IZA Institute of Labor Economics

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IZA COVID-19 Crisis Response Monitoring:

United Kingdom

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According to your knowledge, how do you assess the following issues:

1. ***The current overall impact of COVID-19 on the labor market in terms of employment, unemployment, sectors, firms***: According to early information, who is affected the most? What do you see in terms of sectoral employment reactions, and regarding permanent, fixed-term or agency workers? Are current figures/estimates more or less in line with earlier forecasts or are there some unexpected/surprising deviations?

    Answer: According to the latest official figures released by the Office for National Statistics (ONS), the UK labour market has been hit hard by the COVID-19 crisis. In April 2020, there was a 450,000 fall in employee jobs[1] (Figure 1), and an unprecedentedly large increase in unemployment claims of 850,000 (Figure 2). Vacancies dropped sharply - by 53% relative to March. The largest annual decrease in average hours of the past 10 years occurred (0.8 hours fall). There was a slowing of average earnings growth to 0.7% for total pay[2] and an estimated fall in median pay of 0.9% in April. The most recently available quarterly GDP growth statistic points to a 2% fall in 2020 Q1 relative to the same quarter of 2019. This number obviously aggregates over months in and out of lockdown, yet is a big contraction of the economy that is comparable in magnitude to the one at the peak of the 2008 financial crisis (Figure 3). The economy is expected to contract by a lot more in 2020 Q2.

    The most affected sectors are customer-oriented personal and domestic services: Non-food, non-pharmaceutical retail; passenger transport; accommodation and

[1] Note that employment numbers as presented are likely to underestimate the actual fall in total work as they do not account for self-employment.

[2] The wage growth is 1% for regular pay.

food; travel; childcare; arts and leisure; personal care; domestic services. The combined employment in these sector accounts for roughly 15% of employees in the UK. According to the latest ONS survey figures, the sectors that reported higher percentages of temporary cease of trading are accommodation and food service activities (81%) and arts, entertainment and recreation (80%).[3] Vacancy drops in these sectors are clearly above 50% (80% and 86% respectively), showing that not all sectors have been equally hit.

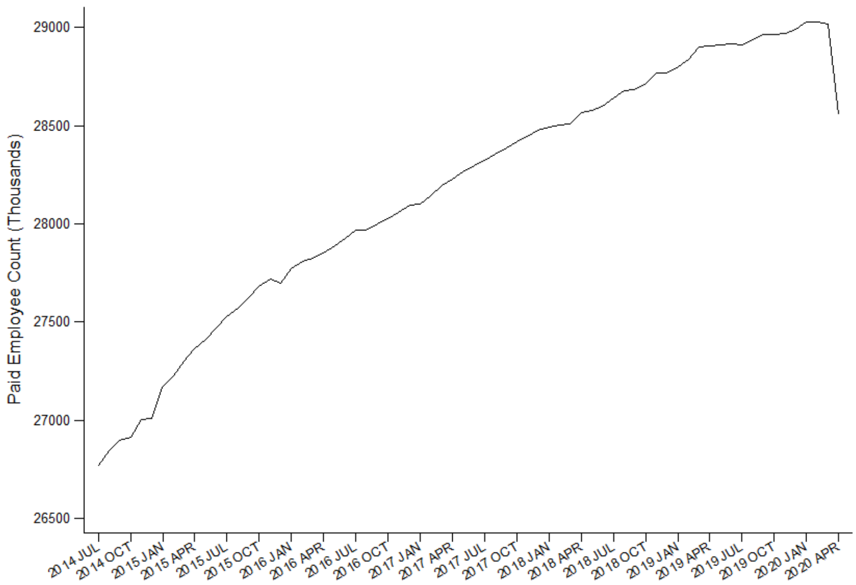
The composition of workforce in most affected sectors is not homogeneous: being disproportionally young (2.5 times more likely to work in sector in lockdown), concentrated among low earners (7 times more likely to work in sector in lockdown), gender biased (women are 33% more likely to work in sector in lockdown)[4], self-employed intensive (22% of self-employed work in affected sectors, disproportional to women – close to a third of self-employed women).

