

# The Coronavirus Job Retention Scheme

How successful has the furlough scheme been and what should happen next?

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# About this report

As the furlough scheme is set to close at the end of September 2021, this report looks at how it was still being used in summer 2021, how the labour market has recovered, and how this compares to other advanced economies. We evaluate how successful the scheme has been compared to other countries' approaches and what should happen to furlough after the scheme is due to end.

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## Summary

The furlough scheme was perhaps the most radical economic policy the UK government enacted in response to coronavirus. It did not save every job, but it was successful at stopping millions of people being made redundant during the height of the pandemic. It has also allowed businesses to get back up and running more quickly than in other countries – like the US – where similar support was not available. Nonetheless, as almost all public health restrictions have now been lifted, it is appropriate that the furlough scheme ends as planned on 30 September 2021 to avoid propping up unviable jobs and slowing down the movement of workers to new roles with a better future. If the government still wants to support some sectors – such as international travel – that remain heavily constrained, it should target support narrowly at those sectors rather than extending the scheme economy-wide.

The Coronavirus Job Retention Scheme (the CJRS, the furlough scheme) has cost the Treasury £69 billion and counting.<sup>1</sup> At one time or another it has supported more than 11 million jobs and has been the key plank of the government's support for the private sector. It has been extended on four occasions since it was first announced on 23 March 2020, but with almost all domestic public health restrictions now lifted it seems likely that the scheme will come to an end as planned on 30 September 2021.

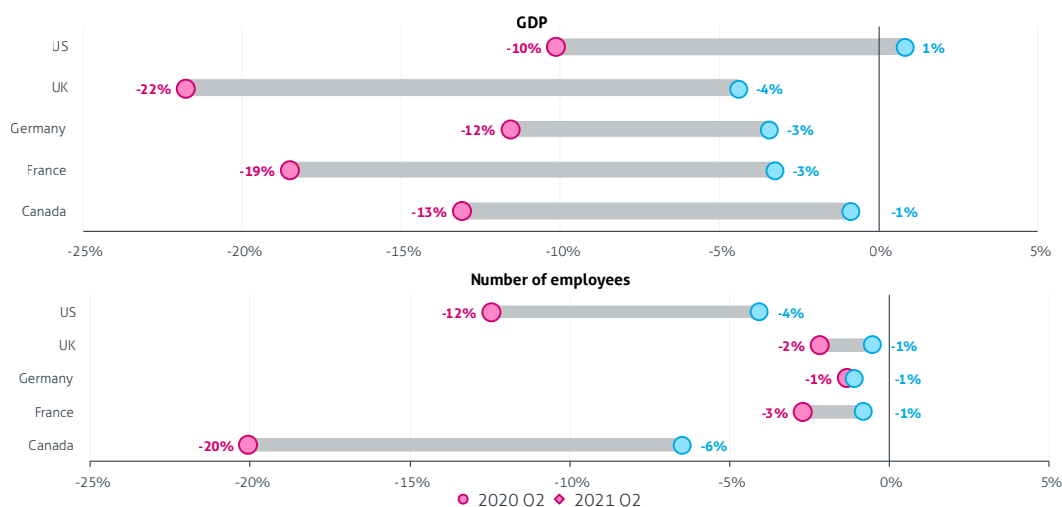
This report looks at data on how the scheme has been used, the state of the broader labour market and experience in selected other advanced economies to evaluate the effectiveness of the furlough scheme and to suggest what type of support should remain beyond the 30 September deadline.

### **While the CJRS has not saved every job, it has mostly achieved its objectives**

The primary objective of the furlough scheme was to retain employer–employee links as businesses experienced temporarily low demand because of public health restrictions. The reason the government wanted to do this was to allow for a stronger recovery when those restrictions lifted. Jobs have still been lost during the Covid crisis. There were almost 1 million fewer jobs in December 2020 than March 2020 – a fall of 3%. However, in the absence of the furlough scheme many millions more would have gone. At the height of the first lockdown 9 million jobs – one third of those eligible – were furloughed.

The CJRS appears to have helped ensure that jobs returned quicker than they otherwise would have. The US and Canada did not implement similar wage subsidy schemes and in both countries the number of jobs fell by over 10% during the early months of the pandemic. In both countries employment has partially recovered, but even as economic output has bounced back, the number of jobs still lags pre-crisis levels and employers have reported recruitment difficulties. In contrast, the UK, France and Germany, which all had similar wage subsidy schemes, did not have falls in employment as large and the number of jobs is now at or above December 2019 levels (see Figure 1) despite similar recoveries in output.

Figure 1 **GDP and employment growth since 2019 Q4 in 2020 Q2 and 2021 Q2 in advanced economies**



Note: Number of employees is measured employment for Germany and payrolled employees otherwise. Employment for France is 2021 Q1, the latest available.

Source: Institute for Government analysis of OECD, StatCan, ONS, Insee and FRED data.

### Use of furlough is now very different than it was at the height of lockdowns

Now that domestic public health restrictions have largely been lifted, the use of the furlough scheme has changed. As of the beginning of August 2021, around 1.6 million jobs were still being supported by the CJRS – or around 5% of jobs. Almost half of those are part-furloughed, which means the employee is doing some work, leaving only around 800,000 fully furloughed jobs.

At the height of the England-wide lockdowns, over 60% of jobs furloughed were in the worst affected sectors (accommodation and food, administrative services, arts and entertainment, aviation, and wholesale and retail). Many of these jobs could not happen only because of restrictions, so it is reasonable to think that most had a viable longer-term future. But now less than half are in the worst affected sectors, with the remainder in relatively unaffected sectors like manufacturing. In those sectors that are relatively unaffected, it is unclear what will change in future to allow these jobs to return full-time. It is therefore probable that a greater share of the jobs supported by the furlough scheme are now not viable than was the case when the scheme was supporting more jobs – that is, they probably have no long-term future. Since the rationale for the scheme was to protect viable jobs, further spending on the CJRS now offers worse value for taxpayer money.

### The labour market has recovered, which increases the risk that the scheme will slow down job reallocation, which drives growth

Throughout most of the crisis, the labour market was depressed. Few people were leaving their jobs, and businesses were not looking to hire. However, that has changed. Job vacancy postings are now above pre-crisis levels overall – and are approaching pre-crisis levels even in sectors like accommodation and food, where 15% of employees are still furloughed. The total number of employees in the UK has recovered almost to pre-crisis levels.

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The movement of people from unviable jobs to new jobs in growing, more productive businesses is normally an important driver of economic growth. As few businesses were looking to hire during the worst of the pandemic, there was little risk that the CJRS was slowing down this reallocation because the alternative to being furloughed was probably unemployment. However, now that there are other jobs to go to, there is a risk that the scheme will stop people in unviable jobs searching for new jobs, or at least make them search less intensively.

### **The furlough scheme should end as planned unless public health restrictions return**

Now that the economy has reopened, the main rationale for the CJRS no longer applies. In the absence of new public health restrictions, employers should now have a good sense of which jobs are likely to be viable and which should be let go. The furlough scheme is now less effective than it was at the height of the pandemic because it is more likely to be supporting non-viable jobs and there is an increased risk that it will slow down labour market reallocation. Coronavirus-related labour market support is being phased out in Canada, France and Germany over the summer and autumn of 2021.

Unless new public health restrictions are put in place, the government should follow through with its plan to end the CJRS at the end of September 2021. It should do so even if there are still many jobs furloughed at that point. If the economy continues to recover between now and then, many of the jobs still supported at that point are likely to be non-viable; continuing to support those jobs would risk reducing the intensity with which those people search for other jobs, which would depress economic growth.

### **If restrictions still affect some sectors, the government could target support narrowly at those sectors**

The government has so far resisted varying furlough support by sector, even though other aspects of economic support (such as business grants) have been available only to the worst affected sectors. The downside of trying to target the scheme is that it would be administratively more complex and sectors might lobby for inclusion. However, as the public health restrictions affecting most businesses have now been lifted, there is more to be gained by targeting support to only those sectors where it is still most needed.

There are a small number of businesses – like those in the aviation sector – that continue to be severely constrained by public health restrictions. If the government wants to continue providing them with support, it should do so on a sector-by-sector basis.

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# Introduction

Of the £180 billion<sup>2</sup> worth of government support for businesses and households during the Covid pandemic, by far the largest and – arguably – the most radical has been the Coronavirus Job Retention Scheme (the CJRS, or furlough scheme). Employees who could not work could be sent home but kept on the payroll, with the government paying 80% of their pre-crisis wages. In previous recessions, UK governments had allowed similar employees to become unemployed, but it made a different decision in March 2020 as millions were mandated to ‘stay at home’ by the government.

At the height of the first lockdown, 9 million jobs – around one third of private sector employees – were supported by the scheme. It was initially extended from May 2020 until October and was due to be replaced by the less generous Job Support Scheme on 31 October. In advance of that deadline, the Institute for Government published [a report](#) setting out how the scheme had worked and how support should change if lockdown restrictions did not need to be reimposed. However, restrictions did return and a last-minute U-turn by the chancellor led to the scheme being extended – initially to April 2021 and then to September 2021.

