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Executive Summary:

•Adopt a ‘war effort’ approach to vaccinations, aiming to reach 6 million a week

• Phase the Coronavirus Job Retention Scheme into Universal Credit to ensure continued incentive to work

• Cut red tape burden on businesses to allow them to adapt to their new circumstances and new businesses to start

• Suspend the 45 day redundancy consultation notice to discourage businesses from making staff redundant and encourage hiring

• Exempt microbusinesses with 9 or fewer employees from written Covid-19 risk assessments to reduce the red tape burden

• Raise the employer’s National Insurance threshold to encourage hiring

• Defer the introduction of the single employment regulatory body to avoid new costs to hire

• Introduce a temporary Coronavirus Insolvency Limited Liability Forgiveness Scheme to protect viable businesses

• Scrap Sunday trading laws to enable greater social distancing and economic activity

• Replace Article 4 Directions to facilitate dynamic repurposing of commercial real estate, building on the ‘right to regenerate’

• Extend the Stamp Duty suspension

• Abolish the Factory Tax to support industrial heartlands

Introduction:

The protection of public health in response to Covid-19 is raising extraordinary economic challenges.

Coronavirus has been extremely costly for the private sector, with year-on-year GDP falling around 12 per cent, further than the Depression of 1920/21 and only matched by the Great Frost of 1709. Output is expected to be £336 billion lower this financial year compared to the original March forecast. This equates to a cost in lost economic output from the pandemic averaging £5 billion per week.

The Government has tried to “freeze” the economy by extending furlough through to April 2021, using the Job Support Scheme, generous business loans, and various handouts. But freezing the economy is the easy part. Just like we have not mastered the second phase in cryogenics — unfreezing a human — we do not know how to successfully unfreeze an economy. Both are complex systems that cannot simply be turned “on” and “off”.

The economic scarring is well underway, and the 3rd lockdown, while much less damaging than the first, will likely lock in a greater degree of damage. With a lack of specificity as to when this lockdown will end, trading conditions are extremely uncertain. There have already been millions of job losses. Many who lose their job during a recession never find one again. Young people who are trying to enter the workforce could experience long-run lost earnings.

Businesses now lack cash flow, won’t be able to pay rent and bills, and could be forced to shut. Investment is already frozen, reducing long-term capital stock, and will likely be down for some time. Consumer confidence and spending is likely to be down as well, as people save, creating what John Maynard Keynes’ called the “paradox of thrift”. Social distancing measures will likely stay in place even as the vaccination programme ramps up, significantly hindering the return of jobs in the hospitality, tourism and entertainment industries.

Freezing the economy has also had extraordinary fiscal costs: increasing government debt by hundreds of billions. While this was justified to prevent a total economic collapse, it is simply unaffordable for these sorts of measures or this level of state expenditure to be maintained.

What is the role of the vaccination strategy in terms of the economy?

The pandemic is hugely costly to both the Government and the economy more widely. Every additional week of the pandemic costs the taxpayer £6 billion, while reducing economic activity by £5 billion. There are also countless harder to quantify costs, for example, declines in pediatric vaccinations, cardiovascular admissions, and endoscopic services and mental health.

The daily cost to the Government of the pandemic is £0.87 billion per day or £6.09 billion per week. An accelerated vaccination scenario that cuts the crisis by 20 weeks could thus save the Government £120 billion. It seems obvious, therefore, to construct a strong business case for measures that successfully accelerate vaccination even if they come at great financial expense.

If the Government wants to rapidly speed up vaccinations, protect the vulnerable and end the pandemic they should set a target of six million doses per week, matching Israel’s speed at scale. It will also be necessary to create a Number 10 ‘War Room’ dedicated to accelerating the vaccination programme, empowered to remove bottlenecks.

A two million a week programme would lead to completion of Phase 1 by May 2021 and a three million a week programme would deliver by April 2021. However, the only way to fulfil the goal of ending the crisis in a timely manner, protecting the vulnerable and facilitating the end of all restrictions, would be to match Israel’s speed, at 6 million a week, meaning completion by the end of February. There are also early positive signs coming out of Israel, with a 60% drop in hospitalisations for age 60 plus, 3 weeks after the first dose.

What changes to the economy are now permanent?

The coronavirus pandemic is causing substantial changes to the economy. This pandemic will almost certainly change the way people behave, in both predictable and unpredictable ways, and therefore have meaningful economic consequences. It is not yet clear how permanent these changes may be. Some like reduced hospitality spending, will likely be temporary. Other elements, such as the acceleration of moves to online shopping and behavioural changes in remote working, will likely be permanent.

