor. We estimate that only workers on monthly wages between £625 and £987 would benefit (see Annex I for a detailed description on how this wage corridor is derived). This narrow corridor jeopardises the success of the new schemes. This is because people with monthly wages below the lower bound do not qualify for the JRB. And for those above the upper bound, the JRB received by the employer is too small to make it economical to hold on to workers on a part-time basis.

Chart 1 shows this wage corridor against the estimated wage distribution of workers on the JRS. **We find that only about 11 per cent of viable jobs that would need jobs support would be in the 'goldilocks' corridor of wages.**[1] This corridor is the range of wages in which bringing workers back on a part-time basis would be economical for firms that face a demand shortage.

---

[1] This is weighted by the number of viable jobs per sector, which are defined as in McNeil et al (2020).

Chart 1: Only about one in ten workers are in the 'goldilocks' wage corridor in which the JSS and the JRB would bite

### Estimated wage distribution of workers on the JRS
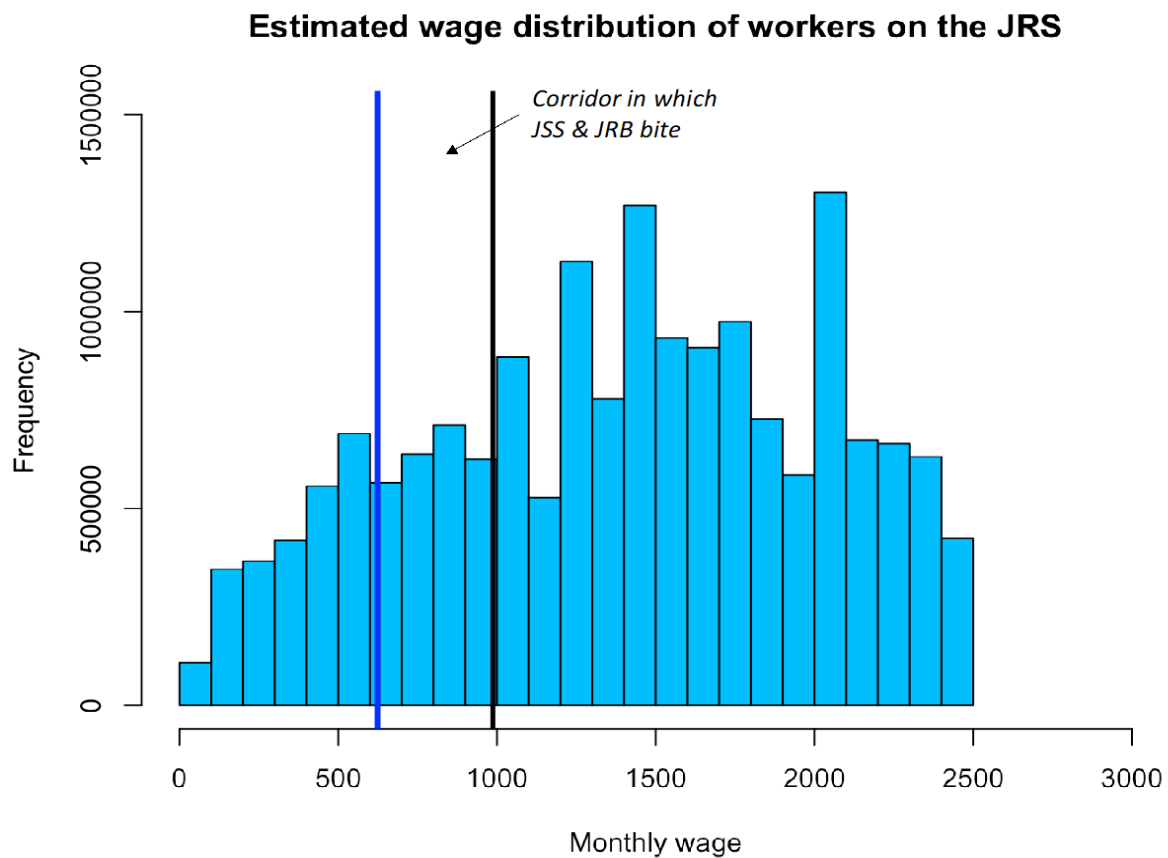
Source: IPPR analysis of ONS LFS, OBR (2020).
Note: See details on the derivation of the chart in the Annex I. The wage distribution is estimated based on the overall distribution in the LFS, but imposing the requirement that the median value of the distribution is the average wage of people on the JRS, as estimated by the OBR (2020). The real distribution of wages on the JRS is not in the public domain and therefore this estimate should be seen as indicative. The below analysis (including the sectoral ones) is contingent on this assumption.

