

The UK's Coronavirus Job Retention Scheme (furlough) and its impact on workers' mental health

ReWAGE Policy Brief

Introduction:

The UK Coronavirus Job Retention Scheme (CJRS), more colloquially referred to as 'furlough', was a policy introduced in March of 2020 to enable employers to retain and pay staff through the national lockdowns. By the time the scheme reached its conclusion in September of 2021, 11.7 million jobs had been furloughed at a cost of £70 billion to the government¹. This ReWAGE policy brief considers the effectiveness of the scheme as a response to risks of mass-unemployment, focusing particularly on its ability to protect employee mental health.

Policy recommendations executive summary

1. Job-retention schemes form an important part of the response to risks of mass unemployment. They are essential in protecting employees from the negative effects of leaving the labour market.
2. Alongside the provision of salary, where possible, a model of short-time work should be followed on the schemes. By keeping employees in work, not only are matches between relevantly skilled employees and firms maintained, and employee skill declines mitigated, but employees' mental health is protected through being able to access the social and organisational functions of employment.
3. The differing gendered experiences of job-retention schemes should be studied more closely, to see that women's mental health is also supported in periods of crisis.
4. Job-retention schemes should seek to not just protect businesses, but also work to create security for employees. Measures such as incentives for employee training and conditions prohibiting employee dismissal at the conclusion of the scheme are essential for this.

Background:

Timeline and conditions of the scheme:

In March of 2020 when the UK entered the first of three national lockdowns, many jobs were made unviable overnight. Sectors most acutely affected included non-essential retail, accommodation and food services, and manufacturing. To prevent a mass-unemployment scenario, the government brought in the CJRS, enabling employers to retain employees and cover the vast majority of their salaries, even if their work had become temporarily

¹ HMRC coronavirus (COVID-19) statistics (2021) GOV.UK. Available at: <https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics> (Accessed: 20 April 2023).

impracticable. This marked a change in approach from the UK government who in previous periods of crisis and recession have not, unlike other European counterparts, intervened directly to support jobs and mitigate against redundancies and rising unemployment.

In this first phase of the scheme, the government paid up to 80% of salary, to a maximum value of £2,500 per month. During this period, employees on the furlough scheme were expected to undertake no work, however data suggests this was routinely ignored². Over the following 18 months, the nature of the scheme shifted - in July of 2020 a 'flexible furlough' scheme was instigated, where employees could return to work on a part-time basis, whilst the furlough scheme covered their non-working hours. By September of 2021, the balance of financial support for the CJRS had shifted more onto employers, with the government providing 60% of salary, while businesses were expected to provide 20% or upwards. Throughout the scheme, businesses also had the option of 'topping-up' furloughed employees' pay, to make it equal to 100% of their original salary.

Participation in the CJRS was not distributed evenly across the labour market. For the first year of the furlough scheme, women were more likely to be furloughed than men, and were also more likely to request to be furloughed, typically in the face of uncertainties around childcare. Further, women were less likely to have their salaries topped up above and beyond the 80% provided by government². Due to making up a disproportionate percentage of sectors worst affected by the initial lockdown measures, younger workers (16-24) were over-represented in the early months of the scheme. By the end of the scheme however, older workers (age 65+) were twice as likely to still be on furlough as those aged under 30³.

The 'theory' of job retention schemes

Job retention schemes have long been a tool in the policy arsenal of European governments to prevent job-loss in economic downturns. Typically, these schemes follow a model of 'short-time work' (STW), where, subsidised by the government, employees remain in their roles but work fewer hours. The long-running German Kurzarbeit scheme is a key example of this, where employees receive full-pay for hours worked and 60% for hours not worked. Its implementation in 2008/9 meant that Germany was the only G7 country not to experience a rise in unemployment⁴. STW schemes aim to preserve matches between firms and relevantly skilled workers, avoid expensive re-hiring processes, limit skill-decline, and prevent employees from being exposed to the negative consequences of unemployment. While these schemes are highly valuable in avoiding redundancies, they have been criticised for perpetuating jobs that have become obsolete and hindering more effective labour market reallocation⁵. The CJRS, following the introduction of 'flexible furlough', can be understood as a STW scheme. It is interesting

² Adams-Prassl, A. *et al.* (2020) 'Furloughing*', *Fiscal Studies*, 41(3), pp. 591–622. Available at: <https://doi.org/10.1111/1475-5890.12242>.

³ Clark, H. (2021) 'Examining the end of the furlough scheme'. Available at: <https://commonslibrary.parliament.uk/examining-the-end-of-the-furlough-scheme/> (Accessed: 20 April 2023)

⁴ *Kurzarbeit: Germany's Short-Time Work Benefit* (no date) IMF. Available at: <https://www.imf.org/en/News/Articles/2020/06/11/na061120-kurzarbeit-germanys-short-time-work-benefit> (Accessed: 20 April 2023).

