

COVID-19 and social protection: case of the UK

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Policy background

Crisis came after long hangover from late-2000s recession

Lack of pay growth (though robust employment)

Small mid-decade recovery choked off by rise in inflation after vote for Brexit

Decade of austerity with many cuts to social security

Cuts to welfare had weakened link between support and actual costs (e.g. for housing, children)

Even longer-term decline (since early '80s) in value of out-of-work safety net relative to earnings levels; focus had been increasingly on in-work benefits and tax credits

Virtually no explicit earnings replacement in the social security system

Very different from many European neighbours

New income protection measures

Invented earnings replacement scheme from scratch: state is paying 80% of wages for furloughed workers; any top-up from employers optional

Short-term income protection. Makes huge difference: reduces share of family income lost in absence of work from average of 53% to 13%

Protect jobs with viable future, so could restart efficiently once crisis passed

Increased level of out-of-work safety net, and rental support, for one year

Still, effect is 2-tier system where laid-off workers get much less than furloughed

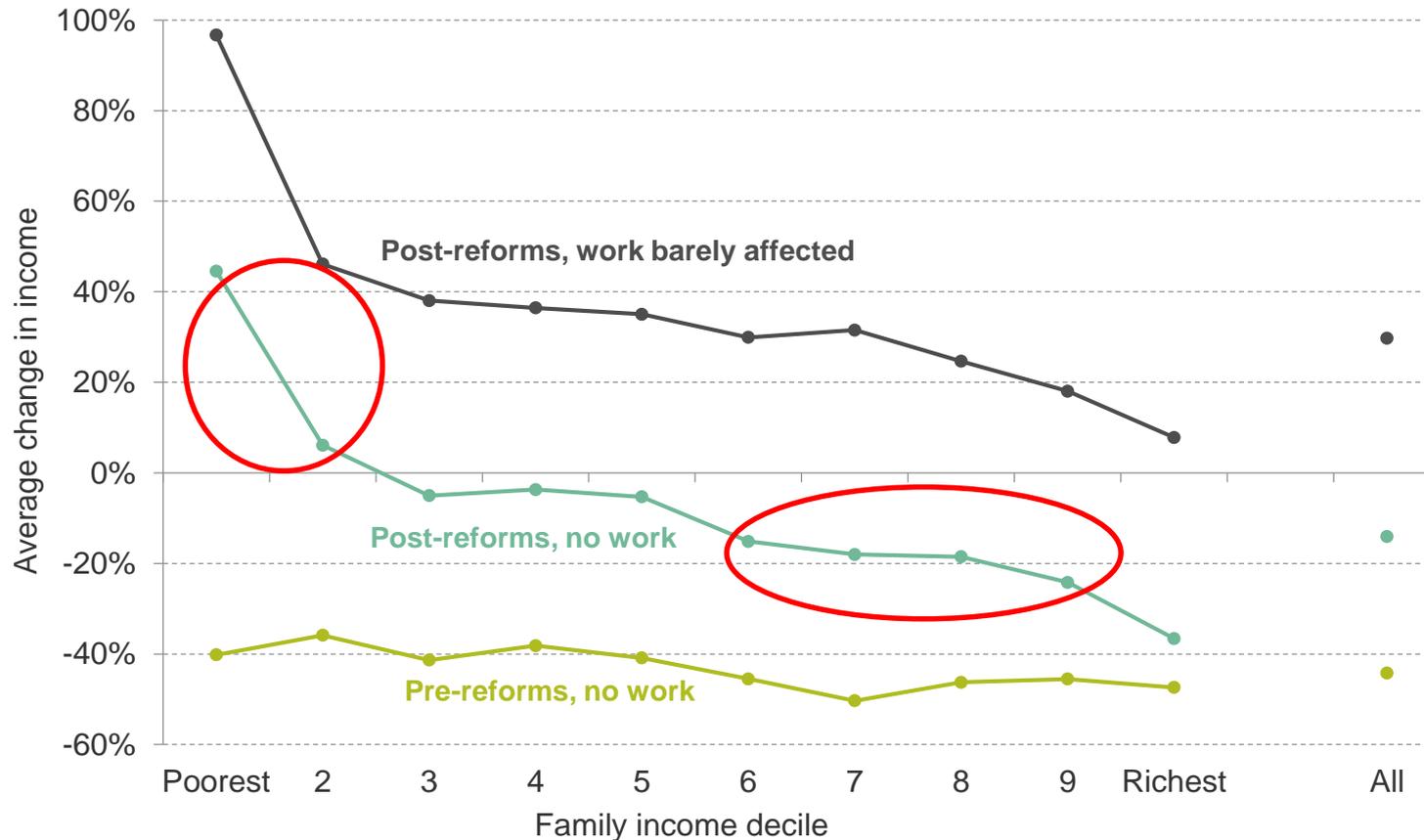
Self-employed

Government pays grant equal to 80% of average of profits over previous 3 years

People just have to say that their business has been affected (even if only a bit)

No good way of monitoring, and generous in many ways – yet many self-employed still fall through cracks (e.g. new businesses, people who get <50% of their income from self-employment)

Self-employed: average change in net family income relative to pre-crisis income



Source: Figure 5 of Adam, Miller and Waters (2020), 'Income protection for the self-employed and employees during the coronavirus crisis'.

Policy measures: comment

Furlough scheme very simple, though impressive that it was set up so quickly

Almost a third of workforce have been on furlough. So rise in unemployment would have been much larger so far without it.

Its monthly cost is huge: about the same as the National Health Service

Means-tested safety net seems to have coped very well with the administrative burden

About 1.5 million 'excess' new claims over 4 week period from mid-March; most processed quickly

Many have claimed social security for first time: could be important long-term impacts on take-up of support and attitudes towards welfare system in general

Immediate challenges

How to wind down the furlough scheme

Will start asking for contribution from firms in August. Scheme to be closed, and apparently not to return, from November.

No differentiation across sectors (e.g. between restaurants and sectors where demand will come back faster) – clear risks of more unemployment and firm closure ahead.

Increasingly clear we want some re-allocation, as well as labour hoarding

Some people would be better seeking new jobs, maybe in new sectors, than waiting and waiting for old jobs to come back.

Does state have capacity to facilitate this quickly and on large scale?

Large-scale reallocation can take the market a long time to get right, and can leave workers behind

Active labour market policy (for many more people than we had in system before), platforms for job posting/matching in certain sectors, perhaps direct public employment, retraining

Thank you

www.ifs.org.uk

IFS COVID-19 site

www.ifs.org.uk/coronavirus