Chart 2 below shows that the targeting of this wage range is particularly poor in sectors such as manufacturing, construction and hospitality, where as few as one in 20 workers would be in the corridor for which the scheme works. As the charts in Annex II show, the reason is that in hospitality many workers are below the earnings threshold. And in manufacturing, many workers are above the upper bound of the wage corridor.

Chart 2: In sectors such as manufacturing and construction less than 1 in 20 workers could benefit from the current job support schemes

Estimated percentage of workers in the goldilocks wage corridor
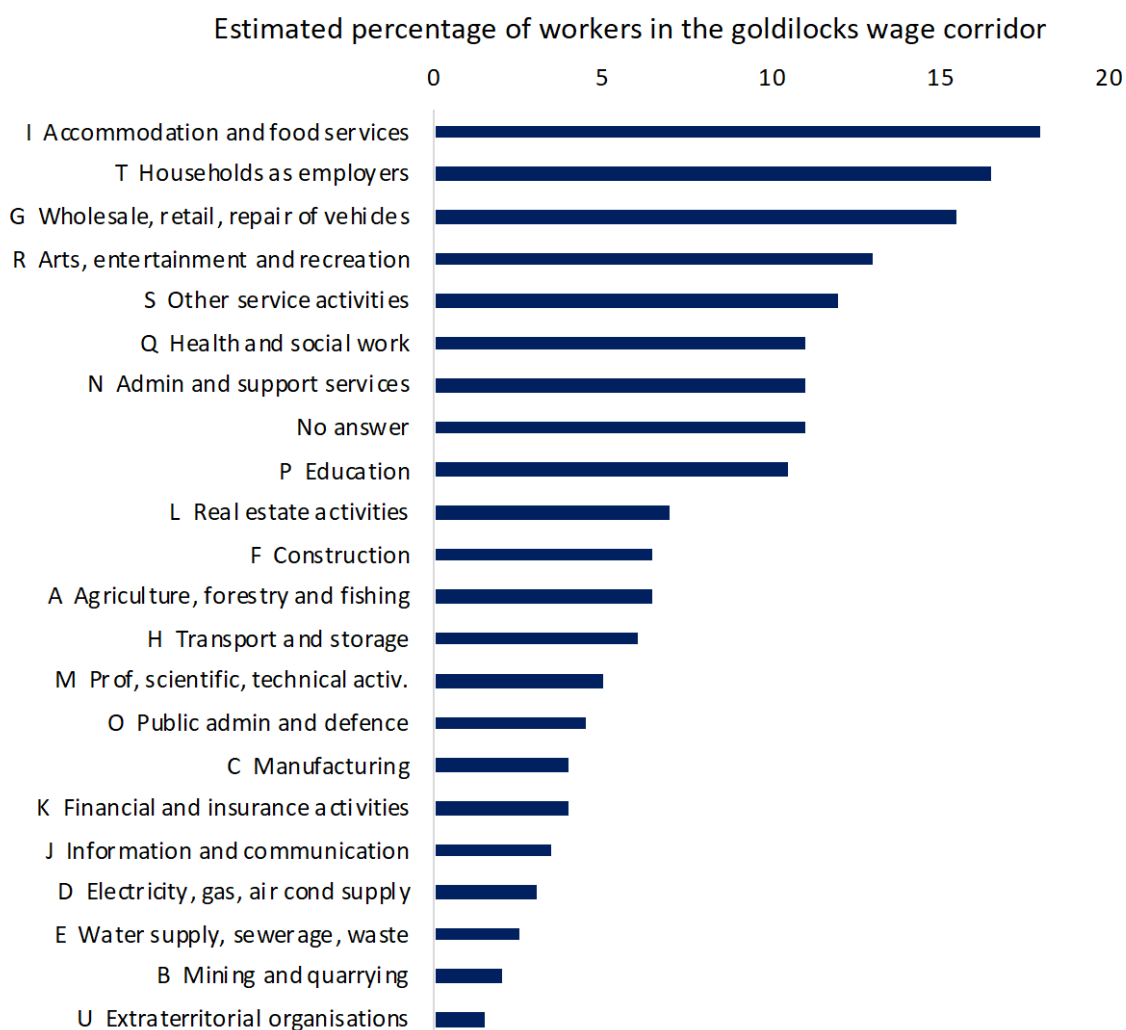
Source: IPPR analysis of ONS LFS, OBR (2020).

