

IZA COVID-19 Crisis Response Monitoring
United Kingdom (June 2020)

Rui Costa
Stephen Machin

IZA COVID-19 Crisis Response Monitoring **United Kingdom (June 2020)**

Rui Costa

Centre for Economic Performance,
London School of Economics

Stephen Machin

Department of Economics and Centre for Economic Performance,
London School of Economics

ABSTRACT

On the 23rd of March, the United Kingdom locked down in response to the COVID-19 pandemic. Subsequently, the UK economy suffered the biggest contraction of economic activity in 41 years, experiencing a 10% year-on-year drop in GDP. The labour market has seen record rises in unemployment claims, big drops in employment and self-employment, a rise in short-time work and a big drop in vacancies. These occurred despite the roll out of the government's job retention scheme for employees and income support scheme for the self-employed. How to ensure affected individuals are not on a trajectory heading towards long-term unemployment is a top priority for economic recovery.

Any opinions expressed in this paper are those of the author(s) and not those of IZA. Research published in this series may include views on policy, but IZA takes no institutional policy positions. The IZA research network is committed to the IZA Guiding Principles of Research Integrity.

The IZA Institute of Labor Economics is an independent economic research institute that conducts research in labor economics and offers evidence-based policy advice on labor market issues. Supported by the Deutsche Post Foundation, IZA runs the world's largest network of economists, whose research aims to provide answers to the global labor market challenges of our time. Our key objective is to build bridges between academic research, policymakers and society.

This series often represents preliminary work and is circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the author.

Cite as:

Costa, Machin (2020): IZA COVID-19 Crisis Response Monitoring: United Kingdom (June 2020).

Labor market impact of COVID-19

According to the latest official figures released by the Office for National Statistics (ONS), the UK labor market has been hit hard by the COVID-19 crisis. Between March and May 2020, there was a 612,000 fall in employee jobs¹ (Figure 1), and an unprecedentedly large increase in unemployment claims of 1.6 million representing a 125.9% increase since March. (Figure 2). Vacancies dropped sharply – by 58% relative to March. The largest annual decrease in average hours of the past 10 years occurred (6.9 hours fall). For the month of April average earnings growth fell dramatically to -1.7% for total pay² and median pay show an estimated fall of 3.5% since March to May³. The most recently available monthly GDP growth statistic points to an unprecedented fall of 10.4% in the three months to April 2020 compared to the three months prior. This number obviously aggregates over months in and out of lockdown, yet this contraction of the economy vastly surpasses that experienced at the peak of the 2008 financial crisis (Figure 3).

The most affected sectors are customer-oriented personal and domestic services: Non-food, non-pharmaceutical retail; passenger transport; accommodation and 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. These sectors have experienced the largest contractions in output with gross valued added growth for March and April on negative ground of 20%, and as high as 40% accommodation and food service activities (Figure 4). According to the latest ONS survey figures⁴, the sectors that reported higher percentages of temporary cease of trading are accommodation and food service activities (74%) and arts, entertainment and recreation (75%).⁵ Vacancy drops in these sectors are clearly above 50% (92% and 90% respectively), showing that not all sectors have been equally hit (Figure 5).

The composition of workforce in most affected sectors is not homogeneous: being disproportionately 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)⁶, gender biased (women are 33% more likely to work in sector in lockdown), 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. According to the latest Quarterly Labour Force Survey the loss in weekly hours worked has been particularly pronounced among the self-employed with a drop of 11.4 hours on average comparing the periods pre 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 0% for regular pay.