For most of the pandemic, the CJRS has operated on the same terms. The government pays 80% of regular wages (up to a cap) to the employee for the time they are not working, with no payment from the employer. A slightly less generous version of the scheme was in place between August and October 2020 and then from July 2021 onwards. During those periods, the level of government support reduced to 70% (August 2020 and July 2021) and 60% (September and October 2020 and August and September 2021), with the employer making up the difference between that government contribution and 80% of the employee’s pre-Covid wage. Since July 2020, employers have been able to use ‘flexible furlough’, whereby the employee can work part-time and receive CJRS payments for the time not worked.

Public health restrictions have now largely been lifted. If further restrictions do not need to be imposed, it is very likely that the CJRS will end on 30 September 2021 as scheduled. However, there are still around 1 million jobs being supported by the scheme; some, and possibly many, of those will still be relying on the scheme at the end of September. This paper evaluates how effective the CJRS has been at achieving its aims over the past 18 months and suggests how wage support should be provided beyond the planned closing date.

To do so, we look at how use of the scheme has changed and how furlough is still being used across different sectors of the UK economy, based on the final official HMRC statistics before the scheme is due to close and the ONS Business Insights and Impact on the UK Economy survey. We also look at the state of the broader UK labour market and how that will be affected by the scheme ending, and changes to labour markets and similar wage subsidy schemes in other countries.



# How the furlough scheme is still being used

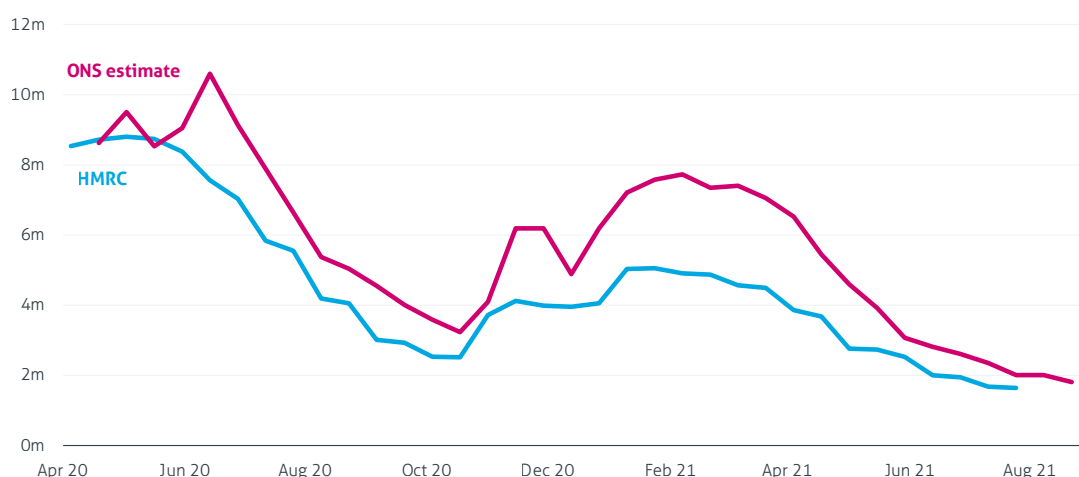
As the CJRS comes to an end, it is critical to understand how many, and which, jobs are still being supported by the scheme and what form that support takes. Almost all social distancing restrictions have now been lifted, although the economy is not yet operating normally and GDP in the second quarter of 2021 remains 4% below the level at the end of 2019.<sup>3</sup> Since July, the scheme has also become less generous for employers, as they must now contribute a proportion of furloughed employees' wages.

Looking at how the scheme has been used since April 2020 helps us to understand how effective it has been. Meanwhile, the way the scheme was being used in summer 2021 provides the most accurate indication of how many people are likely still to be on the scheme when it is due to end on 30 September 2021.

## Numbers on furlough have fallen as the economy has reopened

Figure 2 shows that use of furlough peaked during the first lockdown in early May 2020, when HMRC data shows that almost 9 million employees – 32% of those eligible – did not work but the government paid 80% of their pre-Covid salaries. Use of the scheme then fell over the summer as the economy reopened, although never below 2.5 million. New England-wide lockdowns in November 2020 and then January 2021 led to an increase in furlough use, but the January 2021 peak was only 60% of May 2020's. This is because many businesses were better prepared to provide Covid-secure workplaces by then, allowing workers in sectors not directly affected by restrictions to return to work.<sup>4</sup>

Figure 2 **Number of jobs furloughed, HMRC data and ONS estimates**



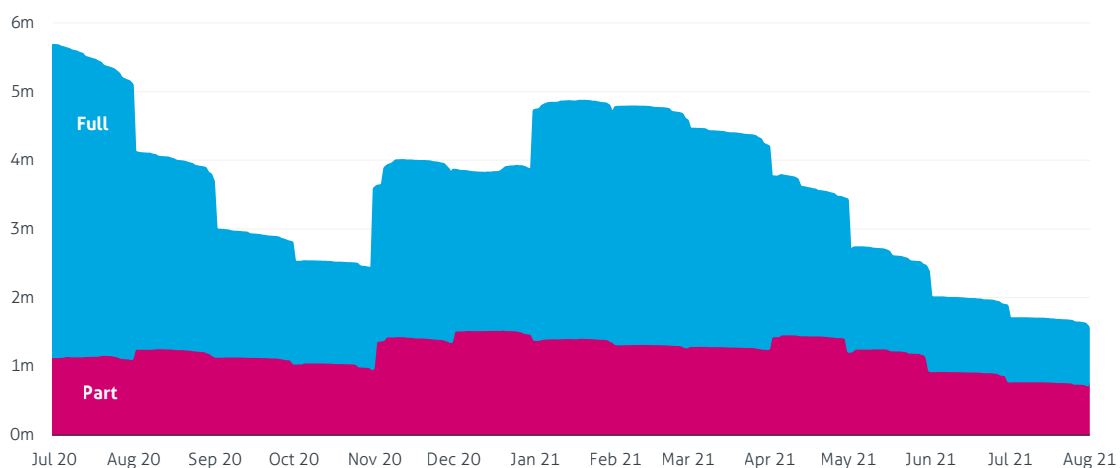
Source: HMRC, Coronavirus Job Retention Scheme statistics, September 2021 and ONS Business Insights and Impact of Coronavirus Survey (BIICS), August 2021. Note that BIICS revised its methodology, and figures before June 2020 use the old methodology.

As public health restrictions have been gradually lifted across the UK since April 2021, the number of furloughed jobs has fallen, and is now at its lowest level since the scheme was set up. The sharpest fall came in April and May as hospitality and non-essential retail in England were allowed to reopen, with a steadier decline across June and into July (when employers had to start paying 10% of wages for time not worked).

### Almost half of furloughed workers are working some hours

Since July 2020, the CJRS has been more flexible, allowing employees to be 'part-furloughed', which means that they work part-time and the government pays only for the hours not worked. Initially, the Treasury was resistant to providing this flexibility as it worried that it might be more vulnerable to fraud.<sup>4,5</sup> However, it is beneficial for employers who no longer face an all-or-nothing decision over whether to use an employee full-time or to put them on full furlough.

Figure 3 **Number of employees on full and part furlough**



Source: Institute for Government analysis of HMRC, Coronavirus Job Retention Scheme statistics, September 2021

Many employers have made use of this flexibility. Since July 2020, the number of part-furloughed jobs has fluctuated between 0.7 million and 1.6 million (see Figure 3). It did increase during lockdowns and fall as restrictions were lifted, but in general it has been quite stable. This is in contrast to the number of fully furloughed jobs, which fluctuated between 0.8 million and 4.5 million between July 2020 and July 2021. The number of part-furloughed employees fell more slowly than the number of fully furloughed employees in April, May and June as the economy has reopened. As of the end of June 2021, there were almost as many jobs on part-furlough as on full-furlough.

The widespread use of part-furlough is an important phenomenon. An 'average' furloughed employee is now one that is working at least some of the time. This is good news: it means that there are now only 0.8 million employees doing no work at all. A job is more likely to have a long-term future if the employee is already doing some work, which reduces the prospects of mass unemployment. However, there is

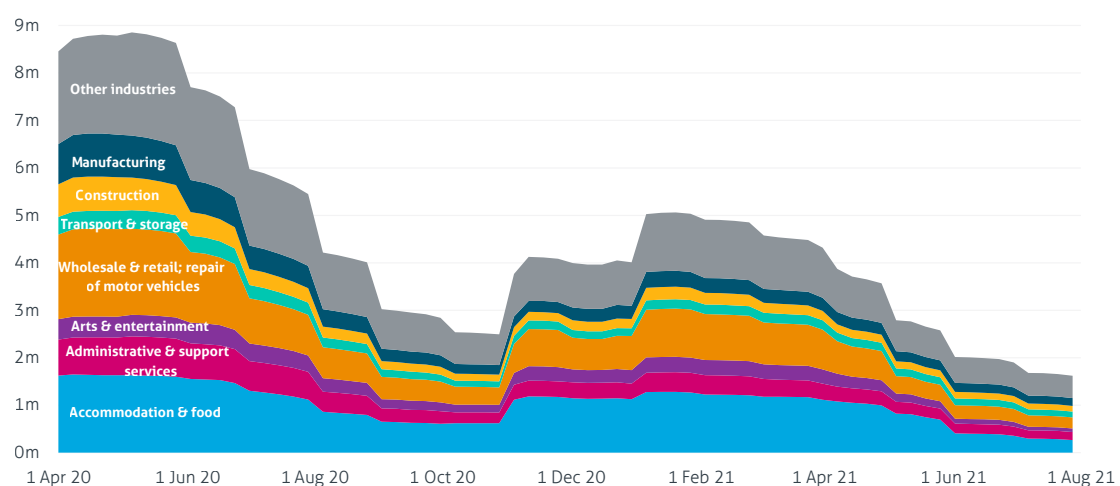
<sup>4</sup> Specifically, it is easier to know if someone is not working at all than tracking their work hours.

no guarantee that these jobs will return full-time, and they may be replaced with part-time jobs (or fewer full-time jobs) instead. In that case, the end of furlough could still represent a substantial loss of income for part-furloughed employees, even if it does not mean they become unemployed.