The patterns previously described are corroborated by realized outcomes in a recent work by Adams-Prassl et al (2020a) who find that: young workers are 1.4 more likely to have experienced working hours reductions and earning losses in the past week than their older counterparts, lower income workers are significantly less able to work from home and are more likely to have lost their job due to COVID in the past 4 weeks, and workers in alternative working arrangements (self-employed, those not paid a salary, working with variable hours at employers' discretion (e.g. zero-hours contracts)) are close to 3 times more likely to have seen their earnings fall compared to workers in permanent contracts. Furthermore, Adams-Prassl et al (2020b) finds that women in the UK are 5% more likely to lose their job compared to men. Forthcoming study by Blundell and Machin (2020), which has conducted a survey of self-employed workers in the UK in May, finds that despite the disproportionate number of women working as self-employment in affected sectors, the average self-employed female worker has not been more affected, mainly due to the fact that self-employed women are more likely to be able to work from home.

[3] Business Impact of COVID-19 Survey (ONS) https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukeconomyandsocietyfasterindicators/7may2020

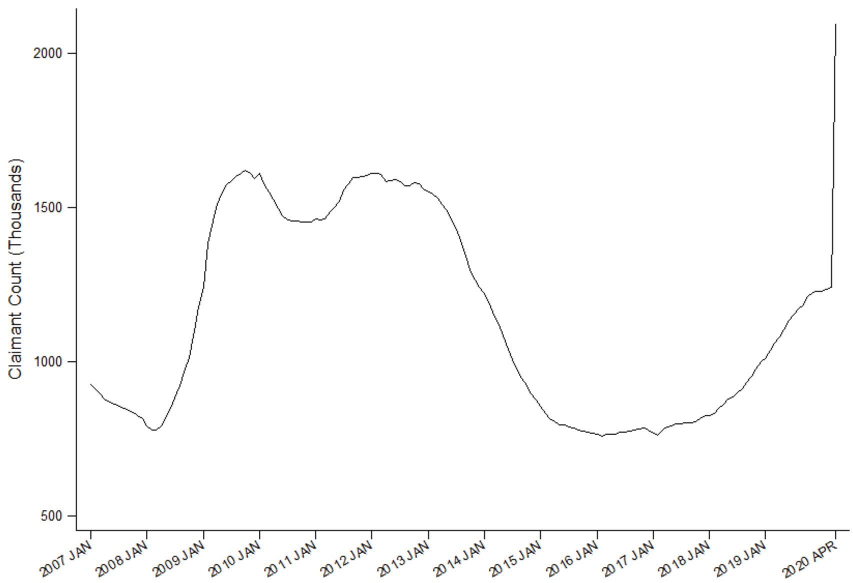
[4]See Joyce and Xu (2020)

Figure 1:UK Employment Count of Paid Employees



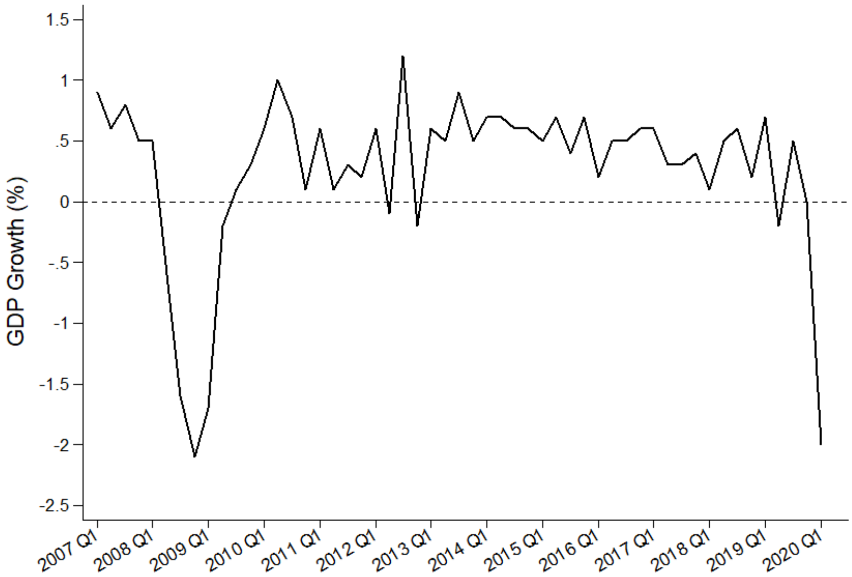
Notes: Number of people receiving paid renumeration included in Pay As You Earn (PAYE) Real Time Information (RTI) for work done in the reference period. It also includes people receiving renumeration for the reference period who have not done work but are an employee
Source: ONS Earnings and employment from Pay As You Earn Real Time Information, UK: May 2020