³ Earnings and employment from Pay As You Earn Real Time Information, UK: June 2020, ONS

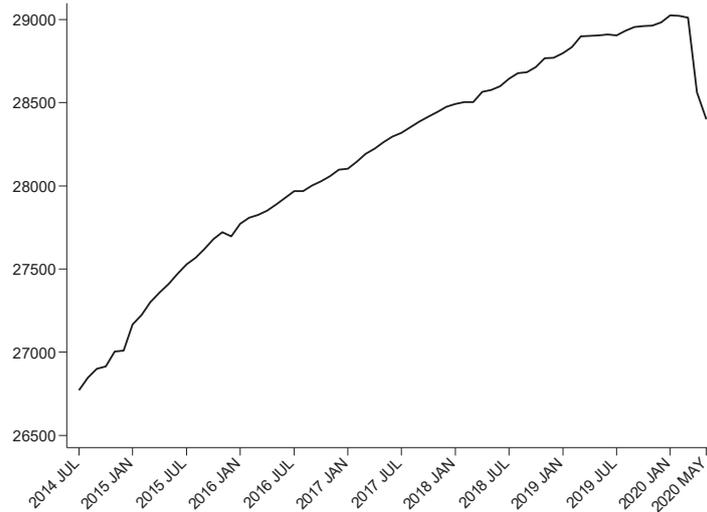
⁴ Business Impact of COVID-19 Survey, 4-17 May, ONS

⁵ The May figures show a slight improvement relative to the temporary cease of trading experienced in the April by the same sector (80% and 81%)

⁶ See Joyce and Xu (2020)

post-lockdown until the end of April. Weekly hours worked prior to lockdown had been on average similar between employees and self-employed (32.2 and 31.9) but the lockdown has affected the self-employed significantly more with a 36% drop in hours relative to 19% felt by employees (Figure #6). 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.

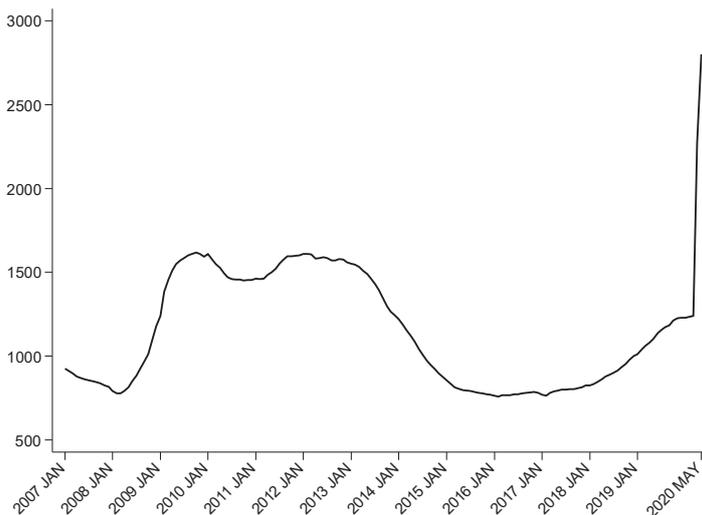
Figure 1: UK Employment Count of Paid Employees



Notes: Number of people receiving paid remuneration included in Pay As You Earn (PAYE) Real Time Information (RTI) for work done in the reference period. It also includes people receiving remuneration 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: June 2020

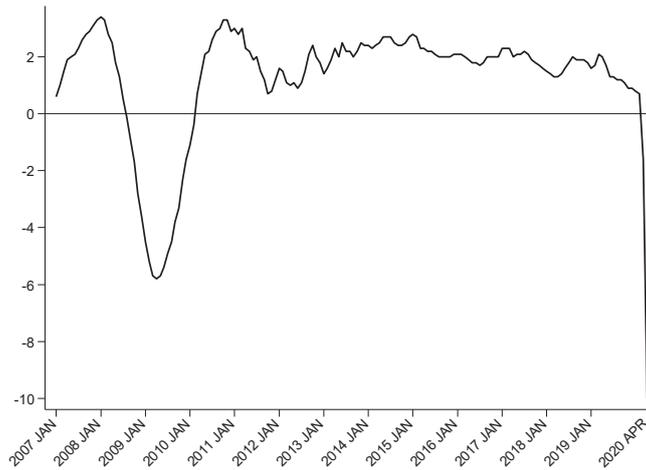
Figure 2: UK Claimant Count



Notes: Claimant count covers claims for Jobseeker’s Allowance and those claimants in the Universal Credit “searching for work”