### Furlough use has become less concentrated in a few sectors as the economy has reopened

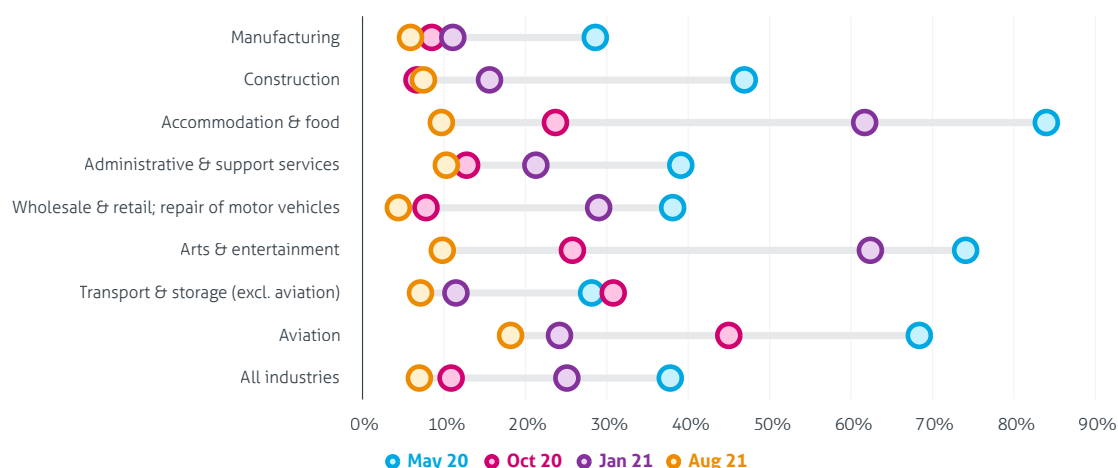
The economic impact of the coronavirus crisis has been uneven across sectors. Some businesses – such as pubs and theatres – were at times forced to close by government regulations. Some have not been forced to close but have nonetheless been heavily affected by government restrictions: for example, businesses that provide office services and city centre retailers have experienced lower demand due to the ‘work from home’ instruction. However, others – such as those in manufacturing and construction – were able to continue operating, at least after the initial months of the crisis. These differences have been reflected in how intensively the furlough scheme has been used in different sectors over the past 18 months.

Figure 4 **Number of employees furloughed by sector**



Source: Institute for Government analysis of HMRC, Coronavirus Job Retention Scheme Statistics, September 2021

Figure 5 **Proportion of employees furloughed by sector**



Note: Figures from May 2020 are unweighted, the rest are weighted by employment. For aviation and transport & storage (excluding aviation), figures are from June 2020 rather than May.

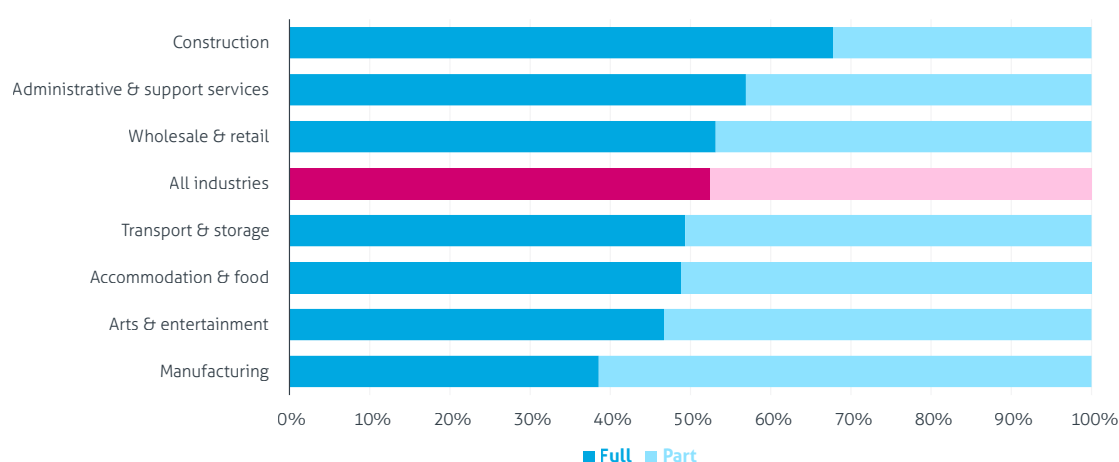
Source: Institute for Government analysis of ONS Business Insights and Impact of Coronavirus Survey, September 2021.

The purpose of the CJRS has been to support jobs temporarily affected by the coronavirus crisis. As a result, we would expect most of the jobs supported by the scheme to be in those sectors directly affected by restrictions. This was the case during lockdowns, where over 60% of furloughed jobs were in the five sectors most directly affected restrictions: accommodation and food, arts and entertainment, aviation, administrative and support services, and wholesale and retail.

However, as restrictions have been lifted in 2021, use of the CJRS has become less concentrated in those sectors. The five worst affected sectors now account for less than half of all furloughed jobs. With the exception of retail, these sectors continue to have higher furlough rates than average across all industries – as high as 18% in the aviation sector. The reduction in the proportion of furloughed jobs they make up is positive for those sectors as it shows they are recovering.

The flipside is that more than half of furloughed employees are now in the other sectors that have not been directly affected by restrictions, including manufacturing and construction, between one third and two thirds of whom are fully furloughed (see Figure 6). It is unclear how economic conditions could now change to allow these jobs to return in full across most of the country where the recovery is well under way.

Figure 6 **Proportion of furloughed employees on full and part furlough by sector, July 2021**



Source: Institute for Government analysis of HMRC, Coronavirus Job Retention Scheme Statistics, September 2021

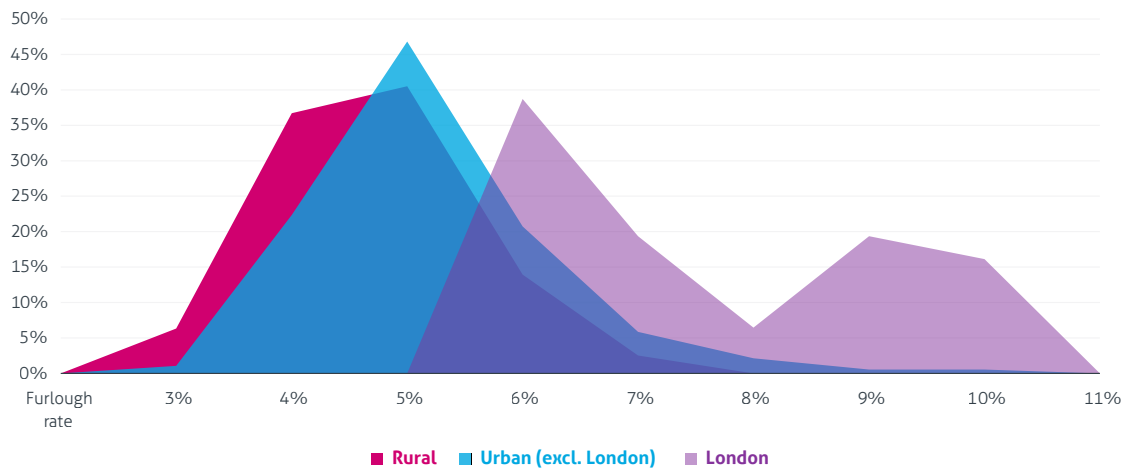
The apparent slowdown in the fall in furlough numbers (shown in Figure 2), combined with the fact that the majority of those who remain on furlough are in relatively unaffected sectors, is a sign that some of the jobs may no longer be viable, at least at the number of hours that were contracted before the pandemic. Although some sectors – particularly aviation – continue to be affected by Covid regulations, the economy has mostly reopened. Businesses that have not seen a return to pre-pandemic levels of demand may, in some cases, never do so. Many of the 1.6 million jobs currently supported by the scheme may still be relying on it when the scheme comes to an end on 30 September.

