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The Covidist Manifesto

Assessing the UK state's emergency enlargement

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Future Economies, a university centre for research and knowledge exchange based at Manchester Metropolitan University, brings together academics from a wide range of disciplinary backgrounds, alongside policy and business practitioners, to conduct research into local, national and global economic challenges, ranging from Brexit, financial crisis, devolution and local industrial strategies to mega-sporting events and trade governance. Future Economies has a particular expertise in political economy and behavioural economics, and also encompasses Future Economies Analytics, the Centre for Policy Modelling and the Sports Policy Unit.

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Executive summary

The UK's economy and society were mismanaged during the inter-crisis period, as a result of both ideological myopia, and the self-interest of political and economic elites in restoring the failed pre-2008 growth model. As such, the inter-crisis period established the material and ideational conditions which have contributed to the severity of the impact of the COVID-19 pandemic on public health and the economy, and the inadequacy of the current government's policy response. Social distancing and the economic shutdown would, in any case, have had profound consequences on UK society, but they have been compounded by the poor performance of the UK economy for over a decade, and an erosion of resilience in the public sector and many local communities.

There are two main implications. Firstly, a significant enlargement of the state as policy elites seek, among other things, to sustain a private sector barely able to function. Secondly, the most significant burdens – to continue to work in essential jobs, to risk exposure to COVID-19, and to meet the cost of living as incomes plummet – are falling most acutely on groups already disadvantaged. The challenge now (and the focus of this paper) is harness the necessary enlargement of the state to mitigate the social and economic catastrophe of the COVID-19 pandemic, while establishing a more sustainable developmental path for the UK to better protect its citizens from future crises.

It is clear that a period of extraordinary fiscal and monetary policy is already upon us. Public spending must increase, and it is inevitable that this will be funded in part by additional borrowing, and indeed direct financing of government spending by the Bank of England. We must adopt a new approach to fiscal rules which better reflects how public spending supports the economy, with spending constrained by only genuine threats to the public finances. It is also essential that tax is increased, both to meet the costs of the pandemic response, and to boost resilience to mitigate future crises. Politicians from both left and right have long demurred from advocating the middle-class tax rises which have long been necessary, and any reform should see the arbitrary differences between income tax, national insurance and tax on capital gains addressed.

Yet to avoid future generations of taxpayers bearing sole responsibility for a higher tax burden, there is a strong case for an emergency wealth tax. This would be targeted upon those who prospered in the inter-crisis years, despite the sluggish recovery and decimation of parts of the public sector, due in large part to stimulus measures post-2008 focusing on inflating asset values. Tax on corporations should also be reformed to disincentivise over-leveraged business models; such firms use profits which would otherwise be taxable to service debts, yet are more likely than equity-financed firms to require a government bailout.

The government's response to the pandemic's economic consequences relies to some extent on the co-operation of private banks; so far, despite the state largely guaranteeing the loans banks have been asked to make to struggling firms, co-operation has been limited.

The banks are of course already highly exposed to defaults on loans made before the pandemic, for which there is no guarantor. We are confronting a situation also in which the shortcomings of the regulatory agendas of the inter-crisis period have become apparent, not least in curbing heightened risks associated with shadow banking and asset management practices, and, from a global perspective, in curbing reliance on the US Federal Reserve to ensure liquidity. There are few good options for providing the finance that will be required for a colossal number of firms in the UK if a depression is to be averted, with direct central bank financing of household spending now an imperfect but potentially less-bad approach to stimulus.

The pandemic has exposed the fragility and inadequacy of the UK welfare state, while reinforcing endemic labour market inequalities. As the state scrambles to introduce and augment some forms of welfare provision – with many gaps remaining – it is clear that a new commitment to universal basic insurance is required. Universal Credit is a failing system which is unlikely to be able to cope with the strain it has now been placed under. The support newly available for the self-employed is particularly inadequate; we should take the opportunity to rethink from 'first principles' to social security status of the self-employed, and indeed a new approach to entrepreneurialism which supports innovation while benefiting communities.

Drastic action is also required to better compensate working-class employees in industries such as food production and retail, and the predominantly female health and care workforce, who are continuing to work despite the risks to their own health, and that of their families. Furthermore, private tenants and indebted households are confronting new hardships as a result of this crisis; continuing to tacitly support a rentier economy while insecurity proliferates is a recipe for deepening the deleterious nature of the long-term consequences of the pandemic.

A new understanding of economic value must become central to the purposeful and comprehensive industrial strategy now required. This means, above all, embracing a 'foundational economy' perspective to repair the resilience of local communities and key industries which enable daily life and social reproduction. The foundational economy can be a source of millions of high-quality and fulfilling jobs, and a platform for enabling innovation in other parts of the economy. A commitment to universal basic infrastructure or services would underpin this strategy. It would also encompass new forms of collectivism to shape economic development, including public ownership where appropriate, and greater control for workers (and users) over the firms they are employed by (or engaged with, in a broader sense).

Finally, as devastating as COVID-19 is, we must not lose sight of the intensifying climate crisis, which is also a major threat to life and well-being. The pandemic-related stimulus should be a green stimulus, to ensure recovery is sustainable rather than short-lived and/or destructive. The new levers of economic statecraft should be employed to instil sustainable practices within every firm and industry benefiting from government support.

The Covidist Manifesto:
Assessing the UK state's emergency enlargement

> *This time it is going to be different. You remember what happened in 2008 – everybody said we bailed out the banks and didn't look after the people who really suffered. This time we are going to make sure that we look after the people who really suffer*.
>
> Boris Johnson, 2020

Will this time really be different? There is little doubt that the impact of COVID-19 on the UK economy will be enormous. With each passing day and week, new economic policies are being drawn up in order to plug holes in the economy, both to advance support to those less able to earn a living from the labour market, and to mitigate against the economic depression that might result as a consequence of so many firms suffering from pandemic-induced paralysis. In effect, the economic policy rulebook has been discarded. A Conservative government has been forced to act in a way that would have been utterly unimaginable just a few short weeks ago.

The last economic crisis – the financial upheaval of 2007/08 – also saw dramatic shifts in the nature of economic policy interventions. Yet UK governments of the inter-crisis period primarily designed interventions to restore the pre-2008 economic order, rather than eradicate its flaws and inequities.[1] The state owned new assets but eschewed the potential for active management in the public interest. We created vast amounts of money to stimulate recovery but used it to boost asset prices, forlornly hoping for a downwards trickle. We sought to make bank lending more secure but neglected to consider what would happen to the debt-dependent household and corporate sectors. And the government inflicted massive spending cuts on the public sector throughout the inter-crisis period, not solely (or arguably even principally) to pay for the necessary interventions, but rather as an ideological wind-breaker lest we started to imagine the state might be more capable than neoliberalism would have us believe.[2]

In a sense, this time is already different. The economic consequences of the current, pandemic-induced crisis are more profound, and the interventions now being concocted on Horse Guards Parade and Threadneedle Street will be much more difficult to unravel, not least because they are more visible to occupants of 'the real economy'. Yet the story of the new post-pandemic era has many twists to come. The challenge now is threefold. Firstly, to ensure that this newfound intervention serves to empower citizens and protect them from the

[1] Berry, Craig and Hay, Colin (2016) 'The Great British "rebalancing act": the construction and implementation of an economic imperative for exceptional times', *British Journal of Politics and International Relations*, 18(1), 3-25.
[2] Berry, Craig (2016) *Austerity Politics and UK Economic Policy* (Palgrave).

economic downturn, rather than create new opportunities for disciplining individuals to conform to the whims of a failing accumulation model. Secondly, to ensure that its costs and benefits are shared fairly, supporting a broad range of people and economic activities. Thirdly, to ensure that we put something better in place of the economic rubble now confronting us, rather than simply rebuilding upon unsustainable foundations.

This paper has been written by many hands, in great haste, amid a period of turmoil in our own industry. We hope readers can forgive its shortcomings, while at the same time engaging with its analysis of where we are, and ideas for where we might go next. It begins by surveying UK policy elites' management of the inter-crisis period, and the alternative forms of economic statecraft which have now become imaginable. The second section focuses on issues around fiscal policy and taxation, and the third section focuses on the use of private banks in the economic policy response to COVID-19, amid significant changes to financial regulation and monetary policy. The fourth section considers employment and industrial relations, and the fifth section explores the radical shifts to industrial policy – very broadly conceived – which may now be possible and necessary, with particular reference to 'the green economy' and 'the foundational economy'.

1. The state of things

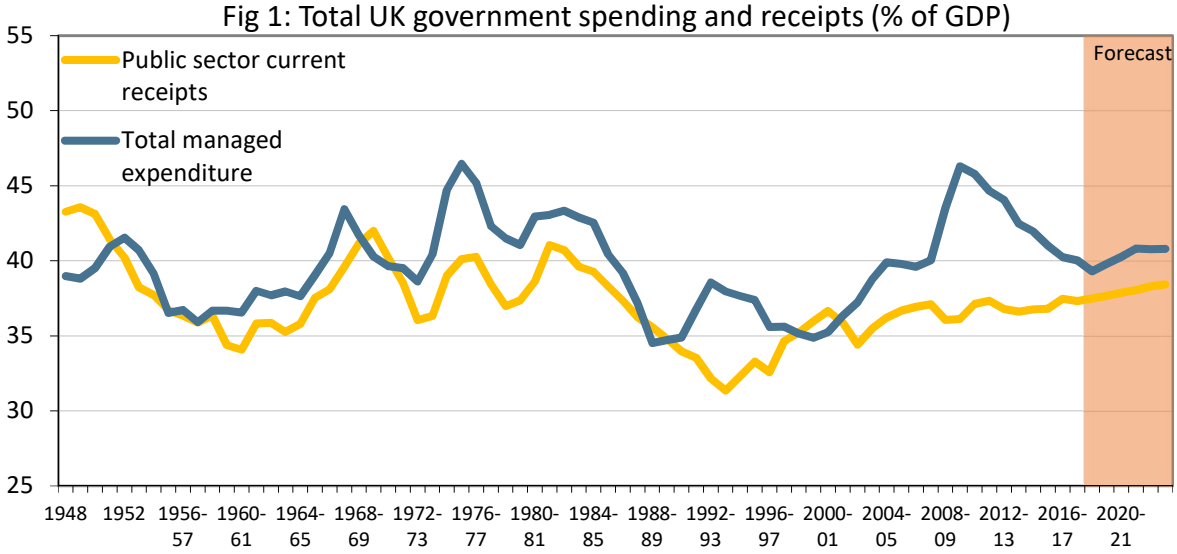
What is happening today must be understood, initially, in the context of both the inter-crisis years and the broader history of the UK economy and state. The UK is generally seen as a classic 'liberal' market economy model wherein a smaller welfare state, relative to some of its European neighbours such as France and Germany, is prioritised alongside liberalised markets. After almost two decades' worth of liberalisation and reduction of welfare generosity, the New Labour years saw a growth in the size of the state and the generosity of welfare provision in some respects. The onset of the 2008 financial crisis saw this shift substantially reversed, although arguably New Labour's failure to valorise the state's fundamental role in the economy in the pre-2008 period, even as the state gently expanded, was partly to blame for the demonization of state intervention marshalled by the austerity agenda after 2010. As such, Boris Johnson's Conservative government encountered COVID-19 and its demands upon the state with not only few economic policy tools at its disposal, but without an ideological compass to guide their creation in emergency conditions.

1.1 The inter-crisis period

We use the term 'inter-crisis' to denote the period between the 2008 financial crisis and the present economic circumstances. As such, we use it advisedly: denoting a particular period of time as a 'crisis' is always a political act, and there is no suggestion here that the UK, or the world, was crisis-free in the intervening period. The 2008 crisis ushered in a severe recession, with unemployment peaking at around 2.6 million in the UK in 2011. The UK economy was acutely impacted due to the size of its financial sector, which had to be bailed out to the tune of £137 billion. The crisis grew out of the financial markets, spilling over into the wider economy and severely reducing GDP and tax revenues. The net result was a spike in the budget deficit from 2007 through to 2010 (see Figure 1).

Policy-makers had three options for reducing the size of the deficit: increasing taxes, cutting public spending, or growing the economy. (They also had the option of not reducing deficit levels, or reducing them at a slower rate.) The coalition government's strategy was to slash spending. As Figure 1 shows, the UK's fiscal consolidation primarily took the form of reductions in public expenditure. Tax levels remained relatively constant as a share of GDP. This fiscal consolidation strategy, when coupled with the embrace of austerity by many other leading economies, caused a precipitous fall in global demand, contributing to the anaemic nature of the subsequent economic 'recovery'.

Fig 1: Total UK government spending and receipts (% of GDP)



Source: Office for Budget Responsibility (2020), *Public finances databank*, available at: https://obr.uk/data/

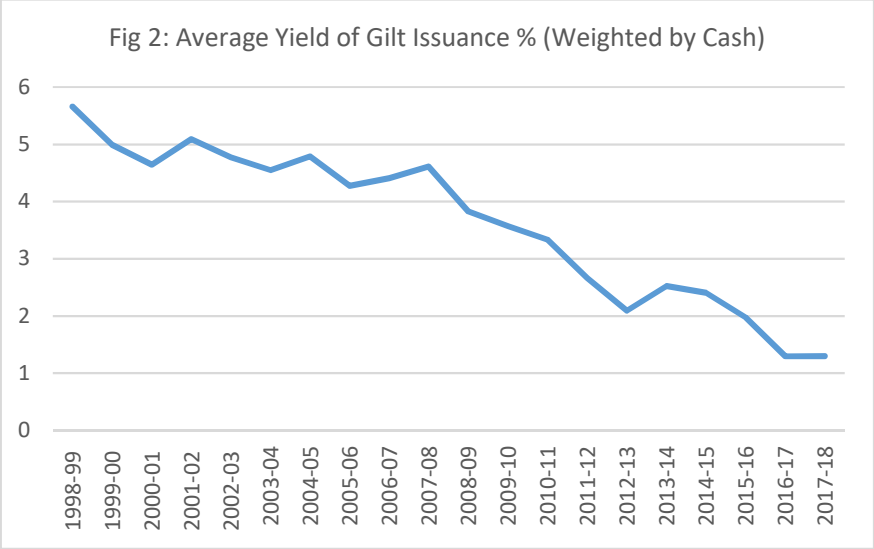
Although the coalition never in fact achieved the scale of cutbacks it intended, the impact was severe for many. Working-age benefit recipients (and their children), and those groups most reliant on public services, were further impoverished or deprived. Local government budgets were cut to a far greater extent than any other part of the state – a decision which has significantly curtailed their ability to respond to the impact of economic shutdown and social distancing on vulnerable groups. The United Nation's rapporteur on extreme poverty and human rights described austerity as 'a social calamity and an economic disaster'.[3]

In the context of the COVID-19 crisis, this austerity weakened the capacity of the UK state to respond effectively to an unexpected exogenous shock such as a pandemic. Real terms budget increases for the National Health Service (NHS) between 2010 and 2019, for instance, were slashed almost in half to 1.4% compared to an average of 3.7% since the NHS was established.[4] This has had a significant knock-on effect in terms of the number of available hospital beds, trained nurses, waiting time lengths, and so on. Even before the pandemic, the

[3] Alston, P. (2018) 'Statement on Visit to the United Kingdom, by Professor Philip Alston, United Nations Special Rapporteur on extreme poverty and human rights', OHCHR, 16 November 2018.
[4] The King's Fund (2020) 'The NHS budget and how it has changed', 13 March 2020, available at: kingsfund.org.uk/projects/nhs-in-a-nutshell/nhs-budget [last accessed 14 April 2020].

Johnson government had effectively acknowledged that these cutbacks were neither necessary nor inevitable, recognising in its new fiscal rules that there is no need to obsess about deficit reduction when the state can borrow cheaply – as has been the case for the entirety of the inter-crisis period (see Figure 2).