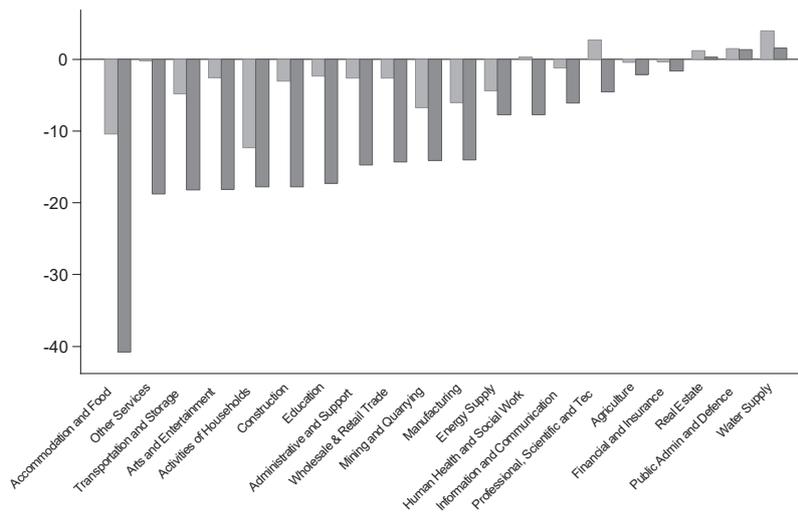
Source: ONS

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



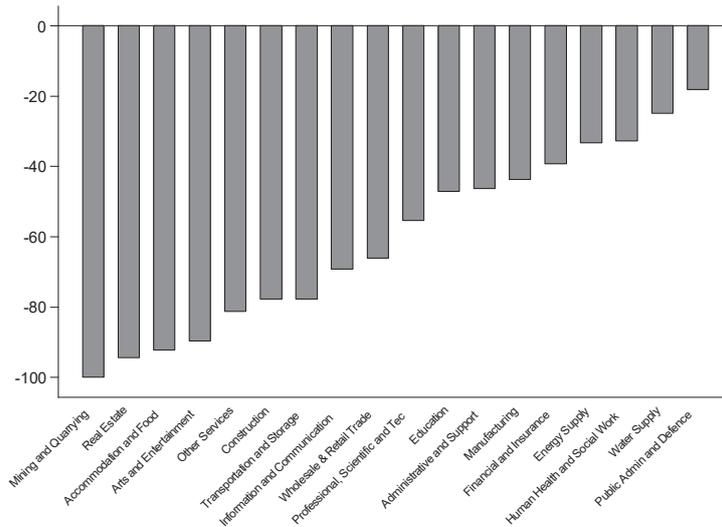
Notes: Three Month-on-Three Month growth rates relative to previous year
Source: ONS

Figure 4: Gross Domestic Product Growth UK by Sector, March and April 2020



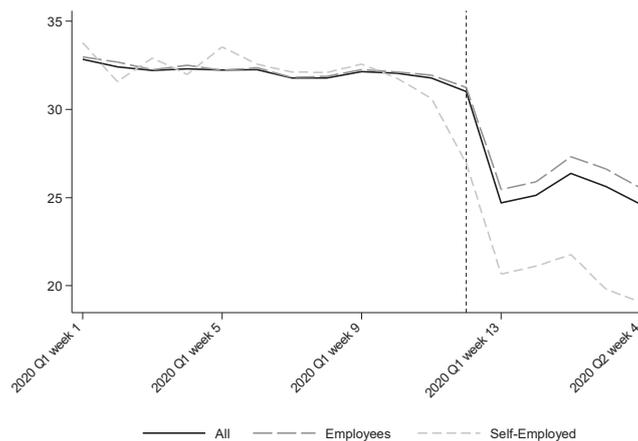
Notes: Three Month-on-Three Month growth rates relative to previous year
Source: ONS

Figure 5: Vacancies Growth UK by Sector, May 2020



Notes: Growth rates are calculated relative to March 2020 levels
Source: ONS

Figure 6: Average Weekly Hours Worker UK by Employment Type, January to April 2020



Notes: Average weekly hours worked calculated as total hours worked in the reference week including overtime and 2nd jobs. The dashed vertical line identifies the week prior to lockdown on the 23rd of March.
Source: ONS