Note: Same notes as in Chart 1. See further details on the calculations in Annex I.

1.8 million viable jobs might not benefit from the current scheme

We estimate that about 2 million viable jobs will still need government support when the JRS ends in October ([McNeil et al 2020](#)). This is consistent with the economy still being 11 per cent below its potential in Q4 2020, as in the OBR's central scenario.

There had been hopes that the economy may gather speed more quickly than expected and the need for job support might thus be lower. The Bank of England, for example, still projects the economy being only 3-4 per cent below potential at the end of Q3 (Haldane, 2020). But new GDP figures for August indicate that the growth outlook is now weakening again (NIESR, 2020). And for four reasons we think the OBR's central scenario – 11 per cent below potential in Q4 - is now the most likely:

- First, the JRS has provided income support for households that meant private consumption has rebounded strongly. This is now falling away, with workers falling into unemployment and many of them relying on Universal Credit. In that sense, the replacement of the JRS with JSS is creating a negative spiral by both increasing the need for job support (as consumption and demand slows) and at the same time not providing it. As more people move into unemployment, the insufficiency of Universal Credit will become apparent – with the UK's system being among the least generous in developed nations (OECD, 2020).

- Second, local lockdowns are increasing rapidly across the UK, significantly slowing the recovery and causing temporary, but large, shortfalls in demand to employers. In addition, some sectors – such as arts and many events – are still unable to open at all and require concerted support.

- Third, businesses are highly indebted and will cut back spending and investment as they move to consolidate, reducing growth.

- Fourth, the housing market and incomes could come under renewed pressure as mortgage holidays end at the end of October.

For these four reasons, as in our previous estimate, we think the OBR's central scenario is a more reasonable baseline. Building on this, we continue to think that about 2 million viable jobs are at risk of being lost over the next few months (McNeil et al 2020). These number refers to viable jobs overall (not just those still on the JRS).[2]

Together with our estimate from the previous section, we estimate that **the JSS will only save 230,000 jobs. In turn, 1.8 million viable jobs which could otherwise be preserved will be lost**, at great individual and wider economic cost.[3]

Chart 3 shows the sectoral distribution of these jobs. It shows that hospitality, wholesale & retail, administrative services and manufacturing make up more than half of the viable jobs not saved by the current design of the scheme.

---

[2] While the number is based on past usage of the scheme, it does not require that the people needing it in the future (i.e. after the end of the JRS in October) would necessarily have been on it.
[3] This is based on (i) the sectoral distribution of the take up of the JRS and (ii) applying the wage corridor estimate to individual sectors' wage distribution.

Chart 3: Four sectors could account for the majority of viable jobs not saved by the current schemes

Thousands of viable jobs lost, by sector
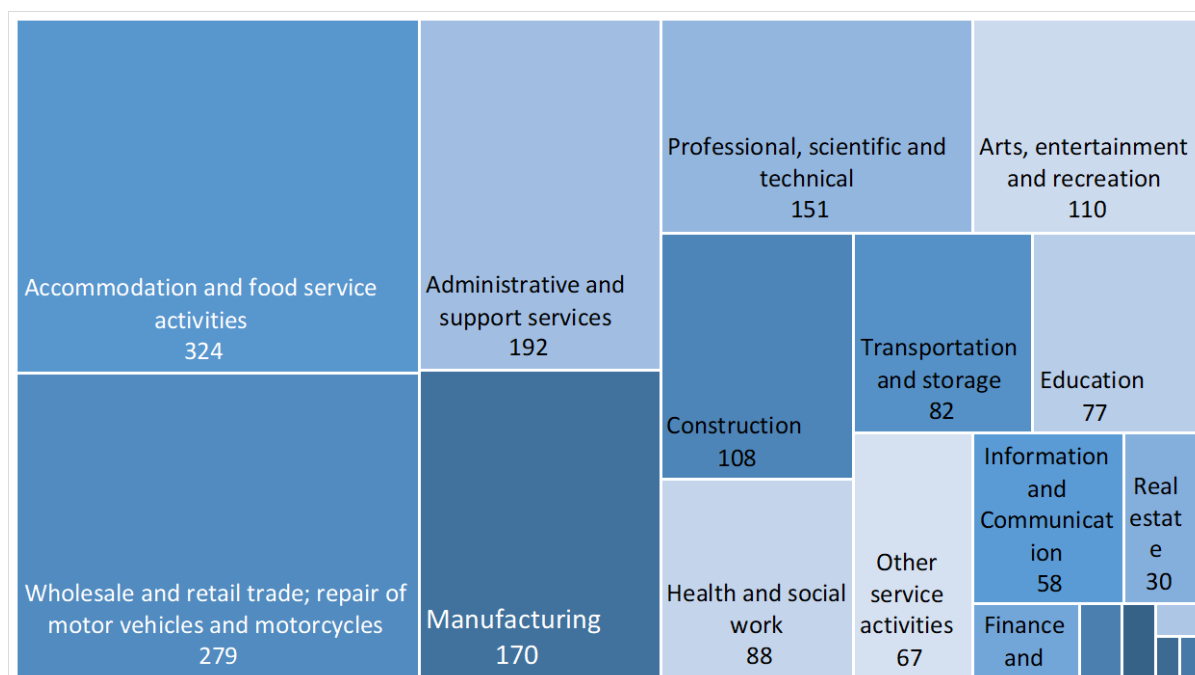
What could be done: turning the JRB into a JRB+