Figure 2: UK Claimant Count



Notes: Claimant count covers claims for Jobseeker's Allowance and those claimants in the Universal Credit "searching for work"
Source: ONS

Figure 3: Gross Domestic Product Growth UK, 2007Q1-2020Q1



Notes: Quarter-on-quarter growth rates
Source: ONS

2. ***The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19 (as listed in the OECD inventory)***: Is this summary appropriate? Have there been most recent changes or new initiatives? How do you assess the overall policy set adopted so far? Have certain aspects or target groups been neglected in the policy packages adopted?

    Answer: The last update (12th May) for the UK is appropriate. The labour market policies introduced to date have been gradual, with measures being announced first to provide the businesses with liquidity and to shield workers with permanent contracts and then expanded to other workers. Most of the initial measures have targeted the preservation of firm-worker matches through furloughing in the Job Retention Scheme (CJRS), reducing and delaying the permanent ceasing of trading of firms and consequent destruction of jobs primarily among those in permanent contracts. This implied that workers in alternative working arrangements when and if eligible[5] for support will receive so at a later point in time (Self-Employed Income Support Scheme (SEISS) starts payment only in June). The policies have not yet been granular enough as to take into account the disparities in workforce composition stated previously, although that would require more discretionary actions that are not easy to plan and could delay effective implementation. However, one can observe that the policies first enacted have been directed at workers with arguably less exposure to economic damage due to the current crisis (Adams-Prassl et al, 2020a, b).

[5] Not all workers in alternative work arrangements will be eligible for governmental support (for example, self-employed workers that have not traded in the tax year 2018 to 2019 are excluded)

3. ***Regarding policies providing immediate liquidity to small firms and freelancers***: How do you see the actual take-up of support by small firms and self-employed? To what extent do the measures in practice help mitigate the economic impact of COVID-19? How do you see the delivery and implementation by public agencies and other entities, taking into account the trade-off between quick delivery and deadweight losses or misallocation?

   Answer: As of May 17, HMRC declared that 986,000 firms had been approved for the Coronavirus Job Retention Scheme (CJRS), representing 8.5 million jobs furloughed. So far the official take up numbers of the CJRS published by HMRC have not been broke down by firm size. According to ONS latest survey figures (covering 6 to 19th of April) it is estimated that 67% of responding businesses had applied for the CJRS with a success rate of 22%, the differences between smaller and larger firms (250 employees threshold) does not look to be statistical large (68.7% vs 64.7% in applications, 22.1% vs 22.4% in approved status). Overall, indicators available to date show a rather bleak picture for small businesses. The March to April drop in vacancies for businesses employing less than 50 employees has been considerably higher 69.3% compared to 47.3% for larger firms. Firms with workforce size below 250 are 25% more likely to have temporarily closed or temporarily ceased trading. Furthermore, inefficiencies and burden disparities are present in the schemes as set currently, for example, when applying for the CJRS with less than 100 employees, firms are required to enter the individual details (name, NI number, claim period, claim amount and payroll number (optional)) for each worker which plausibly represents an extra burden for smaller firms.

   According to HMRC, the official number of applications received for the Coronavirus Self-Employed Income Support Scheme (CSISS) was 2 million as of May 17, corresponding to a value claimed of 6.1 billion pounds. According to their analysis, Blundell and Machin (2020) estimate the take-up of the scheme to be increasing since the opening of applications on 13th of May with 43% of their survey respondents declaring they had applied as of 15th of May. However, it is worrying that of those not applying, 41% say they are unsure about whether they are eligible for the scheme.

4. ***Regarding dependent workers***: How do you assess the effectiveness of unemployment insurance and short-time work in stabilizing income and jobs at the moment? To what extent do short-time work measures help reduce or postpone inflows into unemployment (and for whom)? Is this being complemented by sectoral or firm-level agreements? What is known about the support delivered to job seekers now? Has activation by ALMPs come to a halt?

