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Are Job Furlough schemes worsening the pandemic slump?

Guy Standing

Job furlough schemes, as operated in Spain, France, Britain and some other countries in response to the Covid-19 pandemic, have largely escaped criticism. Perhaps they should be called ‘herd immunity schemes’, because they are supported by all the main institutions. Governments have supported them, as have employers and unions; employees put on them have approved.

None of this should be surprising, given that they have been given considerable money from public funds. To be critical of the schemes is to risk being ostracised. But there is good reason for saying they have been worsening the pandemic slump while being highly regressive (reinforcing inequality) and inequitable.

Basically, governments have been paying firms to pay all or some of their employees to stay at home and not do any paid work. Nice deal, for some. That is where the problem starts. If the government offers to give money only if somebody is not working but has a job, that is by definition giving an incentive not to do any paid work. That is not how the schemes are presented, which is that they compensate for not being able to work. But if you pay somebody for not working, why should they take the risk of obtaining less by trying to work?

If the government offers to pay 80% of the wages of someone put on furlough, as in Britain, then it pays a firm to stop producing altogether even if they could operate at low capacity. In other words, the scheme will depress output below what it might otherwise have been.

The schemes are also propping up some firms that are really bankrupt and should be phased out. One study estimated that 2.5 million jobs covered by the subsidy in Britain were “zombie jobs”. In other words, they will not continue after the subsidy ends. This means the scheme is paying people not to do something that would not be done anyway!

The schemes are having two other negative labour market effects. Whereas some firms should have responded to the pandemic shock by restructuring in order to survive, the subsidy will have encouraged them not to do so, but just wait for a possible economic upturn. And whereas one should want to see an increase in labour mobility from sectors and firms in decline to sectors and firms that are expanding and in need of labour, the job subsidy scheme tends to rigidify job structures.

One way of looking at it is that if someone were offered 80% of their wages to do nothing, why should they move to where they might earn 70% of what they are receiving and have to go to an office, clinic, shop or factory to labour for 40 hours a week?

Worse, the job subsidy schemes are a licence to commit fraud. We do not have an industrial labour market where most production requires workers to be in a factory in order to labour. Many, many people can do the sort of work they do by working at home.

Surprise, surprise, that is what has been happening. I wrote an article in the *Financial Times* in April predicting widespread fraud. I underestimated its extent. In June, a survey found that one in three workers put on the furlough scheme had been asked to work by their bosses and had done so, probably gaining extra on the side. A later survey found that two-thirds were doing so. This means the real fiscal cost of each job 'saved' by the subsidy should be tripled.

Bearing in mind that cooperating with an employer during the pandemic might increase the chance of being retained after the scheme is wound down, it is hardly surprising if employees willingly do labour at home, benefiting themselves and their employer. But this is being done at public expense.

Here is where the regressive character of the schemes becomes all too clear. The wage subsidy has been going only to a minority. For instance, in Spain, only 3.4 million workers gained from the ERTE furlough scheme between April to July (many fewer now), in France just eight million have been covered, and in Britain, only 9.4 million have benefited from the Job Retention scheme, about a quarter of the labour force. So, the majority have not gained anything. Because of their generous level relative to other benefits, that in itself is worsening labour market inequality.

Most wage subsidy schemes have given much more to higher income workers than to the precariat, many of whom have had nothing. For instance, somebody in Britain earning the median wage of £2,500 a month will have been receiving £2,000 a month, whereas somebody who was earning £800 a month, will have received £640. Not only is that increasing inequality, it is also imperilling low-income earners, for the loss of £160 is likely to make them unable to service their debts and pay their rent.

To compound the regressive impact, many higher-income employees put on furlough have will actually been able to continue to work from home, and be paid to do so. Lower-income earners are typically doing jobs that do not make that possible.

In sum, governments that have launched job furlough schemes have opted for a policy of less short-term pain in return for more long-term pain. They have used a lot of public money to hold back a deluge. It is like a tsunami. First, the tide goes out, then it comes back in a rush. You do not combat a tsunami by erecting a sandcastle.

A minority has done well out of the schemes. The majority have been excluded. In coming months, that majority will swell, and the increased inequality and deeper economic insecurity will testify to the folly to an approach favoured by insiders, to the detriment of the precariat. Politicians, employer organisations and, most of all, unions should not expect to be thanked for having put the interests of their core supporters before the interests of the precariat and society.

For all of us, we should be learning a crucial lesson. In a pandemic slump, the resilience of all of us, as society, depends not on the resilience of the strong, but on the resilience of the most vulnerable. The furlough subsidy schemes have done nothing for them. For that, the money spent on protecting a minority should have been spread more widely to support everybody. Let us hope it is not too late.

The main proposals by orthodox economists for what follows the job furlough schemes are unrealistic and inadequate. Active labour market policies, such as retraining schemes, are only

of much use in a dynamic high employment economy. Otherwise, all they are likely to achieve is the substitution of those with more training for those with less.

The pandemic slump is primarily a massive demand shock. The way to avoid it becoming a prolonged depression is to boost aggregate demand for basic goods and services. Sooner or later, governments will realise that a better way out of the quagmire is a basic income for all. It is the only way to obtain societal resilience.

Guy Standing is Professorial Research Associate, SOAS University of London, and author of several books on basic income.