FABIAN POLICY REPORT

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RECOVERY AND REFORM IN THE POST-CORONAVIRUS ECONOMY

Edited by Vanesha Singh with contributions from Anneliese Dodds MP, Will Hutton, Seema Malhotra MP, Andrew Pendleton, Carys Roberts, Carsten Jung and more

ABI

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Our relationship with the Fabian Society and Labour party is highly valued and we are pleased to both sponsor, and contribute to, this collection of essays looking at the future of the economy post-coronavirus.

FOREWORD

Andrew Harrop is general secretary of the Fabian Society

Over the next 10 months the UK's challenge is to save lives and livelihoods. Over the next 10 years it is to build prosperity, equality and environmental justice. This report asks how we can rise to the first challenge in a way that helps us achieve the second. The articles examine macroeconomic policy, unemployment, green transition, workers' rights, private sector reform, progressive tax rises and the role of insurance and long-term saving.

We need a comprehensive economic strategy and a new sense of shared purpose and responsibility. After this year's extraordinary state support for business, the government is entitled to ask firms to pay greater heed to the public interest and the nation's long-term needs. Where companies require targeted help, ministers should consider taking long-term equity stakes, especially in carbon-intensive sectors where ongoing stewardship is needed.

A new direction for finance is also required to support households and productive investments in every region of the country. The retail and commercial arms of banks should be reimagined as public

FABIAN SOCIETY

A Fabian Society report
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interest institutions. Government lending and guarantees for innovation and business growth should be available too, and the state should work with patient capital to jointly finance investment.

But the immediate priority is jobs. We need to safeguard jobs at risk and create new ones fast, especially in key national priority areas such as green and digital infrastructure, housebuilding, the caring professions and education. Unemployed people who cannot quickly find work should receive special support, including high quality training and a guaranteed job.

Saving existing jobs will take ongoing financial support for the sectors forced to operate below capacity or to keep their doors shut altogether. On top of that an economy-wide stimulus is likely to be needed, and it must be designed to bring the most benefits to people with least. Cuts to VAT and quantitative easing fail that test. Better options include a one-off council tax rebate or a hike in child benefit.

Higher benefits should also be paid to families who have zero or modest earnings to address the worst hardship of the crisis. But in this case the increases should be permanent not time-limited, alongside an enduring improvement to workers' rights and to the scope and resilience of public services.

This will all mean higher public spending as a share of GDP and ultimately, we will need to find a way to pay for this. Higher taxes will be needed on wealth and environmental harms, both to raise money and to tackle inequality and the climate crisis.

None of this agenda is anti-enterprise: it is a plan for shared goals and long-term partnership, binding together people, business and government.

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Seizing the moment

It has never been more pressing to reset our economy, argues *Anneliese Dodds MP*

Anneliese Dodds is the Labour and Co-operative MP for Oxford East, and shadow chancellor of the exchequer

The OECD Global Outlook report published in June should have acted as a wake-up call. The report suggested that the UK's economic hit from coronavirus will have been worse than that experienced by any other industrialised nation. Soberingly, the report suggested that while the UK would not retain that bottom spot if a second wave of coronavirus hit, it would still be very hard hit indeed. Just as health indicators in the UK have proved disturbingly bad during this crisis, it appears that our economic outcomes are also almost uniquely poor.

Part of the reason for this lies with long-term problems in the UK which have been exacerbated by the crisis – inadequate social security, weak regional and tripartite coordination, low private and public investment, and massive disparities in skills, income and wealth across the country. As we reset the way our economy works, it is the right moment to address these long-standing problems. However, the refusal of the government to adopt a more active and strategic role in determining our economic future is exacerbating these weaknesses and slowing our recovery.

Labour has tried to act as a constructive opposition, advancing solutions wherever we can to the problems we face. To start to halt our country's negative spiral there must be action to prevent additional economic scarring and to build back better.

The social distancing measures necessitated by the coronavirus have clearly had an unprecedented impact on both the global and national economy. Initially government ministers suggested that a V-shaped 'bounce back' was likely. More recently, there appears to be an acceptance that a slower recovery is inevitable – but apparently with little acknowledgement that at least some of the mechanisms to speed economic revival lie in the government's hands.

First, there must be a far stronger acknowledgement of the critical importance of demand. The economist Simon Wren-Lewis produced a prescient study that modelled the likely economic impact of pandemics. He rightly highlighted the significance of 'social consumption' – spending which is not necessary to life and limb, but which amounts to as much as a third of overall demand in economies like the UK's. Meals in restaurants, trips to the cinema, holidays – all these enjoyable activities come under this heading, yet all rest on consumers feeling confident that the businesses they enter will be safe.

