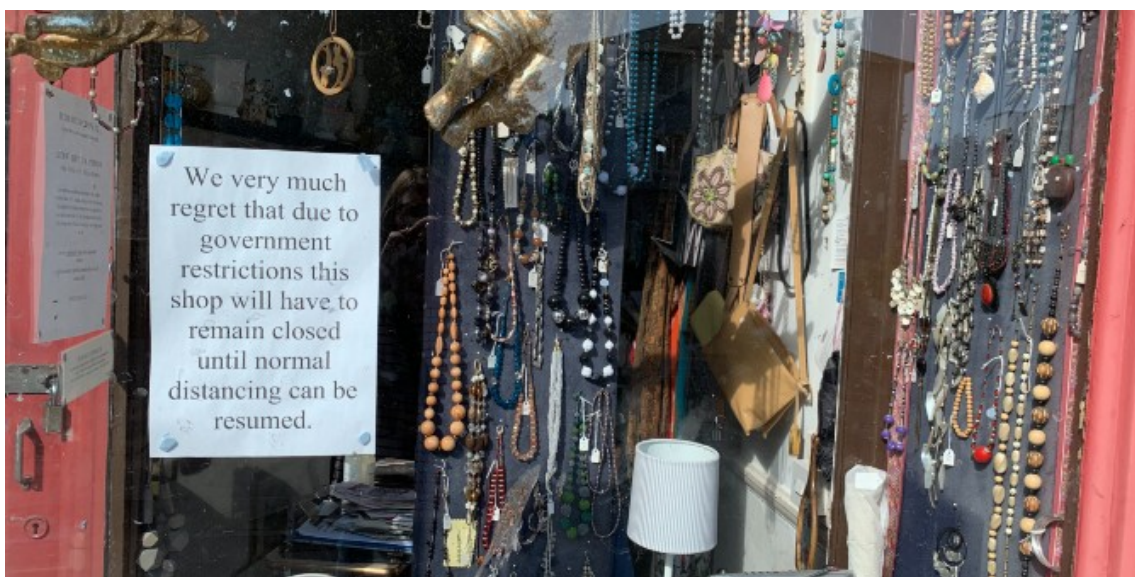


# Britain's job support schemes: right direction, more to do

*Some jobs will still be viable in a few months' time. Others won't. **Nicholas Barr (LSE)** argues that the government's job support schemes need to go further to reflect this new reality.*

On 21 December 1989, as communist regimes throughout Central and Eastern Europe collapsed, BBC news showed Romanian dictator Nicolae Ceaușescu's helicopter taking off from the roof of the headquarters of the Communist Party, having been booed by the crowd. Four days later he was gone. Nine months later, to my immense surprise, I was inside that building (by then the Ministry of Labour), outside walls pockmarked with bullet holes, on leave from LSE as part of a World Bank mission to advise the Romanian government on reforming social policy to complement a mixed economy.

Specifically, my colleagues and I were there to comment on a proposal by the first reform government to index all wages to price inflation indefinitely. While on the face of it the policy sounded humane, the reality was that it would have frozen relative wages. The problem was that in a typical communist economy wages were broadly similar whether or a not a worker was doing a productive task, leaving economies in the region with profound structural misalignment. Part of addressing the problem was changing relative wages – raising them for people with sought-after skills, such as knowledge of Western languages (I rapidly learned that a good translator is essential), thereby encouraging more people to acquire those skills, and lowering them for workers whose skills were no longer in demand.



Shop in north London. Photo: Ros Taylor

Fast forward to today. There are good reasons for thinking that the pandemic will lead to permanent structural changes, the most quoted being a decline in bricks-and-mortar retail as people move online. Once a semblance of normality returns there will be a partial – but only partial – reversal (my prescription meds now arrive through the post, and there will be no going back). In these and other areas, structural change – albeit nowhere near the scale in Romania – will affect the pattern of jobs.

The government approach has two elements.

## The Job Retention Scheme

Introduced in April, the JRS means the government pays 80% of the wages of a worker who is furloughed. This mechanism freezes jobs in firms that initially had to be closed (pubs) or whose scale declined sharply (e.g. because of social distancing requirements). That is the right policy for phase 1.

To encourage employers to keep on workers after the JRS ends on 31 October, the Job Retention Bonus will make a one-off payment of £1,000 to employers for each worker who remains on the payroll at least until next 31 January.

## The Job Support Scheme

Announced on 24 September, the scheme continues to support workers' wages, but less generously. Where someone works one third of his or her normal hours, the taxpayer contributes about 22%, the worker 22% through lower pay, and the employer 55%. Thus employers pay 100% of the wage of a full-time worker; but three workers each working one-third of normal hours will cost 165% (3 x 55%) of a full-time worker. For workers working more than one-third, the differential is somewhat smaller (see the Treasury's [Job Support Scheme Factsheet](#)).

As commentators have pointed out, the Job Retention Bonus makes it worthwhile to keep on most workers initially, but with a cliff edge at the end of January. The government's argument is that the JSS will make employers think about which of their workers has a potential long-term role, and which do not.

## What's needed to complete the strategy

At least until the end of March, many businesses will be compelled to work at less than full capacity, and many workers will be on benefits or lower pay, reducing demand. So the problem during this phase is cyclical, not structural. The flaw in the government's strategy is that it proposes one policy – the JSS – to address two different problems. It is a basic tenet of public policy that the pursuit of multiple objectives needs multiple instruments. Thus additional components are needed.

First is an element that addresses cyclical unemployment. The German programme of [Kurzarbeit](#) (i.e. short-time working) does that, but as my colleague [Bob Hancké explains](#), operates in a very different context. Specifically, it includes inbuilt incentives for firms to train workers. It is another basic tenet of public policy that transplanting designs into a different context usually ends unhappily.

Second is a package of active labour market policies, including skills training. Labour markets eventually sort themselves out, but as Keynes famously said, [in the long run we are all dead](#). Adjustment needs assistance.

A wider canvas includes addressing fundamental problems of corporate governance. The current governance regime creates powerful incentives for firms to engage in short-term financial transactions rather than longer-term policies such as investing in the [skills of their workers](#) or addressing [climate risk](#).

## What next? We need multiple elements

1. Addressing lockdown – hence the Job Retention Scheme, in place since April.
2. Addressing the cyclical dimension, i.e. workers who are in the right jobs, but where demand is depressed by the pandemic (in due course, pubs will reopen and flourish). The Job Retention Bonus pushes out the moment of reckoning to 31 January. Given that the JSS is in place, the simplest approach would be to introduce Job Retention Bonus Mark 2, additional to the current bonus, payable on 30 April.
3. A wider approach to structural change:

**The JSS, refined and adjusted** to address emerging concerns about its detailed design (as the [Resolution Foundation has explained excellently](#)).

Urgent action to **improve benefits**, including addressing child (and adult) hunger and quick, effective income replacement for people required to self-isolate going beyond [current proposals](#).

**Skills training and retraining** for all ages, including flexible options to build 'stackable credentials' across further and higher education (see the two-page [summary](#) of my [evidence to the Augar Review](#)). [Government proposals make a start](#).

**Jobs.** Encouraging the creation of private-sector jobs in areas that are growing, and also job creation in the public sector, not least in health and social care.

Right direction – more to do.

*I am grateful for helpful comments to Bob Hancké, Abby Innes and Waltraud Schelkle, who are all blameless for the views expressed and any remaining errors.*

*This post represents the views of the author and not those of the COVID-19 blog, nor LSE.*