   Answer: Jobseeker's Allowance (Unemployment Benefit) has suffered no changes apart from the waiving of interviews and appointment attendance. Universal credit suspension of the minimum wage floor aims to facilitate eligibility of self-employed. An encouraging update relates to the option available to furloughed workers under the CJRS to take up part-time work for another employer if their employment contract allows. Additionally, flexibility on the phasing of workforce has been provided by allowing employers to be able to roll employees on and off furlough within the duration of the scheme. The first version of the CJRS did not allow for any of the previously mentioned options hence limiting the allocation of work resources and alternative income sources. Measures addressing job seekers are plausible to be announced at a later stage of deconfinement, so far the policies in place have focused on attenuating and postponing the inflows into unemployment.

5. To what extent are ***working conditions and work organization within firms*** changing at the moment, in particular in sectors where there is an increased or normal workload? How do working time / mobile working rules or care arrangements respond to that in practice?

 Answer: “Essential” sectors (health, wholesale retail (groceries), public transport) have adopted strict health guidelines with their operation procedures. Opening hours and/or frequency of service have been affected and “mirrored” work shifts are in place in order to try to minimize exposure and strain of workers. According to ONS survey calculations, 6% of workers in Great Britain responded that they have been working longer hours with no or reduced breaks in the past seven days (8.4% among key workers).[6] Furthermore, when asked about if they are worried about their health and safety at work 11.2% responded positively (the number increasing significantly to 35.2% among key workers). Blundell and Machin (2020) find that around a third of self-employed workers still working have felt their health safety at risk, when focusing on the subset of self-employed who work with digital platforms this steeply rises to 79%. Notice that the average self-employed worker, according to the study, experiences an exposure to health risk similar to that of key workers. When considering care responsibilities facing workers, it is estimated the COVID is directly affecting the degree of caring arrangements for 11% of those in working age with sharp gender differential: 5.8% of men compared to 15.8% of women. For those whose caring responsibilities were disrupted, 36.8% state that they are now spending more time caring for others.[7]

[6] Coronavirus and the social impacts on Great Britain: 7 May 2020 (ONS) https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/datasets/coronavirusandthesocialimpactsongreatbritaindata

[7] Coronavirus and the social impacts on Great Britain: 7 May 2020 (ONS) https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/datasets/coronavirusandthesocialimpactsongreatbritaindata

6. How do you assess the situation of ***new labor market entrants*** this year, in particular with school or university graduates? Are there policy innovations and initiatives to cope with this particular situation regarding hiring, provision of apprenticeships etc.?

   Answer: Considering the recent figures on the performance of the UK labour market and the likely scenario for coming months, it is expected that school leavers and graduates will be facing remarkable difficulties in entering the market and potentially severe scarring effects. In general, sectors that usually absorb part of the downturn employment shocks of recent crisis are precisely the most affected in the current situation, this worsens considerably the outlook for new labour market entrants. A natural response from school and university graduates will be to stay on in education longer, such will imply the need for additional funding on an emergency basis aimed at both students and educators. For those choosing to leave education and try to enter the labour market, targeted job guarantee schemes and prioritising of apprenticeships for younger people will be sensible policies to reduce the detrimental impacts of crisis for new labour market entrants.[8]

[8] For a comprehensive analysis of the economic consequences of the crisis on education leavers and policy recommendations to tackle it see Henekan (2020).

7. Do you see ***further remarkable developments*** and issues, maybe unexpected policy innovations, changes in employment, new trends? Can you already identify ***(changes in) medium-term or long-term trends on the labor market*** that are due to the crisis (e.g. accelerated structural change)? How will the general functioning of the labor market in your country be affected in the long run?

   Answer: It is expected an acceleration of the pre-crisis trend in shifting a share of the usual work schedule to working from home. As several current studies point out there was already a willingness-to-pay for job security among self-employed workers which were willing to sacrifice part of their income in order to access the benefits of the social safety net (Blundell and Machin, 2020; Boeri, Giupponi, Krueger and Machin, 2020). This preference will likely be intensified now that a significant proportion of workers in alternative work arrangements are suffering significant economic hardship. In the terms of structural changes in production technology, one expects a hastening in adoption of automation processes in production in order to circumvent the reliance on in-workplace presence. A degree of reorganization and reallocation of global value chain downstream production is likely to take place as consequence of firms experience during this crisis. In the UK for example, 19.6% of businesses declared that their importing of materials, goods or services has been negatively affected by crisis (37.6% for manufacturing). This shock can push firms to decrease dependency on single geographic-centric suppliers, which in turn can have the potential to benefit labour market effects for domestic workers and closer trade partnering economies. Also, we expect to see further wage stagnation particularly with some sectors affected (passenger transport; accommodation and food; travel) being considerably restricted even in the medium-run.