The tragic delays in instituting 'test, track and isolate', as well as confused public health messaging, have substantially reduced confidence. To prevent demand being depressed for longer than is necessary, the government must work far harder on the public health prerequisites of safe business opening. The chancellor cut VAT on hospitality in this summer's mini budget but such demand-promoting measures will be insufficient to stimulate consumption if consumers still lack confidence. Of course, government must also avoid the kind of demand-sapping

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decisions that followed the 2008 financial crisis, where swingeing cuts to public services and social security led to a far slower recovery than that experienced in many other countries.

Secondly, as Seema Malhotra MP rightly argues in this report, additional scarring will also ensue if the number of unemployed people grows and if those people are unemployed for a long period. Evidence shows that the wages of people who had a spell of unemployment when young are between 13 and 21 per cent lower than their peers, 20 years later.[1] Government must do more to prevent unemployment, by adopting a sectoral approach to support, and by encouraging young people to stay in education and training. It must do more to support the unemployed, putting into place now services to support people back into work, and making additional changes to universal credit (not least related to housing costs, which must be better covered if we are to avoid mass evictions). And it must catch up with those other countries who have already announced their stimulus, so that businesses can retain workers with confidence.

One sector where both demand and supply are crucial is construction, especially housebuilding. We know that if building firms collapse in a recession, capacity can be lost for good (as happened to thousands of small firms in the 1980s), worsening our country's already massive housebuilding shortage. Action to secure the supply of mortgages to purchasers and finance

[1] The wage scar from male youth unemployment, Paul Gregg and Emma Tominey.

for housebuilders is essential. But it should not be without conditions – now must be the time to require affordability and environmental sustainability as a condition of such support.

Finally, we must see more action to support businesses that are struggling currently but which are viable for the future. This will involve government taking difficult strategic decisions. A targeted sectoral approach will involve the government choosing between different parts of the economy, and prioritising their needs. It will involve difficult decisions about the boundaries of which businesses fall into different sectors and thus are deserving of additional support. But a failure to act strategically just because it involves difficult political decisions would be an abdication of responsibility.

Currently the government appears paralysed and unable to take such critical decisions. We have seen this in aviation – where change is inevitable due to the climate crisis and what looks likely to be permanently depressed business demand. We need a planned approach, with central government working through different scenarios with stakeholders to determine the best approach in the national interest. Instead we see chaos – different airlines trying to grab market share, laying off huge numbers of staff and subverting the economic support packages they're receiving in order to cut costs for competitive reasons.

The same unwillingness to intervene arises with respect to loan and equity finance. Unlike other countries, from Denmark to France, which have imposed stipulations on those businesses benefiting from public funds, the UK's approach has been hands-off. The public should be able to look back with pride at the support provided to business during this crisis – not with gritted teeth. Failure to impose conditions on public funds (beyond the very limited requirements on dividends and executive remuneration under the large business interruption loan scheme) will undermine public confidence and waste an opportunity to bring better environmental performance and working rights to major employers. It will also allow companies' value to be extracted through share buybacks, dividend payments and tax havens, rather than kept in the UK.

Again, the government needs to be strategic in its provision of support. The existing loan packages largely exclude manufacturers, despite their often-critical regional importance and the large number of indirect jobs they support through supply chains. The Conservatives have been very slow to conclude deals even with large manufacturers, again in comparison with many other countries' approaches. At the same time, as of June we still have no understanding of how government will respond to those smaller firms who may need equity support as the different coronavirus loans mature and cannot be paid back according to the existing terms. Government here must recognise the critical significance of SMEs as an engine of the UK economy, and provide an equity solution which works for them.

As well as these immediate problems, we must also seek to build the UK economy back better – dealing with those long-running issues which have blocked our economic potential. Low growth in public and private investment, especially in badly-served regions of the UK, has become particularly evident over the last 10 years. While the Conservatives continue to use the language of 'levelling-up', it is clear that their record is one of failure.

> Those with the broadest shoulders can and should make more of a contribution

While some media-friendly infrastructure projects are likely to be announced over the next few months, it is critical that they amount to more than the pattern of recent years. We have seen repeatedly re-announced projects which take years to get off the ground, fail to involve UK firms when they finally do get going, and which are then often too expensive for local people to use, or do not tackle their real needs. Investment here should not focus on projects offering one nice picture of the chancellor in a hard hat. Instead it should always be assessed against its impact on quality employment and on the environment. Decent bus services, upgraded further education facilities and reliable broadband are all areas which have seen little focus despite their critical importance. A massive green retrofitting programme, much stronger energy efficiency requirements for new build, and a clear, evidenced and resourced plan (rather than warm words) for the transition to a circular economy are all critical here. The UK cannot continue to trail behind nations like Germany, which have already announced an extremely comprehensive green recovery plan.