Orientation and targeting of adopted measures

The last update (8h June) for the UK is appropriate although does not include the recent extensions of both Coronavirus Job Retention Scheme (CJRS) and Self-Employed Income Support Scheme (SEISS) until October announced by the Chancellor Rishi Sunak on the 29th of May. The labor 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 Coronavirus 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 eligible⁷ for support will receive so at a later point in time (Self-Employed Income Support Scheme (SEISS) starts payment only in June). As of June 4, the Office for Budget Responsibility estimates that CJRS and SEISS will represent an expenditure of 54 and 10.5 billion pounds respectively accruing to the equivalent to 3.1% of UK GDP in 2019 (Table 1).⁸ The most significant policies with respect to estimated cost are CJRS, SEISS, the Small Business Grant Scheme and Business Rates Relief Package as presented in Table 1. 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).

7 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)

8 Coronavirus Policy Monitoring Database – 4 June 2020, Office for Budget Responsibility

Table 1: Estimated Cost of COVID-19 Support Measures UK

COVID-19 Support Measures		Net Cost in £ billion (2020-21)	Source
DEL measures			
1	Public services spending	-16	OBR
2	Additional funding for charities	-0.8	HMT
3	Local authority funding to support vulnerable people	-0.5	HMT
Employment support			
4	Coronavirus job retention scheme	-54	OBR
5	Self-employed income support scheme	-15	OBR
Other support for households			
6	Statutory sick pay support	-1	OBR
7	Welfare package	-8	OBR
	Universal credit - minimum income floor		
	Increase weekly universal credit by £20		
	Increase weekly tax credit by £20		
	Employment and support allowance: removing 7 day wait		
	Local Housing Allowance measures		
	Stopping all health assessments and job centre appointments		
	Stopping conditionality reassessments		
8	Welfare - suspending benefit recovery	*	n/a
9	Tax credits: automatic renewal and relaxation of hours rules	*	n/a
Business support: tax and spending measures			
10	Small business grant schemes	-15	OBR
11	Business rates package	-13	OBR
12	Off-payroll working: delay extension to private sector by 1 year	-1.2	OBR
13	VAT on e-publications - early introduction	-0.1	OBR
Business support: loans and guarantees			
14	Loan schemes	-5	OBR
	Coronavirus business interruption loan scheme (CBILs)		
	Coronavirus large business interruption loan scheme (CLBILS)		
	Bounce Back Loan Scheme (BBLs)		
15	Covid Corporate Financing Facility (CCFF)	*	n/a
16	Support for start-ups (Future Fund and Innovate UK)	*	n/a
17	Trade credit insurance	*	n/a
Tax measures			
18	VAT deferral	-1.9	OBR
19	Self-assessed income tax deferral	-1.2	OBR
20	Time-to-pay arrangements	*	n/a
21	Import duty exemptions for medical products	-0.1	OBR
22	Zero rate of VAT on PPE	-0.1	OBR
Other measures			
23	Rail franchise suspension	*	n/a
24	Interest holiday for help-to-buy equity loan holders	*	n/a
25	Lifetime ISA early access	*	n/a
26	TFL package	-	HMT
27	Waiving the immigration health surcharge for NHS workers and other care providers	*	n/a
Memo: policy assumptions included in the fiscal scenario			
28	Major financial asset sales - assumed delays	-10.5	OBR

Notes: The estimates cover cash impacts of the policies in 2020-21 based on the illustrative assumption that economic activity would be heavily restricted for three months and then gradually return to normal over the subsequent three months. Impacts at future periods are not covered. * means no estimate has yet been produced.

Source: Office for Budget Responsibility.