8. Can the ***current policy stance*** (reduced economic activity, combined with public income support) be sustained, and for how long? What do you see as necessary and ***useful next steps***, in particular to revive economic activity (soon)? How do you see the ***current and future fiscal viability*** of the crisis relief measures?

   Answer: The current policy stance is likely to be unsustainable if unchanged until the end of the year (potentially even earlier). Future fiscal viability is dependent on the speed of recovery of the UK and World economy and the "tolerance" by the international financial markets towards the sovereign debt level. If the tolerance shown is the same as the one display in the European crisis of started in 2008, then most likely it will not be sustainable and can bring pressure of restrictive fiscal policies in the medium-term with severe consequences for inequality in the long-run. Additionally, the UK is no longer part of the EU making the mutualization of debt via mechanisms such as the so-called "coronabonds" is not an option. A mitigating factor is a likely sustained reduction in the capital financing costs due to a fall in investment demand.

   The next steps to revive economic activity without significant job destruction and high long-term unemployment need to be focused on an efficient and well-monitored phasing out of the job retention schemes coupled with a sustained policy of investment in human capital and reskilling. One in four workers are currently furloughed and their prospects of being kept on are critical to the recovery and the phasing down of the Job Retention Scheme. As employers start to bear more of the costs there would seem to be two groups to carefully consider. The first will return to work, possibly first on a part-time or short time work basis. The second will not, either being laid off because there is not demand for their job, or because their employer closes down. For this group, policy is vital to ensure they do not be placed on a trajectory heading towards long-term unemployment, the economic, psychological and social costs of which are substantial as we know from a large body of research from earlier downturns that featured high levels of long term unemployment (Machin and Manning, 1999). It is important, for individuals, families and society that we do not return to the kind of long term unemployment picture that did such damage in the UK in the early 1980s.

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UK COVID Response Policies

Country data updated on 13-May-2020

Source: https://oecd.github.io/OECD-covid-action-map/

Containment measures

Quarantine/Confinement

- Economy-wide lockdown since 23 March.
- The government announced a gradual easing of restrictions in England on 13 May, starting with the opening of most sectors that were closed during the lockdown, with the exception of entertainment, hospitality, and non-essential retail. There will be some relaxation of stay-at-home measures and unlimited exercise and driving to a national park or beach will be permitted. People can also see others from outside their household. If the health situation remains under control, a second phase would see the reopening of non-essential retailers and primary schools on 1 June, followed by the hospitality and entertainment sectors on 4 July.
- A new five-tier alert system on the status of the health crisis will be established to inform about further easing of restrictions, or their re-imposition. A Joint Biosecurity Centre will provide real-time analysis of local developments.
- Northern Ireland, Wales and Scotland are expected to announce their opening strategies soon.

Travel bans/restrictions

- Borders remain open. People, trade and capital can enter and exit the country. The government advised British tourists currently abroad to return to the country, and advised against all non-essential travel worldwide.
- From 1 June, a 14-day quarantine period for all travellers coming to the UK will be in place. Travelers from the Republic of Ireland and France will be exempted.

Closure of schools/universities

- Schools are closed except for children of key workers (16 March).
- Primary schools will re-open on 1 June (11 May).

Cancellation of public events / Closure of public places

- On 11 May, the government announced that outdoor places will reopen on 13 May and that people can exercise more than once a day. Social distancing measures remain in place. Ban on public events and social gatherings remains in place.

Obligatory shut down of economic activities

- The government announced its opening strategy on 11 May. In a first phase, sectors that were closed during the lockdown can re-open again on 13 May, except entertainment, hospitality, and non-essential retail. All workers who cannot work from home should travel to work if their workplace is open. If the health situation remains under control, a second phase would see the reopening of non-essential retailers on 1 June, followed by the hospitality and entertainment sectors on 4 July.