Finally, in laying the foundations for more sustainable future prosperity, we need to deal with the inequalities which have plagued our country. The UK has just gone through the longest squeeze on living standards in eight generations. Yet the very best-off people have surged ahead, when their incomes and capital gains are looked at together. A quarter of our families lacked even £100 in savings when the crisis hit, including many where the breadwinner was employed in social care; yet it has been suggested that another public sector pay freeze could be a part of the response to the crisis.

A different future is necessary – one which recognises that after this time of mass sacrifice, those with the broadest shoulders can and should make more of a contribution; and also that our fragmented labour market now locks far more people into insecurity than it 'liberates' through flexibility. Just as the government recognised the critical role of the trade union movement when it created the furlough scheme, it must now appreciate that greater trade union involvement – including through better union access to workers and a much more strongly institutionalised position – will play its part in promoting productivity and enabling better economic coordination.

The first ever Fabian pamphlet noted that "for the right moment you must wait, as Fabius did most patiently, when warring against Hannibal, though many censured his delays; but when the time comes you must strike hard, as Fabius did, or your waiting will be in vain, and fruitless." The last 10 years have entrenched inequalities, stripped security from so many, and returned our country to Thatcherite levels of division. After these last 10 years, and the current awful crisis, it has never been more pressing to change our economy so it works for everyone. We must seize the moment and build a better Britain from it. F

Think big

The coronavirus pandemic demands
a Keynesian response, writes *Will Hutton*

Will Hutton is principal of Hertford College, Oxford, co-chair of the Purposeful Company and a regular Observer columnist

As we enter a pandemic-induced recession, the time has come for Keynesian economics. We certainly need proactive use of fiscal and monetary policy of the kind currently being developed by the British government and even more aggressively by the United States and Germany. But we will need to go further.

The economics of John Maynard Keynes offers a profound critique of capitalism that goes beyond a willingness to use every monetary and fiscal stimulus to compensate for the forces generating recessions. It asks why violent economic cycles happen and demonstrates why markets do not spontaneously self-organise into perfect outcomes – the doctrine of free-market 'classical' economists.

The task is to get at the roots of why capitalism inherently produces economic instability, under-investment and inequity, and then develop mechanisms to address those roots. Proactive fiscal and monetary policy are part of the answer but not the whole of it. Now is the opportunity to lay the foundations for a better economy than the one that entered the pandemic.

Essentially, argues Keynes, capitalism and free markets cannot by themselves deal with the existential challenge provided by the reality that we cannot know the future. To imagine that our collective guess will prove to be right because of the wisdom of crowds is free-market folly. Inevitably, because market ecosystems within capitalism have vastly differing capacities to handle uncertainty, there are mismatches arising from the differential speed of adjustment.

In particular, financial markets can respond instantaneously to uncertainty and have an embedded preference to value near-term more predictable outcomes; labour markets react much more slowly, with hiring decisions dependent on expectations of future sales that are heavily influenced by how optimistic or pessimistic employers feel about the future – and they can be wildly wrong. There is no "price" for labour that automatically clears the labour market at full employment.

> The task is to get at the roots of why capitalism inherently produces economic instability

And these mismatches are made much worse because they feed back into businesses' lumpy investment decisions: investment tends to be on big ticket items whose spillover effects aggressively multiply the expansive or contractionary effects at work when financial markets get bullish or bearish. Because the future is incalculable, we are governed by our animal appetites – anticipating good things or fearing bad things.

Capitalism, rather than being the well-oiled machine imagined by classical economists, is instead something of a zoo in which the animals' instincts have to be caged or prompted – and their actions co-ordinated because best outcomes will not happen by themselves. And the cager, prompter and coordinator is of necessity the state. A successful capitalism demands an active, agile state – regulating, building institutions, socialising risks, superintending finance, securing fairness, building in resiliences – to organise what markets of necessity cannot. Public and private are interdependent spheres. They need each other.

This, then, is the lens through which to conceive a Keynesian response to the pandemic and all that it has exposed. Plainly, without the job retention scheme and the provision of emergency loans, British business would have been forced into lay-offs in the millions. The state simply had to step in and accept the increase in borrowing – already an additional £90bn in June 2020 – as tax revenues fell.

The Treasury's debt management office has been fortunate: given the huge demand to hold UK government bonds as a safe haven asset, it has been able to sell abnormal amounts of short, medium and long-term government debt in normal proportions. Indeed, some shorter dated three-year gilts have actually been sold at negative interest rates. The financial markets are signalling a willingness for the government to use them to do what it takes to avert an explosive rise in unemployment over the rest of the year.