### **In England, London has persistently had the highest rates of furlough**

Use of furlough has not only differed by sector, but by geography. In the first lockdown, use of the furlough scheme was high and quite uniform across the country.<sup>6</sup> However, since July 2020, London has consistently had the highest rates of furlough in England. This is not simply explained by cities in general making more use of furlough than rural areas. As Figure 7 shows, in cities outside London the use of furlough has been quite similar to that in rural areas; it is London specifically that is the outlier. This suggests that London has been especially badly affected by restrictions, including working from home and a big fall in international tourism.

As the economy returns to normal, we would expect the recovery to pick up in London, which would also reduce furlough rates in that region towards levels seen elsewhere. However, as of July 2021 the furlough scheme was still being used substantially more in London than in other parts of the country.

Figure 7 **Distribution of furlough rates for rural, urban (excluding London) and London local authorities, June 2021**



Source: Institute of Government analysis of HMRC, Coronavirus Job Retention Scheme statistics, June 2021 and ONS, urban/rural classifications of local authorities.

# The state of the broader UK labour market

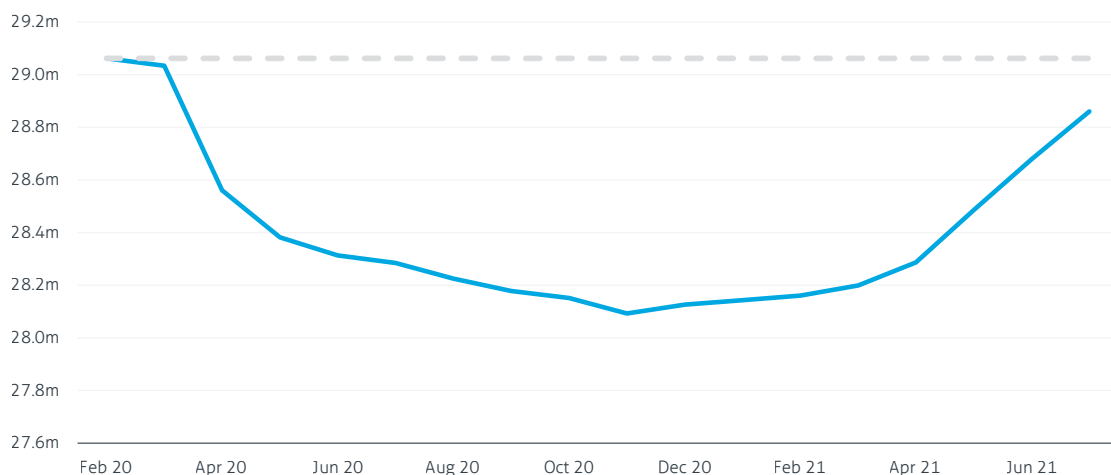
To fully understand where we stand with the furlough scheme, and the appropriate stance of future policy, we also need to understand the state of the broader labour market. The strength of the labour market both influences what is likely to happen when the scheme ends and affects how we interpret the prospects for the jobs that are still furloughed. The way the labour market has evolved since last March also helps us to understand how effective the furlough scheme has been.

## The total number of employees fell between March and November 2020 and is still slightly lower than before the pandemic

The furlough scheme has not protected every job. Figure 8 shows that the number of employees (which includes those on furlough) fell – sharply at first in March 2020, and then steadily – from the onset of the pandemic through to November. Some of these jobs were lost before the announcement of the furlough scheme – although once the scheme was announced employers could re-employ people and put them on furlough if desired.<sup>7</sup> But the number of employees continued to fall after the scheme was announced. Some employers will have gone out of business, while others will have made employees redundant despite the existence of the furlough scheme, including as the generosity of the scheme was reduced between July and October 2020.

The acceleration in the fall in number of employees between October and November 2020 shows the costs of unclear government communication and late decision making. The CJRS was originally due to expire on 31 October 2020 and to be replaced by the less generous Job Support Scheme.<sup>8</sup> The chancellor, Rishi Sunak, eventually announced that the CJRS would continue (initially until December and then until 30 April)<sup>9</sup> but did so only on the day it was due to expire.<sup>10</sup> By then, with public health restrictions having been tightened, some employers had already made people redundant. The certainty provided by the extension of the scheme meant that the number of jobs did not fall in early 2021 despite another nationwide lockdown.

Figure 8 **Number of employees on payrolls (including those furloughed)**



Source: Institute for Government analysis of HMRC, payroll statistics, July 2021.

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As restrictions have lifted, the number of employees has increased. This increase comes on top of those who have left furlough and returned to work. Between March and July 2021, the total number of employees increased by 0.7 million and the number fully furloughed fell by 2.8 million. Altogether, therefore, by July 2021 there were 3.5 million more employees working than in March 2021. However, as of July the recovery in employment was not complete: there were still 200,000 (or 1%) fewer employees at that point than there were in February 2020.

### **Sectors that have made the most use of furlough have also lost the most employees**

The employment picture – like furlough – has been very different across sectors. Some sectors, like construction, have seen very little change in their number of employees during the crisis. While that sector did make use of furlough in the first lockdown when many workers were required to stay at home, the impact was temporary and construction workers have been able to go to work since June 2020.<sup>11</sup> As Figure 8 shows, there are now 1% more employees in the construction sector than there were pre-Covid.

In retail and manufacturing some jobs were lost – mostly in the first six months of the pandemic. But since then, employment has neither boomed nor regressed, remaining slightly below February 2020 levels. In transport, job numbers are actually lower now than they have been at any point during the pandemic, after recovering up to January 2021, which may reflect an impact of Brexit.

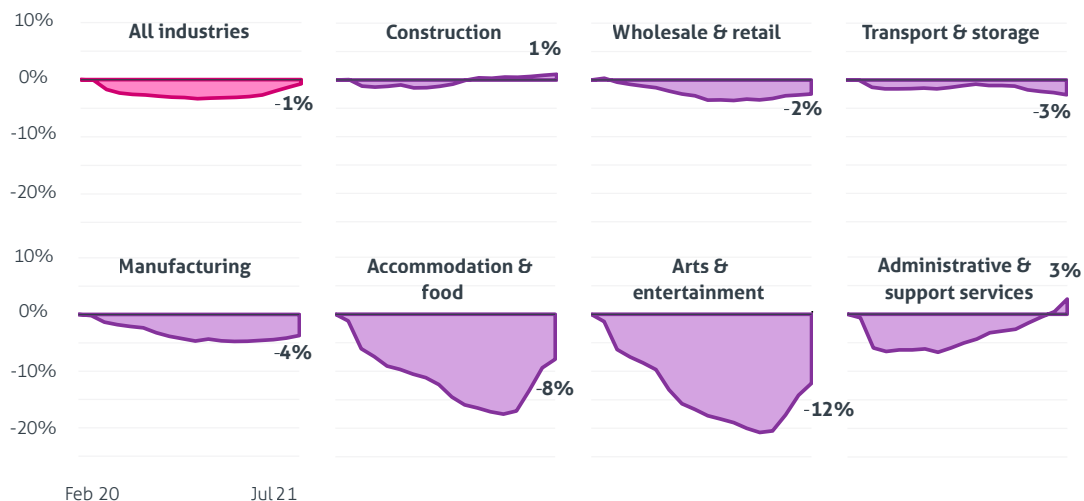
Employment has been much more volatile in the three sectors that have been worst affected.<sup>12</sup> There have been big falls in employment in the accommodation and food, and arts and entertainment sectors – over 10% lower in April 2021 than February 2020 – while these sectors have also made substantial use of furlough. In both sectors, most of the job losses happened during in the first six months of the pandemic, but employment continued to fall in the early months of 2021 too. This was despite widespread support – the CJRS, business grants and other measures<sup>13</sup> – for these sectors and reflects the severity of the pandemic’s impact on them. Despite rapid increases in jobs since the economy started to reopen in spring 2021, these sectors remain far below their pre-crisis employment levels, as Figure 9 shows.

Administrative and support services experienced big falls in employment initially, but this has since recovered. This reflects differing trends in different parts of the sector. Cleaning and security services are now operating at or above pre-crisis activity levels, while travel agent services and other office-related services are still not back to normal.<sup>14</sup> Many of the businesses in this sector are reliant on office working. Employment numbers have recovered, but the sector still has among the highest proportion of employees on furlough. This probably reflects especially high uncertainty about the future of office working and overseas travel.



Overall, the UK labour market has largely recovered from the worst effects of the pandemic – there are now just 1% fewer employees than there were in February 2020, compared to a trough of 3% fewer in November 2020. However, the picture varies substantially across sectors: some have fully recovered, with employment now above pre-crisis levels, but others remain far below.

Figure 9 **Change in employment by sector**



Note: Employees on furlough remain on payroll, so these changes do not show employees moving on and off furlough.

Source: Institute for Government analysis of HMRC, payroll statistics, July 2021.