Despite the stability of UK tax revenues as a proportion of GDP, it would be inaccurate to suggest that the UK tax system has gone unchanged since the onset of the 2008 crisis. The coalition government introduced a number of tax hikes, largest of all being an increase in the standard rate of VAT from 17.5% to 20%, a particularly regressive form of tax change. However, these were counterbalanced by other tax giveaways, such as an increase in the amount of money individuals could earn without paying income tax, and a decrease in the headline rate of corporation tax paid by businesses on their profits. While additional taxes were levied on banks and higher earners, the revenues raised were relatively modest. Overall, the tax changes of the inter-crisis period reinforced the regressive nature of the coalition's approach to economic recovery.[5]



Source: United Kingdom Debt Management Office (2019), *Average gilt issuance yields report*, available at https://www.dmo.gov.uk/data/gilt-market/average-gilt-issuance-yields/

Furthermore, the fact that fiscal consolidation after the financial crash was primarily achieved through spending cuts means that there is little scope for further savings to fund pandemic-related measures. The UK government has explicitly acknowledged as much: in less than eighteen months, three different Chancellors of the Exchequer have announced that the era of austerity is at an end. Consequently, the costs of paying for the pandemic must be met with some combination of higher taxes, increased public borrowing (including more-or-less temporary monetary financing of expenditure), and higher growth. Even before the pandemic, the UK's growth prospects were not looking particularly strong, a product both of global

[5] Green, Jeremy and Lavery, Scott (2015) 'The regressive recovery: distribution, inequality and state power in Britain's post-crisis political economy', *New Political Economy*, 20(6), 894-923.

slowdown and the government's Brexit strategy. Increased borrowing is certainly a possibility, at least for as long as global markets are willing to supply the UK government with cheap money. Nevertheless, tax hikes are almost inevitable, if the government is to demonstrate that it is capable of paying for the pandemic, let alone delivering on any of the spending promises that it made during the 2019 general election campaign, and making essential improvements to public services and welfare provision.

1.2 From conservatism to covidism

The spread of COVID-19 is likely to result in an unprecedented economic downturn. Although it is extremely difficult to make accurate forecasts of its impact, the Office for Budget Responsibility forecasts a 13% economic contraction in 2020 (with even this dependent upon a return to normal levels of economic activity in the third and fourth quarters.)[6] Globally, the OECD suggests that the economic impact of this crisis could 'far outweigh anything experienced during the global financial crisis in 2008-09'.[7] The government is now putting in place a wide range of new economic tools designed to both respond to the immediate requirements of the UK's health and social care system, as well as to try and ensure the economy does not collapse. These range from extra funding for the NHS, to financial aid for businesses including VAT deferrals and business rate holidays, an increase in welfare payments, the creation of wage subsidies, business loans and profit guarantees for the self-employed. Most of these interventions will be discussed in greater depth throughout this paper, but will be briefly introduced in this sub-section.

In order to avoid mass redundancies, the government's job retention or 'furlough' scheme is designed to allow businesses to retain workers whilst not having to pay their wage. The scheme will cover up to 80% (or £2,500, whichever is lowest) of an employee's salary, during which time they cannot work. As discussed further in the fourth section, help for the self-employed has arrived in the form of a profit guarantee worth up to 80% of the average monthly profits (or £2,500, whichever is lowest) of self-employed individuals earning under £50,000. This should account for around 80% of the 5 million self-employed workers in the UK. As discussed further in the third section, the Coronavirus Business Interruption Loan Scheme (CBILS) pledges £330 billion worth of government-backed loans up to a value of £5 million designed for small and medium-sized businesses. The loans are provided without personal guarantees from businesses and government will pay the interest and fees for twelve months, although it has not capped the interest rate banks can charge.

Though it is hard to calculate the total cost of all of these measures, the fiscal effort is huge. The IFS suggest that the UK could be looking at a deficit of over £200 billion in 2020-21 (the next section discusses how this might be addressed once the immediate emergency has abated).[8] On the other hand, the monetary response has also been significant – this is also

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[6] Strauss, D. (2020) 'UK economy faces 35% quarterly plunge if lockdown last', *Financial Times*, 14 April, available at: https://www.ft.com/content/2c4b2ad9-6b7f-44a7-87ca-64475365ad96.

[7] OECD (2020) 'Evaluating the initial impactofCOVID-19 containment measures on economic activity', Paris: OECD.

[8] Emerson, C. and Stockton, I. (2020) 'The economic response to coronavirus will substantially increase government borrowing', 26 March 2020, Institute for Fiscal Studies, available at: https://www.ifs.org.uk/publications/14771.

discussed further in the third section. Despite already operating at the zero lower bound, interest rates were cut further to 0.1%, the lowest level they have ever been. The Bank of England's (BoE) quantitative easing (QE) programme has been expanded by £200 billion in order to support government borrowing and bank reserve requirements have been relaxed to free up lending for businesses. Most recently, as noted above, the BoE has taken the extra step of directly financing government spending. This temporary measure will see the Bank monetarily finance government spending via the 'Ways and Means Facility' to an effectively unlimited amount, temporarily allowing the government to sidestep the need to borrow from the gilt market in the usual way.

It is important to reflect on whether the measures put in place so far are sufficient to protect the groups most affected by the pandemic, especially vulnerable individuals and those who have been most disadvantaged by the economic shutdown, and indeed those 'key workers' still compelled to work. Yet there is a broader question around how recovery might eventually be brought, even if collapse is averted. For example, the business loans now being guaranteed by government, to some extent, might act as an effective 'bridge' to help some firms through the pandemic, but they may become a weight around the ankles of those same firms over the medium-to-long term if pre-pandemic rates of profitability cannot be restored.

More radical alternatives have been proposed, even among economists not hitherto considered radical in outlook. For example, Martin Wolf[9] of the *Financial Times* has backed calls by Berkeley economists Emmanuel Saez and Gabriel Zucman for governments to act not as a 'lender of last resort', but instead as a 'buyer of last resort'.[10] This would mean, rather than simply guaranteeing business loans, government steps in to replace demand that has temporarily vanished; for example, 'buying' all of the cinema tickets not sold during the lockdown, allowing cinemas (or any other affected business) to keep paying workers and maintain their capital stock without risking bankruptcy).[11] Given the unique nature of this crisis – i.e. a time-limited drop in demand in certain sectors – such a measure could provide more effective and better-targeted relief for businesses and employees affected. It would then allow them to resume normal activities much more effectively post-pandemic than with a loan scheme.

Is it likely that a Conservative government will contemplate such measures? For the moment, the government's interventions are arguably consistent with the notion of a 'nightwatchman' state, preserving the order which had already been established rather than acting progressively via the state to improve society. It is simply the case that the night which has stopped play at present is darker and longer than usual – a similar dynamic which justified interventions after the 2008 financial crisis. That said, the Johnson government is also committed to using the state to 'level up' parts of the UK that have lagged behind in economic terms. If the (expanded) nightwatchman state proves insufficient to generate economic recovery, or if its rescue efforts derail the levelling up agenda, the Conservative government may be forced to choose between adopting an extensive and enduring set of interventions to

[9] Wolf, M. (2020) 'We must focus attention on our next steps', *Financial Times*, 07 April 2020.
[10] Saez, E. and Zucman, G. (2020) 'Keeping Business Alive: The Government as Buyer of Last Resort', March 15, 2020, available at: http://gabriel-zucman.eu/files/coronavirus.pdf.
[11] Saez, E. and Zucman, G. (2020) 'Keeping Business Alive'.

sustain the UK's capitalist order, or allowing the existing distribution of wealth to be threatened by nascent political forces.

1.3 The new abnormal

For this reason, some have prophesised that a form of 'state capitalism' may be the most likely economic outcome of COVID-19 in countries such as the UK.[12] There are, however, many contingencies at play. While Boris Johnson's populist, pre-pandemic rhetoric on 'levelling up' suggests a willingness to embrace state intervention to sustain the modified post-2008 growth model, such an approach would be resisted by the ultra-neoliberal supporters of the *Britannia Unchained* vision, who remain well-represented in the Johnson cabinet.[13] At the same time, a newfound recognition of 'key workers' in UK public service provision – notably, but not exclusively, in health and social care – and indeed working-class employees in essential industries such as food retail and production, cuts across both of these platforms. Similarly, a pandemic-induced recognition of immigrants' contribution to essential services in the public and private sectors may contradict the Conservatives' embrace of Brexit as a means of national renewal.

1.4 Measuring and understanding the economy

Clearly, the 'new normal' will consist of more than a revised relationship between state and market, that is, the classic left/right contest of the postwar decades. It will involve also a new understanding of what the economy *is* and *does*, including how it distributes growth, how it looks after those most vulnerable and most critical to the effective functioning of our society, and its relationship with major challenges such as climate change. This paper's fifth section will consider this prospect in greater detail, focusing on industrial policy, the green economy and local public services. Already, there are signs that other countries are taking these issues seriously. Spain, for instance, is seeking to implement a new and permanent 'universal basic income' (UBI) designed to provide 'a permanent safety net for the most vulnerable'.[14] Yet, beyond individual policy measures, we need to consider what we mean by 'recovery' and the sustainability of our economy and society over the long run.

This means recalibrating how we think about our economy and its purpose, ultimately eschewing a singular focus on growth (measured by 'GDP growth') as the priority of economic governance and prioritising other facets of economic and social life essential to our existence. There are already numerous frameworks through which this can be achieved. For instance, the Human Development Index (HDI) is amongst the most well-known alternative measurements to GDP.[15] Rather than just focusing on economic growth, HDI is a composite

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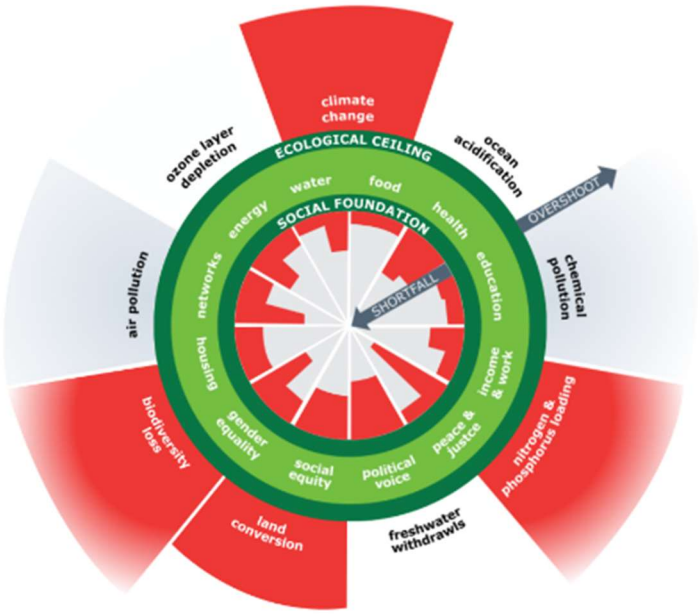
[12] Alami, Ilias (2020) 'The specter of state capitalism', *Developing* Economics, 26 March, available at: https://developingeconomics.org/2020/03/26/the-specter-of-state-capitalism/; Mair, Simon (2020) 'What will the world be like after coronavirus? Four possible futures', *The Conversation*, 30 March, available at: https://theconversation.com/what-will-the-world-be-like-after-coronavirus-four-possible-futures-134085.

[13] Berry, Craig and Barker, Tom (2019) 'Johnsonomics: British industrial policy from Brown to Boris', Future Economies Research and Policy Paper No.2, available at: https://www2.mmu.ac.uk/media/mmuacuk/content/documents/business-school/Johnsonomics-Berry-Barker.pdf.

[14] Zeballos-Roig, J. (2020) 'Spain is moving to establish permanent basic income in the wake of the coronavirus pandemic', *Business Insider*, 06 April 2020.

[15] See McDaniel, S. and Berry, C. (2017) 'Measuring and understanding the economy: a literature review', SPERI report prepared for the IPPR Commission on Economic Justice, Sheffield: SPERI.

index which includes a GDP variant with non-GDP environmental or social indexes designed to give a more accurate picture of human development and wellbeing. In order to measure human development, the HDI utilises a summary measure of average achievement in three key dimensions: life expectancy, education and standard of living. This framework is already used in practice: since the 1990s, the UN has collected data from 188 countries across the globe in accordance with the HDI.[16] The sustainable economic development (SED) index, on the other hand, is an alternative measure to GDP. A compound index, the SED would measure a 'balanced and sustainable array of genuinely global (indeed, planetary) collective public goods' such as changes in inequality, per capita energy use and carbon emissions, and a range of development indices such as literacy rates. This approach, its authors Colin Hay and Anthony Payne suggest, would encourage 'the reorientation of economies to promote sustainability'.[17] Similarly, Kate Raworth's 'doughnut economics' concept provides a valuable visual aid to help us understand the need to balance the needs we have as a society with the ecological limitations of the planet on which we live.[18] The image of the 'doughnut' (see below) presents a way of conceptualising the interlinked nature of societal needs and ecological pressures. It is premised upon helping us to map the societal 'shortfalls' that might exist in areas such as housing, gender equality and education as well as income, whilst viewing this in the context of potential 'overshoot' in relation to, for example, ozone layer depletion, chemical pollution or biodiversity loss.



Illustrative example of 'The Doughnut'
(Image from https://www.kateraworth.com/doughnut/)

This model helps us understand how we might recast our ambitions for economic governance by balancing social justice with environmental sustainability. Indeed, the city of Amsterdam is already adopting an alternative to growth economics based on Raworth's 'doughnut economics', highlighting how this model can be scaled to fit local, national and global requirements.[19] These alternative frameworks for measuring and understanding our economy and society are critical to reshaping not just how we think about our economy but how we act within it. In doing so, not only would adopting an alternative

[16] United Nations (2016) 'Human Development Index (HDI)', Human Development Reports, available here: http://hdr.undp.org/en/content/human-development-index-hdi
[17] Hay, C. and Payne, A. (2015) Civic Capitalism, Cambridge: Polity Press.
[18] Raworth, K. (2017) *Doughnut economics: seven ways to think like a 21st-century economist*, London: Random House Business Books.
[19] Raworth, K. (2020) 'Introducing the Amsterdam City Doughnut', 08 April 2020, available at: https://www.kateraworth.com/2020/04/08/amsterdam-city-doughnut/.

measurement enable us to transition out of this crisis with a more just economic model, ensuring that the eventual recovery is well balanced and fairly distributed, but it would enhance our resilience in the face of the emerging crises that confront us all. It is also worth noting here an issue discussed further below: the economic shutdown has exposed the immense value that unpaid care, predominantly undertaken by women, has within our economy. By continuing to effectively ignore unpaid care (especially childcare) in our measurement of the economy, we are not only under-valuing essential work, we are failing to understand in full the inputs require to support productivity throughout the economy in general.

2. Paying for the pandemic: from emergency spending to a new fiscal settlement

The coronavirus pandemic has exposed large gaps in the UK's healthcare system and in its socio-economic safety net. Medical professionals lack essential protective gear; hospitals lack beds and ventilators; businesses are crumbling in the face of lockdown measures; the newly unemployed and underemployed are discovering a benefits system eroded by a decade of cuts. As discussed above, the government's response to the pandemic to date has been to spend: investing in new medical equipment, bailing out businesses, underwriting staffing costs, and supporting the self-employed. Questions around the adequacy of this support are obviously most pressing in the short-run. But as the immediate economic impact of the pandemic abates, attention will turn to the fiscal consequences. When the time comes to pay for this spending, how should government fund it? And who should foot the bill?

2.1 Under-taxed and under-prepared

What is striking about the present crisis is that the UK population is receiving a far higher level of public service provision than its government had been willing to bill it for in the run-up to the pandemic (although this is not to suggest that the level is particularly high, relative to similar countries). Medical supplies such as ventilators and personal protective equipment, which could have been purchased much more cheaply had stocks been built up over several years, are now being bought at panic prices. It transpires that unemployment insurance is not fixed at the punitively low levels associated with universal credit, but rather at 80% of people's salaries, as government takes on the payroll costs of furloughed employees. Even those of us who avoid acute medical care, and who are lucky enough to do jobs that can be readily performed remotely, benefit from the reassurance that this spending provides, and the economic activity that it sustains. Much as it became obvious post-2007 that the banking sector had enjoyed massive state insurance all along, it is now obvious that the wider business community and working population are also too big to fail.