Even as matters stand, unemployment among non-furloughed workers looks set to rise to more than 3 million by the autumn. The menacing threat is that the furloughing and emergency loan schemes are wound down with nothing to take their place. The combined impact will be devastating. Surveys of firms' employment intentions suggest that a third of furloughed workers – in total 8.7 million – will be made redundant when furloughing ends. Within that total there are 1.6 million retail workers and 1.4 million hotel, restaurant and pub workers. In these ultra-distressed sectors, where social distancing rules have wrecked the business model, expect employers to make at least half their payroll redundant when furloughing ends. The Treasury is said privately to be expecting unemployment to rise to 4.5 million by early 2021; the number could easily approach 6 million.

The pandemic demands a Keynesian response: direct intervention in the labour market, a big fiscal stimulus to demand and further direct intervention to support banks and investors. All this requires a willingness to find the necessary money, by borrowing in innovative ways and vastly enlarging the government's "overdraft" facilities with the Bank of England – in effect printing money in the short term. There was widespread surprise at the scale and generosity of chancellor Rishi Sunak's job retention scheme when he launched it, and then his readiness only to gradually wind it down, ending it in October. Equally the Bank of England has been aggressive in its bond buying programme, scale of quantitative easing and willingness to provide emergency credit lines to banks. But this welcome willingness to break all conventional rules and embrace Keynesianism is only just beginning to be tested.

Obviously the government cannot pay the wages of 9 million people indefinitely. But equally it cannot risk up to 6 million unemployed. The chancellor recently announced a job retention bonus for employers, but it would have been more beneficial to introduce a wage subsidy as it phases out the job retention scheme in October so that employers do not sack their employees as furlough ends, but instead keep them as active workers courtesy of public support for wages. The subsidy should start as the same rate as will be paid in October to support furlough costs, but it should only be available for workers who are working. It can be gradually reduced over 2021 sector-by-sector but in those sectors in extreme distress – hospitality, catering, retailing etc – it should continue into 2023.

In addition, a wage subsidy should be introduced – enough to pay the minimum wage – to hire and train all unemployed 16 to 25-year-olds. This would underwrite a National Youth Corps, run by young people for young people, aimed at avoiding a disastrous spike in youth unemployment. It is the young whose employment prospects are being disproportionately hit by the pandemic, with scarring that will be long-lasting. As the chancellor's latest 'kickstart scheme' to create more jobs for young people highlights, they are as in need of particular support just like hard hit business sectors.

> It is the young whose employment prospects are being disproportionately hit by the pandemic

On top of this, the government must aggressively stand behind banks and investors by supporting distressed companies with subsidised loans and direct stakes in businesses. It should forego tax if necessary to keep firms alive, as long as lenders and investors take a similar hit. The government has already signaled a willingness to do this with its proposed Project Birch, but it is still locked in the old paradigms. Taking direct equity stakes is very much 'a last resort', instead wanting to load already distressed companies on the point of partially or completely closing down with yet more debt – which inevitably is the last form of assistance that is desirable in such circumstances. Nor are there any new institutional arrangements, and everything is on a trivial scale compared to Germany's plans. It needs rethinking and reframing.

Ministers need to turn to the business growth fund, established by the banks after the 2008 financial crisis which takes equity stakes in existing, stable businesses, and build it into a much more pro-active, less risk averse public private partnership. This must work on an even larger scale than the Industrial and Commercial Finance Corporation established after the second world war and have a mandate to take shareholdings across the gamut of needy firms – to help them survive or scale. It should have £100bn at its disposal of part public, part private money.

Similarly, the British Business Bank, miniscule compared with industrial development banks in other countries, needs immediately to be given the mandate and capital to increase its own lending 10 times. It must be tasked with getting the money to where it is needed across the country beyond the south east – with the banks cajoled into becoming active partners. Its lending should not just be about preserving viable businesses: it should be thinking of supporting firms – especially small and medium-sized enterprises – in key growth sectors, and particularly those such as robotics, space, advanced drugs and artificial intelligence identified as priorities by the government's industrial strategy.

As banks collaborate on bailouts and emergency credit provision, they need their shareholders to say vocally and publicly that they support them. It is a public interest function. As fast as possible a new Companies Act should require banks' retail and commercial arms, which discharge core economic functions, to incorporate as public benefit companies whose task is first and foremost to transmit money and credit to achieve public interest outcomes. Profit will follow from the delivery of purpose. The act should also put the responsibility on shareholders to actively curate and steward the companies in which they invest, ensuring that they deliver on the purpose for which they were incorporated. Britain will thus create a new generation of commercial banks that serve the economy and society. Many good bankers would welcome the change.

It is no longer exports that requires financial guarantees from government. The fourth industrial revolution is being driven by scientific advance. Intellectual property (IP) rights need to become as good a form of collateral as property, so the risk weightings on both are the same. A transparent market needs to be established in IP rights (as Big Innovation Centre has consistently argued). This would mean IP can be fairly valued and then crucially insured by government, to create bankable low risk weighted collateral.

