



Coronavirus and unemployment

The importance of government policy: a five nation comparison

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Summary

The coronavirus pandemic has led to widespread job losses across most advanced economies, as governments have mandated 'lockdowns' in an effort to stop the spread of the disease. No country has managed to avoid rising unemployment. To cushion the blow, governments have pumped large amounts of money – several per cent of GDP – into labour market policies. The UK government, for example, is expected to spend over £80 billion (or 3.7% of annual GDP) on such policies over the next eight months. But the approaches taken have differed, and the policies chosen appear to have had important consequences for workers.

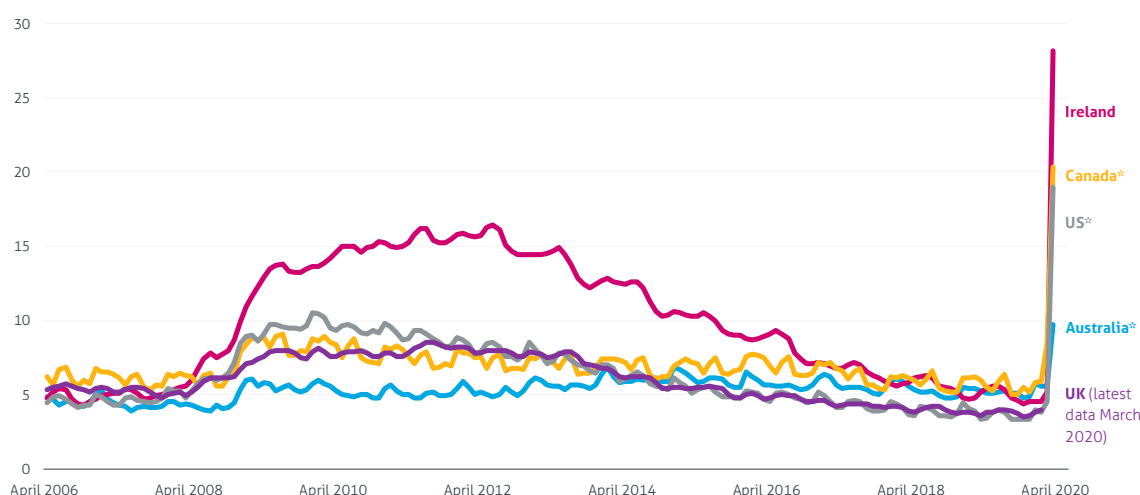
Some countries have experienced large increases in unemployment, while others have sustained links between employers and employees, even though all have experienced large economic contractions. This is hugely important, both for assessing the effectiveness of policies so far and in thinking about the task ahead as governments attempt to release the lockdown restrictions and get their economies going. This paper compares the experiences of five countries that illustrate how different policy decisions have been associated with different labour market outcomes, setting up very different future challenges.

Australia, Canada, Ireland, the UK and the US have all experienced a huge economic shock. In the first four of these countries, a third of the workforce or more is now having their income fully paid or heavily subsidised by the government – equivalent figures are not available for the US. But the types of policies that each country has adopted, and their resulting unemployment numbers, look very different from one another. In all of these countries, the state is now paying much more to support people's incomes than before the crisis.

- In **Australia**, the share of the workforce receiving unemployment benefits has increased by six percentage points to 12%, and a further 21% of the workforce now works for businesses receiving wage subsidies from the government because their turnover has fallen substantially.
- In the **UK**, the share of the workforce on Universal Credit – the means-tested benefit for households with low incomes – has increased by around six percentage points to 15% (up from 9% before the lockdown was introduced). But on top of this, around 24% of the labour force is currently furloughed, with up to 80% of those workers' pre-Covid wages paid for by the government. This suggests that nearly two fifths of the UK workforce is doing little or no work and having their income provided in whole, or large part, by the state.
- In **Canada**, around two fifths of the workforce has received at least one payment of the Canada Emergency Response Benefit (CERB), which supports those who have lost all – or virtually all – work due to the pandemic. The government also subsidised the wages of around 10% of the workforce in April through the Canadian Emergency Wage Subsidy (CEWS). This suggests that close to half of Canada's workforce had its income supported by the government in the weeks following the lockdown.
- In **Ireland**, almost a third of the workforce is receiving the new Pandemic Unemployment Payment (PUP) or Jobseeker's benefits (compared to just 7% receiving Jobseeker's benefits before the crisis) and a further 19% have had their wages subsidised at some point over the past two months by the state through the temporary wage subsidy scheme. As a result, more than half of Ireland's workforce has had its income substantially supported by the state since the crisis started.
- In the **US**, 18% of people were receiving unemployment benefits by early May (up from less than 1% before the crisis). A further set of workers are being supported by two federal programmes that incentivise and enable businesses to keep employing workers; however, unfortunately, figures are not currently available for how many US employees' wages are being subsidised in this way.*

* The larger of the two schemes – the Paycheck Protection Program – had made loans to 4.4 million US businesses by 19 May. See: Small Business Administration, 'Paycheck Protection Program', (no date), retrieved 19 May 2020, www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program#section-header-6

Figure 1 **Unemployment rates in Australia, Canada, Ireland, the UK and the US**



Notes: * = in Australia, Canada and US, April unemployment is different from the official unemployment rate because we also include those who have left the labour market since February 2020, and use the February 2020 labour force as the denominator. The latest official unemployment figures in Australia, Canada and the US are 6.2%, 13.5% and 14.7% respectively. The figure shown for Ireland is the upper-bound estimate for unemployment published by Ireland's Central Statistics Office on 8 May 2020, which counts all those receiving PUP as unemployed.

Source: ILO Unemployment by sex and age: monthly, International Labour Organization, (no date) retrieved 14 May 2020, www.ilo.org/ilostat-files/Documents/Bulk_ilostat_en.html#. Central Statistics Office of Ireland, 'Press Statement Monthly Unemployment April 2020', press release, 8 May 2020. Statistics Canada, 'Labour force characteristics by province, monthly, seasonally adjusted', Statistics Canada, 8 May 2020, retrieved 26 May 2020, www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410028703. Bureau of Labor Statistics, 'The Employment Situation – April 2020', Bureau of Labor Statistics, 11 May 2020, www.bls.gov/news.release/pdf/empst.pdf. Australian Bureau of Statistics, 6202.0 – Labour Force, Australia, Apr 2020, Australian Bureau of Statistics, 14 May 2020. Australian Bureau of Statistics, 6202.0 – Labour Force, Australia, Feb 2020, Australian Bureau of Statistics, 19 March 2020. Office for National Statistics, 'Unemployment rate (aged 16 and over, seasonally adjusted)', Office for National Statistics, 19 May 2020, retrieved 27 May 2020, www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/timeseries/mgsx/lms

All five countries have experienced a large increase in unemployment, as Figure 1 shows. But in some, the increase has been much more dramatic than in others. Unemployment has increased much more in Canada, Ireland and the US than in Australia and the UK. This is because the governments in Canada, Ireland and the US channelled much more of their labour market support through enhanced unemployment benefits than Australia and the UK did – the latter two countries instead focused support through wage subsidy schemes. However, the precise details of the schemes and when they were announced also appear to have been important in determining how far and how fast unemployment has increased:

- **Generosity of unemployment benefits:** Unemployment rates have risen by much more in countries that have substantially increased the generosity of their unemployment benefits in response to the coronavirus crisis. Canada, Ireland and the US have introduced new pandemic unemployment benefits, which are much more generous than benefits available in normal times. These new benefits are particularly generous to low earners. In Canada and Ireland, these benefits pay an amount that is broadly equivalent to the income available from working full time on the minimum wage. The increase in the generosity in the US has been even bigger: the maximum benefit available to recipients of Unemployment Insurance is now

worth more than 90% of average wages in all US states and more than 120% of average wages in 21 states. In stark contrast, in the UK and Australia, unemployment benefits still only cover 16% and 34% of median wages, respectively.

- **Policy timing:** The Canadian and Irish pandemic unemployment schemes were announced quickly, while it took these countries longer to announce and provide clear details on wage support for businesses. In contrast, in the UK and Australia, the governments announced a clear intention early on to channel substantial support through wage subsidies.
- **Design of wage subsidy schemes:** In the US, the wage subsidy scheme is far less generous to low earners than the new pandemic-era unemployment payments, leaving low earners in a position where they are financially better off, in the short term at least, being made unemployed than remaining with their employer. The same was initially also the case in Ireland. Realising the perverse incentive this provided for low-earning employees to encourage their employers to lay them off rather than retain them on subsidised wages, the Irish government adjusted the wage subsidy scheme to reduce this distortion.