⁵ Boeri, T. and Bruecker, H. (2011) 'Short-time work benefits revisited: some lessons from the Great Recession', *Economic Policy*, 26(68), pp. 697–765. Available at: <https://doi.org/10.1111/j.1468-0327.2011.271.x>.

considering the precedents available for job-retention schemes that the first iteration of the CJRS precluded employees from working, however this perhaps reflects the two different types of ‘job unviability’ during the pandemic: jobs not possible in line with social distancing measures, and jobs made economically unviable because of the recession.

Alongside the macro-economic benefits of job-retention schemes, for individuals, avoiding job loss is essential for protecting mental health. Longitudinal analysis has highlighted that unemployment is not just associated with worse mental health and a higher prevalence of mental health disorders, but causative of them⁶. Research has further demonstrated the ‘scarring’ effect of unemployment with individuals facing both wage penalties when re-entering the workforce⁷ and deleterious consequences in later life through reduced quality of life and life satisfaction⁸. The mechanism by which unemployment is understood to affect mental health is through depriving individuals of the benefits conferred through employment. Whilst salary is the most obvious of these, employment is also known to provide time structure, activity, social contact, collective purpose, and a sense of identity/status⁹. An STW or furlough scheme that can maintain some of these functions of employment should therefore help mitigate against the negative effects of unemployment.

Prior to the pandemic however, only a very limited literature base existed on the mental-health and wellbeing effects of participation in furlough and short-time work schemes. Much of this work comes from studies of the US government response to the 2008 financial crisis and examines employee experiences on short-term (i.e., days to weeks), unpaid, full furlough. These schemes neither address the financial or psycho-social benefits of employment, and correspondingly, reflect a negative set of participant experiences. Researchers found an increase in emotional exhaustion and a decrease in self-rated performance when the furloughs were announced, which were then compounded when they were realised¹⁰. Subsequent research considering the 2013 US federal government shutdown bolstered these findings, reporting a reduction in perceived personal resources, a decrease in life-satisfaction, and an increase in work-family conflict both during the unpaid furlough period and extensively after employees returned to work¹¹.

Understanding how work contributes to good mental health enables the design of a job-retention scheme that not just avoids the negative effects of unemployment but can also support wellbeing. In relation to job-retention schemes, those that follow the STW model which support the majority of wages and keep people in employment, may be most

⁶ Paul, K.I. and Moser, K. (2009) ‘Unemployment impairs mental health: Meta-analyses’, *Journal of Vocational Behavior*, 74(3), pp. 264–282. Available at: <https://doi.org/10.1016/j.jvb.2009.01.001>.

⁷ Arulampalam, W. (2001) ‘Is Unemployment Really Scarring? Effects of Unemployment Experiences on Wages’, *The Economic Journal*, 111(475), pp. 585–606. Available at: <https://doi.org/10.1111/1468-0297.00664>.

⁸ Mousteri, V., Daly, M. and Delaney, L. (2018) ‘The scarring effect of unemployment on psychological well-being across Europe’, *Social Science Research*, 72, pp. 146–169. Available at: <https://doi.org/10.1016/j.ssresearch.2018.01.007>.

⁹ Jahoda, M. and Zeisel, H. (1971) *Marienthal: The Sociology of an Unemployed Community*. Transaction Publishers.

¹⁰ Halbesleben, J.R.B., Wheeler, A.R. and Paustian-Underdahl, S.C. (2013) ‘The impact of furloughs on emotional exhaustion, self-rated performance, and recovery experiences.’, *Journal of Applied Psychology*, 98(3), p. 492. Available at: <https://doi.org/10.1037/a0032242>.

¹¹ Baranik, L.E. et al. (2019) ‘What Happens When Employees Are Furloughed? A Resource Loss Perspective’, *Journal of Career Development*, 46(4), pp. 381–394. Available at: <https://doi.org/10.1177/0894845318763880>.

effective in protecting mental health. Recent research in a UK context has highlighted that working just one day per week may be all that is necessary to confer the positive benefits of employment¹².

Evaluation of the success of the CJRS

Success in containing unemployment:

Broadly, the CJRS can be considered highly successful in containing unemployment. As opposed to the 10% unemployment rate predicted by the Office for Budget Responsibility, unemployment peaked at just 5.2% in October of 2020, and had returned to the pre-pandemic baseline of 4% by December of 2021¹³. While some of this potential unemployment was absorbed by a transition to homeworking, the CJRS undoubtedly kept many people in employment who otherwise would not have been. Nonetheless, the number of people in work fell by over 800,000 between January and October of 2020, seeing large increases in those either unemployed or economically inactive.