This insurance function can also be extended to the top slice – say 20 per cent –

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of other loans to small business, so that insured IP loans, insured SME loans and eventually British Business Bank SME loans can be bundled together and sold as bonds to the UK insurance industry, allowing it to diversify part of its £1.9tn holdings of financial assets into bonds that directly create real wealth, with the funds recyclable for a fresh round of financing. The insurance industry would welcome a new relatively high yielding asset class in which to invest along with the reputational benefit of being seen to part of the economic solution.

And all these initiatives need to be framed and supported with measures to stimulate demand. Germany has introduced a time-limited reduction in VAT in a stimulus package worth 4 per cent of gross domestic product. Britain should follow suit. Germany, the long-standing champion of ultra-fiscal and monetary orthodoxy, has suddenly become converted to the Keynesian cause – but of course it has much better-established institutions and institutional piping through which to act, such as its development banks and long established kurz-arbeit wage-subsidy system. Britain has to catch up fast.

How is all this to be financed? Here again the old rules need torching. This is a once in a century crisis and its financing needs to be approach in those terms. Britain needs to issue very long term bonds, like it did in the second world war where war debt repayment dates were up to 75 years, along with "perpetual" bonds that never have to be repaid, even if it has to pay a supplementary interest rate for the privilege. There should be no threat of having to refinance large volumes of debt even in the medium term. If necessary, the proceeds can be added to by enlarging the government's capacity to borrow directly from the Bank of England. With output taking such an enormous hit, the inflationary risk of overdraft finance – a form of printing money – is non-existent. Any excess liquidity as the economy recovers can be sterilised later by mandatory requirements for banks to lodge excess cash with the Bank of England as special deposits. Similarly necessary increases in taxes can await recovery.

Britain is facing a looming first order economic disaster. The government has been forced into a faltering Keynesianism by the magnitude of events, but Britain needs to go much further, must faster and with much more conviction. The country has to think big – and think Keynesian – in response.

New visions

A national plan for employment can help shape a better future, argues *Seema Malhotra MP*

Seema Malhotra is the Labour and Co-operative MP for Feltham and Heston and shadow minister for employment

In recent months our country has come together to stop the virus and save lives. That same sense of passion and commitment is now needed to save livelihoods.

The recession will create mass unemployment in the UK, wider disparity between the nations and regions, and greater polarisation in terms of income, opportunities and social mobility. Over 9 million jobs with over a million employers have been furloughed, and the UK claimant count is approaching 3 million. Unemployment could come in new waves as the furlough scheme ends unless further flexibility is introduced. The chancellor recently announced a job retention bonus to incentivise employers to keep workers on after the furlough scheme ends, but his announcements fell short of the targeted help and flexibility sectors need. We should leave no stone unturned in the quest to save the jobs we can and create the jobs we need – jobs that will last and will drive the green economic revolution.

Covid-19 has laid bare the structural inequalities and the lack of resilience in our economy and our institutions – and it has had a hugely unequal economic impact by demographic group and geography. London and the north-east followed by the West Midlands and the north-west showed the highest regional unemployment in May 2020. Young workers, low-paid workers, black, Asian and minority ethnic (BAME) workers and women are more likely to have been hit by job losses or reduced income. Research from the Nuffield Foundation shows just over a quarter of temporary workers reported they were now 'definitely' or 'probably' unemployed compared with 4 per cent of permanent, salaried employees. For the self-employed, 75 per cent reported that they earned less than usual, compared to 26 per cent of employees.

The future of our aviation communities is at stake and the precise nature of short and medium-term business continuity in retail, hospitality and catering services is uncertain. The choices we make now for jobs and enterprise will set the pattern not just for the next five years, but the next 50 years.

The scale of our response must match up to the scale of the challenge. And we must proceed with the right urgency: first, a focus on job retention and the task of saving jobs now; second, job creation at speed and scale, with the aim of shaping a better future out of today's crisis; and third, access to skills, jobs and a decent income, allowing workers to have dignity and the companionship of work. This needs an active government to stop employment getting worse, with a vision of a sustainable future and a plan for how we work together to achieve it.

Inclusion and resilience

Inclusion and institutional resilience must underpin how we develop a future-orientated economy and an active labour market to support it. But to achieve it will take the power and resources of the state in a way not seen for generations.

Covid-19 highlighted how little society valued too many essential jobs. Workers who were once deemed 'low skilled' are now recognised for being at the heart of our economic functioning. Those who care for us – in low-paid, precarious jobs – are now recognised as vital. The contribution from our BAME communities has also been recognised. They are overrepresented in frontline roles – the cost of which has been disproportionate BAME deaths. People from BAME communities are more likely to be on the frontline of the recession too – more likely to lose their jobs or businesses, and to have fewer assets and savings to fall back on.