Why does this matter? Simply put, it implies that we were under-taxed relative to the level of insurance we were enjoying, prior to the pandemic. This raises profound questions of intertemporal fairness, as well as questions of capacity to pay, that are vital to structuring the tax policy response to the pandemic. If the costs of the current crisis are added to the public debt, to be serviced out of conventional future tax revenues, we are essentially saying that those who engage in economic activity after the pandemic should pay for the insurance enjoyed by people prior to the crisis. This is what happened with the financial crash of 2007-2008: incomes earned in the long boom that preceded (and in many ways precipitated) that crisis contributed comparatively little towards the cost of the economic rescue package

required in the wake of the crash. Some of these fortunes were made or enhanced directly by financial sector activities that would soon require a massive injection of public cash. Others benefited indirectly, from the sense of economic optimism that flowed from a financial sector eager to pump credit into the hands of businesses and households. By contrast, those who sought to enter or progress in the labour market in the inter-crisis period not only faced an era of secular stagnation and diminished opportunity; furthermore, they also bore the brunt of the consolidation effort, in the form of reduced public services.

In the wake of the pandemic, working-age people (who contribute the bulk of normal UK tax revenues) risk being hit by a double-whammy of taxation. In addition to shouldering the debts taken on by the Treasury in its efforts to pay for the cost of the emergency, they will also need to contribute towards ensuring the country is better prepared for such crises in the future. At a minimum, this will mean footing the bill for surge capacity for the National Health Service, expanded medical testing facilities, greater domestic capacity to produce medical equipment, drugs and vaccines, as well as more resilient supply chains for essentials such as food.

2.2 National wealth service

That is why there is a pressing need – both on normative grounds, and on practical grounds of ability to pay – to ensure that the costs of today's pandemic are distributed among past and present taxpayers, rather than foisted exclusively upon future taxpayers. Perhaps the most obvious way in which income earned in the past can be taxed is through taxing wealth, which is ultimately nothing more than accumulated income and gains. Assuming the net wealth of UK households stands at around £15tn, a one-off levy of just 2% would raise £300bn – more than national insurance and VAT combined, and more than some early estimates of the fiscal cost of the pandemic-induced crisis.[20] Where wealth is not particularly liquid (such as housing wealth), the government could take a stake in the assets in question, to be redeemed whenever they are eventually sold. Admittedly, such a levy penalises savers and investors, while leaving people who have consumed their wealth in the past unaffected. To compensate for this, additional taxes pegged to the income and gains that people have earned over their lifetime could be introduced – such as a surcharge once people's earnings have exceeded a given lifetime threshold.[21]

Targeting household wealth in this manner will be politically difficult, to be sure. However, wealth is so unequally distributed that the bottom 50% of households could be excluded entirely from such a levy without significantly reducing revenues; conversely, a modicum of progressivity would increase the tax yield substantially. Some stocks of wealth will be easier to identify, value and tax than others (property wealth, bank accounts, ISAs, pension savings and shares in publicly-listed companies fall into the former category; classic cars, works of art, private businesses and offshore trusts fall into the latter). Nevertheless, a one-off tax on household wealth seems both a legitimate and viable way in which to meet the costs of the

[20] See https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018

[21] For further discussion see https://theconversation.com/a-lifetime-income-super-tax-offers-a-new-way-to-tax-wealth-and-fix-inequality-108773

pandemic, as well as a prelude to more sustained deliberation on the efficacy of recurring wealth taxes.

2.3 Funding the future

Once we have paid for the pandemic, how should the future funding needs of an expanded health service and a more comprehensive social insurance system be met? There are already many revenue-raising proposals available in the voluminous literature on tax reform, ranging from broad-based increases in the basic rates of major taxes (such as VAT and income tax), to more niche measures targeting particular groups and activities (annual wealth taxes, new forms of land taxation, and so forth). The precise package of reforms to be adopted will depend on the additional spending necessary, government's ability to borrow money relatively cheaply, and the imperative to create fiscal headroom for future crisis management – not to mention the political priorities and moral worldview of the government of the day. Our goal here is not to reprise these arguments. Instead, we focus on three measures that appear particularly apposite in the wake of the pandemic, which should play a part in any future tax reform.

Firstly, fuel duties. Over and above the pressing need to transition towards a carbon neutral economy, the global slowdown presents an ideal opportunity for the UK government to raise fuel duty after a decade of freezes. Fuel prices have plummeted in recent weeks, as global demand has fallen through the floor. There is a strong argument for implementing a rise in fuel duty as soon as is legislatively possible: a rise of 5p or even 10p per litre would still leave prices well below their pre-pandemic level, and so would not penalise the haulage industry, delivery drivers or other key workers who continue to rely on their vehicles during the crisis. If or when fuel prices eventually recover, attention could then turn to how best to mitigate the regressive aspects of such a tax. Of course, over the longer-term, the future of fuel duties should be considered in tandem with other environmental measures, discussed further in the fifth section.

Secondly, social insurance. The pandemic has resulted in a massive extension of social insurance to all parts of the working population. The self-employed in particular are being issued with grants over and above any income they make during the lockdown, pegged against their prior earnings. HM Treasury has already mooted that a likely corollary of this generous funding package will be to bring the tax treatment of the self-employed in-line with that of employees. On 26 March, as an aside to his announcement of the Self-Employment Income Support Scheme, the Chancellor remarked that 'it is now much harder to justify the inconsistent contributions between people of different employment statuses': if they receive the same benefits, so the argument goes, they should make the same kind of contribution.[22]

At a minimum, that implies charging self-employed people the same rates of national insurance as employees – a move deemed politically impossible as recently as March 2017, when Philip Hammond performed a U-turn on such an increase in his first Budget as Chancellor. More radically, it could imply an equalisation in the tax treatment of all forms of personal income – including dividends and capital gains, which are currently outside the scope of national insurance. Combining income tax, national insurance and capital gains into a single

[22] See https://www.politicshome.com/news/article/selfemployed-people-to-have-80-of-their-wages-covered-by-the-government-during-coronavirus-outbreak

'income and insurance tax' payment would simplify the tax system, reduce opportunities for tax planning (as dividends, gains, self-employment and employment income would all be taxed at the same rate), and improve the progressivity of the tax system (as it is often the highest earners who are best able to capitalise on tax planning opportunities). It would also mean that comparatively affluent retirees would contribute more than they would otherwise, funding the improved health and social protection that they will enjoy in the post-pandemic world.

If the Treasury is serious about levelling up the tax system, so that people of different employment statuses confront the same set of rules, then it will need to ensure that the safety net that it is presently weaving is truly comprehensive. At the time of writing, the protection afforded to people outside conventional employment structures is patchy. Individuals who take their pay in the form of dividends from the companies they own and operate are presently not entitled to any income protection. Similarly, as discussed further in the fourth section, Self-Employment Income Support Scheme grants are not available to people whose past trading profits exceed £50,000, whereas furloughed employees earning above this amount are still eligible for the Coronavirus Job Retention Scheme. Genuine equality of treatment would pave the way for broadening the tax base, and should not cost a great deal more given payments are capped at £2,500 per month anyway, and most self-employed individuals earn less than £50,000 a year. (The cost could also be lowered by insisting the self-employed offset this amount against any revenues earned during the lockdown: auditing these declarations will be administratively challenging, but not altogether impossible.)

Clearly, such a reform cuts against the grain of recent fiscal policy. Prevailing expert wisdom has it that such measures are poorly targeted, and limited state resources would be better spent helping only the neediest households. This outlook neglects the fact that the narrowing of state support to the neediest weakens the social contract upon which such transfers are predicated. Over the last few decades, the value of social insurance to middle- and higher-income households has dwindled, partly because they have been shielded from much of the economic precariousness experienced by their poorer-paid peers, and partly because certain forms of support (such as child benefit) have been deliberately withdrawn as part of cost-saving drives on the part of the state. It is surely no coincidence that hostility towards state benefits (and the taxes necessary to fund them) has risen over the same period: a burgeoning literature suggests that people are more willing to contribute to public services and social security schemes when they feel the benefits of this spending themselves.[23] This might provide a further rationale for a move towards a form of UBI, which is discussed at greater length elsewhere in this paper.

Thirdly, corporate resilience. Much as the global financial crisis before it, the pandemic has exposed how reliant many corporations are on debt, and how fragile these capital structures are during economic downturns. Many companies seek to finance their operations primarily through loans and bonds, as the costs of servicing these debts are generally deductible for tax purposes, whereas no such deduction exists for equity financing (share issues and retained profits). Consequently, debt-heavy capital structures maximise post-tax profits, which

[23] See for example Daude, Christian, Hamlet Gutiérrez, and Ángel Melguizo. "What drives tax morale?." (2012) OECD; Luttmer, Erzo FP, and Monica Singhal. "Tax morale." *Journal of economic perspectives* 28, no. 4 (2014): 149-68.

companies can then distribute to their shareholders. However, such capital structures also mean that companies face fixed interest costs, which they need to keep servicing even when their revenues fall. Whereas equity-financed companies have capital buffers that can absorb losses (at least for a while), debt-dependent companies are likely to go to the wall first in any downturn. Tellingly, the pandemic has hit highly leveraged companies the hardest: the likes of airlines and real-estate companies, who often use the expensive assets they hold as security for the loans that they receive.[24]

Such businesses represent a double cost to government. Not only does the Exchequer forego corporation tax on the portion of their earnings that they spend servicing debt; in a downturn, the state also faces the unenviable choice of either bailing out such companies, or seeing them collapse with all the wider costs to employees, lenders, customers and suppliers that this will entail. During the credit crunch, it was easy to argue that the withdrawal of credit was the fault of the financial sector, rather than the fault of over-leveraged business models in the 'real' economy. In the present pandemic, it is the non-financial sector that lacks the equity buffers needed to absorb short-term losses (though the financial sector, which is the source of many of these loans, may yet follow). To encourage greater corporate resilience in future, at a minimum government should restructure the tax system to ensure that it does not actively penalise equity funding. This could be done by allowing corporations to deduct the risk-free rate of return on their equity financing from their taxable profits – a solution which is preferable on grounds of economic efficiency, but which would lead to lower tax revenues, unless it was offset by a corresponding increase in the standard rate of corporation tax.[25] Alternatively, government could phase out the tax deductibility of corporate debt costs – which would increase revenues, but which might exacerbate the fragility of the corporate sector at a time when businesses will already be under strain.

2.4 A new fiscal framework

Finally, responding to the coronavirus pandemic will require a new set of fiscal rules, to govern the relationship between taxation, spending, and borrowing during the post-crisis reconstruction. Since 2010, the UK government has gone through fiscal rules faster than Spinal Tap burned through drummers: George Osborne and Philip Hammond repeatedly deferred the date by which public sector debt levels were supposed to fall, Sajid Javid announced entirely new rules in the 2019 election campaign, and Rishi Sunak declared in his spring 2020 budget that these new rules would themselves be 'reviewed' prior to the autumn 2020 budget.[26] While it is tempting in light of this history to view the UK's fiscal framework as more aspiration than rule, the framework nevertheless plays an important role in guiding tax policy decisions, as well as structuring budget negotiations between government departments.

Parts of the most recent fiscal framework already read like missives from another age. The idea that the UK government's current budget could be in balance by 2022/23 seems

[24] See https://www.ft.com/content/f68cddaf-2016-48c3-89ce-40fc2daccacc

[25] Mirrlees, James A., and Stuart Adam. *Dimensions of tax design: the Mirrlees review*. Oxford University Press, 2010.

[26] For a useful summary of changes to the UK's fiscal rules over the last decade, see Matthew Keep (2020), Office for Budget Responsibility and Charter for Budget Responsibility, House of Commons Library Briefing Paper CBP 5657.

fantastical on any reasonable forecast for the public finances. The infrastructure spending that Javid's generous allowance for public sector net investment was intended to facilitate now looks likely to be mothballed, at least for the immediate future. Indeed, treating capital spending differently to current spending seems increasingly anachronistic in a post-pandemic world. The rationale for the distinction (whose origins can be traced back at least as far as Gordon Brown's 'golden rule') was that capital investments boost productivity and growth over the long-term, so governments could reasonably borrow against the future cashflows that such investments would generate. This distinction was already highly dubious: the human capital created by current spending on teachers and other educators clearly generates returns to the UK economy over the longer term, for example. In the throes of the COVID-19 crisis, it is obvious that current healthcare spending yields long-term economic benefits too. Starkly put, spending on doctors' and nurses' salaries helps keep potential workers alive, equating to a healthier, longer-living and thus longer-earning population. Higher spending on salaries and consumable personal protective equipment prior to the pandemic would have also equated to a shorter, less economically-damaging lockdown than is currently needed in order to ration limited NHS capacity. Drafters of the UK's post-pandemic fiscal framework must reappraise the distinction between current and capital spending, or even jettison it entirely.

More promising is the emphasis that the Johnson government's new fiscal rules place on the cost of servicing debt, rather than the level of debt *per se*. As discussed in the introduction to this paper, the public finances are sustainable so long as borrowing is affordable. If investors are willing to accept lower returns on gilts, it follows that the UK can afford to borrow more – and we can expect this dynamic to persist for the foreseeable future. A more sophisticated version of such a fiscal rule might take into account the maturity profile of the UK's debt stock, as well as forecasts for the likely costs of new gilt issues.

Any new fiscal framework needs to manage taxation, spending and borrowing in such a way that the UK is better placed to endure the next economic crisis it faces. Contrary to the austerity evangelists of the inter-crisis years, this does not mean that government borrowing is necessarily unsustainable, and that deficits must be closed as soon as possible. Indeed, austerity has clearly reduced the resilience of the public sector, by stifling growth which could have paid off public debts faster, and by running down the NHS – to say nothing of its impact on the crisis-readiness of individual households. Nevertheless, preparation for the next economic crisis involves recognising that governments cannot and should not operate at the outer bounds of their borrowing capacity indefinitely. Some fiscal headroom must be created to deal with future crises – though it would advisable to achieve this through faster growth and higher taxes (such as the one-off wealth tax recommended above), rather than through further spending cuts. The New Economics Foundation's 'fiscal space' framework, whereby constraints would apply on the basis of evidence that fiscal expansion would have an adverse impact upon the economy – designed to prepare the public finances for the challenge of climate change, where strict fiscal constraints are self-defeating if they impede a green

transition – is an important idea.[27] We also need to consider, rather urgently, the extent to which monetary financing can and should become a normal part of fiscal policy.

3. A bankers' paradise? Financial regulation, monetary policy and COVID-19

> *I can't think of any other politician, even Conservative politician, who from the crash of 2008 onwards actually stuck up for the bankers. Can you think of anybody who stuck up for the bankers as much as I did? I defended them day in, day out.*
>
> Boris Johnson, 2018

As the impact of the COVID-19 pandemic grips the global economy, governments and central banks across the world are unleashing unpreceded fiscal and monetary policy in order to combat the catastrophic economic consequences. In the United Sates, the Federal Reserve has cut its policy rate by a full percentage point to a range of 0-0.25 per cent and announced a $700 billion quantitative easing (QE) programme.[28] In Europe, the European Central Bank (ECB) has increased its existing asset purchase programme by €870 billion and abolished limits on the number of bond purchases that it can make from any one Eurozone country.[29] The Bank of Japan has similarly increased its QE programme by more than ¥12 trillion (£90 billion) and announced plans to extend zero rate loans to financial institutions.[30] Here in the UK, Rishi Sunak has promised to do 'whatever it takes' to support businesses and households through the social and economic upheavals caused by the current health crisis.[31] As discussed in the first section, the Chancellor announced a raft of measures including: the freezing of VAT for businesses; a one-year business rate break for struggling retailers, bars and restaurants; guarantees to pay up to 80% of wages for furloughed staff; a three month mortgage 'holiday' for homeowners; and more than £330 billion of corporate loan guarantees. Meanwhile, the BoE has cut interest rates by 65 basis points to a record low of 0.10%; released the countercyclical capital buffer that banks are required to hold against exposures; and reintroduced the Term Funding scheme for Small and Medium-sized Enterprises (SMEs) which offers funding to businesses at rates very close to the benchmark rate.[32]

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[27] Stirling, A., Powell, D. and Van Lernen, F. (2019) *Changing the Fiscal Rules: Unlocking Public Investment for a Green New Deal*, New Economics Foundation, available at: https://neweconomics.org/2019/07/changing-the-fiscal-rules.