Immediate liquidity support to businesses

As of June 14, HMRC declared that 1.1 million firms had claimed support of the Coronavirus Job Retention Scheme (CJRS), representing 9.1 million jobs furloughed (Figure 7). According to the latest release from HMRC⁹, firms with less than 50 employees represented 92% of all firms claiming support and 44% of the jobs covered. Considering the official count of the population of firms as of 2019 by employment size, it is estimated that 37% of firms with less than 50 employees have asked support of CJRS and the same statistic climbs to 79% for larger firms. According to ONS latest survey figures (covering 4 to 17th of May) it is estimated that 79% of responding businesses had applied for the CJRS with a success rate of 90%, this represents a significant improvement in the roll out of the scheme compared to April. The differences between smaller and larger firms (250 employees threshold) in applications does not look to be statistically large (80% vs 78%) whereas the difference in approved status is more pronounced (92% vs 84%)¹⁰. The March to April differences in vacancies growth for businesses employing less than 50 employees compared to larger firms of 69.3% and 47.3% respectively, looks to have been reduced during the month of May with small and large firms experiencing a similar reduction of 58% compared to March¹¹. Firms with workforce size below 250 are 32%¹² 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 (SEISS) was 2.6 million as of June 14 (Figure 8), corresponding to a value claimed of 7.6 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. Most recent official statistics from HMRC estimate the take up of the SEISS to be approximately 70% of the eligible population¹³.

⁹ Coronavirus Job Retention Scheme (CJRS) statistics: June 2020, HMRC

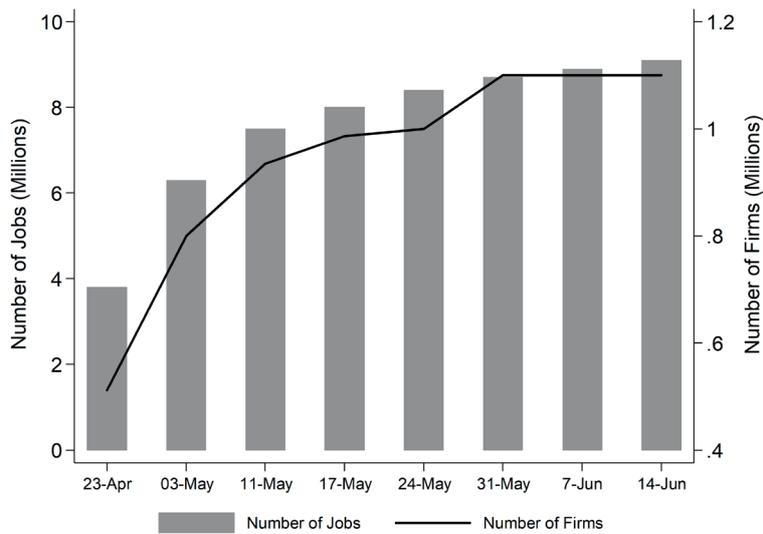
¹⁰ It is not possible to conduct inference to conclude if the differences are statistically significant.

¹¹ The improvement for small businesses (firms employing less than 50 workers) is driven by an increase of vacancies in the 1-9 employee band from April to May of 65%.

¹² 25% in April figures

¹³ Self-Employment Income Support Scheme (SEISS) Statistics: June 2020, HMRC

Figure 7: Coronavirus Job Retention Scheme Take Up



Notes: Number of jobs is calculated as the sum of the maximum number of employees furloughed by each PAYE scheme that has made a claim. Number of firms is calculated as the number of distinct PAYE schemes that have made a claim

Figure 8: Coronavirus Self-Employed Income Support Scheme Take Up

the official number of applications received for the Coronavirus Self-Employed Income Support Scheme (SEISS) was 2.6 million as of June 14 (Figure 8). The total value claimed of 7.6 billion pounds. According to their analysis (HMRC, 2020) estimate the take-up of the scheme to be increasing significantly on 13th of May with 43% of their survey respondents replying as of 15th of May. However, it is worrying that of those who have applied they are unsure about whether they are eligible for the scheme. More statistics from HMRC estimate the take up of the SEISS to be around 25% of the eligible population¹³.

Notes: Number of claims is calculated as the number of distinct PAYE schemes that have made a claim
Source: HMRC.

Support of dependent workers

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. It is estimated that between 28 to 31% of the employees in the UK have now been furloughed¹⁴, these figures represent a considerable effort in reducing or postponing inflows into unemployment. 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.