Covid-19 has also shone a light on how poorly adapted our workplaces have been for those with disabilities or health conditions, as the disability employment gap persists. Disabled people have been shut out of the workplace despite huge advances in assistive technology that could make equally productive work possible. The positive change and adaptation seen during Covid-19 should be continued. As we

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reimagine the world of work, accessibility and inclusion using the full range of available technology and enlightened leadership should be a priority.

> We currently face an unprecedented jobs gap, with almost nine times more people seeking work than jobs available

This crisis has also laid bare the damage done to the institutions we rely on. The Health and Safety Executive and local authority health inspection resources are depleted: their numbers and budgets have suffered from a decade of austerity. Local employment services, one of our most crucial tools in battling the economic crisis, are now a fraction of what they were under previous governments: there, too, the institutional damage wrought by austerity is evident. Further education colleges, historically a vital boost to employability and adult retraining as well as the space for a 'second chance' post-schooling, are under huge strain. Our response to the jobs challenge must start with institutions that last, not just announcements that shine.

New ideas such as 'skills accelerators' could also play a part to support in-work growth. These are local partnership programmes which support working people on low household incomes to gain better-paid and more stable employment through personalised advice and skills acquisition. The 'skills escalator' model offers a wide range of funded training courses which can match individual needs. An evaluation of one scheme in west London suggested the state made £4 for every pound spent.

Saving the jobs we can, creating the jobs we need

The immediate priority must be policies to help people stay in employment when customer demand is low and to be re-engaged as demand picks up. The starting point is to avoid an abrupt withdrawal of furlough scheme support, coupled with a much deeper policy with close scrutiny of sectors, geographies and demographics to understand how existing employment can be best supported. Within that setup, there could be flexibility for workers to take up new additional jobs that are more in demand in the short term than their furloughed work. Government, business and trade unions will be critical in making job transitions smooth and, where they are short-term, in assuring employees of a right of return to their old job.

Second is job creation. We currently face an unprecedented jobs gap, with almost nine times more people seeking work than jobs available according to the Institute for Employment Studies. The government must do all it can to develop support systems for those who lose their jobs, as well as opportunities. Success of this support should be measured against previous schemes like the future jobs fund for young people. We need a radical plan to bring to life the promise of jobs that offer dignity, quality and decent pay, with national and local government working in partnership with business, unions and our education sector.

Learning from Germany, we need a programme to stimulate demand and new jobs, focusing procurement rules on employment activation, training for vacancies in social and health care and bringing forward capital investment across government. Positive opportunities create optimism and work, reducing the costs of social security as well as building a skills base for the future. We need an inclusive approach to a return to work that is Covid-safe; and an economic recovery that upskills rather than deskills workers.

We must also bring the community spirit we have seen during the pandemic to the looming unemployment crisis. The half a million GOODSAM volunteers supporting our NHS or local groups serving vulnerable neighbours should inspire us. We need communities and businesses to support people seeking new work and skills, drawing on recruitment companies with furloughed staff to instead offer jobs or careers advice, or expanding voluntary organisations that have a history of effective labour market support. This is not the time to dismantle community support, but to grow and deepen it.

The chancellor's announcement of a £2bn kickstart scheme for young people with clear similarities to Labour's Future Jobs Fund which the Tories cancelled in 2012 is welcome, but we need to see support that builds skills, workplace companionship and productive employability. An ambitious access to jobs plan building on the best of what works must help match young people with future-focused jobs and help build progression. Guaranteed jobs for young people will work as part of a new generational settlement on jobs and skills: young people need support, resilience and mentoring from their older colleagues for long term success.

We need to get ahead of the curve. Britain cannot afford for the government to make the same mistakes with labour market policy as it has in handling the health of the nation during the pandemic. A national plan for employment is needed now. F

Not just any green recovery

For a more equitable and sustainable future we need a radical plan with climate justice at its centre, writes *Adrienne Buller*

Adrienne Buller is a senior research fellow at Common Wealth

It is tempting to feel encouraged by the breadth of groups now coalescing around the idea of a green recovery from the economic fallout of Covid-19. Academics, politicians across the political spectrum, campaigners and the editorial boards of the mainstream financial press are all adding their voices to the chorus. However, not all green recovery proposals are created equal. Indeed, many risk building a future of even greater economic, social and racial inequality; inadequate and unjust decarbonisation; and increased vulnerability to the shocks of a changing climate.

Thus far, ideas for a green recovery from both the government and the Labour party have focused on economic stimulus – on productivity, infrastructure investment in decarbonisation, and the creation of 'green jobs.' And to its credit, Labour's green recovery consultation acknowledges the importance of a recovery that prioritises affected workers and communities. But much more is needed; stimulus alone cannot build a recovery that achieves the scale and pace of decarbonisation needed, particularly in a way that spreads the costs and benefits of decarbonisation fairly, and ensures justice.