[28] Financial Times (2020) 'Fed cuts US interest rates to zero as part of sweeping crisis measures', *Financial Times*, 15th March, available at: https://www.ft.com/content/a9a28bc0-66fb-11ea-a3c9-1fe6fedcca75

[29] The New York Times (2020) 'Factbox: Global Economic Policy Response to Coronavirus Crisis', *The New York Times,* 30th March, available at: https://www.nytimes.com/reuters/2020/03/30/world/30reuters-health-coronavirus-economy-factbox.html

[30] Lewis, Leo and Inagaki, Kana (2020) 'Bank of Japan ploughs deeper into stocks to ease coronavirus fears', *Financial Times*, 16th March, available: https://www.ft.com/content/fd403436-674a-11ea-800d-da70cff6e4d3

[31] Sunak, Rishi (2020) 'Budget Speech 2020 -The Budget 2020 speech as delivered by Chancellor Rishi Sunak', *HM Treasury and The Rt Hon Rishi Sunak MP*, 11th March, available at: https://www.gov.uk/government/speeches/budget-speech-2020

[32] Valentina, Romei (2020) 'Coronavirus fallout: Bank of England launches 4 key measures', *Financial Times,* 11th March, available at: https://www.ft.com/content/4e60c08e-6380-11ea-b3f3-fe4680ea68b5

The extraordinary stimulus package jointly announced by the chancellor, the BoE and HM Treasury to 'combat the longer lasting effects of COVID-19 on jobs, growth and the UK economy'[33], is intended to ease credit conditions in the real economy by ensuring that banks continue to lend through the pandemic-induced crisis period and beyond. Such a loosening of monetary policy will give banks access to a readily available, cheap and cost effective source of funding thereby incentivising the continued supply of credit to businesses and households during the global pandemic. A relaxation of regulatory burdens, including the countercyclical capital buffer, will likewise increase the lending capacity of banks and further encourage the flow of money to the real economy while COVID-19 continues to restrict trade[34]. The monetary stimulus and changes to financial regulation will be the focus in this section, as we consider how the privileged position of the banking sector has been reproduced by the pandemic response.

3.1 New wine in old bottles

Attempts by the government and BoE to starve off a deep recession and protect the economy from a potential collapse has seen banks come to play an increasingly important role in Britain's economic survival. Like many other leading economies across the world, the UK has looked to banks to help deliver its monetary goals, acting as an intermediary and channelling billions of pounds worth of stimulus to the economy. The relationship banking model adopted by many of Britain's largest lenders[35] means that banks have a local reach to business and households that should allow institutions to effectively deliver government money where it is needed the most[36]. While the role of banks as a 'transmission mechanism'[37] for government intervention in markets is not new – banks have been the preferred and default option for delivering the UK's monetary policy and quantitative easing in the inter-crisis period – the extent to which banks are being asked to deliver government support is unprecedented and untested. The government's attempts to support the economy through the coronavirus downturn appear then, largely dependent upon the ability of banks to withstand the economic fallout of the global pandemic and its aftermath.

Despite a stock market collapse of more than 35%, a seizing of credit markets, large scale bankruptcies, soaring unemployment and a contraction of global GDP, banks, for the time being, appear to be weathering the storm. However, with many countries already experiencing worst case scenarios for output and employment, large-scale loan defaults and a fall in bank

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[33] Sunak, Rishi, Bailey, Andrew and Woolard, Chris (2020) 'Joint letter to the UK banks from HM Treasury, the Bank of England, and the FCA', *HM Treasury,* 25th March, available at: https://www.bankofengland.co.uk/letter/2020/letter-from-the-chancellor-governor-and-fca-to-the-uk-bank-ceos-covid-19-and-bank-lending

[34] Carney, Mark (2020) 'The Grand Unifying Theory (and practice) of Macroprudential Policy', *Speech given by Mark Carney Governor of the Bank of England, Logan Hall University College London,* 5th March, available at: https://www.bankofengland.co.uk/speech/2020/mark-carney-speech-at-university-college-london

[35] See Barber, Adam (forthcoming) *UK Banks and the Lessons of the Great Financial Crisis*. London. Palgrave Macmillan.

[36] Bhaumik, Sumon (2020) 'Are the banks strong enough to withstand the coronavirus crash?', *The Conversation,* 20th March, available at: http://theconversation.com/are-the-banks-strong-enough-to-withstand-the-coronavirus-crash-134258

[37] Crow, David, Morris, Stephen and Noonan, Laura (2020) 'Will the coronavirus crisis rehabilitate the banks?', *Financial Times,* 1st April, available at: https://www.ft.com/content/3bb2fefc-726c-11ea-ad98-044200cb277f

profits of 30 percent[38], the real test for banks may yet be to come. What is more, these predictions, while hard to accurately forecast, are predicated upon a three-month suspension of economic activity, a prolonged downturn could lead to more intense pressure on banks' balance sheets. The International Monetary Fund (IMF) has warned that some banking systems 'might have to be recapitalized or even restructured'[39] thus severely undermining the government's efforts to supply credit to the economy. As such, interventionist policies unveiled by the UK government reveals new, as well as old, forms of risk.

Following the 2008 global financial crisis policy-makers and regulators looked to strengthen the balance sheets of the world's largest banks by implementing a number of reforms that would increase the capital and liquidity position of institutions[40]. The intention behind such reforms was to strengthen the ability of banks' to withstand large-scale economic shocks[41]. Yet, this rather narrow institutional focus has meant that many of the wider systemic causes of the last crisis have gone largely unchecked. Institutional reforms have similarly failed to tackle wider structural shifts in banking markets that have allowed banks to 'game' regulatory rules. Resultantly, many of the world's largest banks are now 'collectively less safe' than in 2008[42]. Indeed, instead of being part of the solution to the UK's current economic problem, unresolved systemic risk within the banking system could amplify the current crisis leading to a protracted economic decline.

Of course, it would be hasty to assume that the private banking sector even is part of the solution. At the time of writing, relatively few loans have actually been made via the Coronavirus Business Interruption Loan Scheme.[43] Many banks, perhaps understandably, are reluctant to lend with where repayment is uncertain, even when benefiting from government guarantees. Indeed, it was the Treasury, not the banks, that first insisted loans had to be made on the basis of banks' regular lending criteria – a stipulation which led to many banks requested personal guarantees from business owners.[44] That said, this rule has now been relaxed, albeit with a limited impact upon lending rates.

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[38] Lee, Peter (2020) 'Can banks withstand the impact of Covid-19?', *Euromoney*, 27th March, available at: https://www.euromoney.com/article/b1kxrvx42r38r6/can-banks-withstand-the-impact-of-covid-19

[39] Adrian, Tobias and Narain, Aditya (2020) 'Maintaining Banking System Safety amid the COVID-19 Crisis', *International Monetary Fund (IMF) blogs,* available at: https://blogs.imf.org/2020/03/31/maintaining-banking-system-safety-amid-the-covid-19-crisis/

[40] Geithner, Tim (2017) 'Are we safe yet: How to manage financial crises?', *Foreign Affairs* 96(1): 54-72.

[41] Ibid.

[42] Bell, Stephen and Hindmoor, Andrew (2018) 'Are the major global banks now safer? Structural continuities and change in banking and finance since the 2008 crisis', *Review of International Political Economy,* 25(1): 1-27

[43] See https://www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker-businesses-not-yet-successfully-accessing-government-loan-and-grant-schemes and https://www.ukfinance.org.uk/press/press-releases/banking-and-finance-sector-provides-over-%C2%A31-1-billion-to-smes-through-covid-19-lending-scheme.

[44] See https://www.itv.com/news/2020-04-02/robert-peston-it-was-treasury-not-the-banks-that-insisted-on-personal-guarantees-on-emergency-loans-to-small-businesses/.

3.2 Financial regulation and COVID-19

While banks in the UK and across the globe are now better capitalised than in 2008[45], historically low interest rates[46], diminished share price valuations[47], regulatory arbitrage[48] and innovative financial products[49] have both encouraged and facilitated a shift of activity into the opaque 'shadow banking' sector[50]. This is problematic as off-balance sheet shadow-banking entities are less well regulated, often highly leveraged and, historically, poorly managed[51]. Moreover, complex interlinkages between banks in the formal and shadow banking sectors means that it is increasingly difficult to judge an institution's exposure to this less well-regulated sector. As such, failures in shadow banking markets can be quickly and easily transmitted to banks in the 'on-shore' sector leading to a paralysis of markets and the ceasing of bank credit, as witnessed in 2008[52]. Due to the nature of the shadow banking industry, it is hard to accurately judge the level of systemic risk posed to banks by this opaque sector. However, the Financial Stability Board (FSB) estimate that shadow banking entities are worth approximately $45 trillion or around 13 percent of total global financial assets[53]. The inter-crisis growth in off-balance sheet shadow banking activity by the world's largest lenders represents a significant proliferation of risk to banks that is not fully captured by the current, narrow, regulatory focus upon bank capital and liquidity and may pose a significant threat to the government's plans to deliver economic stimulus amidst the coronavirus pandemic.

Weaknesses in the institutional approach to post-crash bank reform is further highlighted by Andy Haldane and Vasileios Madouros[54] who suggest that the focus of policy-makers on bank capital and liquidity is an ineffective measure of wider systemic risk and a poor indicator of

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[45] Barber, Adam (forthcoming) UK Banks and the Lessons of the Great Financial Crisis. London. Palgrave Macmillan; Bell, Stephen and Hindmoor, Andrew (2018) 'Are the major global banks now safer? Structural continuities and change in banking and finance since the 2008 crisis', *Review of International Political Economy* 25(1): 1-27.

[46] IMF [International Monetary Fund] (2017) 'Global Financial Stability Report: Getting the Policy Mix Right', *IMF*, April 2017, available at: https://www.imf.org/en/Publications/GFSR/Issues/2017/03/30/global-financial-stability-report-april-2017

[47] Bell, Stephen and Hindmoor, Andrew (2017) 'Structural Power and the Politics of Bank Capital Regulation in the United Kingdom' *Political Studies*, 65(1): 103-121.

[48] Brazier, Alex (2017) 'Debt Strikes Back' or 'The Return of the Regulator'?'. Speech by Alex Brazier Executive Director, Financial Director for Financial Stability Strategy and Risk Member of the Financial Policy Committee Bank of England University of Liverpool, Institute for Risk and Uncertainty Monday 24th July 2017. Available at: http://www.bankofengland.co.uk/publications/Documents/speeches/2017/speech992.pdf

[49] Eturk, Ishmael (2017) 'Shadow banking: a story of the Doppelgänger (the Double) in science of finance', *Journal of Cultural Economy*, 10(4): 377-392.

[50] See Barber, Adam (forthcoming) UK Banks and the Lessons of the Great Financial Crisis. London. Palgrave Macmillan; Bell, Stephen and Hindmoor, Andrew (2018) 'Are the major global banks now safer? Structural continuities and change in banking and finance since the 2008 crisis', *Review of International Political Economy,* 25(1): 1-27.

[51] Eturk, Ishmael (2017) 'Shadow banking: a story of the Doppelgänger (the Double) in science of finance', Journal of Cultural Economy, 10(4): 377-392.

[52] Bell, Stephen and Hindmoor, Andrew (2015) Masters of the Universe, Slaves of the Market. Cambridge Massachusetts. Harvard University Press.

[53] Financial Stability Board [FSB] (2018) 'Global Shadow Banking Monitoring Report 2017', *FSB,* 5th March, available at: https://www.fsb.org/2018/03/global-shadow-banking-monitoring-report-2017/

[54] Haldane, Andrew and Madouros, Vasileios (2012) 'The dog and the Frisbee'. Speech at the Federal Reserve Bank of Kansas City's 366th economic policy symposium, "The changing policy landscape", Jackson Hole, Wyoming, 31st August, available at: https://www.bis.org/review/r120905a.pdf

future failure. In particular, the authors argue that the book value of equity recorded on bank balance sheets is not indicative of the actual market value of equity held and, as such, leaves regulators with a skewed picture of a bank's true funding position. Natasha Sarin and Larry Summers[55], and Stephen Bell and Andrew Hindmoor[56], likewise find that market volatility in the decade that has followed the 2008 crisis has weakened equity values. As a result, market-based valuations of bank liquidity have actually decreased despite an increase in the book value recorded on a bank's balance sheet. In the event of a selling-down of assets due to massive loan defaults, as is being predicted in the second quarter of year[57,58], banks could be left with huge holes in their balance sheets, thus undermining the ability of governments to extend cash to markets. The UK government's corporate loan guarantee scheme will not help banks in this respect, as this only guarantees future lending and does not protect banks from defaults on loans already extended that may go bad as a result of the pandemic (although clearly helps to explain banks' cautious approach to the scheme). Moreover, credit default swaps – seen as a market measure of risk and volatility – have increased following the 2008 crisis suggesting that markets are now pricing risk at premium despite an overall increase in bank capital.[59] These structural features of banking markets, largely ignored by the post-crash institutional focus of regulators and policy-makers, pose new as well as old forms of systemic risk that may undermine governments' efforts to starve off the worst of the economic effects of the COVID-19 pandemic. Despite capital and liquidity levels recorded on the balance sheets of banks being higher than in the years preceding the GFC, there is little evidence to suggest that banks are less likely to become insolvent during another major global downturn. As ever, the banks are their own worst enemy.

3.3 A beta bailout

We may yet see UK banks nationalised or part-nationalised as a result of the pandemic and/or the regulatory failures exacerbated by COVID-19. Clearly, to paraphrase this paper's opening gambit, it would have to be different this time. The question we must ask is: are we trying to save the banking sector, or the economy in general? The assumption upheld for far too long in the UK that the former serves the latter deserves serious scrutiny. 2008 was an 'alpha' bailout focused on the existing mechanisms of a finance-centred growth model; we need now a bailout focused more directly on the real economy 'end users'. At the very least, for instance, UK policy-makers must embrace the publicly-owned investment banking model which operates as a matter of routine in many other countries. This would eliminate the bottom-line concerns which encourage private banks to rent-seek on the back of delivering public policy

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[55] Sarin, Natasha and Summers, Larry (2016) 'Understanding bank risk through market measures', *Brookings Papers on Economic Activity*, Fall 2016, 57–109 available at: https://www.brookings.edu/wp-content/uploads/2017/02/sarintextfall16bpea.pdf

[56] Bell, Stephen and Hindmoor, Andrew (2018) 'Are the major global banks now safer? Structural continuities and change in banking and finance since the 2008 crisis', *Review of International Political Economy*, 25(1): 1-27.

[57] Lee, Peter (2020) 'Can banks withstand the impact of Covid-19?', *Euromoney*, 27th March, available at: https://www.euromoney.com/article/b1kxrvx42r38r6/can-banks-withstand-the-impact-of-covid-19

[58] Leslie, Jack (2020) 'The economic effects of coronavirus in the UK: Utilising timely economic indicators', *Resolution Foundation,* 10th April, available at: https://www.resolutionfoundation.org/publications/the-economic-effects-of-coronavirus-in-the-uk/

[59] Bell, Stephen and Hindmoor, Andrew (2018) 'Are the major global banks now safer? Structural continuities and change in banking and finance since the 2008 crisis', *Review of International Political Economy,* 25(1): 1-27.

goals, and allow for lending activities better aligned to the development of the economy's long-term productive capacities.