This paper shows that policy has been influential in affecting labour market outcomes during this crisis. If the goal of policy was to support incomes while retaining employer–employee links, it seems as though Australia and the UK have, so far, been more successful than Canada, Ireland and the US. But it is too soon to know what ‘good’ policy looks like in this unprecedented crisis. If people whose wages are currently being subsidised by the government are laid off when that support is withdrawn – as the UK government is suggesting it will begin to do from the start of August – then UK and Australian unemployment may end up looking very similar to the other countries. At the same time, it is also possible that unemployed workers (including those who make up such large numbers in the other three countries in our study) will be quickly re-hired by their old employers, with existing employer–employee links surviving temporary unemployment.

One implication of the different patterns of unemployment we have seen to date is that the adaptations governments will need to make to these policies – to support the economic recovery as lockdown restrictions are eased – differ. In the UK, the key will be ensuring wage subsidy schemes do not hamper the recovery by discouraging businesses from re-hiring workers. Both the UK and Australia also risk discouraging workers from moving to employers and sectors with better prospects, by offering generous incentives for employees to be retained. In Ireland, Canada and the US, the priority will instead be ensuring unemployed people re-enter work, either returning to their old job or to new ones, rather than becoming disengaged from the labour market.

Introduction

The coronavirus pandemic has – as European Central Bank president Christine Lagarde put it at the end of April – resulted in “an economic contraction of a magnitude and speed that are unprecedented in peacetime”.¹ Governments across the world have deliberately shut down their economies, mandating the closure of places of work from pubs and restaurants to many offices, to try to limit the spread of the disease.

To try to avoid households facing a catastrophic fall in income as a result, many countries have introduced or expanded schemes to prop up people’s income during the shutdown, pumping large amounts of money into labour market policies. Advanced economies have adopted one or both of two main options for doing this – increasing eligibility for, and the generosity of, unemployment benefits; and offering employers subsidies for keeping workers on their books even if they are not using them fully (and in some cases *only* if they are not using them). In the UK, these schemes (along with support for the self-employed) are expected to cost the government over £80 billion (or 3.7% of annual GDP) over eight months.²

Wage subsidy programmes aim not only to support workers’ incomes, but also to maintain links between employers and employees to try to make it easier for businesses to reopen after the shutdown and to reduce the impact on workers’ future wages. The choices that governments made in the initial response to the crisis appear to have led to very different outcomes in terms of rates of unemployment. This is hugely important, both for assessing the effectiveness of policies so far and in thinking about the challenges that face different governments now as they attempt to release the lockdown restrictions and get their economies going.

In this paper, we look at the experiences of five countries – Australia, Canada, Ireland, the UK and the US – to illustrate how many people are now heavily reliant on the state for their incomes and how the nature of support offered to households has been associated with very different changes in unemployment – even as all these countries imposed similar types of economic and social restrictions, and experienced similarly sharp economic slowdowns (as Table 1 shows).

We focus on these five countries for several reasons. First, they all publish timely data on claims for unemployment benefits, allowing us to paint an up-to-date picture. Second, they are all countries that – in normal times – provide largely means-tested support to those who are not working that is relatively ungenerous, especially for those who previously had higher earnings (at least in comparison to many continental European, and particularly Scandinavian, countries).^{*} Third, these five countries have similar labour markets, with flexible employment laws compared with many other advanced economies.³ Fourth, between them, these countries have adopted a range of different approaches to supporting household incomes through the coronavirus crisis, allowing us to examine how these different choices have been associated with changes in unemployment.

^{*} IfG calculations using OECD ‘Tax-Benefit web calculator’, (no date) retrieved 21 May 2020, www.oecd.org/els/soc/benefits-and-wages/tax-benefit-web-calculator/#d.en.500997. Based on simulations assuming a single person aged 40.

Different approaches to cushioning the blow for workers

All the countries we look at introduced social and economic restrictions at similar times.

- **Ireland** closed schools, childcare facilities, universities and public buildings on 12 March, followed by pubs and bars on 15 March. More wide-ranging measures – including urging all non-essential businesses to shut and telling people not to leave their homes except when absolutely necessary – were introduced on 27 March.
- The shutdown was also phased in gradually in **Australia**. The precise timing and extent of closures differed across states, but the national cabinet mandated the first swathe of business closures on 22 March, including bars, places of worship and some schools. Other retail and hospitality businesses were closed on 26 March, and Australians were officially told to stay at home except for essential journeys on 29 March.⁴
- The **UK** introduced restrictions more abruptly. Schools, entertainment, hospitality and indoor leisure venues were closed from the end of the day on Friday 20 March, and the UK public were instructed to “stay at home” on Monday 23 March.
- The nature and timing of most economic and social restrictions in **Canada** were determined by the individual provinces and territories. All provinces and territories declared a state of emergency and mandated the closure of schools between 13 and 25 March. Ontario and Quebec, Canada’s most populous provinces, went further and closed all non-essential businesses on 24 March. On the same day, the prime minister, Justin Trudeau, ordered Canadians to “go home and stay home”.
- In the **US**, ‘stay at home’ orders were issued by almost all states between 19 March and 7 April. California was the first state to order lockdown (on 19 March), followed by other populous states like New York (22 March) and Ohio (March 23), and later Texas (2 April) and Florida (3 April). A handful of rural states never imposed ‘stay at home’ orders.

But each of the countries took different approaches in the immediate aftermath of their economic shutdowns to try to shield workers from the full financial impact. While the nature and timing of lockdown measures in Canada and the US were decided by individual states, provinces and territories, the main coronavirus-related labour market support programmes in all five countries were designed and paid for by central government and rolled out uniformly. The type of support package adopted in each country was important in influencing unemployment rates and pushing people towards different types of support, as was the point at which they were introduced. The different choices appear to have been driven not only by different policy priorities, but also by practical considerations about how money could be channelled most quickly and effectively to those in need.

Australia

On 12 March, anticipating an economic slowdown, the government announced two one-off A\$750 (£400)* payments to recipients of social security, veteran and other income support schemes and also for eligible concession card holders. These were to be paid on 31 March and 13 July. Around half the beneficiaries of these payments are pensioners.

On 22 March, the day after the first swathe of businesses were shut down, the government announced an increase to usual 'JobSeeker' unemployment benefits of A\$550 per fortnight (around £150 per week), along with the relaxation of partner income tests for JobSeeker, to apply from 27 April. This increase roughly doubled the previous maximum payment, meaning a single claimant without dependents can claim a maximum of A\$1,116 per fortnight (around £290 per week).

A new 'JobKeeper' wage subsidy scheme was announced on 30 March, the day after people were told to stay at home. This offers businesses a flat rate of A\$750 (£400) per week for each employee they retain, whether or not those employees are furloughed and regardless of those employees' wages. Employers must pass all of the money on to their employees – that is, they cannot pay any employee covered by JobKeeper less than A\$750 a week, even if that employee was previously paid less than this amount.** To be eligible, businesses must have lost 30% of their revenue (compared to the same period a year earlier) as a result of coronavirus, or 50% for large businesses.*** The payments will be backdated to 1 March, but the first disbursements happened at the beginning of May. In announcing the scheme, Australia's prime minister, Scott Morrison, stressed the importance of retaining links between employers and employees, so that businesses' workforces were "ready to go" to help restart the economy fully at the end of the crisis.⁵

