

The potential costs and distributional effect of COVID-19 related unemployment in Ireland

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Introduction

- Covid-19 pandemic causing huge economic disruption
- Public health measures necessary to tackle the spread of the virus have led to widespread job losses
 - > 500,000 extra people unemployed
 - retail, accommodation and food service activities particularly affected

Government has introduced new income supports

- Pandemic Unemployment Payment (PUP) - €350 weekly flat-rate payment
- Illness benefit ↑ to €350 and waiting period abolished
- Fuel allowance season ↑ by four weeks
- Temporary Wage Subsidy Scheme (TWSS)
 - up to 70% of net wage → max. of €410 weekly (for those on < €586) or €350 (for those on €586-€960).
 - No subsidy for those on > €960.
 - Employer can top-up wage to a maximum of average net pay
- DCYA top-up: Remaining 30% of wage bill of those in childcare sector + 15% of total wage bill for overheads

This research

- Using EUROMOD linked to 2017 EU-SILC data, estimate
 - the quarterly cost of the unemployment shock (direct taxes and welfare)
 - the effect on family incomes
- Define three unemployment scenarios (low, medium, high)
- Define four policy scenarios (increasing in support)

Scenarios

- Unemployment scenarios
 - Low (\approx 400k), **medium (600k)**; high(800k)
 - Job losses more concentrated in at-risk sectors
- Policy scenarios
 - A. No policy response
 - B. PUP + fuel allowance extension
 - C. As B but half move to TWSS
 - D. As C with employer top-ups to TWSS

Direct exchequer costs of €4.5-4.9bn per quarter

	€ million per quarter			
	A	B	C	D
Change in market income	-6,411	-6,411	-5,247	-4,456
Change in personal tax revenue	-1,342	-1,152	-1,298	-1,117
Change in ee SIC revenue	-229	-229	-229	-229
Change in se SIC revenue	-48	-48	-48	-48
Change in er SIC revenue	-556	-556	-556	-552
Change in means-tested welfare expenditure	70	80	119	60
Change in non means-tested welfare expenditure	1,850	2,839	1,360	1,359
Cost of temporary wage subsidy	0	0	1,173	1,173
Net exchequer impact	-4,095	-4,904	-4,784	-4,538

Source: Own calculations using EUROMOD linked to 2017 EU-SILC data updated to 2020 terms.

Notes: Calculations show the estimated quarterly cost of medium unemployment shock under four scenarios: A – no policy response; B – introduction of PUP and extension of fuel allowance; C – as B but half retained in employment through TWSS; D – as C but with additional payments by employers to maximum allowed under TWSS.