Further 'experiments' in extraordinary monetary policy are both necessary and inevitable. It was noted above that, rather than simply using QE to indirectly support debt issuance by the public sector, the BoE is now using 'monetary financing' to directly support expenditure, mitigating the risk that UK government debt may become less serviceable (although there are few signs of this scenario arising). As *Financial Times* acknowledges, essentially 'there is no clear distinction between QE and monetary financing'. The most impactful interventions, however, have originated across the Atlantic. The US Federal Reserve has reopened and expanded swap lines to maintain global access to the dollar, as well as opening repo facilities for other central banks. As Trevor Jackson argues, 'the Fed is now the sole source of global liquidity, providing cash not only to every financial and credit market on the planet but also to the world's central banks'.[60] These moves are designed to both stabilise the global economy and reinforce the 'exorbitant privilege' of a US-centred international monetary system, of which the City of London is a key organ. The City's partial reorientation towards China[61] may therefore be halted as a result of the pandemic and the Fed's response, even though more generally China is likely to emerge from the pandemic-induced crisis in a much stronger position.[62]

What about 'people's quantitative easing' (PQE) or 'helicopter money'? PQE differs from more traditional QE insomuch as central bank money is given directly to the people as opposed to being used to fund the lending of banks through the purchasing of government bonds. PQE has gained traction following the outbreak of COVID-19 as an effective tool for channelling money to where it is needed the most.[63] Following the 2008 crisis corporations used the credit provided to them by QE to buy back their own shares and increase the value of their stock.[64] PQE avoids this by placing money directly into the hands of workers and consumers (although clearly does not guarantee outcomes which stimulate productivity growth).

However, one of the other advantages of PQE over traditional QE is that the central bank could directly finance businesses by giving money straight to firms. In this instance, the BoE could attach stipulations to any handouts such as having firms extend employment guarantees to workers thus protecting the economy from excessive redundancies.[65] In this respect, PQE

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[60] Jackson, T. (2020) 'The Sovereign Fed', Dissent, 16 April, available at: https://www.dissentmagazine.org/online_articles/the-sovereign-fed.
[61] Green, J. and Gruin J. (2020) 'RMB transnationalization and the infrastructural power of international financial centres', *Review of International Political Economy*, advance online publication.
[62] Macfarlane, L. (2020) 'A spectre is haunting the West', openDemocracy, 16 April, available at: https://www.opendemocracy.net/en/oureconomy/a-spectre-is-haunting-the-west-the-spectre-of-authoritarian-capitalism/.
[63] 'Virus lays bare the frailty of the social contract', *Financial Times Editorial Board*, 3rd April 2020, available at: https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca
[64] Coppola, Francis (2019) The Case For People's Quantitative Easing. Cambridge. Polity Press.
[65] Nixon, George (2020) 'Helicopter money, people's QE or universal basic income? The highly unusual ideas to save businesses and workers in the coronavirus crisis', *This is Money,* 20th March, available at: https://www.thisismoney.co.uk/money/news/article-8121495/Could-helicopter-money-universal-basic-income-fight-coronavirus.html

is more favourable than QE as central bank intervention can be targeted to specific sectors of the economy and be used to ensure employment.

Helicopter money, the brainchild of the Chicago School economist and Nobel laureate Milton Friedman, would be a similar but more conservative instrument – and one focused even more directly on individuals and households. In his 1969 essay *The Optimum Quantity of Money*, Friedman suggested that if the economy were to stall then a stimulus would be needed to 'shock' it back to life.[66] This stimulus, argued Friedman, should be delivered by the central bank in the form of giving free money to individuals as if dropped by helicopters from the sky. The central premise was that such a stimulus would boost consumer spending thus increasing businesses confidence to invest in production that would in turn have a positive effective on jobs and wages.[67]

The United States has already begun to utilise helicopter money with President Donald Trump announcing that all American households will receive a government cheque for $1,000.[68] However, the effectiveness of helicopter money remains unclear. For example, there is growing evidence that if individuals receive a one-off cash payment then they are more likely to save than spend this money,[69] consequently failing to deliver the boost to consumer spending needed kick-start the economy. Given the UK's current lockdown status, which has left Britons unable to go shopping, visit bars, restaurants or the cinema, this propensity to save rather than spend would surely only be amplified under current conditions. Likewise, the poorest in society would seemingly use a one-off cash payment to reduce their debts by paying down credit cards and loans that would, again, fail to create the demand needed to boost the economy.[70] Indeed, US authorities have admitted that banks can seize the Trump cheques to service debts even without payees' consent – underlining the danger that pandemic-related stimulus measures are commandeered by banks to serve their own interests.

4. From work to welfare

The pandemic-induced economic crisis represents an enormous upheaval, but nevertheless bears the hallmark of the inequalities that characterised economic life during 'normal' functioning. This section considers how the pandemic interacts with extant industrial relations and welfare practices, including how the government's emergency measures fail to protect many groups from the most serious implications. The sub-sections below focus on the specific issues of Universal Credit, and support for the self-employed.

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[66] Friedman, Milton (1969) 'The Optimum Quantity of Money', *Journal of Money, Credit and Banking,* 2(4): 397-419

[67] Pirie, Madsen (2020) 'Helicopter money has dropped into the discourse once again', *Adam Smith Institute,* 13th April, available at: https://www.adamsmith.org/blog/helicopter-money-has-dropped-into-the-discourse-once-again

[68] Politi, James, Greeley, Brendan and Sevastopulo, Demetri (2020) 'White House warms to showering US with 'helicopter money', *Financial Times,* 18th March, available at: https://www.ft.com/content/422f727c-6931-11ea-800d-da70cff6e4d3

[69] Pirie, Madsen (2020) 'Helicopter money has dropped into the discourse once again', Adam Smith Institute, 13th April, available at: https://www.adamsmith.org/blog/helicopter-money-has-dropped-into-the-discourse-once-again

[70] Ibid.

The request for the majority of the workforce to work from home, where possible, clearly problematises longstanding work practices. The UK government's advice on whether people should be staying away from work has been confusing precisely because our leaders are confused.[71] Working-class employees in the public sector, and working for large service sector employers, for instance, generally do work which is less essential to core business. Yet working at home is a redundant concept if the point of your job is to be available to support higher-skilled staff, or indeed to maintain the physical workspace.[72]

Of course, many millions of people are continuing to work – such as the vast numbers of working-class employees in retail, logistics and food production. Basic societal functions in fact depend on their ability to continue working. That many are doing so (or in fact taking on new jobs in these industries) due solely to financial compulsion is, frankly, abhorrent – especially given the low-paid and precarious nature of employment for many in these industries. As a society, we cannot continue to exploit the risk of destitution experienced by the poorest groups (including many immigrants) in order to preserve an economic order which produces too little of value at times like this.

The covidist state obviously demands an expansion of care and social services. The burden of this mobilisation has fallen principally upon female workers, and there has been little attention to the issues of low pay and precarious employment which characterise large parts of these industries.[73] The Women's Budget Group's conclusion that low-paid women are at greatest risk of contracting COVID-19 is depressingly unsurprising.[74] Workers in many female-dominated professions have been informally denominated as 'key workers'. Recognition of their value is essential, but not sufficient, and there is a danger that this designation is offered in lieu of adequate remuneration. They cannot get paid in claps.[75]

As discussed above, for those firms which cannot continue to function, the government has offered support for furloughing staff. The Jobs Retention Scheme encourages employers to keep staff on rather than making them redundant by promising to cover up to 80% of salaries through a government grant. While there are benefits to this payment being made to workers via employers (such as maintaining links between workers, jobs and firms, and avoiding administrative complexity), nevertheless a much-needed welfare measure has effectively been privatised. Problematically, employers are under no obligation to retain staff and are free to terminate employees as they see fit; or, where contractually permissible, to reduce their staff's pay or hours.

Where organisations are able to continue to function, with staff working entirely or predominantly at home, many workers are expected to also take on hugely intensified caring

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[71] See https://www.theguardian.com/business/2020/mar/25/businesses-ask-for-clarity-confusion-uk-lockdown-open-staff.
[72] Berry, Craig (2020) 'Workers of the world, self-isolate!', *Renewal*, 7 April, available at: http://www.renewal.org.uk/blog/workers-of-the-world-self-isolate.
[73] See https://autonomy.work/portfolio/covidfindingsfrombics/.
[74] See https://wbg.org.uk/media/low-paid-women-at-highest-risk-of-exposure-to-covid-19/.
[75] Berry, Craig (2020) 'Archaeological fieldwork notes re species extinction: 'The Economy' and 'Earth' in the capitalist age', *Discover Society*, 25 April, available at: https://discoversociety.org/2020/04/25/archaeological-fieldwork-notes-re-species-extinction-the-economy-and-earth-in-the-capitalist-age/.

responsibilities (with schools being closed to most children).[76] This situation is untenable – yet has been entirely ignored by government – and is likely to have a significantly deleterious impact on family well-being. Again, the burden appears to be falling largely upon women, and is clearly most acute for single parents.

There has been no meaningful action to support tenants to continue to pay rent, even if they lose some or all of their income, although protections against eviction have been strengthened.[77] Similarly, there are no holidays for personal debt repayments for most people, even if, again, their income has been significantly reduced. As the state becomes increasingly enlarged, its resources must be directed to groups experiencing hardship as a result of these conditions. This would include the suspension of rent payments where necessary; it should be landlords, not renters, who call upon the welfare safety net if a reduction of rental income causes financial difficulty. The nationalisation of some rental properties may yet be required. Similarly, as Johnna Montgomerie argues, we must consider suspending debt repayment for the duration of the shutdown, and/or allowing debt to be refinanced.[78]

In light of the dramatic loss of income experienced by some groups, and the ongoing failures of the welfare state, some have recommended the introduction of a universal basic income (UBI; as discussed above). Of course, as with the related idea of 'helicopter money', the economic stimulus impact of UBI will obviously be limited at a time when opportunities to consume are extremely limited. UBI would actually allow many well-off households to increase their stock of savings – more so than in normal conditions. Arguably, however, our resilience to the impact of COVID-19 may have been greater had UBI already been in place, before the outbreak.

Yet its introduction now would probably serve to distract from the more urgent need to support some households to meet urgent expenses. And, insofar as the pandemic affords an opportunity to rethink the basic principles of the welfare state, alleviating the financial pressures arising from a dysfunctional housing system and the proliferation of precarious, low-paid work would undermine the rationale for UBI. Two other UBIs should be produced ahead of universal basic income: universal basic infrastructure, to ensure that all areas and citizens have the physical, digital and social infrastructures which provide for a high standard of living and a more inclusive economy; and universal basic insurance, to ensure that the welfare state never again fails to support people when they need it most. The latter would include significant changes to Universal Credit, which is discussed below.

Ultimately, any changes to welfare provision must operate in tandem with a comprehensive and progressive industrial strategy (discussed further in the next section). This would include, specifically, a significant effort to upgrade the UK's skills base, with a higher minimum wage and much stronger levels of employment protection pursued simultaneously. New commitments to improve job quality and training provision should be demanded for the state's support for firms unable to operate during the pandemic – flipping onto employers the

[76] Berry, Christine (2020) 'Childcare in an age of corona virus', *Tribune*, 28 March, available at: https://tribunemag.co.uk/2020/03/childcare-in-an-age-of-coronavirus.
[77] See https://england.shelter.org.uk/housing_advice/coronavirus.
[78] Montgomerie, Johnna (2020) 'The coronavirus debt crisis', *Tribune*, 21 March, available at: https://tribunemag.co.uk/2020/03/the-coronavirus-debt-emergency.

conditionality regime which has intensified for individual benefit recipients over several decades. Any such measures should be focused in particular on young people: recent analysis by the Resolution Foundation has shown that young people leaving education in our last economic crisis (now in their late 20s and early 30s) still carry the scars of lower pay and poorer quality employment.[79] We must learn from this, and act fast to protect today's new labour market entrants.

4.1 The failures and future of Universal Credit and active labour market policy

As the main source of support for those on no or a low income, Universal Credit (UC) is a critical part of the response to the economic consequences of the Covid-19 pandemic. In the four-week period since 16th March, 1.4 million new claims for UC were made.[80] Detail as to the precise circumstances of claimants is lacking, however this monumental jump in claims arguably throws into sharp focus what we have known for a long time – that much of the employment feeding into record employment levels preceding the current crisis was on a precarious footing. It also underlines the need for a strong safety net to support households to deal with the risks of a jobs market characterised by insecurity.

Since its inception, Universal Credit has been widely criticised in terms of both its design and delivery. Issues like the five-week wait to receive a payment, for example, 'resolved' by a loan which becomes a debt that claimants struggle to pay back, remain with us and are creating real hardship.[81] However, a number of temporary changes to UC have been made as part of the government's package of crisis measures – for example, for the next year, UC's standard allowances have been increased by £20 per week, and the minimum income floor for the self-employed has been temporarily lifted.[82] Calls to increase the generosity of the UK benefits system have, until now, largely been ignored: we have had a decade of caps, cuts and freezes. Yet almost overnight, a consensus has emerged that benefit levels were set too low. Once these temporary measures end, the government should urgently review the case for maintaining higher levels. If providing a safety net remains a key UC objective – it should look again at evidence from the Joseph Rowntree Foundation and others about the minimum income required for a decent standard of living and ensure our social security system ensures households do not fall below this.[83]

Another important change to UC is that the conditionality regime which usually underpins it has been paused. Usually, out-of-work claimants are expected to engage in intensive job search activities – in many cases up to 35 hours a week. As then Secretary of State for Work and Pensions, Iain Duncan Smith, proclaimed in 2013, 'looking for work should be a full time job'.[84] As UC replaces in-work tax credits, the government have begun to explore ways of

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[79] Clarke, Stephen (2019) *Growing Pains: The Impact of Leaving Education During a Recession on Earnings and Employment*, Resolution Foundation, available at: https://www.resolutionfoundation.org/publications/growing-pains-the-impact-of-leaving-education-during-a-recession-on-earnings-and-employment/.

[80] See https://www.ft.com/content/e1fcc6cd-ef44-4788-807d-ca534f61c1c1.

[81] See https://www.trusselltrust.org/five-weeks-too-long/.

[82] See http://www.legislation.gov.uk/uksi/2020/371/made.

[83] See https://www.jrf.org.uk/income-benefits/minimum-income-standards.

[84] See https://www.gov.uk/government/news/claimant-commitment-to-spell-out-what-jobseekers-must-do-in-return-for-benefits.

extending conditions to working UC claimants – expecting them to either try to increase their hours or pay in their current workplace, search for additional work with a different employer (i.e. take on multiple jobs), or take up alternative work elsewhere (i.e. move jobs).[85] UC claimants failing to meet the expectations laid out in their Claimant Commitment usually face the risk of financial sanctions. Support should also be part of this system – however numerous studies have found this to be patchy at best, and largely absent.[86]

Under the Covid-19 measures, these work search requirements have been suspended, at least for 3 months, and claimants should not face the threat of sanction. Ceasing the requirement for claimants to engage with our public employment service at this time is welcome, and sensible. At least in the short term, the efforts of DWP staff, including work coaches, are quite rightly being redirected – focused on processing the huge surge in claims, and ensuring that those facing a loss of income who are not able to benefit from other measures like the job retention scheme are supported. Requiring intensive job-searching at this time would, after all, be nonsensical and dangerous.

However, there is arguably still a place for employment support even if finding work at this time is not possible. Those who are unemployed or under-employed should not be abandoned – and should be able to access support to improve their labour market prospects, if appropriate. Whether or not this *is* appropriate depends very much on individual and household circumstances, and should therefore be on a voluntary basis. This is a new and strange situation and the best approach to employment support for people who are looking for work (either now or in the future) is not obvious: coming up with the solution should be a collective endeavour. Exploring options with the wider employment support sector (organisations such as the Employment Related Services Association, and Communities that Work), training and skills providers, unions, employers, researchers and claimants themselves should help to develop an effective and appropriate package of support. We echo the Institute for Employment Studies' recent calls for a 'COBRA for jobs', while urging a focus on 'good jobs' not just 'any jobs'.[87]

An effective, well-resourced, and well-targeted approach to active labour market policy should therefore be a key part of the response – employment and wage subsidies will be required, and support for young people must be near the top of the agenda.[88] But more generally, the

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[85] Early estimates suggested that once UC is fully rolled out, approximately one million households may be subject to in-work conditionality – however given likely increases to underemployment in our new context, we can expect this figure to rise significantly. See https://www.understandinguniversalcredit.gov.uk/wp-content/uploads/2018/12/Employer-Guide-to-UC.pdf and https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/657842/ssac-occasional-paper-19-in-work-progression-and-universal-credit.pdf.