Working remotely will likely mean the reduction in consumption on the way to, in, and around the workplace. This could lead to a relocation of some hospitality and retail away from offices and commuter routes and towards residential areas.

The pandemic has exacerbated the shift to online retail from the high street, as can be seen by Arcadia, Topshop and Debenhams going into administration. The traditional concept of the "high street", which has already been struggling, will have to adapt to its new circumstances.

Another 18,000 high street units could be left vacant this year, nearly double last year's figures. These are not likely to improve in the immediate future, particularly as Government support schemes begin to wind down in April.

There are also potential hangover effects of huge state borrowing and loose monetary policy, that while not necessarily permanent will still have some long lasting consequences. A larger state risks undermining the private sector while loose monetary policy risks the misallocation of capital and the creation of inefficient "Zombie companies" that leads to stagnation.

What are the consequences of high national debt?

In addition to the broader economic challenge, there are substantial fiscal costs from the decline in economic activity, reducing tax receipts, automatic stabilisers such as Universal Credit during a downturn, and specific measures taken to "freeze" the economy. The "best case scenario" is reportedly now a £337 billion budget deficit this year, a substantial increase from the £55 billion projected in the March budget. The worst case is a £516 billion deficit, with a cumulative total of £1.19 trillion additional debt over five years.

The cost of borrowing is currently extremely low. In April bonds were three times oversubscribed and 5 year bonds were sold with a rate of between 0.63 percent and 0.654 percent, £2 billion of bonds maturing in 2049 had returns of between 1.021 percent and 1.046 percent. There is, nevertheless, a substantial multi-billion pound annual cost to service the interest on the debt.

There is also a possibility of higher borrowing costs in future years if market actors judge there is a risk of nonpayment. This is not unprecedented. The market's unwillingness to lend to the Government necessitated a loan bailout by the IMF in 1976. State spending or tax cuts, if not matched by spending reductions, are inevitably funded with debt. All borrowing is a form of taxation deferred.

Is there a need for a new state sponsored investment bank?

The private sector has weathered a lot of the economic damage wrought by coronavirus. But it has also had a strong response; many British businesses have adapted well to their new circumstances, continuing to pay their employees and taxes as well as safely providing innovative goods and services to their customers. They have kept us fed, our internet flowing and ensured we are entertained and informed. They have adapted their supply chains to meet increased demand for certain goods, their production lines to manufacture personal protective equipment. The rapid development of the Pfizer and Astrazeneca vaccines are also a testament to the private sector's capacity for innovation and ability to deliver in times of crisis.

By contrast, state-sponsored investments, while sometimes successful, have a far weaker track record. The National Investment Board of the 70s saw the state intervene to protect certain businesses and industries, usually fizzling out with little success. A productive, high-potential enterprise can currently borrow at extremely low rates. If the state begins providing loans it will inevitably chase those enterprises that are less efficient, wasting taxpayer money.

A National Investment Bank risks crowding out private sector investment. The enormous amount of borrowed money required for initial financing would mean issuing extra bonds, which in normal times means competing with private firms for investment funds. Private firms would have to pay more to borrow, or re-consider their own investments — meaning less private capital spending on factories, machine tools, training, R&D, and housing, all of which will be vital in returning to sustained growth post pandemic. So when the government borrows to fund its own investment, private investment has to fall.

Removing obstacles to recovery and going for growth:

There are a number of measures that would help, both now in terms of easing the severity of the crisis on business and employment, and in the future in terms of giving businesses a smoother and more open path to recovery and expansion.

Businesses must be able to dynamically respond to its new circumstances when the economy is unfrozen. Removing barriers to businesses will be essential. This is not the time for policy experimentation or a new model of capitalism, like some have brazenly claimed. Excessively directing the economy, and pursuing policies that are either unproven or debunked, risks prolonging the downturn.

It is important to remember businesses themselves are social goods: they create useful products and provide people with salaries, as well as pay their taxes which will be necessary to fund COVID-19 related debt for many years to come. The goal must be simple: jobs and growth. We need policies that deliver economic growth and jobs to the millions of people who are being sacked.