### The furlough scheme has saved many jobs in the worst affected sectors

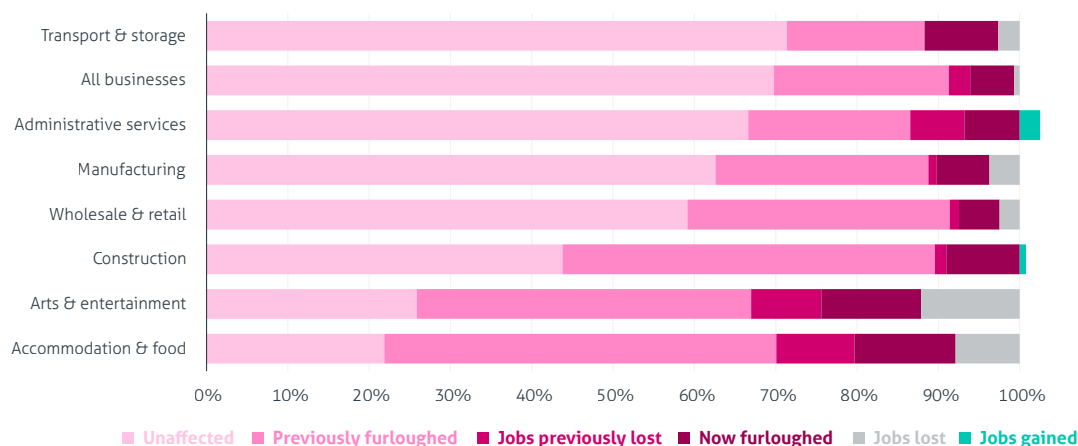
For a full picture of employment in different sectors during the pandemic, it is necessary to combine analysis of total employment and furlough. Figure 10 shows, for each sector, the number of jobs that have been lost since February 2020, the proportion furloughed at the peak of the first wave, those still furloughed and the remaining unaffected jobs. Across all industries, there are 1% fewer jobs than before the crisis (redundant) and 5% on furlough, meaning that non-furloughed employment is still 6% down. Of the remaining employees, 3% have returned since the November 2020 trough (once redundant) while a further 20% have returned from furlough since the first lockdown. This leaves around 70% of jobs that have not been either lost or furloughed at some point during the crisis.\*

Accommodation and food, and arts and entertainment stand out as by far the worst affected sectors. Over 5% of jobs in both sectors were lost during the pandemic, and they have also made the most extensive use of the furlough scheme. As a result, our calculations imply that less than 10% of these jobs have been 'unaffected' – neither furloughed nor lost during the pandemic. This indicates how badly these sectors have been affected by the pandemic and associated restrictions, and indicates that the furlough scheme has likely saved many millions of jobs even if not all.

\* This is an upper bound on the number of unaffected jobs because, in practice, some jobs will have been lost without first being furloughed.

In other sectors, furlough rates were high in the first lockdown but have been lower since, and the total number of jobs has not fallen by much if at all. Nonetheless, once accounting for those still furloughed, all sectors still have fewer 'regular' (that is, non-furloughed) employees than they did in February 2020. As the economy continues to recover, we would expect this to increase through a combination of fewer people on furlough and more hiring.

Figure 10 **Jobs lost, furloughed and unaffected in selected sectors, February 2020–July 2021**



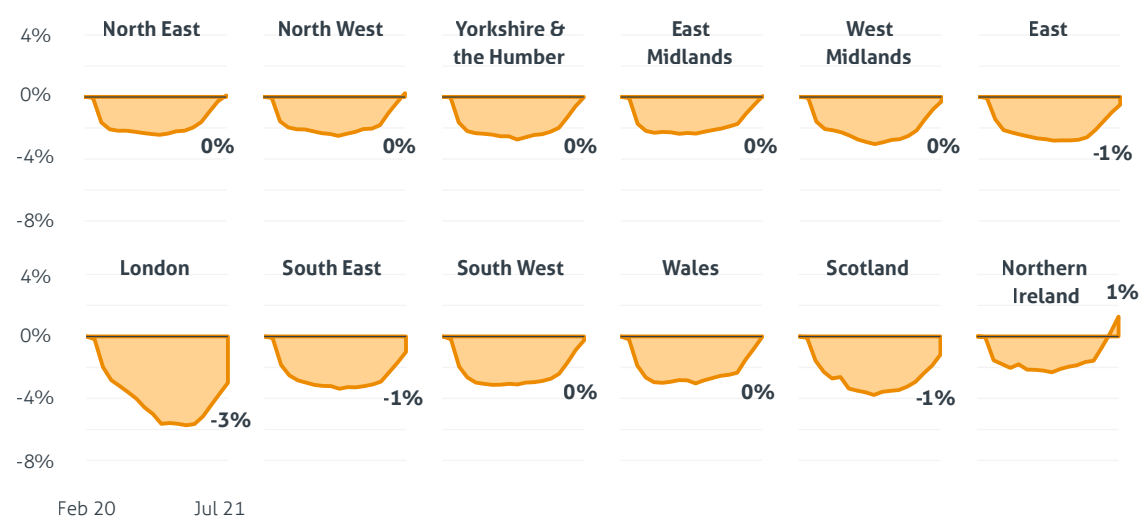
Note: Based on net changes to jobs. 'Jobs lost' is calculated as the difference between July 2021 and February 2020 employment levels. 'Jobs previously lost' includes job losses at the trough of employment. We assume that all jobs that were lost during the crisis were first furloughed, while the 'previously furloughed' group are those that were once on furlough but are now working again. 'Unaffected' jobs are those that have never been furloughed or lost. In practice, some jobs will have been lost having never been furloughed (especially at the start of the crisis), so this is an upper bound on unaffected jobs.

Source: Institute for Government analysis of HMRC, payroll statistics, July 2021 and HMRC, Coronavirus Job Retention Scheme statistics, September 2021

### The jobs recovery has been slowest in London

The employment recovery has been weakest in London, as Figure 11 shows. In most other regions and countries, employment has almost recovered to pre-crisis levels, yet it remains 3% lower in London. Furthermore, the number of employees fell much further in London than anywhere else. This is consistent with the picture on furlough, above, and shows that the labour market in London is further away from its pre-pandemic level than the labour market in other regions.

Figure 11 **Change in employment since February 2020 by region**



Note: Employees on furlough remain on payroll, so these changes do not show employees moving on and off furlough.

Source: Institute for Government analysis of HMRC, payroll statistics, July 2021.

## Job turnover has returned to pre-crisis levels, indicating a more dynamic labour market

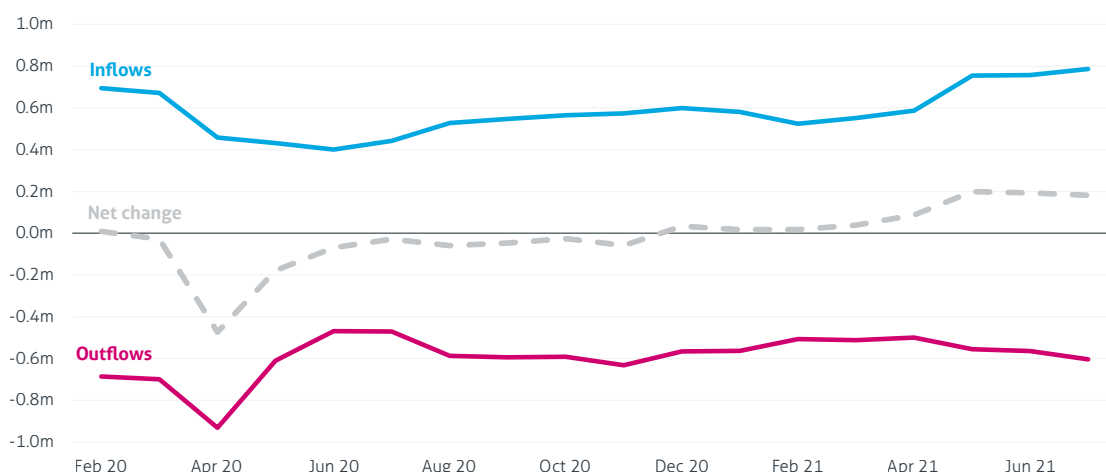
The strength of the labour market can be judged not only by the number of people employed but also by how people are moving between jobs. A dynamic labour market – one in which new jobs are created rapidly (and unproductive jobs end) – is a driver of economic growth. This reallocation of people to more productive businesses and jobs away from less productive ones makes the economy overall more productive.

At the start of the pandemic, the number of new jobs starting (inflows) fell dramatically and remained below pre-crisis levels until April 2021, as Figure 11 shows. After an initial increase in job losses (outflows), these also fell below pre-pandemic levels. In effect, people were much less likely to move job during the pandemic. Lower outflows are explained by the protection of businesses and jobs by government policy, when in 'normal' (non-pandemic) economic conditions some would otherwise have ended.\* At the same time, inflows were much lower because businesses were much less likely to be hiring people and employees were less likely to risk taking up a new job if their existing one seemed viable during a period of high uncertainty. The CJRS also applied only to jobs that existed before 23 March 2020 rather than any created after that.

Since April, the number of new job starts has increased to far above pre-crisis levels. This reflects the return of demand to some sectors and a net growth in employees overall. The number of outflows has also increased (although less quickly than inflows) back towards pre-pandemic levels. This return of churn in the labour market is a positive sign – and a signal of a return of a healthy labour market.