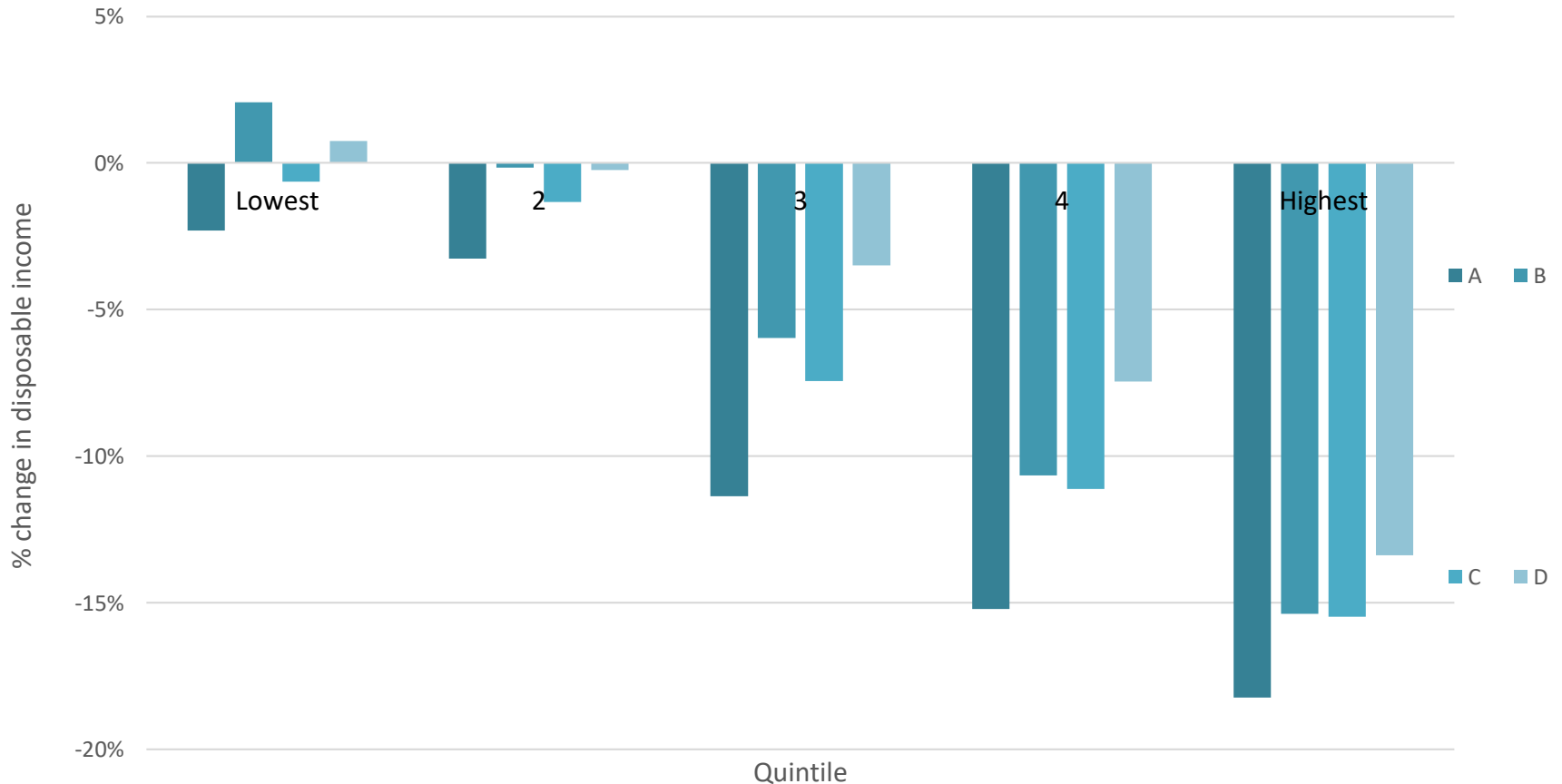
Income losses reduced by up to a half due to policy response

Family type	Proportion of tax units	Average change in disposable income			
		A	B	C	D
working age single without children	28%	-15.1%	-8.7%	-10.2%	-7.0%
working age lone parent	8%	-4.9%	-0.6%	-3.0%	-1.6%
working age couple without children	15%	-14.4%	-10.7%	-11.4%	-8.4%
working age couple with children	28%	-15.9%	-12.7%	-13.1%	-10.2%
single retirement age	12%	-2.2%	0.0%	-0.2%	-0.1%
couple retirement age	9%	-3.6%	-0.9%	-1.2%	-0.9%

Source: Own calculations using EUROMOD linked to 2017 EU-SILC data updated to 2020 terms.

Notes: Working age is defined as 18-65. Children are aged under 18. Retirement age is 66+. Calculations show the average change in disposable income for different types of tax-unit due to a 'medium' unemployment shock under four scenarios: A – no policy response; B – introduction of PUP and extension of fuel allowance; C – as B but half retained in employment through TWSS; D – as C but with additional payments by employers to maximum allowed under TWSS.

Highest income families to lose the most



Source: Own calculations using EUROMOD linked to 2017 EU-SILC data updated to 2020 terms.