Working conditions and work organization

“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, 7.7% of workers in Great Britain responded that they have been working longer hours with no or reduced breaks in the past seven days.¹⁵ Furthermore, when asked about if they are worried about their health and safety at work 17.2% responded positively. 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 surveyed by ONS in May¹⁶. Homeworking has seen a pronounced increase; in the month of April it is estimated that 36% of employed workers were always working from home compared to the reporting by the same workers in January and February of 6%¹⁷. The gender gap in working from home relative to the month of April was small but statistically significant, 2% in favor of men. Furthermore, education seems to play an important role in being able to perform work remotely from home, with 47.7% of graduates reporting being continuously working from home in April, whereas only 22.5% of non-graduates were able to do so. The gap illustrates a sharp difference even with respect to the same workers’ response in January and February, when the graduate to non-graduate differential was only 1.8% (7% of graduates and 5.2% of non-graduates reported as homeworking). More educated workers’ higher accessibility to remote work represents a significant shielding mechanism against the labor shock resulting from the lockdown and mobility restrictions in place. Looking at the sectoral difference in remote work arrangements one can see considerable variation with sector like Information and Communication, Education and Professional, Scientific and Technical Activities reporting a proportion of workforce working remotely considerably above 50% (Figure 9). In contrast sectors such as Accommodation and Food, Transport and Manufacturing show only approximately 20% of their workforce being able to work from their homes. When considering care responsibilities facing workers, it is estimated the COVID is directly affecting the degree of caring arrangements for 10% of those in working age with sharp gender differential: 7.2% of men compared to 12.6% of women. For those whose caring responsibilities were disrupted, 51% state that they are now spending more time caring for others.¹⁸

¹⁴ Business Impact of COVID-19 Survey, 4-17 May, ONS

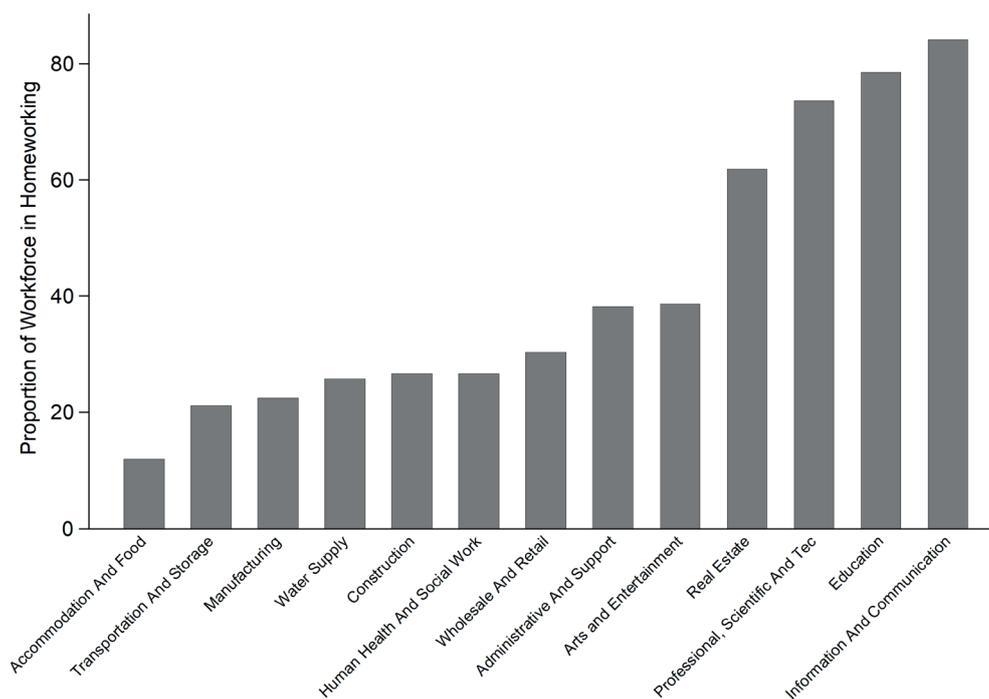
¹⁵ Coronavirus and the social impacts on Great Britain: 12 June 2020, ONS

¹⁶ Coronavirus and the social impacts on Great Britain: 7 May 2020, ONS

¹⁷ Understanding Society COVID-19, May 2020, Institute for Social and Economic Research