\* During 2020, fewer insolvencies were declared than in a 'normal' year.

Figure 12 **New job starts (inflows), job exits (outflows) and net change each month**



Source: Institute for Government analysis of HMRC, payroll statistics, July 2021.

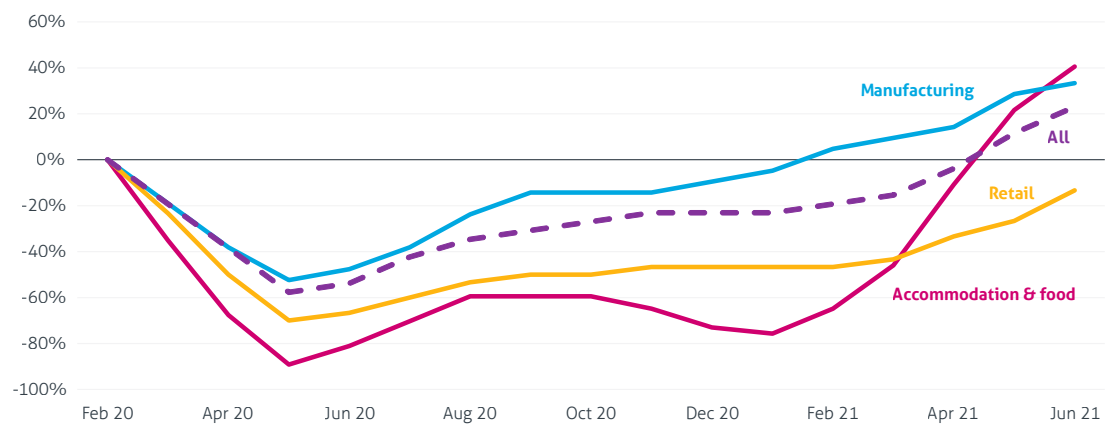
### **Vacancies have also returned to pre-crisis levels and are getting harder to fill**

A strong labour market is also one in which many employers are looking to hire. The fall in job starts during the pandemic largely reflected that most businesses were not looking to hire during a crisis. Even in September 2020, the number of job vacancies posted was around 40% below pre-crisis levels – and it was 75% below in the accommodation and food sector.

However, Figure 13 shows that in most sectors the number of vacancies is now at or above February 2020 levels (seasonally adjusted). In some sectors – especially hospitality – this is helping to offset job losses during the crisis. In other sectors, such as manufacturing, it may reflect a broader strength in demand. The only sector in which vacancies remain substantially below pre-crisis levels is retail. This may reflect continued uncertainty about city centres which – as we noted above – have recovered less quickly during the crisis.

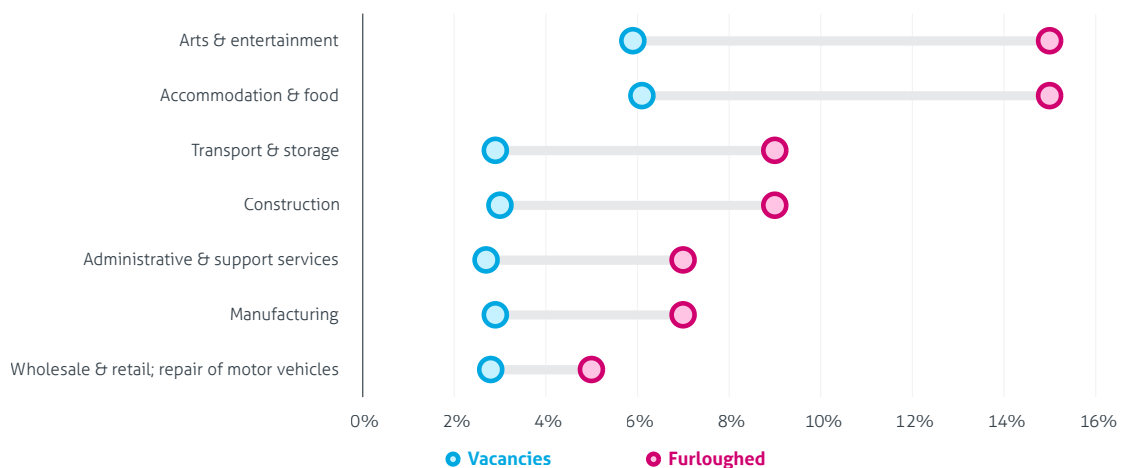
Vacancy rates have increased above pre-crisis levels in sectors where many employees remain on furlough, although the number of employees furloughed still exceeds vacancies in all sectors (Figure 14). This indicates that while some businesses in those sectors are still struggling and may never recover, other businesses are growing. This partly reflects the differing pace of recoveries regionally – for example, more workers are furloughed in London, but more vacancies are available elsewhere. Either way, it points to a short-term 'friction' in the labour market between where jobs are available (across different businesses or possibly also geographically) and where unemployed and furloughed workers are. In general, a labour market where some employers are losing workers while others are hiring is what we would expect to see when the economy is functioning normally. But the furlough scheme, which is helping businesses to keep workers on who are not currently fully employed, may be slowing down this normal, healthy process.

Figure 13 **Number of vacancies in selected sectors: change since February 2020**



Source: Institute for Government analysis of ONS, vacancies by industry, July 2021.

Figure 14 **Available vacancies vs furloughed employees (as a % of total jobs) in selected sectors, July 2021**



Source: Institute for Government analysis of ONS, vacancies by industry, August 2021 and HMRC, Coronavirus Job Retention Scheme Statistics, September 2021.

Survey data collected from employers shows that filling vacancies has become more difficult. The Bank of England reports 'availability of staff' indexes based on surveys of firms, which suggest that vacancies were harder to fill in summer 2021 than they had been at any point since at least 2005. Meanwhile, the Bank of England's agent reports (based on interviews with businesses) also find growing difficulties.<sup>15</sup> This is despite the fact that the total number of employees is still below pre-crisis levels, the number of unemployed people (looking for work but without a job) is still above pre-crisis levels,<sup>16</sup> and more than 1.5 million employees are being supported by the furlough scheme. The Bank of England interprets this as further evidence of 'frictions' in the labour market – in other words, there is not a good match, in terms of required skills and geography, between the jobs available and the people searching.<sup>17</sup>

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The return of a dynamic labour market and more job opportunities means that those who are on furlough when the scheme comes to an end will have much better job prospects than would have been the case earlier in the pandemic. In October 2020, when the government had intended to end the scheme, the alternative for those employees not placed on the Job Support Scheme would probably have been unemployment because there were few other job opportunities (as Figure 12 shows). However, now there are more job opportunities than before the crisis. Employers are also finding those vacancies harder to fill, so in so far as the furlough scheme is slowing the reallocation of people to jobs with better prospects, the health of the labour market further supports ending it soon.

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# How the UK labour market and policy compares to other advanced economies

Most advanced economies have faced similar problems to the UK in the past 18 months. Some countries, such as Germany and France, already had wage subsidy schemes that the CJRS was modelled on that pay workers for time they cannot work. These schemes were made more generous and more businesses became eligible to use them at the onset of the pandemic. But some other countries (such as Canada and the US) did not have any such scheme in place and had to design support from scratch, as the UK did. In this section, we compare high-level indicators on the state of the labour market in the UK with those in Canada, France, Germany and the US to draw conclusions about the effectiveness of the UK's furlough scheme and the suitability of the government's plans.

## France, Germany and the UK focused support on furloughed jobs more heavily than the US and Canada

Table 1 documents the different approaches taken by these five countries to labour market support during the crisis. The table focuses on support to people who were employed on the eve of the pandemic, rather than measures to increase incomes more generally (including the unemployed).\*

- France, Germany and the UK all adopted or expanded schemes to keep workers employed if they had to be furloughed
- In Canada, the Canada Emergency Wage Subsidy (CEWS) has supported businesses with big falls in turnover and paid a fraction of wages for all employees regardless of whether they were working or not
- In the US, Paycheck Protection Program loans were available for small- and medium-size companies but only up to August 2020
- In both Canada and the US, out-of-work benefits were also made much more generous to cushion the impact of unemployment. In the UK, France and Germany the main focus of support was on keeping people in work, although Universal Credit (the main out-of-work benefit in the UK) was increased by £20 a week and the period for which people could receive unemployment insurance was extended in Germany and France.

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\* A summary of broader labour market support provided at the start of the crisis is available in an [Institute for Government explainer](#).