Longitudinal data from the nationally representative Understanding Society Covid-19¹⁴ study highlighted that furlough was typically effective in returning employees to work. For individuals furloughed in the first 6-months of the pandemic, less than 2% had been made redundant by November of 2020. Around 70% had returned to working with their original employer, while another 25% remained on the furlough or flexible furlough scheme.

Success in protecting people's mental health:

Early pandemic research examining April-June of 2020 illustrated that in terms of mental health impacts, full-furlough, where employees did no work, occupied an intermediate position between employment and unemployment¹⁵. Women typically had more negative experiences on furlough than men (even while controlling for housework and childcare responsibilities), while men were relatively worse affected by unemployment¹⁶. Women's more negative experiences on furlough may be explained by employers being less likely to 'top-up' their salary to 100%, or perhaps due to their participation in the scheme being forced by lack of childcare.

Figure 1 presents the author's own research conducted for this paper using Understanding Society's Main Survey¹⁷ and Covid-19 datasets¹⁴. The graph depicts a time series analysis

¹² Kamerāde, D. *et al.* (2019) 'A shorter working week for everyone: How much paid work is needed for mental health and well-being?', *Social Science & Medicine* (1982), 241, p. 112353. Available at: <https://doi.org/10.1016/j.socscimed.2019.06.006>.

¹³ ONS (2022) *Unemployment rate (aged 16 and over, seasonally adjusted): %*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms> (Accessed: 18 October 2022).

¹⁴ University of Essex, Institute for Social and Economic Research. (2021). *Understanding Society: COVID-19 Study, 2020-2021*. [data collection]. 11th Edition. UK Data Service. SN: 8644, DOI: 10.5255/UKDA-SN-8644-11

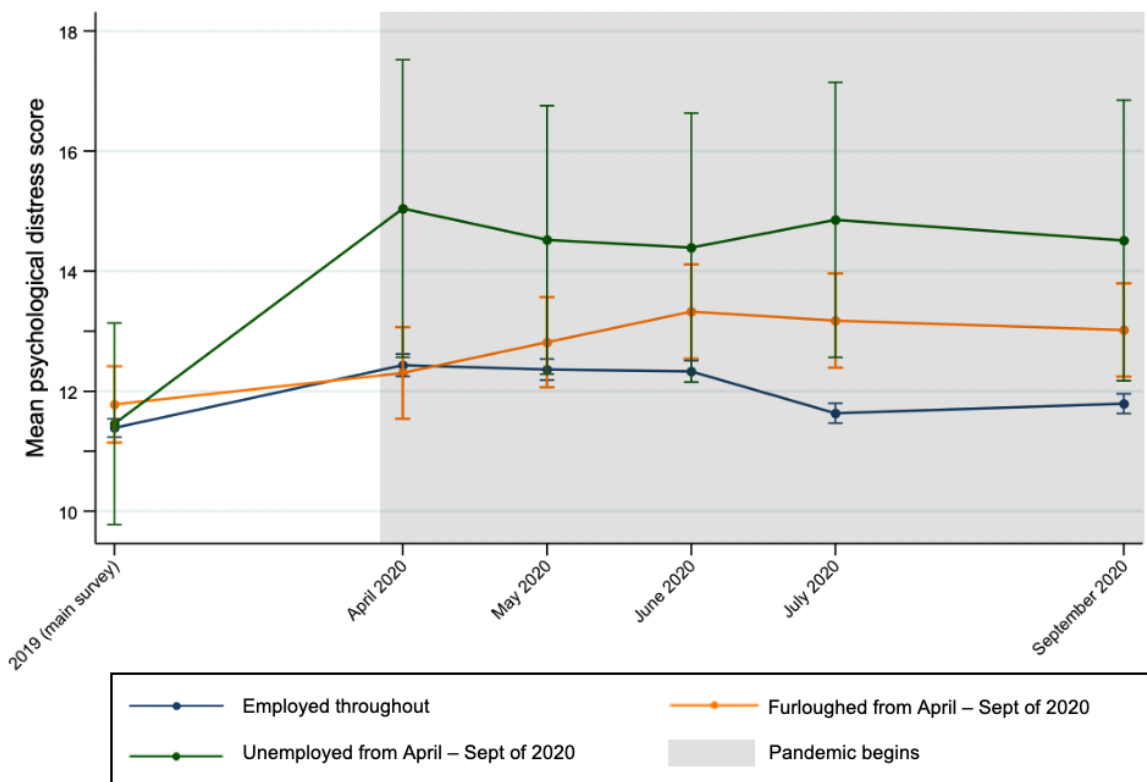
¹⁵ Wels, J. *et al.* (2022) 'Mental and social wellbeing and the UK coronavirus job retention scheme: Evidence from nine longitudinal studies', *Social Science & Medicine*, 308, p. 115226. Available at: <https://doi.org/10.1016/j.socscimed.2022.115226>.