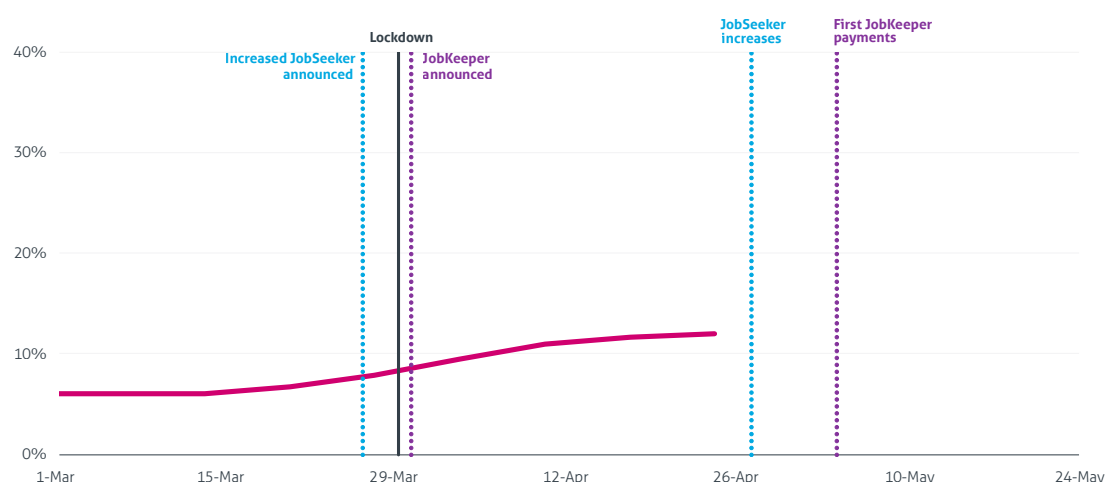
Figure 2 shows how claims for Australia's JobSeeker benefit changed during the spring of 2020, before and after the lockdown was imposed, and as the more generous JobSeeker benefits and new JobKeeper wage subsidy programme were rolled out. This shows that, by the end of April, 12% of Australia's workforce was receiving JobSeeker benefits, up from 6% before coronavirus hit.

* We offer comparative sterling figures throughout this paper; these are approximate and based on exchange rates at the time of writing. Comparative figures are given as weekly amounts to aid comparison across countries and schemes.

** Employers can change employees' hours, duties or location of work, but cannot pay below the A\$750 a week or below the employee's previous hourly pay rate if they want to receive the JobKeeper wage subsidy.

*** Registered charities are eligible for JobKeeper if their revenues have fallen by 15%.

Figure 2 **Australia: total claimants of unemployment benefits as % of labour force**



Note: Calculated as the sum of recipients of NewStart allowance, JobSeeker payment and Youth Allowance divided by the February 2020 labour force.

Source: Department of Social Services, 'Document detailing payment recipient numbers tabled by Ms Kathryn Campbell AO CSC, Secretary of the Department of Social Services at a public hearing in Canberra on 30 April 2020', Australian Senate Select Committee on Covid-19, 30 April 2020, www.aph.gov.au/Parliamentary_Business/Committees/Senate/COVID-19/COVID19/Additional_Documents?docType=Tabled%20Documents. Australian Bureau of Statistics, 6202.0 – Labour Force, Australia, Feb 2020, Australian Bureau of Statistics, 19 March 2020.

Canada

On 24 March, the day after Ontario and Quebec closed all non-essential businesses, the federal government announced legislation to establish a new CA\$500 (£290) a week Canada Emergency Response Benefit (CERB), available to those who had lost their employment income due to the virus. This benefit is available to anyone who is sick or quarantined, or is taking care of someone who is sick, as well as the self-employed and working parents who must stay home to care for their children. The CERB system launched on 6 April, and on 15 April rules were amended to allow payments to continue for second and subsequent months to those working reduced hours (defined as making less than CA\$1,000 per month; £130 per week), seasonal workers who recently received Employment Insurance, and people unemployed before the pandemic whose benefits have recently run out.

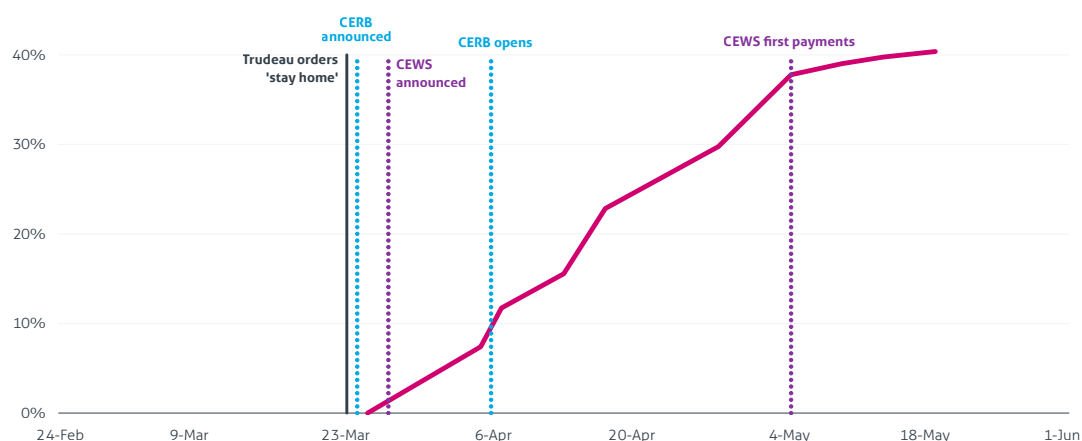
The CERB is comparatively generous, both in the size of the payment and the eligibility criteria, relative to what is normally available in Canada and to what some other countries are offering in equivalent schemes. The CA\$500 weekly payment is worth more than working full time on the minimum wage in some provinces, such as Saskatchewan, Manitoba and New Brunswick; workers in Manitoba would earn CA\$466 (£270) for working 40 hours at the minimum wage.

On 27 March, the Canadian government announced plans for a new Canada Emergency Wage Subsidy (CEWS) scheme, to replace a previous scheme that covered 10% of employee wages for small and medium-sized businesses. Applications for the CEWS opened on 27 April, with the first payments going out to companies from 7 May. The scheme covers 75% of employees' wages up to CA\$847 (£490) per week for employers

experiencing revenue falls of, initially, at least 15%, with payments backdated to 15 March. To receive subsequent payments, the employer must show at least a 30% decline in revenues.* These payments are made to eligible firms regardless of whether or not their employees are furloughed.

Figure 3 shows how claims for CERB racked up after the scheme was launched; how the timing of this related to the imposition of the lockdown; and how CERB claims evolved as the CEWS was rolled out. By the middle of May, 40% of Canada's workforce had received at least one CERB payment.

Figure 3 Canada: number of people who have received at least one CERB payment as % of labour force



Note: CERB = Canadian Emergency Response Benefit. CEWS = Canadian Emergency Wage Subsidy. Figures calculated as the cumulative number of unique claimants. As a result, this will overstate the number of people receiving CERB at any one time because some people will receive only one payment. Where data on the number of unique claims is not available, we assume that 58% of total claims are unique, consistent with data releases when both numbers are provided. The denominator is the February 2020 labour force, although some people may be in receipt of CERB even if they were not in the labour force in February 2020. Claims for CERB appear before the CERB system opens, as around 2.5m claims were received through Canada's pre-existing social security system before 6 April and then paid out as CERB.

Source: Various publicly reported statistics including Government of Canada, 'Canada Emergency Response Benefit statistics', (no date), retrieved 19 May 2020, www.canada.ca/en/services/benefits/ei/claims-report.html. Statistics Canada, 'Labour force characteristics by province, monthly, seasonally adjusted', Statistics Canada, 8 May 2020, retrieved 26 May 2020, www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410028703.

* All of the payment must be passed on to the employee. Employers can cut workers' hours and pay but cannot receive more in wage subsidy than they pay to the employee – that means that if a worker's pay is cut below 75% of their previous wage, the subsidy received by the employer will be capped at 100% of the new wage.

Ireland

The first step that the Irish government took to support household incomes – on 15 March, the same day as pubs and bars were forced to close – was to introduce a new Pandemic Unemployment Payment (PUP) for employees and self-employed people who had lost their jobs (from 13 March onwards) because of the pandemic. PUP was initially set at €203 (£180) per week. At the same time, the government created an initial scheme to pay furloughed staff at the same rate as unemployment benefits – €203 per week – through their employer's payroll. PUP (which is not means-tested) was increased to €350 (£310) per week on 24 March, when more wide-ranging social restrictions were imposed.