From a 'green recovery' to a Green New Deal

'Greening' the UK's economy with a stimulus based solely on cleaner energy, electric vehicles and tech fixes like carbon capture and storage will not secure a sustainable or just future. A piecemeal approach that relies on discrete green tweaks or additions to an innately destructive and unequal economy is not enough; rather, the current moment has created the opportunity to build a fundamentally different post-pandemic model with a plan that recognises and addresses the indissoluble relationship between inequality, injustice and climate and environmental degradation. That plan is a Green New Deal (GND).

The green new deal has fast become an idea with many variations and advocates, often hollowed out of its more radical elements

Admittedly, since being made famous by congresswoman Alexandria Ocasio-Cortez in the United States, the GND has fast become an idea with many variations and advocates, often hollowed out of its more radical elements. I don't intend to represent a definitive understanding of the GND; nonetheless, as an alternative frame to the broad brush of a green recovery, I believe the idea continues to hold transformative potential. For the purpose of this discussion, I therefore use it to describe a radical framework for economic transformation and rapid decarbonisation alongside institutional change and justice, both domestically and internationally.

The core of the GND is its recognition that the deeply rooted issues we face, including economic instability, profound inequalities, and climate and environmental degradation, share a basis in our economic model, which – to borrow a concise descriptor from Rabobank's Michael Every, "functions to give more money to ultra-rich people," unimpeded by the human or environmental cost. The GND therefore demands the replacement of that model, rather than adjustments at its margins, distinguishing it from many green recovery proposals.

While the GND does contain elements such as a green industrial strategy and public investment to decarbonise alongside creating secure green jobs, it envisions this as just one part of a more fundamental transformation that counters the institutions and logic that underpin the economy's unsustainable extraction, carbon consumption and outrageous inequalities of wealth and power. And crucially, the GND identifies justice as both a guiding principle and essential outcome of the transition to a decarbonised economy. This applies not only with respect to the domestic outcomes of UK policy, but also internationally. Justice, like the climate crisis itself, cannot be limited to the UK's border; rather, justice demands that the GND take a consistently international perspective in decarbonising the UK.

The urgency of an international approach

The UK is the world's fifth largest cumulative emitter of carbon. In fact, according to the Climate Equity Reference Calculator, the UK's cumulative contribution to global emissions means it would have to reach more than 200 per cent below 1990 emissions levels by 2030 to make a fair contribution to meeting the global 1.5ºC target. This is not only a far cry from the current 2050 net zero target; more pressingly, achieving it is also an impossibility. A just GND, then, demands not only that the UK decarbonise as rapidly as possible – reaching net zero before the global target of 2050 – but also that it redresses its outsize contribution to the climate crisis through other means.

Central to this must be policy that reflects the UK's colonial legacy, which extracted immense wealth from and built vulnerability into the economies of many countries that now, despite having contributed comparatively little to cumulative global emissions, face the harshest and most immediate impacts of the climate crisis.[1] Importantly, this legacy has far from ended; as research from organisations such as War on Want have outlined, British-owned corporations continue to commit environmental violence against and plunder the resources of the global south.

The same is true of our deregulated and globalised financial system, supported by extreme capital mobility and favourable trade rules that protect financial and corporate interests. The soaring borrowing costs and debt crises now confronting many governments in the global south, fostered by a record capital efflux from investors seeking safer havens amid Covid-19-induced panic, are recent reflections of the injustice this system supports. The GND's vision of a 'just transition' means little without accounting for these past and present injustices.

Moving from vision to reality

The question, then, is how to translate principles of justice into concrete policy demands to shape a potential 'green recovery'. As Andrew Pendleton's chapter in this report outlines, some of this work has begun: a host of groups are now calling for climate justice-type conditions to be attached to government bailout schemes, particularly for carbon-intensive industry like aviation. There is also a clear emerging consensus about the importance of a green fiscal stimulus, creating jobs through public-led investment in home retrofitting and other green infrastructure.

However, there is little benefit to public investment in green if we do not also dismantle or transform the institutions and logics underpinning the UK's contribution to climate injustice in the first place. There are certain obvious priorities, like ending the government subsidy of the fossil fuel industry while supporting workers through the transition, or stopping UK public investment in overseas fossil fuel projects and reallocating funds toward mitigation and adaption. However, there is also a need for more fundamental changes to the way our economy functions.

> Inequality makes us all more vulnerable, and it will only be deepened by accelerating climate and environmental breakdown

For instance, the UK maintains a bloated financial sector. It extracts wealth as effectively as it supports the unsustainable extraction of resources; facilitates global tax avoidance and evasion, compromising the tax sovereignty of other countries; and continues to embrace the ruling doctrine of shareholder primacy, which encourages the pursuit of profit maximisation above all else. There are no shortage of proposals for combatting these, with arguments from Tax Justice Network and IPPR for shrinking the financial sector and reorienting it to serve the public good, including through public investment banks; to Common Wealth's proposal for mechanisms to leverage bailouts to 'common' the company form, by taking government stakes to grow public wealth while restructuring companies to become more equitable and sustainable by design.