These jobs could be protected if the government repurposed the JRB into a JRB+. To do so, the government should:

- **Turn the JRB into a JRB+ that is proportional to wages for hours worked part time.** It should be paid out in monthly instalments rather than as a one-off. The time horizon should be the same as the JSS – lasting until April 2021. We estimate that a 10 per cent wage subsidy for hours worked part time can ensure work sharing is more profitable than layoffs (see in Annex I).

- **This scheme should only be provided to firms that qualify for the JSS**. This would ensure it is better targeted and more cost effective than the JRB. And making payments proportional to workers' wages would further reduce deadweight.[4] Targeting the JRB+ at part time work will ensure that firms share the work between employees, rather than laying workers off and letting the rest work full time.

- The eligibility criteria of the JSS could remain in place as they are.

---

[4] Doing so would do away with the goldilocks wage corridor, as the scheme would be optimally targeted, and its effectiveness would no longer arbitrarily depend on the wage level. Given redundancy costs, this change of the JRB would likely be sufficient to incentivise employers to hold on to workers, despite the employer contribution of 33% of non-worked hours. While some firms might receive less support as a result, many others would receive more funds. That's because they will receive financial support also for their many workers outside the narrow wage corridor.

- Cap the total subsidy at £2500, as with previous schemes. As with the JRS, this ceiling will seldomly be required as most people on the schemes are low earners.

- **The savings from the JRB should be used to increase the government contribution to hours not worked by 10 percentage points to 43 per cent**. This is necessary to further shift the balance towards firms keeping on workers on a part-time basis, especially for sectors experiencing ongoing large drops in demand.

- **Continue to provide extra aid to businesses particularly hit by restrictions**. The requirement of the JSS for workers to work at least a third of their full hours can remain in place. But two exception for this should be introduced for (1) businesses having to stop trading because of local lockdowns and (2) businesses that have been unable to reopen across the country – such as many arts and events businesses. It will be key to monitor whether the extension of the JSS, announced on 9 October, is sufficient to provide this support for hard hit businesses.

These design changes would bring job support schemes more in line with first-best economic principles[5], by effectively fostering work sharing across the wage range while demand is subdued (McNeil et al. 2020). Given the significant employer contribution and eligibility conditions, it would effectively disincentivise firms using it for non-viable jobs. And it would also incentivise firms to return employees back to full-time work as quickly as possible. Of course, many employers will want to hold on to their workers out of decency and because they want to invest in their employees' long-term skills. But for many firms under severe financial stress, a more effective job support scheme will be needed to help them achieve this.

Aligning the time periods of the JSS and JRB+ would also make economic sense – they are meant to work in tandem, as the Chancellor stresses. This would also have the crucial advantage of preventing another jobs cliff edge at the end of January when the bonus is paid out. In line with the OBR's scenario, we estimate that viable jobs will still need support over Q1 2021. Extending JRB+ support until April 2021 (as the JSS) would thus be of crucial importance to ensure a prompt economic rebound in spring.

Overall, we estimate that our proposed schemes would cost £7.4 billion from November 2020 to April 2021. This takes into account a larger uptake than under current schemes, as more viable jobs will be supported. However, this cost is still slightly less than the £7.5 billion the JRB alone would cost (Resolution Foundation, 2020). The reason for this saving is that our proposed scheme would focus resources on firms that truly need it. And the JRB+ being proportional to wages would reduce dead weight. In other words, the proposed design change could bring a huge benefit for workers and the UK economy – saving 1.8 million viable jobs – while not costing more than the government has already allocated for this.