Table 1 **Labour market policies to support employees**

Country	Labour market support in summer 2020	Current labour market support	Due to be phased out
<b>Canada</b>	<b>Canada Emergency Wage Subsidy (CEWS):</b> 75% of employee wages covered up to CA\$847 (£500) per week (regardless of whether or not the person is working) for employers experiencing turnover falls of at least 15% (with the employer paying the other 25%).	Since June 2021, the generosity of CEWS has been steadily reduced. In August 2021 the maximum support is CA\$282 (£164) per week per employee, or up to \$595 (£345) per week per employee if the employee is fully furloughed.	<b>23 October 2021.</b> The Coronavirus Recovery Hiring Programme (available to help affected businesses hire staff) runs until the end of November 2021.
<b>France</b>	<b>Partial Activity Scheme:</b> 70% of gross wages covered for time an employee is not working. Relative to the pre-coronavirus scheme, the co-payment required by employers has been reduced.	Since June 2021, the more generous Partial Activity rate is no longer available to businesses in 'unaffected' sectors, while it is being phased out between June 2021 and September 2021 for those in 'affected sectors'. <sup>18</sup> Long-term Partial Activity is available. This provides generous terms, but is subject to certain conditions (including agreement with the union and a commitment to retain workers). <sup>19</sup>	Long-term Partial Activity is available until May 2022, but if a business does not meet the requirements the alternative Partial Activity Scheme ends on <b>30 September 2021.</b>
<b>Germany</b>	<b>Kurzarbeit:</b> The long-standing German part-time working scheme pays employees 60% (67% for those with children) of wages for the hours not worked. No payment is required from the employer. Employers with a fall in turnover of more than 10% are eligible. This is more generous than the 'normal' Kurzarbeit scheme, which required that employers pay social security contributions and that 30% of the workforce was affected.	The generosity of kurzarbeit remains unchanged from summer 2020.	Employees must be registered by <b>30 September 2021</b> to benefit from more generous terms. Employees can stay on the scheme for up to two years. After that, the scheme will revert to pre-pandemic generosity.
<b>US</b>	<b>Paycheck Protection Program (PPP) loans:</b> Employers with fewer than 500 employees can apply for a loan up to 2.5 x monthly payroll costs. Loans became full grants if employee headcount was maintained and wages were not cut during 2020.	N/A	<b>No more support due.</b>
<b>UK</b>	<b>CJRS):</b> 80% of employer costs covered up to £2,500 per month (£580 per week) for furloughed workers.	In August 2021, employers are required to pay at least 20% of wages for time not worked; government contributes 60%.	<b>30 September 2021</b>

Sources: [www.instituteforgovernment.org.uk/coronavirus-support-workers-comparison](http://www.instituteforgovernment.org.uk/coronavirus-support-workers-comparison); [www.instituteforgovernment.org.uk/explainers/coronavirus-public-support-wages](http://www.instituteforgovernment.org.uk/explainers/coronavirus-public-support-wages); [www.canada.ca/en/department-finance/news/2021/07/extending-business-support-measures-through-the-pandemic.html](http://www.canada.ca/en/department-finance/news/2021/07/extending-business-support-measures-through-the-pandemic.html); [www.imf.org/en/Publications/CR/Issues/2021/07/14/Germany-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-462176](http://www.imf.org/en/Publications/CR/Issues/2021/07/14/Germany-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-462176)

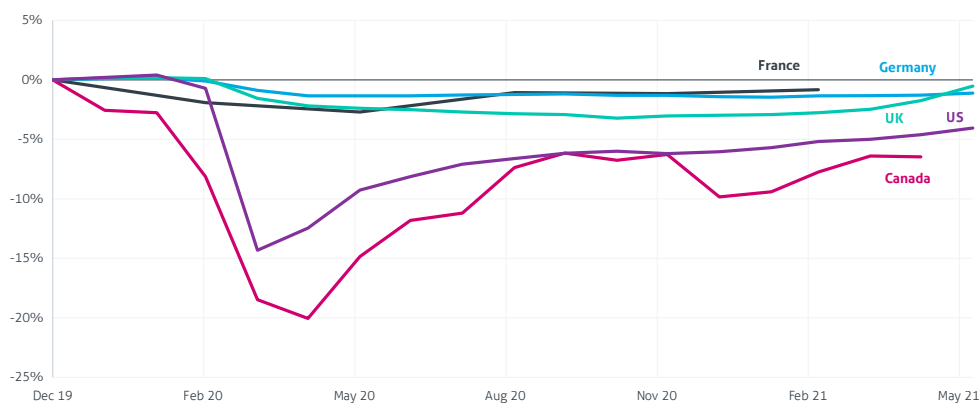


## Employment fell further, and remains lower, in the US and Canada

Different approaches to labour market support led to dramatically different results. In the UK, France and Germany, wage subsidies were available early on and made it cost-free for employers to retain furloughed staff. In contrast, the US scheme applied only to some companies while the Canadian scheme applied only a subsidy of up to 75% of wages and applications did not open until late April, after a more generous unemployment benefit had already been rolled out.<sup>20</sup>

The result was that, while economic activity slumped in all countries,<sup>21</sup> employment fell modestly in the UK, France and Germany but dramatically in Canada and the US, as shown in Figure 15.

Figure 15 **Change in number of employees since December 2019**

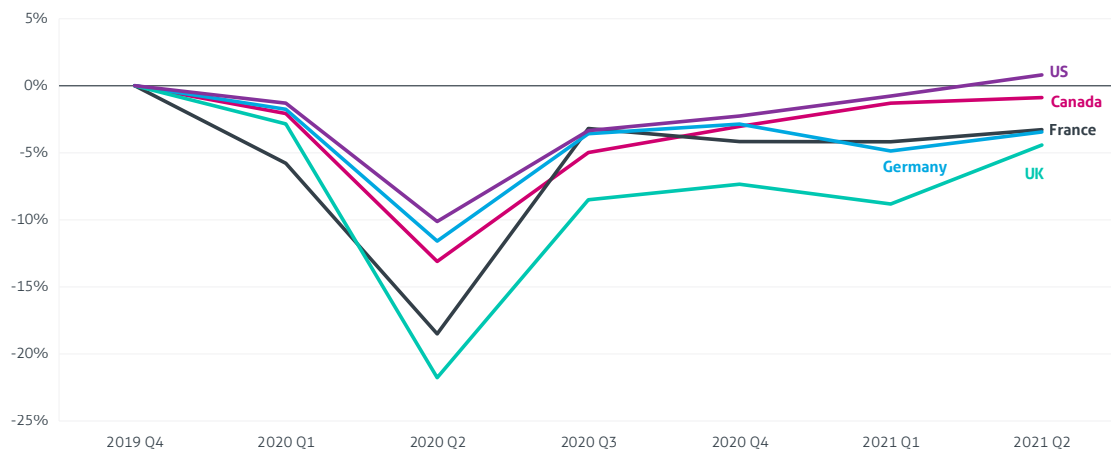


Note: For Germany, measure is employment. For all other countries it is payroll employees.

Source: Institute for Government analysis of OECD, StatCan, Insee, ONS and FRED data.

Across all these countries, much of the fall in the number of employees was only temporary. Both the US and Canada had recovered over half of their lost employment by September 2020. However, employment remains lower in those countries than in France, Germany and the UK even as all countries open up and reduce restrictions. Indeed, US and Canada GDP is higher – relative to its pre-crisis level – than any of France, Germany or the UK, but lower employment may affect their recovery over the coming months and years.

Figure 16 GDP levels compared to 2019 Q4 in selected advanced economies

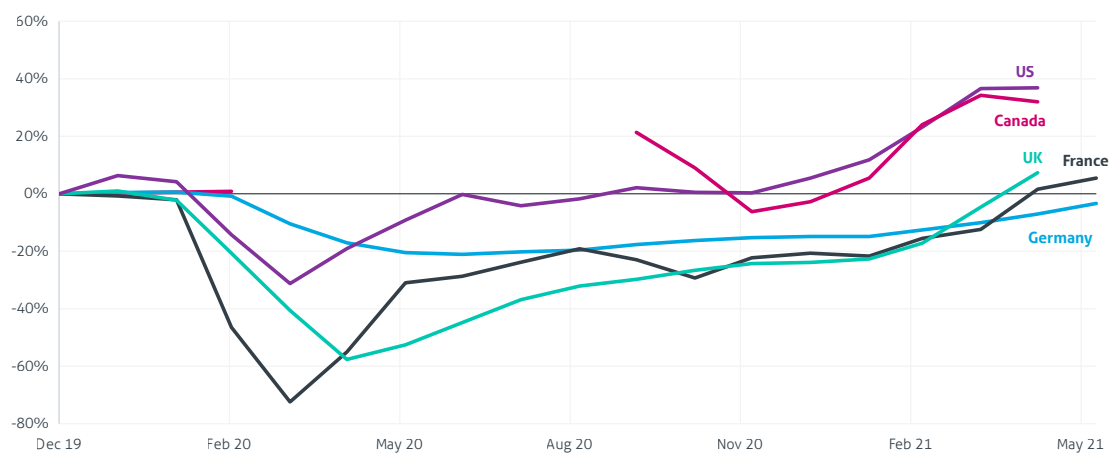


Source: Institute for Government analysis of OECD data

### Vacancies are close to or above pre-crisis levels in all five countries

All five countries' labour markets are returning to normal. Vacancies are now at or above pre-crisis levels, having fallen in the pandemic across the board. They are especially high in the US and Canada, where employment remains further below pre-crisis levels.

Figure 17 Change in number of job vacancies since December 2019



Note: For France measure is new vacancies. For all other countries it is the stock of vacancies.