Fiscal measures

Overall fiscal measures

- The UK government has announced a GBP 401.5 billion fiscal package (18.1% of GDP) to counter the impacts of coronavirus, in addition to the Coronavirus Job Retention Scheme and the Self-Employed Income Support Scheme. This includes over GBP 330 billion of state loans and guarantees for struggling businesses, through the Coronavirus Corporate Financing Facility (20 March) and the Coronavirus Business Interruption Loan Scheme (17 March). VAT payments of around GBP 30 billion (1.4% of GDP) for the second quarter of 2020 are deferred until 2021 (20 March). GBP 330 billion of state loan and guarantees and the deferral of VAT payments do not represent a fiscal cost.

- There is also GBP 41.5 billion (1.9% of GDP) of further fiscal measures announced on 11 March, 17 March, 20 March and 26 March, which do represent fiscal costs. This includes GBP 5 billion to support the NHS and other public services, GBP 30.5 billion for business support and GBP 6 billion for welfare support. In addition, the Coronavirus Job Retention Scheme and the Self-Employed Income Support Scheme are estimated at add around GBP 14.7 billion (0.7% of GDP) if the take up is 3.5 million people (or 10% of employees) over three months.

Health system measures

- GBP 5 billion for the National Health Service (NHS) and other public services to tackle the virus (11 March).

- On 11 May, the Government has committed to increase testing capacity to 200,000 tests per day by the end of May.

- The government advises citizens and international travellers to download and use the NHS contact tracing app.

Income support measures for individuals and households excluding tax and contribution changes

- Coronavirus Job Retention Scheme (20 March): For the next three months, all employers are eligible to apply for a grant to cover 80% of retained workers' salaries of up to GBP 2,500 a month. According to the OBR, the budgetary costs of the scheme are estimated at GBP 39 billion (or 1.8% of GDP) if take up is around 30% among private sector employees over three and a half months. By 12 May, almost 1 million employers have applied for help to pay the wages of around 7 million furloughed jobs at a cost to the budget of GBP 14 billion. On 12 May, the government announced to extend the job retention scheme until the end of October 2020 to avoid a cliff-edge withdrawal of wage support. Between August and October, 80% of wages of furloughed staff working part-time will be covered as well. Also starting in August, employers will share the costs of the job retention scheme, which would continue to receive the same 80 per cent of their salary. The government will announce further details on cost-sharing by the end of May.

- Self-employment Income Support Scheme (26 March): Provides self-employed a taxable grant of up to 80% of their previous earnings over the last three years (capped at GBP 2,500 a month and open for self-employed with average profits of less than GBP 50,000). The first grants will be paid in June and the scheme will run for at least three months. It will add around 10 billion (or 0.5% of GDP) to public debt if take up is around 2 million self-employed (or 40% of self-employed) over three months, according to the OBR. About 1 million self-employed work in directly affected sectors such as e.g. hospitality, tourism, and entertainment.

- Universal Credit (UC) for self-employed (20 March): Suspension of the minimum income floor of UC, which the government uses to test whether it considers a person, who is not in employment, to be in gainful self-employment. Increase in the UC allowance by GBP 1,000 for the next twelve months.

- Statutory sick pay (SSP) for self-quarantined people (11 March) from the first day of absence rather than the fourth day as was previously the case.

- The government will reimburse up to 2 million SMEs for part of their SSP costs (GBP 2 billion).

Tax and contribution policy changes

- Deferral of income tax: Individuals who are due to pay their personal income tax under 'Self-Assessment', which would otherwise be due on 31 July 2020, will have the right to defer such payment until 31 January 2021 without interest or penalties.

- Waiving of custom duties and VAT tax on medical imports from outside the EU, including ventilators, testing kits and protective clothing in order to improve the delivery of critical medical supplies (31 March).

Public sector subsidies to businesses

- GBP 29 billion (1.3% of GDP) of support for businesses (11 March) in England, including one-off cash grants between GBP 10,000 and GBP 25,000 for business with a property used for retail, hospitality or leisure (depending on the value of their properties but at a rateable value below GBP 51,000) (GBP 12 billion). Around 700,000 small businesses will be eligible for an immediate GBP 3,000 cash grant at a cost of GBP 2 billion (11 March). Refund of the cost of statutory sick leave up to 2 weeks for small businesses with less than 250 employees at a cost of GBP 2 billion (11 March). The devolved administrations have received additional GBP 3.5 billion (0.2% of GDP) funding so they can provide support to businesses in Scotland, Wales and Northern Ireland.