Restoring the job market to health:

Employment-based support, in the form of the Coronavirus Job Retention Scheme, has been largely a success. It has kept individuals employed with companies that they can immediately work with again without costly human resources or retraining procedures, linking corporate welfare in large part to the ongoing goal of high employment. It is precisely the model of state support that focuses on people not on the lobbying of special interests.

Nevertheless, there will be difficult times ahead. Unemployment is currently at 5%, and while slightly lower than forecast, it is highly likely that Government support has masked the precariousness of many jobs. As the economy recovers, the goal of the Government will change. It will no longer be to "freeze" people in their existing employment but rather to ensure people are where they are most wanted.

Retaining a worker that is not adding value to a company on a company's books is financially unsustainable for a firm, economically inefficient if multiple firms act in the same way, and actively reduces the ability of the worker in question to progress or have an impression of earned worth in a job. Japan's strict labour laws result in firms instituting "chasing-out" rooms for employees that didn't take early retirement options — places where individuals would be sent with no responsibilities but also no corresponding possibility of recognition of work. In the United States public school system, a similar fate befell teachers that were falling well below expectations, as they were sent to "rubber rooms" until they chose to leave the profession. Workers stuck in these purgatories feel that they are failed by their companies but more often than not they are failed by the law.

Policy recommendations:

Adopt a war effort approach to accelerate the vaccination rollout:

The rollout of vaccines is being hampered by hostility to outsiders. Offers from hotel chains, including Best Western Hotels and Ibis, as well as Jockey Club and LW Theatres, to provide facilities have been rebuffed. An organisation called #WeMakeEvents, which represents freelancers and businesses in the live events supply chain, have also not heard back. The same goes for BrewDog's offer of closed bars as vaccination hubs, which include waiting areas, huge refrigerators, and staff willing to support the effort. There have also been unused offers of support from Tesco's logistics arm, Best Food Logistics to support distribution efforts using their refrigerated lorries and warehouses, and Boots pharmacy. It is unclear why these offers have not been fully taken up. The approach to vaccinations echoes previous tendencies towards over bureaucratisation.

Decentralising the vaccine rollout and accepting offers of private sector support will be vital in reaching and going beyond the Government's target.

Abstain from increasing taxes that hamper economic activity:

It is essential that the Government does not mistake the short term health of its own accounts for the nation's economic position. It is absolutely necessary that, particularly in the short to medium term, the Government does not pursue tax increases that hamper economic recovery. Any tax increase that actively undermines business and employment will send a message to investors that Britain is "closed for business". The Government should distinguish between an increase in the stock of debt, to pay for measures during this crisis, and a structural deficit, like the permanent unsustainable spending that needed to be tackled after 2010. Avoiding tax increases and allowing for economic growth will "pay" off for the state coffers in the long run: a bigger economy generates more tax revenue.

Cut red tape burden on businesses

The Government should be seeking to assess existing regulatory burdens and making an effort to cut all unnecessary red tape: regulation that is beyond necessary to achieve a stated goal. This will allow existing firms to reduce costs, hire more staff and boost wages. It will also make it easier for new firms to enter the workplace, to create those new enterprises and jobs the economy will desperately need to recover.

Suspend 45 day redundancy consultation notice:

Businesses are in the process of making tricky decisions about their future viability in a fog of uncertainty about future trading conditions. There is a risk that, in order to limit future expenses in a time of uncertain revenues, companies will begin to consult on laying off staff. Under the existing law this requires a 45 day process. This could mean that consultations on sacking staff begins very soon, especially with the planned withdrawal of the Job Retention Scheme. In order to maintain the productive capacity of the economy, this strong incentive to pursue redundancies should be withdrawn for the coming months. This flexibility will encourage employers to hold onto their staff for longer, rather than starting to lay them off now, as well as reduce the risk of hiring new staff.

Exempt microbusinesses from written Covid-19 risk assessments to reduce the red tape burden:

The Government is requiring all businesses with 5 or more staff to undertake a written Covid-19 risk assessment, and publish it online if the organisation has more than 50 staff. This regulatory burden is inconsistent with the Government's definition of a microbusiness. To bring these in line, and reduce the red tape burden on the smallest businesses at this difficult time, the Government should update their Covid-19 risk assessment guidelines to state that businesses with 9 or fewer employees are exempt. The Government should, in the longer term, commit to a review of all health and safety, employment, and pensions legislation for firms that have five or more employees but fewer than nine, in line with the formal definition of a microbusiness.