On 24 March, the government also announced a new Temporary Wage Subsidy Scheme (TWSS), through which the government would cover up to 70% of employees' previous net wages for businesses that have experienced a significant drop in turnover as a result of the pandemic (with a maximum of €410, or £360, per week available for each employee). To qualify, businesses must have experienced at least a 25% fall in turnover, be unable to pay normal wages or other outgoings, and retain their employees on the payroll. These payments were available regardless of the employees' current income or hours of work – although the total amount paid to the employee, including the wage subsidy, could not exceed the employee's previous net weekly pay. The first payments for this scheme and the enhanced €350 PUP payments were processed on 27 March.

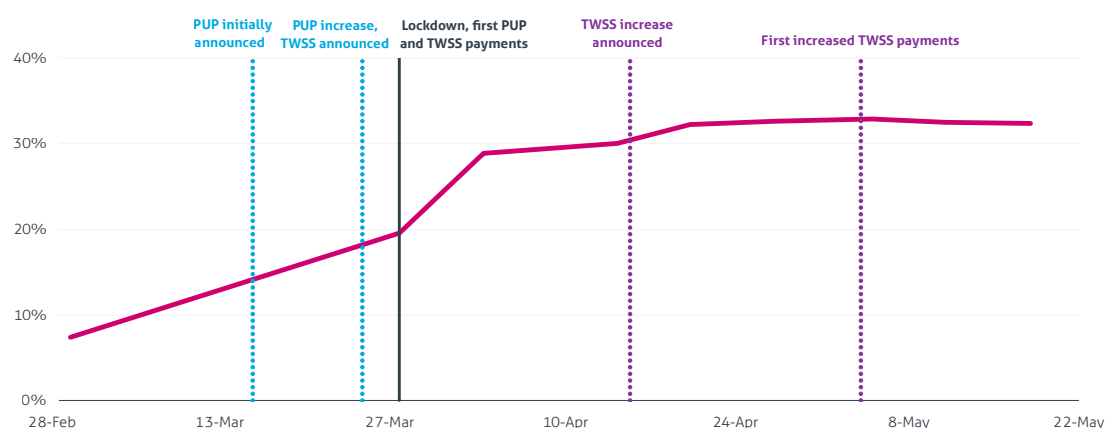
The TWSS was updated on 15 April, with changes taking effect from 4 May, to provide a more generous subsidy (up to 85% of net wages) for lower earners.⁶ The changes to the subsidy available for low earners were intended to incentivise low-paid workers to stay in work rather than moving to PUP.

PUP is generous compared to both Ireland's normal 'Jobseeker's Benefit' and comparable benefits available in other countries. The income available through the scheme (€350 per week) is only a little lower than what someone would receive working 37.5 hours a week at the minimum wage in Ireland (€380 per week after tax). Researchers at the Economic and Social Research Institute in Dublin estimated that a fifth of Irish families in which someone had lost their job due to the pandemic may have been left financially better off – in the short term – because the new higher unemployment benefits were worth more than they would have earned by being in work.⁷

Before 4 May, when the TWSS was made more generous, PUP was also significantly more than the amount paid out to low earners by the temporary wage subsidy scheme. As a result, low earners in Ireland were financially better off – again, in the short term – by being made unemployed rather than being kept on by their employer.

Figure 4 shows how the fraction of the workforce receiving Jobseeker's Benefit or the new PUP changed as PUP was introduced, the lockdown was imposed and as the TWSS was introduced and adjusted. By the middle of May, 32% of Ireland's workforce was receiving either PUP or Jobseeker's Benefits – compared to just 7% who were receiving the latter at the end of February.

Figure 4 Ireland: PUP and Jobseeker's claimants as % of labour force



Note: PUP = Pandemic Unemployment Payment. TWSS = Temporary Wage Subsidy Scheme. Figures calculated as the total number of recipients of PUP plus the total number of recipients of Jobseeker's Benefit. Denominator is the February 2020 labour force.

Source: Various press releases from the Department of Employment Affairs and Social Protection, retrieved 26 May 2020, www.gov.ie/en/publications/?type=news&type=press-releases&organisation=department-of-employment-affairs-and-social-protection&page=1.

UK

The chancellor, Rishi Sunak, announced measures to support household incomes on 20 March⁸ – the same day that the closure of pubs, restaurants and other social venues was announced and just a few days before the prime minister announced full lockdown measures on 23 March.

The chancellor said that “the first part of our plan is to protect people’s jobs” and announced the Coronavirus Job Retention Scheme (CJRS), which provides employers with 80% of wage costs for furloughed workers, with employees receiving up to £2,500 per month (£580 per week) through the scheme. The government made further modifications to the scheme – on 27 March and 15 April – to include non-wage costs such as employers’ social insurance contributions and statutory pension contributions, and to expand eligibility to anyone employed by 19 March (initially only those employed on 28 February were eligible).

The first payments from the scheme were made on 20 April. The UK is unusual among the five countries we consider here in only providing wage subsidies to employers who furlough their workers.* In Australia, Canada and Ireland, employers can claim the wage subsidies as long as their turnover has been sufficiently negatively affected, regardless of whether or not they reduce their employees’ hours of work. Some of the support provided in the US is also available without employees being furloughed.

To “offer more generous support to those without work”, the chancellor also announced an increase in Universal Credit (UC) payments – the means-tested benefit for households on low incomes or out of work – of £20 per week from 6 April.

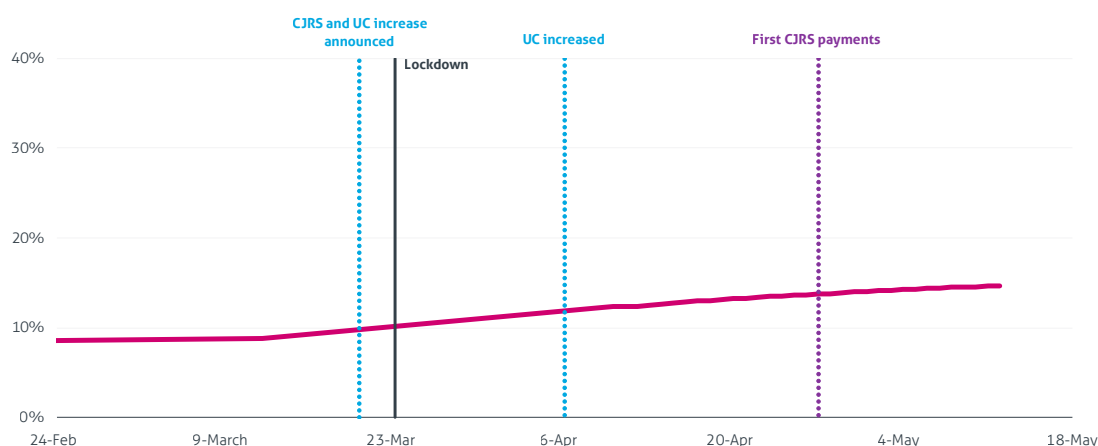
* A worker is furloughed when they temporarily stop working but remain formally employed by their employer.

This increased the weekly payment available to a single, childless adult to £94.59. The rules were also changed to make it easier for self-employed people to claim UC.

It took the government longer to design and implement a scheme to compensate self-employed people for lost earnings. Government officials prioritised setting up the CJRS over tackling the complex issues associated with channelling new support to the self-employed, who were instead initially encouraged to apply for UC. On 26 March, the chancellor announced a new self-employed income support scheme “to support those who work for themselves”. This pays self-employed people 80% of their average profits over the last three years, also up to a maximum of £2,500 per month (£580 per week). To be eligible, people must have received more than half of their income from self-employment over the past three years, have filed a tax return for the 2018/19 tax year, and have average profits below £50,000 per year (£960 per week). The first payments – which will cover the three months from March – will be made as a lump sum at the start of June 2020; to tide themselves over, self-employed people were instructed to make a claim for UC. By the middle of May, 2.3 million self-employed people had submitted a claim to the self-employed scheme.

Figure 5 shows an estimate of the fraction of the workforce that was receiving UC and how this has changed since the lockdown was imposed. The share of the workforce receiving UC has risen from around 9% before the lockdown to around 15% in mid-May.

Figure 5 **UK: Number of households claiming Universal Credit as % of total households active in labour force**



Note: UC = Universal Credit. CJRS = Coronavirus Job Retention Scheme. This chart shows the total number of individuals claiming UC, subtracting those with no work requirements (i.e. those not in the labour force). From 9 April, when official figures stop, we have added the sum of initial individual claims for each date, assuming the same ratio of labour force and non-labour force claimants as in April, to the stock as of 9 April. As a result, these numbers are likely to be an overestimate of total claimants. The denominator is the total UK labour force size for February 2020.