- GBP 750 million grants and loans for business R&D through Innovate UK.

Deferral of taxes and social security contributions and bringing forward expenditures within current fiscal year

- Deferral of VAT and self-assessed income tax payments of around GBP 30 billion (1.4% of GDP) for the second quarter of 2020 until 2021 (20 March)

- In England, 100% relief of business rates on property for all properties in retail, hospitality or leisure, irrespective of rateable value (GBP 11 billion).

- Businesses and self-employed people will also be able to negotiate bespoke 'Time to Pay' arrangements with HMRC in the event that they may otherwise struggle, or need more time, to pay their taxes (11 March).

Public sector loans or capital injections to businesses

- In a move to bolster high-tech start-ups, the new GBP 500 million Future Fund provides between 125k and 5m for UK based-business as long as the cash is matched by private investors (i.e. government is committing 250 million, with the other 250 million expected to be raised by the private sector). Start-ups must have previously raised at least 250k from private within the last 5 years investors to be eligible. The scheme will be launched in May, is initially open until September and will be delivered by the British Business Bank (20 April). If the government loan is not repaid within three years, it gets automatically converted into an equity stake at 20 percent discount to the valuation set in the next founding round.

- Smaller businesses focused on R&D can also apply for an additional GBP 750 million in grants and loans (20 April)..

Loan guarantees by the state benefiting private borrowers

- GBP 330 billion (14.9% of GDP) of temporary state loans and guarantee scheme for businesses. This includes the Coronavirus Corporate Financing Facility (20 March) and the Coronavirus Business Interruption Loan Scheme (CBILS) (17 March). CBILS provides a partial government-backed guarantee for the loan repayments to encourage more lending. It will back loans of up to GBP 5 million for small and medium-sized businesses. No personal guarantees are required for facilities under GBP 250,000 and the government covers the first 12 months of interest payments and any lender-levied charges. In addition, the Coronavirus Large Business Interruption Loan Scheme (CLBILS) will provide a government guarantee of 80% to enable banks to make loans of up to GBP 25 million to larger firms with an annual turnover of between GBP 45 million and GBP 500 million (30 March). Loans backed by a guarantee under CLBILS will be offered at commercial rates of interest.

Monetary policy and prudential regulation

Monetary policy

- Policy rate reductions: From 0.75% to 0.1% in two steps on 11 and 19 March.

- Lending support: The Covid Corporate Financing Facility (CCFF) provided jointly with the Treasury (17 March): Provides lending to businesses with minimum amount GBP 1 million per participant. The BoE will purchase commercial papers of firms of up to one-year maturity, with interest rate set with a fixed spread to the sterling overnight index swap (OIS) rate. The spread is determined based on rating or equivalent assessment. The scheme will operate for at least 12 months and will be financed by the issuance of central bank reserves.

- Liquidity support:

- Direct central bank financing of government debt through lifting of the GBP 370 million cap on the government's Ways and Means (W&M) facility (government's overdraft account with the BoE) to facility to directly finance additional government spending (9 April).

- Quantitative easing: Increase of BoE's holdings of UK government and corporate bonds by GBP 200 billion to a total of GBP 645 billion, financed by central bank reserves (19 March).

- The Term Funding scheme for Small and Medium-sized Enterprises (TFSME) (11 March): Funding for banks will be provided at interest rates close to the Bank Rate of 0.1%, with lending to SMEs incentivised. Initially envisaged at a size of GBP 100 billion in 2020 (5% of GDP), the BoE recognised on 20 March that additional funding would be required..

Prudential regulation

Macroprudential policies:

- Easing of capital requirements (17 March): The countercyclical capital buffer rate was cut to 0%, which is expected to support the ability of banks to supply additional credit of around GBP 190 billion.

- The Prudential Regulation Authority set out expectations that banks should not increase dividends or bonuses in response to the BoE's policy actions (17 March).

Other measures including structural policy measures

- Furloughed UK employees receiving benefits under the Coronavirus Job Retention Scheme are cleared to undertake extra work (8 April)

- Competition authorities softened rules that inhibit co-operation between supermarkets to permit sharing of data and distribution depots (20 March).