Source: Institute for Government analysis of OECD and statcan data

The picture regarding employment and vacancies indicates that the UK labour market recovery is similar to that of France and Germany. In the US and Canada, GDP figures suggest that demand has returned as quickly as in Europe.<sup>22</sup> Employers are also trying to expand their workforce. However, in the US in particular, employers are finding it difficult to fill vacancies.<sup>23</sup> This has not been so problematic in the UK, because the furlough scheme retained employer–employee links and so there has been less need for re-hiring or new hiring. Indeed, this was the purpose of the scheme: to retain employer–employee links to enable a faster recovery.

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It is still too early to know how US and Canadian employment will evolve over the next year, but the current labour market evidence shows the value of having retained employer–employee links.

### **The UK's remaining labour market support is among the most generous, and other countries are phasing out support soon**

As all countries are recovering, it is instructive to compare the current UK labour market support, and plans to phase it out, with those of the other countries.

The UK wage subsidy scheme is the most generous. A UK employee on the scheme still receives 80% of her wage for hours not worked; in France that is 70%, in Germany that can be as low as 60% and in Canada it is only 55%. This level of support in the UK means that being on furlough is much better than being unemployed. In Germany, in contrast, the rate of payment for hours not worked is the same as the amount that would be paid if the worker were unemployed. This means that, under the UK system, employers know they will be making employees much worse off if they lay them off. However, the CJRS does now require employer contributions, which Kurzarbeit does not, which is an incentive for employers to make employees in non-viable jobs redundant.

The other temporary scheme – the Canadian CEWS – is set to close on 23 October 2021, shortly after the CJRS. This suggests that the Canadian government has made a similar judgment to the UK government: that labour market support will not be required beyond autumn 2021.

Both the French and German schemes are permanent fixtures and therefore will not end. However, both will return to their pre-pandemic generosity in autumn 2021. In the French case, this means requiring more employer support. In Germany, this means greater restrictions on when the scheme can be used. However, employees already on the scheme will stay on at pandemic-level generosity for up to two years in Germany, which means that in practice the pandemic scheme will continue until 2023.

As noted above, the US has not had any kind of wage subsidy scheme since August 2020. However, it has continued to support incomes through enhanced unemployment benefits and one-off cash payments for most American households. Higher unemployment benefits have made returning to work unattractive for some of the lowest paid, which may help to explain why businesses are struggling to hire. The \$1.9 trillion stimulus package signed in March 2021 by President Biden provided for enhanced unemployment benefits until the start of September 2021.<sup>24</sup>

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# Implications for policy

## **The furlough scheme has been successful and mostly achieved its primary objective**

The original rationale of the furlough scheme was to keep employees linked to their employers – and to maintain their incomes – while economic activity was curtailed temporarily by public health restrictions. The government wanted to do this so that it would be easier for businesses to bounce back once restrictions were lifted. The CJRS was initially expected to last only a few months, but as the pandemic has extended so has the need for the scheme.

Some employees lost their jobs during the crisis, so the scheme has not saved every job. The acceleration of job losses around late October, when government communication about the future of restrictions and labour market support was short term and unclear, suggests that more jobs might have been saved if decisions had been made earlier, but it is a notable success that there was no net loss of jobs during the January lockdown.

The scheme has protected most jobs. The number of employees was never more than 800,000 lower than pre-coronavirus levels. In some sectors, almost all jobs have been affected by the pandemic in some way and many would probably have been lost – at least temporarily – in the absence of the scheme. But there are now only a little over 1.5 million jobs being supported by the scheme, and employment has almost returned to pre-crisis levels.

The UK has managed to protect jobs as successfully as France and Germany, two countries that had similar types of wage subsidy scheme. The experience of Canada and the US, where more people were allowed to become unemployed initially and employment has recovered more slowly (even though the hit to economic output in those countries was smaller than in the UK and it has recovered more quickly in the short term), is an insight into what might have happened in the UK in the absence of the furlough scheme. Furthermore, the difficulties employers are now experiencing in hiring workers in those countries supports the rationale for the CJRS: that retaining employer–employee links would allow the economy and labour market to operate more smoothly once the pandemic receded.

## **The rationale for the scheme no longer applies if restrictions do not return**

While the furlough scheme has been effective at achieving its aims, it is a costly policy. Most obviously, there is the direct cost to the exchequer, which totalled £69 billion as of mid-July and is still costing £1 billion per month (the equivalent of £12 billion per year) even though numbers on furlough have fallen.

The aim of the scheme has been to support jobs that will be viable in future, but which were temporarily not viable due to the pandemic. Therefore, in so far as the scheme is now supporting non-viable jobs, it is not achieving its objective and so is a poor use of taxpayer money. While public health restrictions remained in place, it was not possible

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to distinguish between viable and non-viable jobs. In the absence of the CJRS, many businesses would have let employees go because they could not afford to pay them in the short term, but this does not mean that they were fundamentally 'bad' jobs with poor future prospects beyond the pandemic. However, the CJRS will have supported some jobs that would not have survived even in the absence of the pandemic.

Much of the economy is now operating in relatively 'normal' conditions. If a job is still furloughed now, it is unclear what will change to mean that the job will return. This is especially the case for over half of those furloughed who work in sectors that have been largely unaffected by recent lockdowns. However, it is also increasingly true of jobs in the 'affected' sectors given that most legal restrictions no longer apply and customers are returning. While uncertainty about the future is still elevated relative to pre-pandemic levels, most employers should now have a better sense of what demand conditions they will face in the coming months and therefore what staff they need.

Employers now have to pay 20% of wages for the hours not worked by furloughed employees, which makes it less likely that jobs with no future are still being supported by the scheme. Nonetheless, it is still possible that many of the jobs will not return, or at least that those jobs that are part-furloughed will not return with as many hours worked as before the crisis. The jobs left on the scheme are much more likely to be non-viable than was the case when the scheme was more widely used, meaning that the scheme is now worse value for taxpayer money than it was when restrictions were greater.

Beyond the direct cost, there is also a risk that the scheme acts to slow reallocation of workers from non-viable jobs to better ones at more productive businesses. Ordinarily, this 'creative destruction' is an important source of economic growth. This is another reason why the government would generally want to avoid propping up unviable jobs. The risk that the CJRS is slowing down reallocation of jobs is much higher now than it was previously.

For much of the pandemic, the labour market has been depressed, with few vacancies. In that environment, there was little risk that the CJRS was slowing down the reallocation of jobs – because there were few other jobs for unemployed people to move to. This is no longer the case. Vacancies are now at or above pre-pandemic levels in almost all sectors, even those sectors where furlough rates remain high. This shows that some businesses are now ready to hire, while other businesses in the same sector still have employees on furlough. While many people on furlough are likely to be looking for other jobs (especially as those on furlough are able to find other work while they stay on furlough), the scheme may deter some employees with non-viable jobs from searching for or taking up new jobs. At the very least it could mean that they search less intensively. To the extent that this is happening, the scheme is hindering labour market reallocation.

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The number of jobs furloughed is not, on its own, a good barometer of whether the furlough scheme should be extended. If the economy is rebounding strongly, many jobs being furloughed could actually be an indicator that the scheme is especially poor value for money – propping up unviable jobs – or even actively damaging if it is stopping those employees from looking for other, better jobs.

**Depending on how the coronavirus pandemic proceeds, there may be a case for continuing support for some sectors**

If widespread restrictions do not return, there is no rationale for extending the CJRS in most sectors, which can now operate normally.

There are two cases where extending some form of furlough support might be justified. First, international travel is still restricted by government regulation. If the government expects it to return soon, it might want to extend support for the aviation and international travel industry. Second, if some restrictions need to be reimposed, for example on businesses like nightclubs and pubs, the government might also want to extend further temporary support for employment in those businesses through a scheme similar to the CJRS. However, if only limited restrictions are reintroduced, there would still not be a rationale for extending the CJRS for most businesses.

We have shown that more people are furloughed in London than elsewhere, which may reflect businesses there being reliant on greater footfall from commuters in central London, who have not yet returned. In principle, this could provide a justification for the government to offer further support to these businesses in London. However, the future of office working is up to decisions made by businesses rather than the government and is difficult for the government to predict. Therefore, on balance, extending support for these businesses is unlikely to be good value for money.

Adopting sector-specific support, as may be appropriate for international travel businesses and – if some restrictions return – pubs and clubs, would be a departure from the Treasury's approach to furlough during the crisis so far. The Treasury has resisted limiting the CJRS to specific businesses, even though it has targeted other support at the worst affected businesses (for example, grants to pubs and other hospitality venues). But it is an approach that the French government has adopted for its partial working scheme: for several months this scheme has been more generous for businesses that are designated as 'badly affected'.

The downside of a sectoral approach is that it is administratively more complex and the Treasury could face lobbying pressure from different sectors to be included. However, this approach would have the benefit of targeting support more effectively. That benefit is greater – relative to a blanket policy – when, as now, only a few sectors require the support. Given how open the economy now is, a sectoral approach would be more appropriate and better value for money than extending the scheme for all.

An economy-wide CJRS should expire on 30 September 2021, having achieved its aims effectively. Even if some restrictions are reimposed, the government should limit any further furlough support to the sectors that are directly affected.

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