¹⁶ Wang, S. *et al.* (2022) 'The Impact of Reduced Working Hours and Furlough Policies on Workers' Mental Health at the Onset of COVID-19 Pandemic: A Longitudinal Study', *Journal of Social Policy*, pp. 1–25. Available at: <https://doi.org/10.1017/S0047279422000599>.

¹⁷ University of Essex, Institute for Social and Economic Research. (2022). *Understanding Society: Waves 1-12, 2009-2021 and Harmonised BHPS: Waves 1-18, 1991-2009*. [data collection]. 17th Edition. UK Data Service. SN: 6614, <http://doi.org/10.5255/UKDA-SN-6614-18>.

examining the mean psychological distress score of individuals furloughed and unemployed, relative to those remaining in employment, for the six months between April and September of 2020. While all groups see an increase in psychological distress in the first phase of the pandemic, neither the long-term furloughed nor unemployed group see a return to pre-pandemic levels akin to the group remaining in employment. In the first month of the pandemic, furloughed individuals seem to fare better than those in employment, perhaps due to the lower risk of infection, however this difference is not statistically significant. By June of 2020, furloughed and unemployed groups have statistically significantly higher levels of psychological distress relative to the employed group. The large error bars on the long-term unemployed group reflect the lower numbers in this category; perhaps in itself a testament to the furlough scheme's effectiveness in mitigating large-scale long-term job loss.

Figure 1: tracking psychological distress amongst those becoming furloughed or unemployed in April of 2020 and remaining that way for the following 6 months, relative to those who remain in employment throughout. Confidence intervals are set at 95%.



Again, using Understanding Society's Covid-19 dataset¹⁴, the author has analysed the effect of transitions out of employment into full furlough (no work) and flexible furlough (working part-time with non-working hours subsidised by the government) on psychological distress score. Hybrid regression models which controlled for factors such as age, gender, household income, and time spent caring for others, were used to evaluate the data. Analysis illustrated that even when controlling for such factors, transitions from employment to flexible furlough did not bring any significant increase in psychological distress score, whereas transitions to full furlough did. This was the case for both men and women.

It must however be considered that unlike the original non-working furlough scheme where experiences were typically consistent, the flexible furlough scheme covered a broad range of short-time working arrangements. The mean weekly working hours of flexibly furloughed employees within the sample were typically only 8 hours less than those employed. Nonetheless, it appears in terms of protecting mental health, flexible furlough occupies a favourable position to full furlough.

Success relative to international comparators

Comparing the CJRS to other international models of job retention scheme can help contextualise its relative merits and successes. In many ways, particularly following the introduction of flexible furlough, the CJRS was analogous to European comparators. The level of wage replacement, maximum wage cap, and relative proportion of state versus employer contribution was very similar. Given that many countries were able to build upon existing schemes, the scale and pace with which the rollout of the CJRS was achieved was significant.

Differences between the CJRS and other schemes arose primarily from who the schemes set out to support. While the CJRS looked to support businesses, European schemes developed more closely with unions, saw greater benefits for workers¹⁸. These benefits included: enhanced levels of wage replacement, business incentives to provide employee training, and STW scheme funding being conditional on protections around employee dismissal. Academics have reflected on how, whilst the CJRS was a novel labour market intervention in the UK context, it worked to preserve the pre-pandemic labour market order, rather than improving conditions for workers¹⁹.

Conclusions

The introduction of the CJRS was vital in preventing a surge in unemployment when the lockdown restrictions were introduced in March of 2020. For the most part, it was successful in returning workers to employment, with very few furloughs resulting in redundancies.

From a mental health perspective, the scheme acted as a middle ground between employment and the negative consequences of unemployment. Early pandemic research suggested that furlough had a strong protective effect relative to unemployment - particularly for men - however time series analysis highlights that the mental health of long-term non-working furloughed employees became significantly worse compared to those in employment. While controlling for demographic variables and domestic/caring responsibilities, women's experiences on furlough were typically worse than men's, while men were more negatively affected by transitions into unemployment.

Data suggests that relative to being in full-employment, transitions into "flexible furlough" were not associated with a statistically significant downturn in mental health, with this being the case for both men and women.

¹⁸ Parsons, H. (2023) 'Lessons from furlough | Fabian Society', 15 November. Available at: <https://fabians.org.uk/lessons-from-furlough> (Accessed: 20 April 2023).

¹⁹ Spencer, D.A. *et al.* (2022) 'Furloughing and COVID-19: assessing regulatory reform of the state', *Cambridge Journal of Regions, Economy and Society*, p. rsac026. Available at: <https://doi.org/10.1093/cjres/rsac026>

Relative to comparable European job-retention and STW schemes, the CJRS was more effective in protecting businesses than employees, who after a period of non-working may still be vulnerable to dismissal.

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This paper represents the views of the authors based on the available research. It is not intended to represent the views of all ReWAGE members.

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