Source: Number of claims: Department of Work and Pensions, 'Universal Credit Statistics – Management Information', 19 May 2020, retrieved 19 May 2020, www.gov.uk/government/publications/universal-credit-declarations-claims-and-advances-management-information and Department of Work and Pensions, 'Universal Credit: 29 April 2013 to 9 April 2020', 19 May 2020, retrieved 19 May 2020, www.gov.uk/government/statistics/universal-credit-29-april-2013-to-9-april-2020. Size of labour force: Office for National Statistics, 'UK Labour Market Overview April 2020', 21 April 2020, retrieved 26 May 2020, www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/april2020

US

The federal government's economic support package – the Coronavirus Aid, Relief and Economic Security (CARES) Act – was signed by the president, having passed both houses of congress, on 27 March. At that point, around half of the states had already issued 'stay at home' orders, with most of the remainder doing so in the following two weeks.

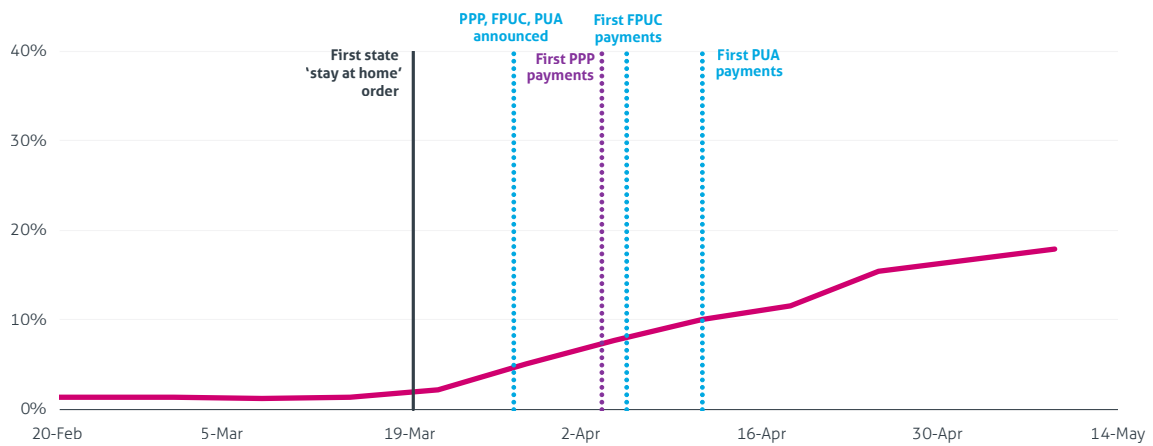
The package included more generous payments to unemployed people – with a new US\$600 (£490) per week federal payment through the Federal Pandemic Unemployment Compensation (FPUC) programme being made on top of states' existing rates of Unemployment Insurance (UI) and other out-of-work benefit programmes. The US government also created a new Pandemic Unemployment Assistance (PUA) programme, which extended benefits equivalent to UI to the self-employed, 'gig economy' workers and others who did not previously qualify for UI. These programmes were also extended to cover 39 weeks from the date someone becomes unemployed, as opposed to the 26 weeks normally covered.

The federal economic support package also included a series of support measures for business. Two of these – the Employee Retention Credit (ERC) and Paycheck Protection Program (PPP) loans – tied support for businesses to their retaining workers on their payroll. The ERC offers firms with revenues that have fallen by more than 50% support to pay their employees – it covers half of employer costs over the period from April 2020 to January 2021, up to a total cap of US\$5,000 per employee. For businesses with more than 100 employees, this payment is only available to furloughed employees. PPP loans are worth up to 2.5 times a firm's monthly paybill; if employee headcounts are maintained and wages are not cut during 2020, the loan turns into a grant that will not need to be repaid. These loans are only available for businesses with fewer than 500 employees, and firms can only apply for one or other of these schemes – not both.

Steve Mnuchin, US Treasury secretary, was clear that the package of measures was intended both to alleviate income losses and to help ensure that those who had lost their jobs in the early weeks of the crisis would be re-hired by their former employers.⁹

Figure 6 shows the fraction of the US labour force in receipt of UI and how this has increased sharply since US states started to restrict economic activity. The share of the workforce claiming UI rose from just 1% at the end of February to 18% in early May.

Figure 6 **US: Unemployment Insurance (or equivalent) claimants as % of labour force**



Note: PPP = Paycheck Protection Program. FPUC = Federal Pandemic Unemployment Compensation. PUA = Pandemic Unemployment Assistance. PUA and FPUC payments were rolled out through state unemployment systems at varying speeds (FPUC generally early to mid-April; PUA late April to early May). The date of first payment used here is the date the first state started paying out. Figure shows the number of people applying for UI or equivalent benefits. Denominator is the February 2020 labour force.

Source: Department of Labor, 'Unemployment Insurance Weekly Claims Report Archive', 1 November 2019, retrieved 26 May 2020, <https://oui.doleta.gov/unemploy/archive.asp>. Bureau of Labor Statistics, 'The Employment Situation – April 2020', Bureau of Labor Statistics, 11 May 2020, www.bls.gov/news.release/pdf/empsit.pdf

Table 1 **Support for workers and the unemployed during the coronavirus crisis**

Country	Policies to support incomes of those out of work	Policies to maintain employer–employee links	Change to IMF forecast for 2020 GDP growth between Oct 2019 and Apr 2020
Australia	<p>Coronavirus supplement to JobSeeker payment: increase unemployment benefit by A\$275 (£150) per week. Conditions for receipt relaxed.</p> <p>Two A\$750 (£400) payments to households on working-age benefits and pensioners, with the second payment only available to those not in receipt of the coronavirus supplement to JobSeeker payments.</p>	<p>JobKeeper scheme: employers receive A\$750 (£400) per week per employee if their turnover has fallen by over 30% (over 50% for large businesses, 15% for charities).</p>	–8.9ppt
Canada	<p>Canada Emergency Response Benefit (CERB): CA\$500 (£290) per week for those who have stopped working or had their hours reduced as a result of coronavirus.</p>	<p>Canada Emergency Wage Subsidy (CEWS): 75% of employee wages up to 11 April covered up to CA\$847 (£500) per week for employers experiencing turnover falls of at least 15%. This turnover threshold rises to 30% when claiming for wages after 11 April.</p>	–8.0ppt
Ireland	<p>COVID-19 Pandemic Unemployment Payment (PUP): €350 (£310) per week for employees and self-employed people who have lost all of their income due to the pandemic.</p>	<p>Temporary Wage Subsidy Scheme (TWSS): Support for employers whose turnover has fallen by 25% and who cannot pay normal costs to keep workers on payroll. Payment depends on employee earnings and is capped at €410 (£370) per week.</p>	–10.3ppt

UK	<p>Universal Credit payments increased by £20 per week.</p> <p>Self-employment income support scheme: 80% of average profits in last three years paid to self-employed affected by coronavirus up to £2,500 per month (£580 per week). Those with income over £50k not eligible.</p>	<p>Coronavirus Job Retention Scheme (CJRS): 80% of employer costs covered up to £2,500 per month (£580 per week) for furloughed workers</p>	-8.0ppt
US	<p>Federal Pandemic Unemployment Compensation (FPUC): Federal payment of US\$600 (£490) per week available to people claiming a number of other benefits, including state Unemployment Insurance and Pandemic Unemployment Assistance (see below), for four months.</p> <p>One-time US\$1,200 (£980) payment to people earning less than US\$75,000 per year (US\$150,000 per year for joint filers) in 2019. US\$500 (£410) per child will also be sent to qualifying households.</p> <p>Pandemic Unemployment Assistance (PUA) programme extends UI-equivalent benefits to self-employed, non-profit employees and gig economy workers, and others ineligible for regular UI.</p>	<p>Employee Retention Credit (ERC): employers with a fall in receipts of over 50% qualify for a payroll tax credit of 50% of employer costs per employee up to a credit of US\$5,000 (£4,080). For companies employing more than 100 people, the credit can only be claimed for furloughed employees.</p> <p>Paycheck Protection Program (PPP) loans: employers with less than 500 employees can apply for a loan up to 2.5x monthly payroll costs. Loans become full grants if employee headcount is maintained and wages are not cut during 2020.</p> <p><i>Businesses cannot apply for both the ERC and PPP loans.</i></p>	-8.0ppt

Source: IMF = International Monetary Fund. Economic forecasts from International Monetary Fund, 'World Economic Outlook', April 2020, retrieved 27 May 2020, www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020 and International Monetary Fund, 'World Economic Outlook', October 2019, retrieved 27 May 2020, www.imf.org/en/Publications/WEO/Issues/2019/10/21/World-Economic-Outlook-October-2019-Global-Manufacturing-Downturn-Rising-Trade-Barriers-48513

Measuring job losses

It is difficult to get perfectly comparable or comprehensive figures for all countries on the number of people who have lost their jobs since the coronavirus pandemic began. We therefore draw on three different indicators to paint a picture of job losses and the number of people reliant on income from the state across these countries.