¹⁸ Coronavirus and the social impacts on Great Britain: 12 June 2020, ONS

Figure 9: Proportion of Workforce in Homeworking UK, May 2020



Source: Business Impact of COVID-19 Survey, 4-17 May, ONS

New labor market entrants

Considering the recent figures on the performance of the UK labor 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 labor 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 labor market, targeted job guarantee schemes and prioritizing of apprenticeships for younger people will be sensible policies to reduce the detrimental impacts of crisis for new labor market entrants.¹⁹ Several key higher education institutions, including University of Cambridge and University of Manchester, have announced that their teaching will resume online for at least the next academic term. Other major universities, such as Oxford University and London School of Economics, are planning for a “blended” approach mixing online and face-to-face tuition next year. Although it is less clear how smaller institutions will adapt to the need for online teaching, the trend in the UK seems to be clearly oriented towards it. In a recent survey to the UK universities, 97% of the institutions (89 out of 92) answered they will be following a “blended” approach to teaching while the other 3% answered they will be exclusively online on the start of the new academic year.²⁰

¹⁹ For a comprehensive analysis of the economic consequences of the crisis on education leavers and policy recommendations to tackle it see Henekan (2020).

²⁰ <https://www.universitiesuk.ac.uk/news/Pages/Most-universities-will-teach-in-person-this-autumn.aspx>

Policy innovations and labor market trends

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, 20.5% of importing businesses²¹ declared that they completely stopped importing materials, goods or services during the outbreak. Of those businesses continuing to import 60.4% has reduced their importing (62.5% for manufacturing)²². This shock can push firms to decrease dependency on single geographic-centric suppliers, which in turn can have the potential to benefit labor market effects for domestic workers and closer trade partnering economies. The shifts in global value chains will likely to prioritize resilience and responsiveness over low-cost, centralized production. When asked about what type of support would help their importing challenges, 15.4% of businesses whose importing has suffered from the current crisis state support in finding new alternative supply chains as beneficial. It is hard to disentangle if firms' future decisions regarding their downstream production will mainly be driven by Brexit or the COVID crisis, although the changes due to Brexit are heavily dependent on the future trade deals. 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.

Next steps and fiscal viability

According to OBR, the latest estimate of the aggregate cost of the COVID response support packages is approximately -132.5 billion pounds, 6.3% of GDP. 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

²¹ Importing business is defined as having imported in the last 12 months

²² The effects were felt by exporter firm as well. 20.1% completely stopped their exporting during the outbreak, of those who did not 73.5% have reduced their exports.

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. Job guarantees for those reaching long-term unemployment (12 months), and perhaps at an earlier cutoff for younger workers (e.g. 6 months for under 25's), are being discussed by some UK labor economists.

References

- Adams-Prassl, A., Boneva, T., Golin, M. and Rauh, C. (2020a), "Inequality in the Impact of the Coronavirus Shock: New Survey Evidence for the UK." Cambridge-INET Working Papers.
- Adams-Prassl, A., Boneva, T., Golin, M. and Rauh, C. (2020b), "Inequality in the Impact of the Coronavirus Shock: Evidence from Real Time Surveys", IZA DP No. 13183
- Blundell, J. and Machin, S. (2020), "Valuing social insurance for the self-employed", forthcoming
- Boeri, T., Giupponi, G., Krueger, A. and Machin, S. (2020), "Solo Self-Employment and Alternative Work Arrangements: A Cross-Country Perspective on the Changing Composition of Jobs". *Journal of Economic Perspectives*, 34, Winter, 170-95.
- Joyce, R. and Xu, X. (2020), "Sector Shutdowns During the Coronavirus Crisis: Which Workers Are Most Exposed?", IFS Briefing Note BN278
- Henehan, K. (2020), "Class of 2020: Education leavers in the current crisis", Resolution Foundation
- Machin, S. and Manning, A. (1999) *The Causes and Consequences of Long-Term Unemployment in Europe*, in Ashenfelter, O. and Card, D. (eds.) *Handbook of Labor Economics*, Amsterdam: North Holland.