

A Targeted Furlough Scheme to Prepare the UK for Future Economic Disruptions



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Executive Summary

- The Coronavirus Job Retention Scheme (CJRS) prevented large-scale household and firm default during the pandemic, but the £70 billion of wage subsidies imposed a huge burden on public finances.
- A Targeted Furlough Scheme (TFS) should be applied during future lockdowns, but also during recessions to support firms and workers.
- The TFS incorporates the successful elements of the CJRS but adds eligibility and compliance monitoring of firms to prevent misuse and minimise costs to taxpayers.
- It provides relief to sectors and regions under the most strain where job loss is most likely.
- Our research shows the TFS protects jobs to the same extent as the CJRS, but it would have saved approximately £51 billion had it been implemented during 2020-2021 instead of the universal CJRS.

Background

The pandemic illustrates that furlough schemes can reduce economic damage by shielding workers from unemployment and firms from bankruptcy whilst also spurring economic recovery after lifting lockdowns. While effective, the CJRS in its current form is unattractive due to a lack of eligibility requirements and compliance monitoring that leads to [abuse of the system](#). A TFS guards against economic hardship while substantially reducing the cost to taxpayers of furlough. Its eligibility criteria mean it is also a potential tool policymakers could deploy to alleviate financial difficulties among firms and workers outside the pandemic, e.g. during a recession. Other countries (e.g. Germany, Switzerland) show that targeted furlough schemes are effective in mitigating the economic repercussions of the 2007 Financial Crisis.

Coronavirus Job Retention Scheme: lessons learnt

During lockdowns, the CJRS supported workers by preventing mass unemployment and simultaneously eased firms' financial constraints by allowing them to reduce labour costs. Once lockdown restrictions were removed, it helped revive economic growth as retained employer-employee links allow firms to quickly reactivate their operations without having to incur time and monetary costs of hiring new workers. Research shows the UK government's 80% contribution to a furloughed worker's monthly wage up to a limit of £2,500 each month was effective in minimizing the incidence of household financial distress at the lowest cost to taxpayers ([Görtz et al., 2021](#)).

However, the CJRS was effectively available to all firms as employers could self-assess whether their finances had been detrimentally affected by the pandemic. The lack of eligibility requirements and compliance monitoring exposes public finances, and taxpayers, to potentially high costs as firms that experience non-Covid-19 related financial difficulties may use the scheme.

A further unintended consequence is that zombie firms remain active rather than closing down which hampers productivity growth and prevents the best firms from growing their market share.

ONS data shows that the burden of the pandemic on employers was concentrated in the Food and Accommodation, Arts and Entertainment and Other Services sectors where take-up rates in June last year were 20% - double that in other sectors. There was also variation in take-up rates within the same sector across regions. A furlough scheme should be flexibly designed to provide support to firms most in need, both between sectors and across regions, rather than allowing all employers to access it.

Public expenditure savings

The proposed TFS is more effective than the CJRS and is also less costly to taxpayers. The CJRS was used by 1.3 million employers and supported 11.7 million jobs, costing almost £70 billion. ONS data report that 27 per cent of businesses experienced a decline in turnover compared to normal expectations during the pandemic. While not all of these firms experienced the 15 per cent turnover decline that we outline, this suggests that, conservatively, the targeted scheme would have saved a minimum of £51.1 billion compared to the universal CJRS.

A new Targeted Furlough Scheme

The TFS we propose incorporates the effective elements of the CJRS – an 80% contribution to a furloughed worker’s monthly wage up to a limit of £2,500 each month – but supplements it with eligibility and compliance monitoring measures. Eligibility is monitored, as is the case in other countries, through management accounts and bank statements. Corporations need to demonstrate that turnover had fallen by at least 15 per cent to qualify for wage support. This approach is used in Ireland. These features ensure support is rapidly provided to businesses in hard-hit sectors and regions but also ensure taxpayers’ money is spent prudently while also limiting competitive distortions.

Compliance will be monitored under the TFS through random HMRC inspections to verify that only eligible firms use it. Fines would be issued in the cases of misuse. This would obviate the issue that workers are asked by their employer to commit CJRS fraud by demanding they continue working while furloughed. Where large numbers of firms apply, self-assessment coupled with subsequent HMRC inspections to verify eligibility would be feasible.

For people at the poverty line, small adverse income shocks lead them to struggle paying their bills. Our research shows that over 80% of furloughed individuals that earned the minimum wage experienced severe financial difficulties during furlough under the CJRS. The TFS shields workers at the poverty line by providing a 100% wage contribution. The additional 20 per cent government contribution for these individuals amounts to just 1% of total CJRS spending during 2020 and 2021. For these workers, the additional 20% of wages could alternatively be covered by employers as a condition they can furlough workers.

Summary of the TFS

- **UK government contributes 80% to a furloughed worker’s monthly wage up to a limit of £2,500.**
- **A 20% additional contribution to wages of furloughed individuals who earn the minimum wage, potentially funded by mandatory employer payments.**
- **Eligibility is subject to a 15% decrease in company turnover over the past month.**
- **Compliance is monitored by random HMRC inspections with penalties for misuse of the scheme.**

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