Economy, Business & Trade

1. *What are the priorities for the economic recovery from the coronavirus shock and how can we target support at those areas and sectors hit hardest?*
2. *Building on the lessons of the outbreak, how can we ensure work is fulfilling, secure and well paid?*
3. *How can we build an economy that is fairer and more sustainable after Covid-19?*
4. *How can we ensure families and households are financially resilient to future economy and personal crises?*
5. *How can we move towards a new social contract with business after the outbreak, providing investment, support and a level playing field?*

Economic recovery and renewal after coronavirus

The coronavirus outbreak will likely to lead to the largest economic contraction in nearly two centuries.

Unlike in past recessions, the reduction in economic activity is a deliberate and vital tool to stop the transmission of the virus. There is no trade-off between health and the economy, as no economy can function normally whilst a deadly virus spreads unchecked and health services are overwhelmed.

Given the unique and unprecedented nature of the crisis, the size and depth of the economic shock is impossible to know with any precision.

We know already that there have been 1.5 million Universal Credit applications up to the middle of April, suggesting a big surge in unemployment. Office for National Statistics (ONS) surveys show two thirds of firms are planning to furlough some staff as part of the Job Retention Scheme, with the Royal Society of Arts (RSA) estimating that as much as 27% of the workforce are already on furlough. This is in addition to ONS data indicating nearly 30% of firms plan to reduce staff hours.

The Office for Budget Responsibility (OBR) published a scenario based on the immediate economic data and a set of reasonable, if highly uncertain, assumptions. The scenario showed a 35% fall in output in the second quarter of 2020, with unemployment rising to 2 million.

The Resolution Foundation also published a range of different forecasts based on the length of the lockdown, with a six month lockdown reducing annual output by 20% and leaving nearly 5 million people unemployed.

Some sectors are likely to fare particularly badly, as they are more directly affected by social distancing measures and fraying global supply chains. The OBR's scenario shows output reducing by more than half in construction, manufacturing and accommodation and food services.

Job losses are also likely to be concentrated in some of the lowest paid sectors, with the Institute for Fiscal Studies (IFS) finding that low earners are seven times as likely to work in shut down sectors. Younger people and women are also more likely to work in directly affected sectors.

Even prior to the outbreak, there were fundamental weaknesses in the UK economy. Productivity, the fundamental driver of living standards, has flat lined since the financial crash. Growth has also been anaemic since the crash, with the UK experiencing the slowest recovery from recession on record. The UK has also suffered chronic underinvestment since 2010, ranking in the bottom twenty globally for average investment as a proportion of GDP.

These failures mean the economy is not working for most people. Workers went over twelve years without a pay rise, with the majority of low-to-middle earners reporting having no savings prior to the outbreak. Wealth and income is concentrated at the top - the top 10% own nearly half of all wealth whilst taking home a third of all income.

The challenges

There are still too many unknowns to estimate which parts of the economy will be able to open up, in what form and when. Businesses don't know for certain when they'll be fully open again, or when or in what form they may be able to start trading.

The Government has taken extensive action to try and support jobs and businesses through the short-term disruption of the pandemic. Schemes such as the Job Retention Scheme (JRS) and Coronavirus Business Interruption Loan Scheme (CBILS) provide temporary cash flow to keep firms solvent during the immediate shock, so they are able to quickly begin trading again once restrictions are lifted. In technical terms, these schemes aim to avoid 'scarring', so the temporary shutdown does not cause permanent and widespread damage to the capacity of the economy.

Labour has raised a number of urgent concerns about the design and delivery of these schemes, as evidence of significant problems mount. The Job Retention scheme for instance, only applies to those carrying out no work at all, missing out swathes of the workforce on significantly reduced hours. The Self-Employed Income Support Scheme also misses out millions of self-employed workers, including the newly self-employed and those trading via a limited company. There are not nearly enough loans being made through CBILS, with over a quarter of the UK's six million businesses reporting temporary closures but just over 25,000 receiving loans (as of 30th April).

The speed and strength of recovery depends on the success of these schemes. If they fail to prevent large numbers of viable firms going bust and workers losing their jobs, recovery could be very slow and economic capacity permanently damaged.

We are already seeing problems caused by the UK's fragmented labour market, as schemes like the JRS are poorly targeted at people in atypical roles. Evidence shows people on temporary contracts and without fixed hours are much more likely to have lost their jobs, whilst the Resolution Foundation estimates 45% of people on zero-hours contracts work in shut down sectors.

On top of this, monetary policy is severely constrained by very low interest rates. Monetary policy has typically been a key tool for fighting recessions, with the Resolution Foundation calculating that on average, the base rate has been cut by 5% in prior recessions. However, the base rate was only 0.75% prior to the outbreak, leaving very little room for conventional countercyclical monetary policy.

The pandemic is also a global phenomenon, meaning the UK cannot rely heavily on demand from abroad to boost its recovery. Indeed, many of the UK's key trading partners in the developing world face acute economic challenges, as international investors move their capital to 'safer' assets in developed economies.

Falling output and wide ranging support schemes will also significantly increase government borrowing, with government debt likely to rise above 100% of GDP. This is already leading to calls for more austerity and spending cuts from senior Conservative figures.

The way forward

In 2010, austerity undermined the UK's fledgling economic recovery. What followed was the slowest recovery from recession in eight generations and the longest squeeze on wages since the nineteenth century. A decade of cuts left the public sector woefully unprepared to face a global pandemic, with low intensive care capacity and inadequate supplies of vital equipment.

The country cannot afford to repeat these mistakes. The Government must ignore calls from its backbenches for more painful spending cuts, and support a robust recovery that transitions towards an economy that is more just, sustainable and resilient.

The Secretary General of the Organisation for Economic Co-operation and Development (OECD) has called for a “new Marshall Plan” whilst the International Monetary Fund (IMF) has suggested a “globally coordinated, broad-based fiscal stimulus” will be needed to drive recovery.

Jobs and livelihoods must come first in the recovery stage, with measures to support demand and investment as the economy returns to full capacity. These measures should also be targeted at those areas and sectors hit hardest by the crisis, such as areas dependent on tourism or international trade.

The Government also needs to ensure it’s safe for workers to go back into their workplaces, with standards for different sectors written in consultation with unions, firms and health and safety officials. There also needs to be a clear enforcement mechanism to ensure this guidance is strictly followed. The crisis has shown what can be achieved when Government works with unions, alongside business, to develop policy, and this dialogue should continue throughout the recovery and beyond.

We must also address the longer-term weakness that made the economy so vulnerable to the coronavirus shock, such as low productivity, stagnant living standards, an eroded manufacturing base, inequality and climate change.
The coronavirus pandemic has also shone a spotlight on an economy that is not working for most people.

A decade of stagnant wages means millions lack the barest financial safety net, whilst workers derided as ‘low-skilled’ are on the frontline fighting the virus.
Millions in insecure work, concentrated in sectors most affected by social distancing, are facing the total collapse of their livelihoods, whilst ‘key workers’ go without a living wage or adequate PPE.
Millions more are in cramped and expensive rented accommodation, struggling with arrears, facing eviction and without the space to make an extended lockdown bearable.
The government rightly offered a package of support to business to see them through the crisis, protecting jobs and preparing for a quick recovery. However, some firms that have avoided their obligations in the good times came cap in hand to the government when crisis hit.