Standard internationally comparable measures of unemployment (that is, the number of people who are part of the labour force but not currently in a job) that use the definition set by the International Labor Organization (ILO) are potentially misleading for our purposes, for two reasons.

First the ILO definition requires someone to be available for and actively seeking work in order to be classified as unemployed.^{*} Lockdown restrictions make this hard, if not impossible. As such, comparisons over time within one country are tricky, since some of the rise in joblessness that has happened as a result of the shutdown may not be counted. Estimates for the US, for example, suggest that eight million people (equivalent to over 4% of the size of the measured labour force) may have ceased to be counted as part of the labour force between February and April, either because they stopped looking for (non-existent) jobs or because they were laid off but with the promise of re-hire. While this is an arresting figure, under ILO terminology, these people would not be counted as *unemployed*.

Second, the statistics agencies in the countries that we look at here classify people who have been furloughed or temporarily stood down by their employer differently. In the UK and Ireland, people are counted as employed if they have an attachment to an employer, even if they have not been paid for up to three months. In Australia, such people will be classified as employed for up to four weeks after they were last paid. But Canada and the US use a narrower definition of employment than other advanced economies: people are classified as unemployed the moment they are laid off, even if temporarily. This could complicate comparisons between countries at the moment. Australia's Bureau of Statistics has estimated, for example, that its official unemployment rate stood at 6.2% in April 2020 – but this could have been as high as 11.7% if using US/Canadian classifications.¹⁰

The number of people claiming out-of-work benefits provides an alternative measure of joblessness – one that is available more quickly than official unemployment statistics. However, people can only receive benefits if they are eligible, and this affects comparisons between countries that have more or less onerous eligibility criteria. Inferring the prevalence of unemployment from figures on claims for benefits is further complicated by the fact that in some of these countries people may be eligible for out-of-work benefits without being 'unemployed' in the usual technical sense of the word – for example, because they are sick, disabled or caring for young children and thus unable to participate in the labour force. Eligibility for, and coverage of, the main benefits we examine in this paper differs across these five countries in various ways.

* If they are not seeking work, then they are not included as part of the labour force and so are not counted as unemployed on this measure.

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- **Means testing:** Unlike benefits in the other countries discussed here, the UK's main out-of-work benefit, Universal Credit, is allocated on a household – rather than individual – basis. UC is also means-tested based on household income and asset holdings, and JobSeeker benefits in Australia are only available to those whose partner's income falls below a set limit. In contrast, the benefits available in Ireland, Canada and the US are assessed solely on the basis of the individual claimant's income.
 - **Past employment:** The Canadian, Irish and US systems require recipients to have worked in the past year, and so exclude the long-term unemployed.
 - **Low earners:** Universal Credit, the Australian JobSeeker payment and Canada's CERB can all be claimed by people who are doing some work but on low incomes, while Ireland's PUP and the US's UI can only be claimed by those who are not working.
 - **People not in the labour force:** Some benefit recipients may not be in the labour force. The CERB payment in Canada can be claimed as long as someone earned more than CA\$5,000 (£2,900) in 2019, meaning it may be claimed by those who had dropped out of the labour market well before the coronavirus crisis (for example, because they retired or started caring full-time for children). In this paper, we calculate the fraction of the workforce that has received support through CERB by dividing the number of CERB claimants by the size of the Canadian workforce pre-coronavirus. However, this may slightly overstate the prevalence as the numerator may contain some people who are not counted in the denominator.*
 - **Backlogs:** The US system has also experienced significant logistical problems in processing the number of UI claims that have been made since the coronavirus lockdown started. Survey data suggests that around 24% of applicants were unable to get through the UI system to make a claim. The PUA payment has also been rolled out slowly, with some states yet to open applications. The resulting backlog in claims means that current claimant numbers are likely to be a major underestimate of the unemployment rate.

For the countries we study here, using these different measures of unemployment gives slightly different – but nonetheless similar – figures. For example, in the US, the official unemployment rate in April was 14.7% (or an estimated 19.0% if those who appear to have dropped out of the labour market since February are also counted), while 17.8% are claiming UI.**

* A similar problem occurs to a much greater extent when looking at UC claimants in the UK, as around a quarter of people receiving UC pre-coronavirus were not in the workforce. It would therefore be misleading to express the total number of UC claimants as a share of the workforce. Therefore, in this paper, we adjust the UC statistics to remove (an estimate of) the number of claimants who are not in the labour force. For further details, see the note to Figure 5.

** In Canada, the share of the workforce who had received a CERB claim by mid-April was 23%, similar to the unemployment rate of 20% at that point.

In addition to these measures of unemployment, we also look at how many people are receiving support through the new wage subsidy schemes, which support workers who might otherwise have been laid off by their employer. Because the details of these wage subsidy schemes also differ between countries, the implication of a worker receiving support through such a scheme is different in each country. In the UK and for large firms in the US, employees only have their wages subsidised if they have been furloughed by their employer. In the other three countries (and for all but the largest firms in the US), employees' wages are subsidised for businesses that have experienced large falls in turnover, regardless of whether any individual employee has been furloughed or put on reduced hours. Unfortunately, for the US, figures are not readily available for how many people work for firms that are receiving support from one of the federal programmes aimed at supporting employment.

How have coronavirus-related labour market support programmes affected unemployment rates?

Unemployment has risen more quickly in countries that focused support through unemployment benefits

The share of workers who have lost their jobs since the outbreak of coronavirus has differed hugely across these five countries, as the charts above indicate. There are many reasons why this is likely to have been the case – for example, the International Monetary Fund (IMF) estimates that the economic impact of the pandemic in Ireland is likely to have been somewhat larger than in the other four countries. But at least one factor in the differences appears to be the type of policies that have been adopted to cushion the economic blow of the coronavirus shutdown.

Increases in unemployment (and claims for out-of-work benefits) have risen less sharply in the UK and Australia, whose governments focused at an early stage on channelling support to employers to keep workers on their books and did much less to increase the generosity of out-of-work benefits. In contrast, increases in unemployment have been much larger in Canada, Ireland and the US – where government support for those out of work was increased more substantially – with particularly generous treatment for low earners relative to the wages they can command or the wage subsidies available.

In Australia, there was around a six percentage point increase in the share of the workforce claiming unemployment benefits between the end of February and the end of April. Official unemployment figures for mid-April give an unemployment rate of 6.2%, but this rises to 9.8% when including those who dropped out of the labour force between March and April.¹¹ In the UK, there was a nine percentage point increase in the UK in the share of households (with at least one person in the workforce) claiming Universal Credit between the middle of February and the end of April.

In the US, the official unemployment rate rose from 3.5% in February to 14.7% in mid-April. However, the true unemployment rate is thought to be closer to 19% once a further eight million people who dropped out of the labour force are included.¹² Between the end of February and early May, the share of the workforce claiming unemployment benefits rose from 1% to 18%.

In Canada, unemployment has increased to a similar level as in the US, but a much higher share of the workforce has received income from the state through CERB – the new benefit introduced for those who lost work as a result of the pandemic. Canada's official unemployment rate rose from 5.6% in February to 13.0% in April. If a further 1.7 million Canadians who dropped out of the labour force between February and April are also taken into account, the figure stands at 20.4%.¹³ But almost twice this many – equivalent to two fifths of Canada's workforce – has received at least one CERB payment.

