The future of pandemic support for households

Jonathan Cribb, IFS
Coronavirus policy response

Source: OBR Economic and Fiscal Outlook November 2020 Chart 1.7

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Source: OBR Economic and Fiscal Outlook November 2020 Chart 1.7
Main household support schemes

- Coronavirus Job Retention scheme (furlough scheme)

- Self Employment Income Support Scheme (SEISS)

- Universal Credit “uplift” of £20 per week

- Suspension of “Minimum Income Floor” in UC for self-employed

- All due to end between end of March and end of April
% of 16-64 year olds doing paid work

Note: “Doing paid work” defined as working at least 1 hour in the last week.


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Change in work patterns for different groups

Percentage point change in % doing paid work 2019Q4 to 2020Q4

<table>
<thead>
<tr>
<th>Group</th>
<th>All</th>
<th>Women</th>
<th>Men</th>
<th>16-24</th>
<th>25-34</th>
<th>35-49</th>
<th>50-64</th>
<th>GCSEs or less</th>
<th>A levels</th>
<th>Degree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-2.7</td>
<td>-2.5</td>
<td>-3.1</td>
<td>-6.4</td>
<td>-2.7</td>
<td>-1.9</td>
<td>-2.0</td>
<td>-6.8</td>
<td>-3.2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Note: “Doing paid work” defined as working at least 1 hour in the last week.


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Initially planned to last 3 months but there have been successive extensions

- OBR Nov forecast (pre Lockdown 3) : gross cost £66bn in 20-21
- 3.8 million furloughed at end of December (average monthly cost of £1,250 per person furloughed)
Number of employments furloughed

Source: HMRC CJRS statistics January 2021

The future of pandemic support for households
Furlough scheme

- Initially planned to last 3 months but there have been successive extensions
  - OBR Nov forecast (pre Lockdown 3): gross cost £66bn in 20-21
  - 3.8 million furloughed at end of December (average monthly cost of £1,250 per person furloughed)
- Should be extended, but then tapered away
  - It will partially wind down naturally as demand for labour rises
  - Needs to be removed to allow the economy to adjust and recover
- Govt should consider targeted support to industries with restrictions that continue longer through 2021 (e.g. airlines)
Self employment support (SEISS)

- Costs £28bn over the year, with 2.6million receiving payments
  - V. generous to those who receive it: up to 80% of pre-crisis profits
  - Average cost around £10,800 per recipient over the year
  - 77% of those potentially eligible for it take it up
  - But millions of self-employed are excluded
- Should be extended beyond end of April and then withdrawn
- Should include many of those ineligible for original scheme
  - 200k “newly self-employed” (who have now submitted tax return)
  - At least some of 1.5 million with profits £50k+ or <50% of income from self-employment
Out of work benefit incomes

Source: Figure 1.2 in Bourquin and Waters (2020)
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Source: Figure 1.2 in Bourquin and Waters (2020)
Out of work benefit incomes

Source: Figure 1.2 in Bourquin and Waters (2020)
Letting UC uplift expire at end of March would lead to:

- Monthly income fall by £80 for 6 million low-income families
- Up to 21% fall in income for low-income single childless adults

Extending UC costs around £6½ bn per year. It should be extended in some from beyond March

Whether uplift stays in long run is ultimately a choice about appropriate levels of benefits for different groups

- If removed, govt should give clear timetable for gradual removal with lots of notice and communication to recipients
Minimum Income Floor in UC

- For most self-employed UC claimants, MIF limits support by assuming their earnings are at least equal to 35 hours a week at the minimum wage
  - Saves govt £1.4bn per year; currently suspended until 30th April
- Suspension of MIF should be extended beyond April
- Something like the MIF should be gradually re-introduced because it:
  - Reduces the subsidy for low productivity self-employment
  - Reduces incentive to under-report self-employment incomes

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Summary

- Employment support should be extended beyond April
  - Given continuing restrictions on economic activity
- Furlough and SEISS then need to be tapered and removed
  - In order to allow economy to adjust and recover
  - Government cannot save every firm and every job
  - Support should be offered to industries where restrictions remain
- Welfare support should also be extended beyond April
  - Something like the MIF should then be gradually re-introduced
  - If UC uplift is removed, should be done gradually with lots of notice and clear communication to UC recipients