[86] Wright, S., Dwyer, P., Jones, K., McNeil, J., Scullion, L. and Stewart, A.B.R (2018) *Welfare Conditionality: Sanctions, Support and Behaviour Change*, ESRC, available at: http://www.welfareconditionality.ac.uk/wp-content/uploads/2018/05/40414-Universal-Credit-web.pdf.

[87] Wilson, T., Cockett, J., Papoutsaki, D. and Takala, H. (2020) 'Getting back to work: dealing with the labour market impacts of COVID-19', *Institute for Employment Studies*, available at: https://www.employment-studies.co.uk/resource/getting-back-work-0.

[88] Newton, B., Sinclair, A., Tyers, C. and Wilson, T. (2020) *Supporting Young People Into Meaningful Work*, *Institute for Employment Studies*, available at: https://www.employment-studies.co.uk/system/files/resources/files/548_0.pdf?utm_source=IES+emailing+list&utm_campaign=9ffde01ec

approach to active labour market policy taken preceding the COVID-19 crisis, mechanised via welfare conditionality, requires a rethink.

To date, the UK's approach to active labour market policy (ALMP) has been overwhelmingly supply-side focused, underpinned by a 'work first' approach that encourages fast work entry rather than work quality. Here the 'problem' of unemployment and low pay is framed as a behavioural one; that is, focusing on the behaviour of claimants has been cast as the solution to tackling these issues. A supply-side only approach through crisis and recovery will be the wrong one – a return to a one-size-fits-all requirement to engage in a 35 hour per week job search regardless of job quality, fit, or availability will not help individuals or, indeed, employers. In research some of the current authors conducted prior to this crisis, exploring employer responses to UC, employers complained about the high costs associated with dealing with a high volume of applications, which they felt in part resulted from the emphasis of job centres on requiring jobseekers to make a high volume of applications, rather than focusing on the quality of these applications and the job fit/match.[89] Arguably, managing this burden is one thing employers would rather do without as they try to keep their businesses going.

The government must also recognise its role in shaping economic activities through ALMP. Preceding this crisis, some researchers had begun to draw links between the UK's poor productivity performance, its 'long tail' of low-paid, insecure work, and a welfare system which curtails the choice and bargaining power of unemployed and low income workers.[90] Now, more than ever, a more 'productive' approach to ALMP is crucial, particularly as we face a protracted period of low demand for labour.

Significantly, ensuring that the UK's welfare and skills systems do not operate in isolation should be central to the government's strategy to re-build our economy and support those who are unemployed or on a low income through the COVID-19 crisis and recovery. Ensuring apprenticeships and other training opportunities, for example, are better targeted at young people and low-paid workers, and that these opportunities are promoted to UC, claimants may be a fruitful area for policymakers to explore.[91] Adult participation in learning was already nosediving long before the virus existed – which should already have been worrying those interested in supporting people to move into and progress in work. There is a danger that,

b-EMAIL_CAMPAIGN_2019_05_14_03_45_COPY_04&utm_medium=email&utm_term=0_f11585705b-9ffde01ecb-354881142.

[89] Jones. K., Berry, C., Rouse, J. and Whittle, R. (2019) Universal Credit and In-Work Conditionality: A Productive Turn? *Productivity Insights Network*, available at: https://productivityinsightsnetwork.co.uk/app/uploads/2019/10/Project-Report-Universal-Credit-Productivity_Katy-Jones-et-al..pdf.

[90] Innes, D. (2018) *The links between low productivity, low pay and in-work poverty*. York: Joseph Rowntree Foundation; Rubery, J., Grimshaw, D., Keizer, A., Johnson, M. (2018) 'Challenges and Contradictions in the 'Normalising' of Precarious Work,' *Work, Employment and Society*, Vol 32 (3) 509-527; Briken, K. and Taylor, P. (2018) 'Fulfilling the 'British way': beyond constrained choice—Amazon workers' lived experiences of workfare,' *Industrial Relations Journal* 49:5-6, 438–458; Jones *et al* (2019) *Universal Credit and In-Work Conditionality*.

[91] See https://www2.mmu.ac.uk/decent-work-and-productivity/news--events/story/?id=12109.

without government intervention, skills inequalities will be exacerbated as businesses shift resources away from training and development.[92]

Quality programmes and support are expensive, but necessary. As an essential service in good times and bad, it would have been helpful if Jobcentre Plus and the wider employment support sector had not have been weakened through a decade of austerity. Budget cuts have meant that UK job centres have fewer resources to deliver an effective employment service. As we face this new, unprecedented challenge, substantial investment in the public employment service, and other sources of employment and skills support (including that provided by the third sector), is needed more than ever.

4.2 From supporting the self-employed to building a better entrepreneurialism

As noted in the first section, the UK is generally seen as a liberal welfare regime, characterised by modest transfers and means-testing, underpinned by a faith in the ability of the market to deliver welfare (albeit highly unevenly). The position of the self-employed in relation to welfare provision is under-examined. It is assumed that the self-employed are pro-active, flexible and permanently competing individuals, who are self-reliant and self-sufficient whilst acting rationally to secure their own welfare – precisely the sort of people who would never become reliant upon the social security safety net.

Accordingly, self-employment has been promoted as a 'solution' to unemployment, as a means out of 'welfare dependency' and poverty and as a 'great leveller' for disadvantaged groups to re-enter the labour market. The self-employed today make up 15.1% of the labour force, having grown in number from 3.3 million to 4.8 million since 2001. Since the 2008 recession, the rise in self-employment has made a disproportionate contribution to the UK's recovery of total employment figures.[93]

This is in part because job centres have been heavily incentivised to promote self-employment as a reliable path from welfare to work. In the process, self-employment has become a route by which both under-employment and *de facto* unemployment is obscured. Individuals have been encouraged to take up self-employment with no considerations of the idiosyncrasies of this livelihood: failing at this 'job' means more than doing mediocre work, it means endangering one's livelihood. It seems likely that many people enter self-employment without viable business plans or adequate skills.

Turnover among sole traders is high. The Institute for Fiscal Studies found that whilst between 2011-12 and 2015-16, 6 million people were sole traders, only 2.4 million were sole traders in all five years.[94]

Clearly, most entrepreneurs were bound to have experienced a sudden drop in income following the COVID-19 outbreak. Worse, the pandemic's economic consequences interact

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[92] Boeren, E. (2020) Participation in adult education and the pandemic: who is missing out? *ELM Magazine*, 17 April, available at: https://elmmagazine.eu/news/participation-in-adult-education-and-the-pandemic-who-is-missing-out/.

[93] Office of National Statistics (2018) 'Trends in Self-Employment in the UK'. Accessed on 16 April 2020 from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07

[94] Institute for Fiscal Studies (2019) 'Who are business owners and what are they doing?', London.

with a much more precarious and diverse experience of self-employment than is generally assumed – and the government's attempt to support the self-employed appears to reinforce some of these issues.

The government's Self-Employment Income Support Scheme (SEISS) will provide grants to self-employed individuals or partnerships, who can show through a tax return from at least 2018-19 that they receive their main income from self-employment. Eligible participants may receive income worth 80% of their profits, up to a cap of £2,500 per month. Those who have profits of more than £50,000 are not covered by the scheme. The first claims can be made from the beginning of June. To address immediate income loss, the self-employed are encouraged to apply for UC, discussed above.

While the Chancellor, Rishi Sunak, claimed during the announcement of the scheme that 95% of all self-employed will be covered by it, some groups are not covered. Those who have taken up self-employment as a main job since April 2019 are not covered by the scheme. Enterprise Research Centre estimates suggest that this represents 7% of the self-employed workforce or 312,700 people. In addition, those who use self-employment income as a top-up, and are therefore not self-employed as a main job, are not covered either (8% or 329,900).[95] This includes 'portfolio' workers who may end up not being covered by *any* of the various income support schemes.

The most immediate consequence of individuals not being covered by SEISS, or any other government scheme, is that they may be forced to disregard the social distancing measures to go out and earn an income.

Comparing the UK scheme with policy initiatives in other European countries, it is noteworthy that Germany and Denmark announced schemes much faster – nearly a week before the UK.[96] They have also ensured that both immediate income loss and sustainability of the business in the long term are addressed. It has been reported that in one German state, nearly 50,000 applications to Germany's support scheme had been approved within 24 hours.[97] These schemes are already up and running, making grants available with few hurdles, whilst pay-outs for the eligible self-employed in the UK will be made in June at the earliest.

The German policy focus has been on making money available as fast as possible – whereas fraud appears to be a core consideration of the design of the UK's policy. Moreover, in the UK, as noted above, short-term income loss for the self-employed is addressed via reliance on the UC system – despite doubts that DWP has the capacity to deal with vast increase in caseload it is experiencing. Even those eligible for SEISS risk falling through the cracks.

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[95] Enterprise Research Centre (2020) '750,000 self-employed miss out on UK coronavirus support – study'. Accessed on 16 April 2020 from https://www.enterpriseresearch.ac.uk/750000-self-employed-miss-out-on-uk-coronavirus-support-study/

[96] Weicht, Rebecca and Rouse, Julia (2020) 'Coronavirus: Why Germany and Denmark are doing better for the self-employed'. Accessed on 16 April 2020 from https://www2.mmu.ac.uk/decent-work-and-productivity/news--events/story/?id=12081

[97] WDR (2020) 'Kommentar: Die superschnelle Corona-Finanzspritze'. Accessed on 16 April 2020 from https://www1.wdr.de/nachrichten/landespolitik/NRW-Spitzenreiter-Auszahlung-Coronahilfen-100.html

Amid Covid-19, we need to break the cycle of mistrust that has characterised UK welfare policy for far too long. Welfare states are meant to deliver protection in uncertain times, such as unemployment, allowing an individual to still lead a secure and fulfilled life. The UK's liberal, market-driven welfare philosophy has moved so far away from this understanding that policies are developed with mistrust built in.

To reset welfare policies towards enabling the self-employed a decent life, three main strategies are required. Firstly, as discussed in the paper's second section, we need to consider how the tax and social security systems interact for the self-employed. There may be a case for including many more self-employed people in higher rates of National Insurance, for example, as part of more comprehensive reform of tax policy, as long as welfare protections are simultaneously enhanced. These changes would also address the well-known problem that bogus self-employment exists because the National Insurance system incentivises some companies to 'employ' their previous staff as self-employed contractors.

Secondly, we need further discussion around 'affordable losses', possibly encouraging early exit for low-income self-employed. Precarious working conditions in self-employment suggest we need a welfare system better designed to prevent poverty among self-employed families. Equally, we may also need an approach that discourages entrance into low-paid self-employment and encourages early exit and transition into formal employment. Alternatively, it may be argued that self-employment provides a form of freedom from having one's labour commodified, supporting activities such as art and community engagement – or that the self-employed should be supported by the welfare state for much longer, until their businesses are established or while investing in business innovation. These dilemmas call upon us to ask more deeply about what the social contract is around self-employment in the UK, and to consider how any new settlement would enable 'decent' self-employment benefiting both individual entrepreneurs and the economy more generally.

Thirdly, we need a broader understanding of the UK's enterprise culture.[98] This includes discussions around striving for value creation beyond profit motives, including how we teach enterprise and striving to act in the interest of communities rather than shareholders. In Sweden, for example, much work has been done to broaden notions of enterprising and entrepreneurial learning, and concepts such as 'value creation projects' and 'value creation pedagogy' have been introduced. Such an approach may make entrepreneurship more attractive for and beneficial to women, and should be a key plank of the 'foundational economy' framework discussed below. Many women business owners express a desire to have a positive impact in their local and wider communities.[99]

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[98] Weicht, Rebecca, Jones, Sally and Brentnall, Catherine (2020) 'Coronavirus is a chance to rethink our enterprise culture'. Accessed on 16 April 2020 from https://www2.mmu.ac.uk/decent-work-and-productivity/news--events/story/?id=12123

[99] Wiesner, R. (2018) The WiRE program: advancing women in rural, regional and remote enterprises through entrepreneurship. Final report to the Department of Industry, Innovation and Science; Halkias, D. (2011) Preface. In Halkias, D., Thurman, P., Caracatsanis, S., & Harkiolakis, N. (Eds). Female immigrant entrepreneurs: The economic and social impact of a global phenomenon.London and New York: Routledge, pp. xxii – xxvi.

5. The next industrial revolution: socialising the economy

As economic shocks go, the COVID-19 outbreak is fairly unique. It would knock, and has knocked, even well-performing economies off course. Still struggling to move forward from the 2008 crisis, and now confronting the self-inflicted wound of a 'hard Brexit' (indeed a 'no-deal Brexit' if the derailing of UK/EU trade talks does not result in an extended transition period), the UK is not a well-performing economy. Some policy elites have rightly identified the inadequacy of industrial policy as a cause of the economic malaise which was exposed and exacerbated by the last crisis, and there have been various attempts since 2008 to devise an 'industrial strategy' via which the economy could be supported towards recovery and, over the longer term, a more sustainable development model.

These attempts have all failed. At best, they represent rather half-hearted efforts to boost an array of vogueish 'fourth industrial revolution' industries, with little coherent thought given to the economic geography of production, the implications for labour market practices and outcomes, or the institutional mechanisms by which strategic goals could be embedded in economic policy-making.[100]

At worst, we can view the UK's inter-crisis experiments with industrial policy as opportunities for 'reseeding' the neoliberal economic statecraft of the pre-2008 era. As the state became more involved in the private sector following the financial crisis, a business-led approach to industrial policy involved new opportunities for *private* economic actors to both deliver and dictate the *public* goods which ostensibly underpin industrial strategy. As such, the prospect that industrial policy tools would be used to reshape private sector business models, rather than simply use public resources to sustain profitability, has remained conspicuous by its absence from elite discourses.[101]

The inadequacies of UK industrial policy have been laid bare during the pandemic. The story of the government's failure to produce the thousands of ventilators now required by the NHS (not to mention COVID-19 testing kits, and protective gear for healthcare workers) may be unique in terms of the immediate, tragic consequences, yet will be familiar to those well-versed in the decline of UK manufacturing. As Peter Foster and Michael Pooler explain, the failure is due to: the limited capacity of a residual and over-specialised UK manufacturing sector; an over-dependence on international supply chains, even for basic inputs; an intellectual property regime which encourages rent-seeking; and public sector procurement practices driven by short-term cost rather than long-term resilience and innovation.[102]

There is 'reseeding' evident in the UK economic policy response too. As detailed in earlier sections, operating corporate loan guarantees via private banks serves to simultaneously support banking sector practices. Similarly, offering the opportunity to existing firms to

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[100] Berry, Craig (2016) 'Industrial policy change in the post-crisis British economy: policy innovation in an incomplete institutional and ideational environment', *British Journal of Politics and International Relations*, 18(4), 829-847.
[101] Berry, Craig (2019) 'From receding to reseeding: industrial policy, governance strategies and neoliberal resilience in post-crisis Britain', *New Political Economy*, advance online publication, available at: https://www.tandfonline.com/doi/full/10.1080/13563467.2019.1625316.
[102] Foster, Peter and Pooler, Michael (2020) 'Muddled thinking punctures plan for British ventilator', *Financial Times*, 17 April, available at: https://www.ft.com/content/5f393d77-8e5b-4a85-b647-416efbc575ec.

determine whether to furlough workers, or instead take advantage of the UK's flimsy employment protection regime by laying off some staff, leaves decisions over which skills we need to retain (and which individuals will see their income slashed) to 'the market' – at a time when there are no meaningful market signals. By default, we are allowing firms such as Amazon – whose business model fortuitously happens to suit the present circumstances – to make super-profits, despite myriad concerns about its treatment of workers (now placed at greater risk of contracting COVID-19), tax practices and wider impact on local economies.

It is worth noting that the Johnson government had already begun to hint at a new settlement for UK industrial policy, albeit without adopting the usual terminology. As discussed above, Johnson's focus on 'levelling up' suggest a willingness to embrace state intervention in the economy, focused on physical infrastructure, and playing a stronger role in financing R&D activity by large firms. A conservative covidism might see such an approach become a more permanent feature of economic statecraft. As Simon Parker, and Adam Dixon and Ilias Alami, have separately remarked, this might ironically see the Conservative Party embrace a Singaporean model of public ownership, with a fantastical account of Singapore as a prosperous, ultra-neoliberal economy having fuelled Brexiter dreams in recent years.[103]

Either way, inequality would become further entrenched, even if the centrifugal pattern of prosperity is spread a little more evenly than before. We would continue to mismanage the 'foundational' activities which make economic life possible: as argued below, COVID-19 has illuminated the extent to which the individuals and communities which sustain the foundational economy have been neglected. Similarly, there is little in the Johnson government's economic strategy, before or during the pandemic, to suggest that mitigation of the climate crisis – the most serious, long term threat to the UK economy – will be a guiding objective. The following two sub-sections explore these issues in more depth.