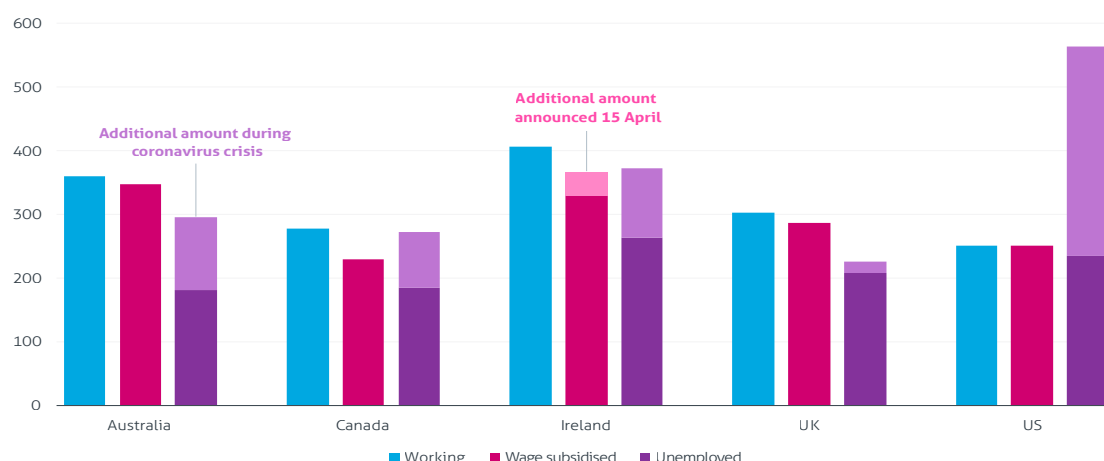
Ireland has experienced a large increase in unemployment, with nearly a third of the workforce now claiming PUP – the benefit for those unemployed due to Covid-19 – or the previously existing Jobseeker's Benefit. Ireland's unemployment rate increased more than six-fold between February and April, to reach 28.2%.¹⁴

Unemployment has risen more sharply in countries that expanded substantially the generosity of unemployment benefits

The relatively large rise in unemployment in Ireland, Canada and the US – compared to the UK and Australia – appears to be related to the design and timing of the new benefits and wage subsidy schemes rolled out.

In Canada, Ireland and the US, new support for the unemployed offers generous income to low earners, compared to the wages they previously commanded and the wage subsidies available to them if their employers kept them on their books. This is summarised in Figure 7, which shows the net income that someone could expect to receive in each country in three scenarios: working 40 hours a week on the minimum wage; receiving coronavirus-related out-of-work benefits; and being supported by new wage subsidy schemes. In Canada and the US, these figures will be different in each state; we show here the income that would be available in Michigan and Ontario, which have averagely generous tax and benefit policies within those countries.

Figure 7 **Comparison of net incomes for a minimum wage employee in different circumstances (£ per week)**



Note: Assumes a single person working 40 hours per week on the minimum wage with rental payments of £500 per month. Net incomes calculated using 2019 tax and benefit system for Ireland, the UK and the US and 2018 tax and benefit system for Australia and Canada, adjusted to incorporate new, more generous pandemic-related unemployment support. The 'wage subsidised' bar assumes the employer retains the worker under a government wage subsidy scheme and changes the workers' hours in such a way as to minimise the hourly employment cost to the employer, while (subject to that) maximising the amount received by the employee. In some instances this will mean reducing the worker's hours. Figures for Canada are for someone in Ontario. Figures for the US are for someone in Michigan. Figures converted into sterling using current market exchange rates as of 15 May 2020.

Source: Authors' calculations using OECD tax and benefit web calculator and entitledto.co.uk

In Ireland, the €350-a-week PUP is only just below the amount that would be earned by someone working full time at the national minimum wage (€10.10 per hour). PUP also provided low earners with a higher income than the initial TWSS, which covered only 70% of net earnings, meaning low earners were financially better off – in the short term at least – by being made unemployed during the early weeks of the coronavirus shutdown, rather than being furloughed. On 23 April, a month after both PUP and the TWSS were launched, just 14% of Irish employees were on the latter, while 32% were claiming PUP. It was concerns about the flawed design of PUP and the wage subsidy scheme in relation to low earners that prompted the Irish government in mid-April to increase to 85% the share of low earners' wages covered by the scheme. This change went some way to addressing the unintended incentive that had been provided for low earners to prefer unemployment to being furloughed, and since the change, PUP numbers have declined slightly as TWSS claims have increased to cover 19% of the labour force.

Canada's CERB benefits offer CA\$500 per week, which is higher than the minimum wage in some provinces, and the US system (including the \$600-a-week boost to UI) is likely to result in higher income for the lowest paid than being in work. Indeed, a study has suggested maximum unemployment benefits in the US would exceed 90% of average weekly wages in all states – and exceed 120% of average wages in 21 states.¹⁵ This is far more generous than the Australian JobSeeker benefit, where the cap (before support to pay for housing) is just 33.6% of median earnings, let alone the UK's Universal Credit, which pays a benefit to single childless adults that is worth just 16.1% of median earnings (again, before housing support).

This issue was important in practice because many of the sectors hit hardest by the economic shutdown – such as retail, leisure and hospitality – employ a lot of people on relatively low wages.¹⁶ Therefore, many of those who were at risk of being furloughed or made unemployed were likely to be lower earners who may have been able to match or exceed their previous earnings through coronavirus-related benefit payments – in Ireland, Canada and the US in particular.*

Unemployment has risen less markedly in countries that focused on wage subsidies

The different countries discussed in this paper prioritised their schemes differently. In particular, the UK and Australia focused more on supporting employers to keep workers on their books, rather than simply focusing on supporting incomes directly through the benefit system as the other countries did.

The Morrison government in Australia announced the detail of the JobKeeper scheme on the day after Australians were told to stay at home. The government promised to provide “hope and more certainty during these difficult and challenging times”, estimating that it would put A\$130 billion – or over 6% of GDP – behind the scheme.¹⁷ Even though the scheme is now expected to cost only half this figure,¹⁸ it will still dwarf the cost of the JobSeeker benefit increase (which was initially expected to cost A\$14.1bn for six months, or less than 1% of GDP).¹⁹

In the UK, Rishi Sunak also made clear at an early stage that the government’s focus was on maintaining employment and that the government would do “whatever it takes to support jobs”. The UK government has emphasised support through the CJRS and self-employment income support scheme (which together are expected to cost over £78bn, or 3.5% of GDP), rather than Universal Credit, where the changes made will only cost £5bn (0.2% of GDP).

Ireland and Canada – initially at least – emphasised providing support through unemployment benefits in their response to the crisis. The Irish employment minister, Regina Doherty, described her country’s initial support package as “specifically designed to get thousands of people into payment as quickly as possible”. In prioritising speed and ease of support for incomes, Ireland was successfully able to begin paying out PUP on a huge scale, but pushed some people towards unemployment rather than wage support.

Canada’s government was also slow to provide the final form of the CEWS scheme, updating the programme to change revenue loss requirements on 8 April.²⁰ Commentators have noted that the late announcement and late rollout of the scheme (the scheme first paid out on 5 May, the latest of all the schemes discussed here) contributed to fewer firms taking advantage of the scheme and instead laying off workers.²¹

* This may result in higher unemployment in two ways. Employees may actively seek to claim unemployment benefits rather than their salary, although there is little evidence that this is happening (and most welfare payments would not apply to those who voluntarily left their jobs). Or, employers may decide that due to the generosity of unemployment benefits, it is in the interest of their employees (and themselves, perhaps, to limit the work involved in claiming/topping up wage subsidies) to lay staff off, possibly with the intention of re-hiring the same staff.

Partly as a result of these design decisions, fewer people have become unemployed in the UK and Australia than in Ireland, Canada or the US. But in the UK, many others are economically inactive, having been furloughed by their employers: 8.4 million jobs, or around 24% of the labour force.²² In the absence of the furlough scheme, many of these would likely have been laid off. The UK is the only country that has required all businesses to furlough staff in order to qualify for the wage subsidy scheme. This means that none of those 8.4m workers has been working in recent weeks.