---

[5] This refers to the idea that a policy should be aimed directly at supporting the desired outcome (in this case, fostering part time work during the crisis), rather than going about achieving it indirectly.

Annex I: Deriving the upper bound of the goldilocks wage corridor

We derived the upper bound for the wage corridor as follows:

Condition is that firm costs of keeping all workers on reduced hours should be lower than keeping fewer workers on full time

(1)
$$N\frac{d}{N}\cdot xw + N\left(1-\frac{d}{N}\right)yw + N\tau w - N\frac{b}{m} < dw + (N-d)\gamma w + d\tau w - d\frac{b}{m}$$

Wage costs for reduced workforce (full time) — NIC & pension costs for reduced work force

Wage payments for worked hours — Employer contribution to non-worked hours — Employer NIC & pension contr. for all workers — Job retention bonus — Redundancy costs for laid off workers — JRB for workers that were kept on

- d is the number of workers that are needed full time
- N is the number of current employees
  - So d/N is the % of demand as a share of prior demand
- x is the employer contribution to worked hours (without subsidies this is 1)
- y is the employer contribution to non-worked hours
- w is the wage
- τ are NICs and pension contributions as a share of the wage
- b is the total amount of the job retention bonus
- m is the months over which the employer books the bonus
- γ are the redundancy costs per worker

Can be simplified to:

(2)
$$w < \frac{b}{m}(N-d)\cdot\left[dx + N\left(1-\frac{d}{N}\right)y + N\tau - d(1+\tau) - (N-d)\gamma\right]^{-1}$$

A higher bonus increases the upper bound of the wage corridor — Higher employer contribution to non-worked hours and higher NIC/pension contributions lower the the upper bound of the wage corridor — Higher redundancy costs increase the wage floor

If the JRB is replaced by a job retention bonus that's proportional to wages, then the onus shifts to how large exactly the size of the hours worked subsidy should be. Rearranging (1) yields:
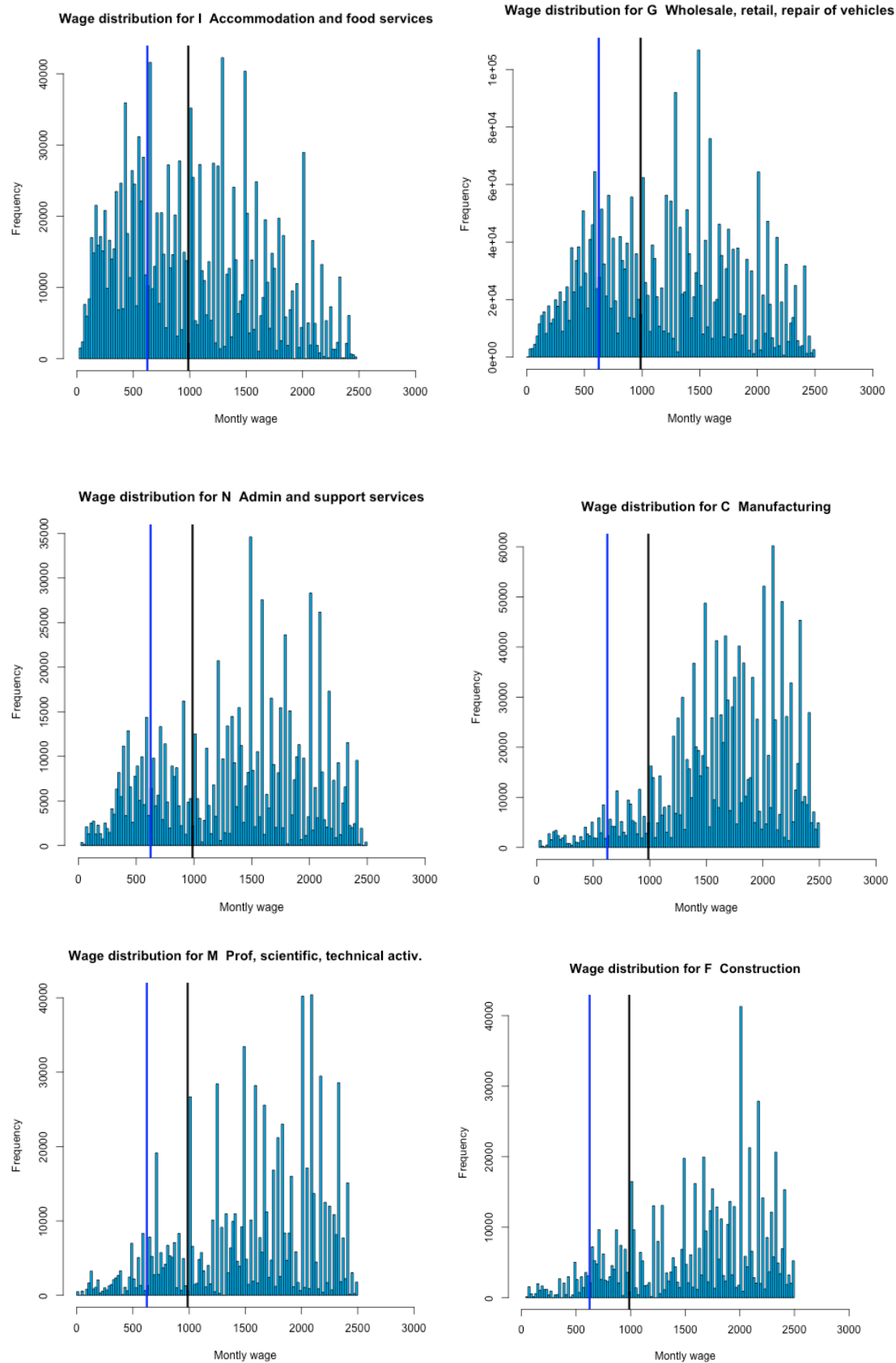
Condition for the part time subsidy, replacing the JRB:

(3)
$$x < \frac{1}{d}\left[-N\left(1-\frac{d}{N}\right)y - N\tau + d(1+\tau) + (N-d)\gamma\right]$$

Assumptions:

Variable	Assumption	Comment
d is the number of workers that are needed full time N is the number of current employees So d/N is the % of demand as a share of prior demand	6.6 10 66 per cent	Note that this assumption matters for the calculation of the part time subsidy. Many firms still have significant demand shortfalls which means that job support is essential until the economy recovers if viable jobs are to be protected. ONS data shows that one quarter of firms still face demand shortfalls of more than 20 per cent and about 8 per cent face shortfalls of more than 50 per cent. It is reasonable to assume that it is largely these firms with large demand shortfalls that that are still requiring support via the JRS and follow up schemes.
x is the employer contribution to worked hours (without subsidies this is 1)	1	As in the JSS.
y is the employer contribution to non-worked hours	0.33	As in the JSS.
τ are NICs and pension contributions as a share of the wage	0.10	This is the average NIC and pension contribution calculated for the estimated wage distribution of the workers on the JRS
b is the total amount of the job retention bonus	1000 accrued over 3 months	This is for the case where employers make the hiring decisions between now and the end of January. If employers have priced in the JRB since its announcement, the accrual period is 6 months, the monthly average lower and the upper bound of the wage corridor lower still.
γ are the redundancy costs per worker as a share of monthly wage	= 1/52/12/5	This is set at 2 weeks pay, given the average tenure across industry is between 2-3 years according to the ONS. Given equation (1) is representing monthly averages, assume that the redundancy costs are accrued over a 5-month period (because they are one off costs rather than recurring every month). This is based on the assumptions that they would start rehiring in April, with the scenario we developed in McNeil et al (2020).
Lower floor of wage corridor	£625	Based on RF (2020).

Annex II: JRS wage distributions by sector and the JSS/JRB implied wage corridors

Wage distribution for I Accommodation and food services

Wage distribution for G Wholesale, retail, repair of vehicles

Wage distribution for N Admin and support services

Wage distribution for C Manufacturing

Wage distribution for M Prof, scientific, technical activ.

Wage distribution for F Construction

ABOUT IPPR

IPPR, the Institute for Public Policy Research, is the UK's leading progressive think tank. We are an independent charitable organisation with our main office in London. IPPR North, IPPR's dedicated think tank for the north of England, operates out of offices in Manchester and Newcastle, and IPPR Scotland, our dedicated think tank for Scotland, is based in Edinburgh.

Our primary purpose is to conduct and promote research into, and the education of the public in, the economic, social and political sciences, science and technology, the voluntary sector and social enterprise, public services, and industry and commerce. Other purposes include to advance physical and mental health, the efficiency of public services and environmental protection or improvement; and to relieve poverty, unemployment, or those in need by reason of youth, age, ill-health, disability, financial hardship, or disadvantage.

The contents and opinions expressed in this paper are those of the authors only.