5.1 The foundational economy and local economic governance

The COVID-19 crisis exemplifies what many who have made arguments around the foundational economy[104] – and more broadly the concept of 'social reproduction'[105] – have been stating for a very long time. As Julie Froud, Sukhdev Johal and Karel Williams show, 'much of the economy of the UK or other industrialised countries comprises everyday services meeting household and small business needs. These foundational activities are not only important in terms of employment but because they provide the infrastructure of everyday life which can enable households, businesses and other organisations to function.' [106] The foundational economy can be understood as part of a broader, locally-rooted system of social reproduction which also includes unpaid, domestic activities. When these foundations– the

[103] See https://twitter.com/SimonFParker/status/1251427431233224704; also Dixon, Adam and Alami, Ilias (2020) 'The specter of state capitalism', *Developing Economics*, 26 March, available at: https://developingeconomics.org/2020/03/26/the-specter-of-state-capitalism/.

[104] The Foundational Economy Collective. (2018). Foundational economy: the infrastructure of everyday life. Manchester: Manchester University Press.

[105] Bhattacharya, T. (2017) Social reproduction theory: remapping class, recentering oppression. London: Pluto Press.

[106] Froud, J., Johal, S. and Williams, K. (2018) 'The foundational economy and industrial strategy', in C. Berry (ed) *What We Really Mean When We Talk About Industrial Strategy*, p12. Available at: https://www2.mmu.ac.uk/media/mmuacuk/content/documents/business-school/future-economies/WHAT_IND-STRAT___BERRY_NOV18.pdf.

fundamental, social infrastructure of everyday life – are rocked, the ostensibly productive and more profitable economy quickly implodes. This is part of what we are seeing as a result of the pandemic: as many currently working from home have discovered, without the support of nurseries, schools and home caring services, their ability to complete a day's labour has become increasingly difficult. But in many ways, the foundational economy has continued to function even as the rest of the economy has been halted. This is most obvious in the case of public services such as healthcare. Broader activities around social care (including childcare, disability care, care for the elderly and so on[107]) have also continued, in exceptionally difficult circumstances. We are also discovering for the first time the extent to which the retail, logistic and food production industries – alongside privatised utilities such as water, energy and telecommunications – are staffed by 'key workers'. These activities have been under-funded, poorly regulated and exploited by capital holders for decades – their continuation in the present circumstances is possible *despite* this mismanagement. As ever, they are fundamentally reliant upon the dedication of their workforces.

The UK economy, and public sector, would have been better placed to meet the challenge of COVID-19 had it not been for the pursuit of austerity and a neoliberal version of localism in the inter-crisis period. Spending cuts have not simply retrenched the delivery of public services at the local level, they have also greatly undermined a whole series of foundational institutions held within or supported by the local state, and disabled the capacity of policy-makers to build local economic resilience.[108] The redistributive switching of the UK state under austerity has also, in a deeply contradictory sense, sought to empower the 'local' via devolution to city-regions.[109] This is most pertinent in England but there are similar accounts in Wales and Scotland.[110] This has been a very specific form of 'empowerment', that should be viewed as a

[107] Askew, L. E. (2009) '"At home" in state institutions: The caring practices and potentialities of human service workers', Geoforum. Elsevier Ltd, 40(4), pp. 655–663.
[108] Gonzalez, S. and Oosterlynck, S. (2014) 'Crisis and resilience in a finance-led city: Effects of the global financial crisis in Leeds', Urban Studies, 51(15); Omstedt, M. (2016) 'Reinforcing unevenness: Post-crisis geography and the spatial selectivity of the state', Regional Studies, Regional Science. Routledge, 3(1), pp. 99–113; Fuller, C. (2019) 'The institutions and heterogeneous geographical relations of austerity', Critical Policy Studies. Routledge, 00(00); Hastings, A. et al. (2017) 'Austerity urbanism in England: The "regressive redistribution" of local government services and the impact on the poor and marginalised', Environment and Planning A, 49(9), pp. 2007–2024; Gray, M., & Barford, A. (2018). The depths of the cuts: The uneven geography of local government austerity. Cambridge Journal of Regions, Economy and Society, 11(3); Pike, A., Coombes, M., O'Brien, P., & Tomaney, J. (2016). Austerity states, institutional dismantling and the governance of sub-national economic development: the demise of the regional development agencies in England. Territory, Politics, Governance, 6(1), 1–27/
[109] HM Government (2011) 'Localism Bill'. Beel, D., Jones, M. and Jones, I. R. (2016) 'Regulation, governance and agglomeration : making links in city-region research', Regional Studies, Regional Science. Routledge, 3(1), pp. 509–530.
[110] Waite, D. and Bristow, G. (2018) 'Spaces of city-regionalism: Conceptualising pluralism in policymaking', Environment and Planning C: Politics and Space, 0(0); Waite, D., Maclennan, D. and O'Sullivan, T. (2013) 'Emerging city policies: Devolution, deals and disorder', Local Economy, 28(7–8), pp. 770–785; Waite, D. and Morgan, K. (2018) 'City Deals in the polycentric state: The spaces and politics of Metrophilia in the UK', European Urban and Regional Studies, p. Beel, D., Jones, M. and Jones, I. R. (2018) 'Elite city-deals for economic growth? Problematizing the complexities of devolution , city-region building, and the (re) positioning of civil society', Space and Polity. Taylor & Francis, 0(0), pp. 1–21.

broader meta-governance strategy[111], that is spatially uneven[112] and seeks to only give agency to certain actors[113]. This economy-first narrative with an emphasis upon agglomerative growth (often measured in terms of GVA uplift) has been written through the process of building city-regions[114]. This agenda has focussed upon high-end growth whilst simultaneously ignoring the foundational aspects of the economy on which it is built[115], and is based on the faulty assumption that the statutory and non-statutory activities of existing local authorities have a negligible economic function.

This agenda has further distanced 'non-economic' actors from positions of agency. The creation of intuitions such as Local Enterprise Partnerships (LEPs) is a key part of the neoliberal 'reseeding' noted above, especially insofar as civil society actors are increasingly excluded from economic governance. The voluntary sector has invariably sought to fill gaps created by cuts to local services during the inter-crisis period. The role of charities is now more vital than ever, but we have barely begun to theorise how essential charities are to societal functioning. The £750 million in emergency funding for UK charities announced by the government represents only a small portion of the funds they are likely to lose as a result of the pandemic.[116] This shows how unbalanced our UK policy elites' understanding of the local economic ecosytem is, with covidism to date absorbing a neoliberal understanding of charity and civil society in ways that are, at best, unsustainable and, at worst, hugely exploitative. Short changing charities providing essential services to vulnerable groups will end up costing government more.[117]

The foundational economy conceptualisation offers a guide to future practice as well as a diagnosis of the shortcomings of existing industrial policy imaginaries. The Foundational Economy Collective, consisting of a group of European scholars who have been studying neglect of the foundational economy under neoliberal regimes for many years, have responded to the COVID-19 outbreak by publishing a ten-point plan for foundational renewal. The box below summarises the key elements of this plan.[118]

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[111] Bailey, D. and Wood, M. (2017) 'The metagovernance of English devolution', Local Government Studies. Routledge, 43(6), pp. 966–991.
[112] Etherington, D. and Jones, M. (2009) 'City-Regions: New Geographies of Uneven Development and Inequality', Regional Studies, 43(2), pp. 247–265.
[113] C.f. - Rutherford, T. D. (2006) 'Local representations in crisis: Governance, citizenship regimes, and UK TECs and Ontario local boards', Environment and Planning D: Society and Space, 24(3), pp. 409–426.
[114] Foreman-Peck, J. and Zhou, P. (2019) 'Devolving fiscal policy: migration and tax yields', Regional Studies; Fothergill, S. and Houston, D. (2016) 'Are big cities really the motor of UK regional economic growth?', Cambridge Journal of Regions, Economy and Society, 9(2), pp. 319–334; Haughton, G. et al. (2016) 'Mythic Manchester: Devo Manc, the Northern Powerhouse and rebalancing the English economy', Cambridge Journal of Regions, Economy and Society,
[115] Jonas, A.E.G. (2012) 'City-regionalism: Questions of distribution and politics', Progress in Human Geography, 36(6), pp. 822–829; Schneider, C., & Cottineau, C. (2019). Decentralisation Versus Territorial Inequality: A Comparative Review of English City Region Policy Discourse. Urban Science, 3(90), 1–22.
[116] See https://www.civilsociety.co.uk/news/charities-face-closure-as-sector-set-to-lose-4bn-over-12-weeks.html.
[117] Ainsworth, D. (2020) 'Why was the chancellor so reluctant to bail out charities?', Medium, 11 April, available at: https://medium.com/@daveainsworth1976/why-was-the-chancellor-so-reluctant-to-bail-out-charities-2085ba5b721e.
[118] The Foundational Economy Collective (2020) What Comes after the Pandemic? A Ten-Point Platform for Foundational Renewal. Available at https://foundationaleconomycom.files.wordpress.com/2020/03/what-comes-after-the-pandemic-fe-manifesto-005.pdf (Accessed: 9 April 2020).

Box 1: The Foundational Economy Collective's ten-point platform for foundational renewal

- The priority for extending collective responsibility for foundational basics should be healthcare. This would include addressing inequalities in access to services and investing in critical care capacities, as well as new resources community-based and preventative health services.
- Housing and energy are also immediate foundational priorities. Local industrial strategies should, for instance, be reoriented to increase the social housing stock, and local government should be empowered to develop community-controlled green energy systems.
- A new approach to food production and retailing is required. This would include challenging to dominance of the supermarket business model, which contributes to food insecurity by, among other things, capturing supplier profits and therefore undermining local food system.
- The introduction of a social licensing system which imposes social and environmental standards on all providers of foundational good and services. This could represent a major new economic policy power appropriately located at the local level.
- As discussed in the second section of this paper, we must reform taxes on income, expenditure and wealth to greatly increase the capacity of government to raise revenue to provide foundational services within the public sector.
- Disintermediation within institutional investment practice to allow for greater allocations to material infrastructure; appropriately managed foundational activities can generate stable returns to long-term investors.
- Where possible, supply chains in foundational commodities should be shortened, with procurement becoming more relational and less transactional.
- Every city, town and rural area should develop live/work transition plans by democratic means, to support the liveability of localities and help to address the climate crisis.
- The technical and administrative capacity of all levels of governance should be rebuilt, reversing the damage of austerity, managerialism, privatisation, etc.
- European countries must adopt some responsibility for inadequate foundational systems – principally in healthcare – in adjacent regions: 'Taking responsibility for others will increase the expense of any foundational agenda but doing the right thing may well be politically and economically cheapest in the long run'.

Adapted from The Foundational Economy (2020)

5.2 Greening the enlarged state

The existing crisis response is attuned to the immediate economic effects of the pandemic but it entirely neglects another crisis. This is the crisis of the environmental unsustainability – of which the impacts of which are increasingly visible across the UK and the wider world – for which we have only a small (and diminishing) period of time to address. If the purpose of industrial policy is to equip economies to address major challenges to societal well-being, then supporting a green transition must be at the heart of any industrial policy agenda.

The 2018 IPCC report concluded that limiting climate catastrophe requires emissions reductions of 45% by 2030 and 100% by 2050.[119] The consequences of not doing so include planetary warming, the depletion of natural resources, glacial retreat, rising sea levels,

[119] Intergovernmental Panel on Climate Change (2018) 'Global Warming of 1.5 ºC', Special Report by the IPCC. Available at: https://www.ipcc.ch/sr15/

weather volatility and biodiversity loss, as well as additional unforeseeable risks resulting from subsequent geological feedback loops.[120] If the global ecological footprint of human activity is not redressed, it is projected that the ecosystem will be increasingly unable to sustain human civilisation. There will be heightened risks of wildfires, flooding, the permanent submergence of major towns and cities, the rendering of large geographical spaces inhabitable, weather volatility including severe storms and heatwaves, soil degradation and forced displacement of populations.[121] Indeed, we are already witnessing some of these impacts. As with COVID-19, the ecological crisis will trigger a series of economic convulsions which threaten people's livelihoods. This is likely to include the exacerbation of shortages (including in agricultural production), disruptions to a plethora of precarious globalised supply chains, the abrupt re-evaluation of asset prices, financial disorder, and threats to the business models of companies not equipped to manage systemic risks.[122]

The normalised operations of capitalism are deeply complicit in the environmental crisis.[123] This is not to say that we can rely on recessions to keep the economy within planetary boundaries[124]; this would certainly not constitute a *socially just* transition to a greener economy. Instead we must pursue a transformation of capitalism that is designed to achieve the reduction of the economy's ecological footprint and simultaneously ensure the provision of basic needs. This entails fundamentally challenging entrenched patterns of production, trade and distribution in numerous industries.

It is clear that the existing government response – to finance (at great cost to the taxpayer) the preservation of the existing composition of the economy until the pandemic and recession are over – entirely neglects the imperative of decarbonisation, as well as a series of other deep-seated economic pathologies. It would be wrong to see the COVID-19 outbreak as an opportunity to pursue a green industrial policy – our priority now is the protection of public health, and mitigating the profound effect of the pandemic on livelihoods. However, we can see the pandemic's economic impact as a warning to ensure we are better prepared to address the climate crisis. Furthermore, there is a danger that the state's enlargement in response to the pandemic serves to further entrench environmentally destructive economic practices.

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[120] Ibid.
[121] Ibid.
[122] Christophers, B. (2017) 'Climate Change and Financial Instability: Risk Disclosure and the Problematics of Neoliberal Governance', Annals of the American Association of Geographers, 107(5), pp.1108-1127; Lamperti, F., Bosetti, V., Roventini, A. et al. (2019) 'The public costs of climate-induced financial instability'. Nature Climate Change, 9, 829–833. https://doi.org/10.1038/s41558-019-0607-5
[123] Newell, P., & Paterson, M. (2010). Climate capitalism: global warming and the transformation of the global economy. Cambridge University Press; Barry, J. (2012) The Politics of Actually Existing Unsustainability: Human Flourishing in a Climate-Changed, Carbon Constrained World. Oxford: Oxford University Press; Newell, P. (2013) Globalization and the environment: Capitalism, ecology and power. John Wiley & Sons; Moore, J.W. (2017) 'The Capitalocene, Part I: on the nature and origins of our ecological crisis', The Journal of Peasant Studies, 44(3), 594-630.
[124] Rockström, J., Steffen, W. L., Noone, K., Persson, A., Chapin III, F. S., Lambin, E., Lenton, T. M., Scheffer, M., Folke, C., Schellnhuber, H. J., Nykvist, B., de Wit, C. A., Hughes, T., van der Leeuw, S., Rodhe, H., Sörling, S., Snyder, P. K., Costanza, R., Svedin, U., Falkenmark, M., Karlberg, L., Corell, R. W., Fabry, V. J., Hansen, J., Walker, B., Liverman, D., Richardson, K., Crutzen, P. and Foley, J. (2009) 'Planetary boundaries: exploring the safe operating space for humanity', Ecology and Society, 14(2), 32.

What, therefore, would a crisis management policy package look like if it were part of a strategy of just transition towards a sustainable and more resilient economy? A 'green state' response to the current crisis would be distinctive in a number of ways.

First, state support of private sector organisations must be discerning and conditional. Subjecting companies appealing for government support to a strict assessment of that company's economic, social and environmental impacts in order to guide policy-makers thinking on whether companies ought to be bailed out and the terms on which they are. The employment and contribution to public goods must be recognised alongside the need to prioritise certain forms of economic activity over others; particularly as some industries will be able to lead the way in the type of sustainable and inclusive economic growth whilst others will not. Adopting the principle of strategic state support, this calculus will lead to a more discriminatory approach to public investment. This may include companies being precluded from receiving state aid, the staged phasing out of various forms of state support (allowing for a managed downsizing), or providing state aid on the proviso that certain business practices are changed (e.g. imposing limits on the bonuses or dividends paid out).