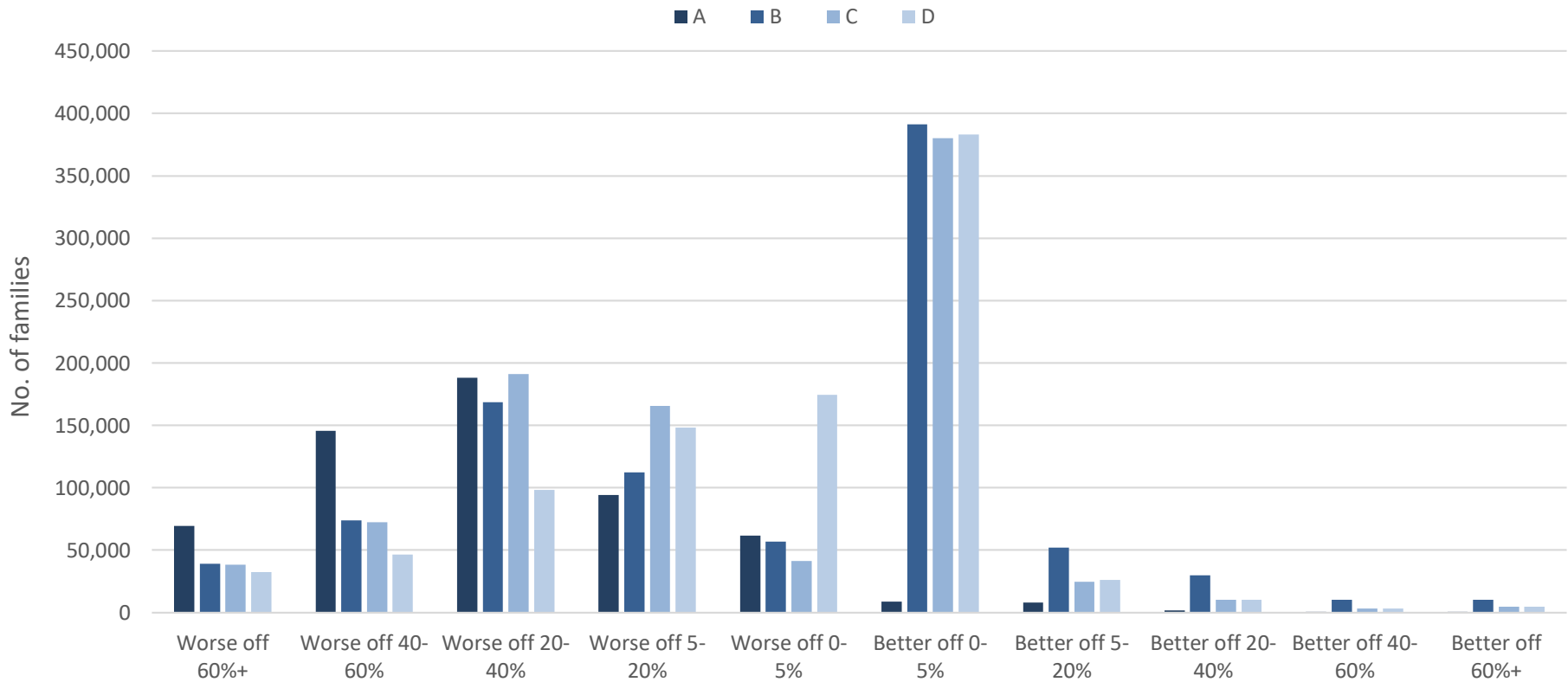
Notes: Calculations show the average change in disposable income by quintile of equivalised disposable income of a 'medium' unemployment shock for three months under four scenarios: A – no policy response; B – introduction of PUP and extension of fuel allowance; C – as B but half retained in employment through TWSS; D – as C but with additional payments by employers to maximum allowed under TWSS.

Conclusion

- Rise in unemployment to cost €4.5-5bn per quarter in medium unemployment scenario (\approx €800m per quarter for every 100,000 unemployed)
- A quarter of all families to lose income – working age and higher income families see largest losses
- Policy response leads to smaller family income losses, particularly for low income families
- TWSS adds little to the cost of unemployment supports (if substitute for PUP) but may create adverse incentives for low income employees, especially without employer top-ups

Thanks!
Questions?

Extreme losses partially offset by government income supports



Source: Own calculations using EUROMOD linked to 2017 EU-SILC data updated to 2020 terms.

Notes: Calculations show the estimated number of families that gain and lose from the simulated 'medium' unemployment shock in four scenarios: A – no policy response; B – introduction of PUP and extension of fuel allowance; C – as B but half retained in employment through TWSS; D – as C but with additional payments by employers to maximum allowed under TWSS.