In Australia, 21% of the workforce have had their wages supported by the government's wage subsidy scheme. Many of these people may still be working, however, as the Australian scheme does not require that employers furlough their staff – only that their turnover has fallen substantially.

In contrast, a somewhat smaller share of workers is covered by the wage subsidy schemes in Ireland and Canada. Just under one in five of Irish workers (19%) had received support through this scheme by mid-May; this was up substantially from 9% in early April. In Canada, the wages of 10% of the workforce were supported by the CEWS scheme during the first month of the crisis. No equivalent figures are available for the US.

Conclusion

Across Australia, Canada, Ireland, the UK and the US, large numbers of workers have become unemployed or been furloughed since the coronavirus lockdowns were imposed. Many have therefore not been working or continuing to acquire skills or experience. For those who have become unemployed, the severing of ties with their former employer – on top of this work and experience gap – creates a heightened risk that they may struggle to find new employment even as economic growth picks up. In addition to those made unemployed or furloughed, there are other workers who are also benefitting from wage subsidies – meaning a large fraction of the workforce in each of these countries is being supported financially in a substantive way by the government. But the scale and nature of the impact has varied across the countries.

This paper has shown that different approaches to income support during the coronavirus crisis have led to different patterns of unemployment across these countries. All five had the twin goals of supporting incomes and maintaining employer–employee links, but those countries that favoured wage subsidy schemes over offering more generous unemployment benefits have, thus far, managed to maintain more formal employer–employee links and suffered smaller increases in unemployment.

Unemployment has risen most sharply in Ireland. Unemployment rates may now be as high as 28%, up from 5% before the lockdown. But it has also risen sharply in Canada and the US, and now stands at around 20% in each of those countries (up from 6% and 4% pre-crisis, respectively). This appears to be related to the fact that all three of those countries channelled much of their support for workers through more generous

out-of-work benefits, rather than through wage subsidies. The new pandemic unemployment benefits introduced in each of those countries have been particularly generous to low earners.

Unemployment has risen less rapidly in Australia and the UK. Governments in these countries have focused support on wage subsidies and have not increased the generosity of out-of-work benefits by much. In both, over a fifth of the workforce is being supported by wage subsidies from the government. In the UK, given the rules of the CJRS, all of these workers have been furloughed. In contrast, in Australia, they may be continuing to do some work.

However, this is just a snapshot of an evolving picture. This crisis and governments' economic responses to it are unprecedented, and it is too soon to know which country's approach was 'right'. If wage subsidy schemes are withdrawn too soon, or if changes to the structure of the economy mean that pre-coronavirus businesses and jobs cannot be resurrected, many of those currently furloughed in the UK, or having their wages subsidised in Australia, may eventually become unemployed. This then could leave them facing similar levels of unemployment as in Ireland, Canada and the US – pain delayed, rather than avoided. Meanwhile, the existing wage subsidy schemes may have discouraged furloughed or under-employed workers from seeking work in other sectors with a brighter future and so slowed down the usual process by which the labour market reallocates workers to where they are needed. These downside risks grow as the wage subsidy schemes operate for longer.

The approach taken in the UK and Australia is predicated on a belief that employer–employee links are likely to be permanently severed once someone is laid off. But, in the US and Ireland at least, there is some evidence that this is not always the case. A *Washington Post*–Ipsos survey of laid-off workers in the US (conducted between 27 April and 4 May) found that 77% of respondents thought it was “very” or “somewhat” likely that they would be re-hired by their most recent employer.²³ A similar survey by Ireland's Central Statistics Office found that 94% of people who said they had lost their job, been temporarily laid off, or otherwise forced to take paid or unpaid leave as a result of the crisis expected to return to their previous job once the restrictions were lifted.²⁴

Labour markets are not operating as usual at the moment; with few available vacancies, employers might be able to re-hire former employees more easily after a few months than would have been the case pre-crisis when laid-off workers may quickly have found alternative work. If this were to happen, the medium-term outcomes in the US, Canada and Ireland may be more similar to the UK and Australia, with businesses able to bounce back and re-hire the same staff relatively quickly – and thus unemployed workers facing little or no permanent scarring.

Given how many people's employment has been affected by the pandemic, and how many people are currently financially supported by coronavirus-related government support programmes, all five governments face important questions about when

and how to adapt their policies as they restart their economies. However, the precise policy choices made during the lockdown and the impact these have had on unemployment, reduced hours of work, and staff retention mean these five countries face somewhat different issues from one another.

For all countries with wage subsidy schemes – but especially for the UK and Australia, which rely so heavily on them – a critical question will be how to adapt those schemes as business gets going again. This will be needed to ensure that employers have an incentive to restart their businesses, to increase workers' hours (where applicable) at the right time, but also to release workers to find other jobs if there is no realistic prospect of them being fully utilised again. But the adaptations needed differ between these countries because of the way their wage subsidy schemes are structured.

In Australia, Canada and Ireland, businesses are eligible for wage subsidies as long as they suffered an initial large loss of revenue as a result of coronavirus; the same is true for all but the largest businesses in the US. As time goes on and lockdown restrictions are eased, it will become increasingly likely that these policies will entail larger and larger amounts of deadweight cost – that is, governments subsidising firms' wage costs even once those firms' revenues have (or could have) recovered. The schemes could be amended to remove eligibility from those firms whose revenues increase, but that would create a disincentive for businesses to expand their turnover. Alternatively, the schemes could be phased out for all businesses at the same time as the economy recovers. But deciding how quickly to do that will be difficult – moving too slowly risks piling extra costs onto the public purse to little effect; moving too fast risks bankrupting businesses. Now that lockdown restrictions are starting to be eased, the Australian government, for example, is facing calls to end the JobKeeper scheme earlier than the planned end date of 27 September or to focus the spending more tightly on those businesses that are most in need.

In the UK, wage subsidies are provided only for workers who have been furloughed. This design has the attraction that claims to the scheme should naturally wither as the economy recovers, meaning there is less danger of deadweight cost: since businesses face other costs while their businesses are shut down, they should have an incentive to get their employees back to work as quickly as possible as demand for their goods and services picks up. The focus of attention in the UK, therefore, is likely to be on other features of the scheme that could create problems as the economy starts to revive. First, the scheme currently incorporates an undesirable cliff-edge, with employers facing the stark choice between incurring no wage costs if they keep a worker furloughed and facing full costs if they want them to do even a small amount of work. Chancellor Rishi Sunak has suggested this will be smoothed out by requiring employers to pay a growing share of furloughed workers' wages from the start of August.²⁵

Sunak also suggested that the scheme could be adjusted to allow employers to continue to receive a subsidy if workers return to some part-time work – the indication being that the employer would face the full cost of paying the employee for the hours they work, while the government would continue to subsidise any gap between those hours of work and the employee’s pre-coronavirus normal hours of work.²⁶ This would provide more flexibility to firms. However, the UK scheme would still not provide the sort of support provided by the schemes in operation in Australia, Canada, Ireland and the US for businesses (such as shops and restaurants) that may have to operate in a more labour-intensive way for some time to come in order to comply with social distancing rules. Those other countries’ schemes, which provide a fixed government subsidy, regardless of how many hours of work employees do, allow businesses to operate and employ staff without having to meet the full hourly wage costs.

All of the wage subsidy schemes run the risk of hindering the normal process by which workers are reallocated from businesses with limited growth prospects to those that are growing more strongly. This is because all these wage subsidy schemes encourage employers to keep workers on their books rather than releasing them to go elsewhere – and employees may prefer the security of their current employer rather than risking taking a new job elsewhere, even if such an opportunity presents itself. All five of these countries’ governments will need to think carefully about when and how to withdraw their wage subsidy programmes to support the proper functioning of the labour market.

For countries where unemployment schemes are doing the heavy lifting of income support, the policy priority is to ensure that new jobs are created (or old jobs recreated) quickly as normal business resumes and to ensure that workers do not lose their skills or attachment to the labour market while they wait for this to happen. In Canada, Ireland and the US – where new coronavirus unemployment benefits are relatively generous – there will also be a tricky decision about when to scale those back to enable and encourage a return to normality. Not doing so risks low earners in particular being unwilling to return to work; doing so too quickly risks widespread economic hardship.

These are the questions that will occupy policy makers as they enter the next phase of the coronavirus response and seek to gradually reopen economies while keeping the virus under control.

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