The potential adoption of this principle has already been hinted at by Andrew Bailey, the new BoE governor, when asked about the possibility of excluding fossil fuel assets from the Bank's future bond purchases. He told a Treasury Select Committee in March 2020 that there is 'a very strong argument' for recognising the climate-related financial risks in to central bank policy-making and altering the composition of the Bank's asset portfolio, and that he intended to make it 'a priority'.[125] It remains to be seen whether the asset purchases comprising imminent rounds of QE match this rhetoric, but it may indicate that the adherence to the guiding principle of 'market neutrality' – whereby asset purchases conform to the investment preferences of the capital markets despite the environmental consequences – is being challenged on Threadneedle Street.

Secondly, and relatedly, this downturn signals the moment for a green stimulus. Public investment in the low-carbon economy can create employment and help the UK government meet its legal commitments made in the Paris Accord, as well as support a sustainable recovery from the economic shutdown.

This would entail investment in low-carbon forms of energy production and the upgrade of the infrastructure and production systems in the automotive, manufacturing, transport and service sectors. It should also include the innovation and development of new low-carbon technologies. These industries – highlighted as strategically important in the recently revived Green New Deal discourse[126] – can be seen as both vital environmentally vital and viable economically in

[125] Clarke, D. (2020) 'Andrew Bailey announces crucial step towards climate-friendly Bank of England', Positive Money. https://positivemoney.org/2020/03/andrew-bailey-announces-crucial-step-towards-climate-friendly-bank-of-england/

[126] See Miliband, E., Lucas, C. and Sandys, L. (2019) 'Let's seize the moment and create a Green New Deal for the UK', The Guardian, 30 April 2019. Available at: https://www.theguardian.com/commentisfree/2019/apr/30/green-new-deal-climate-change-social-transformation; Ocasio-Cortez, A. (2018) 'The Democratic Party Wants to Make Climate Policy Exciting', The Atlantic, December 5 2018. Available at: https://www.theatlantic.com/science/archive/2018/12/ocasio-cortez-green-new-deal-winning-climate-strategy/576514/; Lucas, C. (2019) 'The answer to climate breakdown and austerity? A green new deal', The Guardian, 27 March 2019. Available at:

the economy of the 2020s. The industrial policy element of these proposals entailed vertically supporting the innovation and growth of low-carbon economic sectors through tax incentives, investment and the construction of infrastructure.[127] Training and employing workers immediately will enable the schemes pertaining to this stimulus to mobilise at speed when lockdown restrictions are relaxed. The green industrial policies deployed by the German and Danish governments in recent years, which have fostered the growth of low-carbon energy companies, could serve as templates for UK policy-makers. There is also much to be gained from learning from the experiences of China and South Korea, which made green stimuli significant components of their response to the 2008 financial crisis.

In addition to their contribution to decarbonisation efforts, these industries also present an opportunity to create well-paid jobs and educational and training opportunities in technology development, manufacturing and construction.[128] As such as they can be considered relatively 'jobs rich' compared to other industries currently seeking bailouts, meaning that investment in these industries offer a better return for policymakers seeking to suppress levels of national unemployment.[129] The dual benefits of a 'green stimulus' are the reason why the policy approach has generated such support amongst EU Commissioners and Environment Ministers across Europe.[130] Moreover, these 'green jobs' could help remedy the UK's existing regional inequalities.[131]

Extending state support on the basis of these principles would represent the mobilisation of state resources in aid of a phased and just transition to a more environmentally sustainable economy. These are, as such, two key pillars of a Green State response. Ensuring a 'just transition' however also means taking measures to avert the need for austerity tomorrow to pay for the green stimulus of today. This brings us to the issue of state and public ownership.

5.3 Towards a collective future

As the economic consequences of the pandemic deepen, covidism is likely to herald bailouts for the corporate sector. We believe bailouts should take the form, at least in part, of equity stakes, to support a reorientation of business practice towards value-creation of value-

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https://www.theguardian.com/commentisfree/2019/mar/27/climate-breakdown-austerity-green-new-deal; Klein, N. (2019), On Fire: The (burning) Case for a Green New Deal. Simon & Schuster;

[127] Bailey, D. (2020) Industrial Policy in the context of Climate Emergency: the case for a Green New Deal, FERPP 6, https://www2.mmu.ac.uk/media/mmuacuk/content/documents/business-school/future-economies/Dan-Bailey-Green-New-Deal.pdf

[128] Miliband, E., Lucas, C. and Sandys, L. (2019) 'Let's seize the moment and create a Green New Deal for the UK', The Guardian, 30 April 2019. Available at: https://www.theguardian.com/commentisfree/2019/apr/30/green-new-deal-climate-change-social-transformation; Pettifor, A. (2019) 'The beauty of a Green New Deal is that it would pay for itself', The Guardian, September 17th 2019, https://www.theguardian.com/commentisfree/2019/sep/17/green-new-deal-climate-disaster;

[129] Fahnbulleh, M. and Powell, D. (2019), 'A Green New Deal in the UK', New Economics Foundation, April 2019. Available at: https://neweconomics.org/uploads/files/GND_2019_WEB.pdf

[130] Simon, F. (2020) 'France, Germany join group of 10 EU countries calling for green recovery', Euroactiv. Available at: https://www.euractiv.com/section/energy-environment/news/france-germany-join-group-of-10-eu-countries-calling-for-green-recovery/

[131] Satow, A. (2019) 'Our new movement aims to propel Labour into a radical Green New Deal', The Guardian, 22 March 1996. Available at: https://www.theguardian.com/commentisfree/2019/mar/22/movement-propel-labour-radical-green-new-deal

extraction.[132] Indeed, we must consider extending public ownership to industries which have not so far been financially damaged by the pandemic, such as food retail and telecommunications, in order to better embed their foundational purpose in business practice.

Purchasing shares rather than distributing unconditional subsidies will allow the state to gain real value from its use of public money.[133] Moreover, the shares purchased and associate revenue streams could inaugurate a new UK citizens' wealth fund, bolstering state capacity and serving to democratise the national economy.

This opportunity avails itself at a time when government borrowing is relatively inexpensive. The UK government can issue 10-year bonds at a yield of 0.5 per cent (even less when factoring in inflation) which, combined with the reduction in share prices, makes the current moment opportune for asset purchasing.[134] As Lonergan and Blyth note, 'by issuing debt when interest rates are so low and, in effect, buying assets at very cheap prices, in the medium-term, the state will simultaneously ensure businesses survive, workers keep their jobs, and the state emerges an owner of significant assets'.[135] As well as creating last value for the state, this approach would afford the state new steering powers to support a green transition.

However, state ownership and public ownership are not synonymous. As part of a new social contract for the post-pandemic age, we must consider also ways in which workers can exercise control within their employing organisation.[136] COVID-19 has brought this issue from the margins of progressive to the very centre of considerations around how to govern capitalism after the pandemic. Despite the job retention and loan guarantee schemes (and, to a lesser extent, support for the self-employed) it seems highly likely that many SMEs will become insolvent as a result of the economic shutdown, yet with valuable assets which could be acquired by the largest firms at a significant discount. This dynamic, rather than state enlargement, could serve as the major cause of an increased concentration of economic power, and enabling greater corporate control by workers will be one of the main ways it can be mitigated.

It is also worth considering, finally, the future of data ownership. The increase in surveillance deemed necessary to enforce social distancing and remote working, and which may indeed become essential to tracing COVID-19 infection, has shed further light on the power (and opportunities for rent-seeking) which has accrued to platform companies able to gather vast

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[132] Democracy Collaborative and Centre for Local Economic Strategies (2020) *Owning the Future: After COVID-19, a new era of community wealth-building*, available at: https://cles.org.uk/wp-content/uploads/2020/04/Owning-the-future-FINAL.pdf.

[133] See Roberts C. and Lawrence M. (2018) Our Common Wealth: A citizens' wealth fund for the UK, IPPR. https://www.ippr.org/research/publications/our-common-wealth ; Lonergan, E. and Blyth, M. (2020) Beyond bailouts, IPPR, March 26 2020. Available at: https://www.ippr.org/research/publications/beyond-bailouts

[134] Trading Economics (2020) United Kingdom Government Bond 10Y. Available at: https://tradingeconomics.com/united-kingdom/government-bond-yield

[135] Lonergan, E. and Blyth, M. (2020) Beyond bailouts, IPPR, March 26 2020. Available at: https://www.ippr.org/research/publications/beyond-bailouts

[136] See Lawrence, M., Buller, A., Baines, J. and Hager, S. (2020) *Commoning the Company*, Common Wealth, available at: https://www.common-wealth.co.uk/reports/commoning-the-company.

amounts of our personal data. Moves towards the collectivisation of data ownership must be accelerated.[137]

6. Concluding thoughts

It will be different this time. But what kind of different? The basic building blocks of covidist statecraft are beginning to form, but there remain manifold uncertainties. And while this is not the way anybody would have chosen to initiate radical reform of the pre-pandemic political order, the moment must nevertheless be seized.

Already, there are suggestions that the austerity of the inter-crisis period helped to prepare the UK for the fiscal expansion now required, notably from former Chancellors George Osborne and Sajid Javid.[138] This is foolishness of the highest order: there is no doubt that austerity has left the UK unnecessarily vulnerable to COVID-19 and its economic consequences.[139] This opinion has been voiced on the right only to lay the groundwork for a further round of spending cuts once the immediate, pandemic-induced crisis has passed, thereby sparing affluent groups from responsibility for financing state enlargement.

Austerity is not an option, in part because the deficit will be too large for spending cuts to play a meaningful role in any fiscal 'correction' without inflicting near-unimaginable damage upon our society. Indeed, to repair the damage of austerity and COVID-19 – and address the coming challenges of a 'hard Brexit' – public spending will have to increase significantly above its pre-pandemic level, even accounting for the Johnson government's plans for additional expenditure. Above all, the UK must embrace the ideal of universal basic insurance to instil both fairness and resilience in its economic model.

If government borrowing increases as anticipated, financial repression, to inflate away the value of public debt, would seem to be the least bad macroeconomic policy response available.[140] However, the impact on returns to wealth for the most affluent groups might suggest this would be politically difficult for the Conservative Party. Again, there are already voices on the right warning of the dangers of inflation, despite an absence of normal inflationary pressures. The influence of neoliberalism will not evaporate overnight. Yet even if cheap loans from government-owned or -controlled banks became abundant (a key element of financial repression), it is highly unlikely that (nominal) spending will outpace (real)

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[137] Mills, S. (2020) 'Who Owns the Future? Data Trusts, Data Commons, and the Future of Data Ownership', Future Economies Research and Policy Paper No. 7, available at: https://www2.mmu.ac.uk/media/mmuacuk/content/documents/business-school/future-economies/Mills-2020.pdf.

[138] See https://twitter.com/sajidjavid/status/1241066998076968965 and https://www.bloomberg.com/news/articles/2020-04-20/architect-of-u-k-austerity-says-retrenchment-needed-post-crisis.

[139] Portes, J. (2020) 'And so the appalling consequences of the austerity experiment become clear', *Prospect*, 25 March, available at: https://www.prospectmagazine.co.uk/economics-and-finance/and-so-the-appalling-human-consequences-of-the-austerity-experiment-become-clear-george-osborne-economy-coronavirus-covid-19-recession.

[140] Tooze, A. (2020) 'Should we be scared of the coronavirus debt mountain?', *The Guardian*, 27 April, available at: https://www.theguardian.com/commentisfree/2020/apr/27/economy-recover-coronavirus-debt-austerity.

productive capacity for the foreseeable future.[141] The UK needs a much more holistic (and, frankly, grown up) approach to fiscal management. Dominic Raab's suggestion, in his capacity as acting Prime Minister during Boris Johnson's illness, that the Bank of England had decided independently of the government to introduce monetary financing is an example of both the juvenile nature of public discourse on fiscal policy, and a longstanding attempt by elites to obscure the intensely political agendas which underpin macroeconomic governance.

Pension funds generally consider themselves victims of financial repression, even if not explicitly compelled to invest more in public debt, since their more limited appetite for volatility means they are heavily exposed to gilts, and therefore weakened if yields fall below inflation. This is not a trivial dilemma. However, although not discussed in this paper, there must be no assumption that UK pensions provision is in good health. Pensions investment practice has contributed to many of the (global) financial risks exacerbated by the COVID-19 pandemic, and has left pension savers vulnerable to the sudden economic downturn in myriad ways. The case for radical reform of UK pensions provision has become more urgent.[142]

Radical reform of UK tax policy is also both likely and necessary. The majority of UK citizens have been under-taxed for too long, starving the public sector of resources while indebtedness among the poorest households – plugging gaps in welfare provision and compensating for low pay – has served to prop up a failed growth model overly reliant on consumer spending. This will include addressing the arbitrary differences between income tax, national insurance and tax on capital gains and profits. To avoid future generations of taxpayers bearing sole responsibility for a higher tax burden, there is a strong case for an emergency wealth tax: this would be targeted upon those who prospered in the inter-crisis years due in large part to stimulus measures post-2008 focusing on inflating asset values.

Tax on corporations should also be reformed to disincentivise over-leveraged business models; such firms use profits which would otherwise be taxable to service debts, yet are much more likely than equity-financed firms to require a government bailout. This would be part of a new commitment to a purposeful and comprehensive industrial strategy, focused on meaningfully changing the UK economic model. Like austerity, *laissez-faire* is not an option for post-pandemic economic statecraft. Too much economic damage will be done by the pandemic, and too much uncertainty will remain, for the foreseeable future.

The 'experiments' in industrial policy undertaken since 2008 have been inadequate and, in some ways, served to reinforce neoliberalism. But the recognition that the 2008 financial crisis, and the anticipated impact of Brexit, required a normalisation of state intervention in the private economy is a platform to build upon. Yet rethinking what our economy is for, and how we value basic goods, is also necessary now. After the pandemic, with consumption constrained, we can no longer rely on low-value services industries to produce plentiful employment opportunities.

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[141] Bean, C. (2020) 'The economics of coronavirus', *LSE Business Review*, 30 March, available at: https://blogs.lse.ac.uk/businessreview/2020/03/30/the-economics-of-coronavirus/.

[142] Berry, C. (forthcoming), *Pensions Imperilled: The Political Economy of Private Pensions Provision in the UK*, Oxford University press.

One of the most pressing priorities must be acknowledging the importance of 'foundational' economic activities in enabling daily life and social reproduction, as well as supporting innovation and productivity throughout the economy. An industrial strategy which focuses on nurturing more of what society needs, while disincentivising business models which seek to extract rather than produce value, would mean higher rewards for those in 'essential' jobs, but also the decommodification of many essential goods as part of a commitment to universal basic infrastructure or services.

Moreover, as devastating as COVID-19 is, we must not lose sight of the intensifying climate crisis, which is also a major threat to life and well-being. The pandemic-related stimulus should be a green stimulus, to ensure recovery is sustainable rather than short-lived and/or destructive. The new levers of economic statecraft should be employed to instil sustainable practices within every firm and industry benefiting from government support.

While the political contours of covidism are still being forged, it is just as plausible that the right will embrace the state's enlargement in some ways, rather than seeking a return to the small-state ideals of neoliberalism. Of course, we know that neoliberals have rarely been reluctant in practice to draw upon the power of the state to support a financialised accumulation strategy. The real prospect may therefore be not a return to austerity and *laissez-faire*, but an embrace of 'state capitalism' whereby interventions are oriented towards sustaining certain firms and industries deemed essential to maintaining a given distributional order. This will lock in wasteful and morally abhorrent inequalities, for the sake of an accumulation model in which the welfare and security of society in general is, at best, a marginal concern.

This is the battle that must now be fought. While the implications of COVID-19 and a generation of economic mismanagement require an enlarged state, a progressive response must embrace also the empowerment of citizens, workers and communities both *alongside* and *within* the covidist state.

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