Raise the employer's National Insurance threshold:

Employers' National Insurance is an unnecessary drag and cost to employment. Employees currently pay National Insurance at the following rates on their earnings. For the first £7,605 they pay 0 percent, for the next £34,870 a rate of 12 percent is levied, and a further 2 percent is levied for amounts over £42,475. Employers pay 13.8 percent on every pound the employee earns over £7,488 with no cap.

If the government wants to encourage firms to hire they should immediately raise the bottom threshold for employer's National Insurance to £12,500.

Defer the introduction of the single employment regulatory body:

The Government has expressed an interest in introducing a single enforcement body for employment rights. While there may be some longer term justifications for simplifying employment law regulation in the UK, which is currently undertaken by various departments and bodies, a time of wide scale unemployment is not it. Such a body would have a strong bureaucratic impetus to "crack down" on businesses to show its weight and importance. This would discourage businesses from hiring, including those acting completely legally, because of heightened regulatory enforcement costs. While this may have little impact on employment during an economic boom, it could have a large impact when unemployment is high. Now is not the time for new regulatory arrangements.

Introduce a temporary Coronavirus Insolvency Limited Liability Forgiveness Scheme:

If large numbers of businesses who have taken out loans cease trading, creditors stand to lose one way or another, with taxpayers being asked to foot a considerable portion of the bill. It would also come with a catastrophic loss of productive capacity. It may be necessary to introduce a scheme that allows firms that have borrowed unsustainable amounts to keep their operations alive by forgiving some debt. This must be extremely limited, only be available for companies that (1) are effectively bankrupt; (2) can show a substantial fall (50-75 percent) in revenue due to coronavirus; and (3) display long-term viability through cash and cash equivalents ratio to short-term liabilities (above a certain level).

Scrap Sunday trading laws:

The inability for larger shops to trade for more than six hours between 10.00am and 6.00pm on Sundays has always appeared highly arbitrary. Recent innovations, in particular online deliveries and the expansion of smaller supermarkets, combined with the need to maintain social distance, makes these laws increasingly antiquated. Sunday trading laws reduce transactions and make people's lives more difficult, in particular for those with set working schedules. Having larger shops open on Sundays will also offer more hours for workers, likely with greater pay.

Build on the 'right to regenerate' by removing Article 4 Directions:

Covid-19 is substantially reducing the need for commercial real estate. This could prove a permanent change. The removal of Article 4 Directions, which have been used by inner London boroughs to block developments, could be removed to allow this space to be put to its best use. This could be replaced with broad minimal requirements for environmental health and amenity, such as hours of operation, air quality, noise and parking, as well as requirements for the external facade. This would allow people to live near where they are most productive, but would also provide much needed direct business for refurbishers and refitters, builders, painters, joiners, plumbers who have suffered a significant reduction in business during the pandemic.

Extend the suspension of stamp duty:

Stamp duty is widely acknowledged as one of the most problematic taxes. It is a tax on transactions and does precisely what it says on the tin: limits the number of transactions. This discourages people from moving to the most appropriate accommodation. Britain's transaction tax on property is four times more harmful to economic efficiency than income tax, eight times more harmful than VAT. Reinstating stamp duty in the March budget would be unfair on those who cannot complete a sale before the deadline, and seriously undermine confidence in the housing market.

Abolish the Factory Tax:

The Factory Tax is the inability to fully expense investments in machinery and buildings. Unlike expenditure on running costs, expenditure on fixed investment can only be written off over time, which fails to account for inflation and a real return on capital. This means, in real terms, firms pay a tax — a Factory Tax — on investment in buildings and machinery. This disproportionately affects capital intensive, industrial businesses based in the Midlands and North.

By allowing for the immediate full write off on capital investments, the Government could boost investment by 8.1 percent and labour productivity by 3.54 percent (£2,214 per worker) in the long-run, fitting well with the 'levelling up' agenda.

Conclusion:

Rather than try and likely fail to preserve and restore the economy in its pre-pandemic form, the Government should accept that the immediate post-pandemic period will be difficult, and that some businesses will inevitably downsize or die out altogether. Rather than try to protect jobs through subsidy and propping up ailing businesses, the Government must focus its efforts on a buoyant job market and a growing economy. In the immediate future, this means rapidly accelerating the vaccination programme. There are no immutable factors preventing reaching a target higher than currently set by the Government. Following a successful programme, it will be imperative to facilitate free, spontaneous innovation, entrepreneurial activity, lowering the cost of employment and resisting levying taxes on businesses as they begin to recover.

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