

National Institute of Economic and Social Research

Chancellor's 'badly timed change of tack' could trigger job losses

FOR IMMEDIATE RELEASE

The new measures unveiled by Chancellor Rishi Sunak to help the economy are badly timed and could trigger a rapid rise in unemployment, according to analysis of the Government's Summer Statement by the National Institute of Economic and Social Research (NIESR).

Prematurely removing key support measures could sap confidence and lead to permanent long-term damage to the economy if those who become unemployed, as a result, lose their skills and attachment to the labour market.

The confirmation that the Coronavirus Job Retention Scheme (CJRS) will close in October means that the lifeline that had been extended to over 9 million workers will be taken away. People who are currently furloughed may doubt that they will be taken back on and this will affect their confidence to spend.

At the same time, the incentives offered to employers look too small to be effective given the uncertainty about the economic outlook. The one-off payment of £1,000 per employee is a relatively small amount compared to the average wage of £530 per week. With many employers facing weak demand, cash-flow pressures and uncertainty about prospects throughout the rest of this year, there is a high chance that they will decide now not to take back furloughed workers now that they know the CJRS will not be extended.

The Chancellor may not even achieve his aim of limiting the damage to the public finances. NIESR had [argued](#) ahead of the statement that premature withdrawal of support measures could mean that the long-term adverse impact on the public finances from the creation of long-term unemployment ends up being worse than the cost of continued short-term support.

NIESR also warned that the offer to pay the wages of young people for six months through the 'Kickstart Scheme' might suffer from low take-up as it is only available for "additional" jobs and will have much narrower coverage than the 9 million who benefited from the CJRS.

Temporary cuts to stamp duty on property transactions and VAT on food and accommodation will provide some short-term stimulus to the housing market and the hard-hit hospitality sector. However, it is not obvious that the housing market needs a stimulus more now than it will next Spring when Stamp Duty is due to be reinstated.

Similarly, with pubs and restaurants only recently reopened, it is not clear that there is a shortage of demand that needs to be encouraged by a VAT cut and subsidised meals. The key issue for the sector is in meeting existing demand safely, and demand will not return to normal until it is safe.

“While the aim of the Summer Statement is laudable, the new measures look to be badly timed and could precipitate a rapid increase in unemployment,” said Garry Young, NIESR Deputy Director.

“The incentives offered to employers look too small to be effective. Many employers have been topping up the pay of furloughed workers and are expected to bear more of the cost of the scheme from next month. They will be reluctant to do this now they know that the scheme won’t be extended.”

ENDS

Notes for editors:

The full document of NIESR’s analysis of the options available to the Government can be found [here](#).

To arrange interviews, please contact the NIESR Press Office: press@niesr.ac.uk / l.pieri@niesr.ac.uk / 07930 544 631

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