It will also be vital to ensure public investment and ownership are embraced for the long term, with a decisive shift toward prioritising shared affluence over private enclosure. This means ensuring mechanisms like the acquisition of public stakes in companies through Project Birch are recognised as powerful tools for reshaping the economy, rather than a temporary last resort, and demanding that essential public services like transport are permanently taken into public ownership, rather than the temporary nationalisation of private companies' losses, as happened early in the pandemic. It also means ensuring that the present U-turn on public spending and investment, including a green stimulus, is not used as the basis for future austerity.

Finally, the UK must urgently begin to take international climate justice seriously. Many of the domestically oriented proposals above, such as reining in finance or changing the operating logic of corporations, will have international implications. But the UK also has a responsibility to directly pursue climate justice beyond its borders. Mechanisms for doing so include, but are far from limited to: adopting the principle of climate fair shares, which would see the UK decarbonising faster and investing far more than other countries who have contributed less to global emissions; using the COP presidency to centre the loss and damage proposals that have been routinely thwarted in these negotiations; and advocating debt cancellation – rather than the temporary suspension of service payments – for the global south. The UK should also heed the call of leading thinkers such as Jayati Ghosh and push for international cooperation to enact capital controls, or embrace the concept of climate reparations – as advocated by academics such as Leon Sealy-Huggins and Keston Perry – in recognition of the UK's colonial legacy and the vulnerability.

The Covid-19 crisis has cast a fresh light on the weaknesses and injustices baked in to both the domestic and global economy, as well as the depth of our interdependence. Both of these truths will be echoed as the climate crisis advances. Inequality makes us all more vulnerable, and it will only be deepened by accelerating climate and environmental breakdown. To be effective and sustainable in the long term, any 'green recovery' after Covid-19 must therefore embody the principle of climate justice, both within our borders and beyond.

[1] Harpreet Kaur Paul, 'The Green New Deal and global justice', Renewal Journal 28(1). 2020.

The power to rebuild

The left must support local leaders and draw up real plans for a federal UK, argues *Luke Raikes*

Luke Raikes is research director at the Fabian Society and a Manchester councillor

The economic shock from coronavirus hits a country that is already regionally divided. Before the crisis, in the area of South Promenade and Seasiders Way in Blackpool, male life expectancy at birth was just 68–11 years lower than the national average, and 25 years lower than in Knightsbridge, Belgravia and Hyde Park.

But the idea of a 'north-south divide' is redundant and inaccurate. The reality is far worse: whole swathes of the country – including the south west, Wales, the Midlands, the north of England and Northern Ireland – are more like developing Eastern Europen economies than other advanced economies, such as France or Germany. The UK is one of the most geographically unequal countries in the developed world; parts of Turkey and Poland have better health outcomes than many areas outside the south east.

Regional inequalities are not inevitable – other countries have addressed regional divides and invest billions each year in doing so. And this inequality in the UK affects all regions, including London, where the capital's house prices push so many into poverty – another, often overlooked feature of our regional inequality. The new recession now threatens to make our spatial problems even worse.

The path any recession takes is unpredictable and sometimes counterintuitive. Many tourist towns have already seen the sharpest spike in unemployment, but economies are far more complex than initial impact assessments assume. The fate of different places will be determined by the size, savings and cashflow of local businesses; we need to factor in where workers spend their money, where the suppliers of both goods and services are based and, in turn, their own vulnerabilities. Afterall, the financial crisis did lasting damage to places that did not major in investment banking.

> Across the developed world, strong local and regional governance helps places respond to crises

Some places are much more resilient than others to these shocks. They have common characteristics, like a diverse business base; deep, broad labour markets; or flows of finance from a variety of sources. This suggests that the big metropolitan areas will 'bounce back' to growth more quickly, although unemployment and low pay could last much longer – like they did after the last recession. There is little we can do to change the fundamental characteristics of these places before they are hit by the next shockwaves of this crisis.

We can, however, give places the ower to react and rebuild. For areas to recover, somebody needs to make big decisions – on investment in retraining or job guarantees, lending to businesses, or new infrastructure. They need to be the right decisions, made responsively, by well-informed people on the ground. Across the developed world, strong local and regional governance helps places respond to crises such as the one we now face.

But that is not how we work here in England. All political parties have put off building the local and regional governance we need. Although Scotland, Wales and Northern Ireland have succesful devolution, England is the most centralised country in the developed world – a major reason why our regional inequality has gone unchecked for so long.

Our centralised governance has been laid bare in our response to coronavirus. In recent months local government has often been disregarded by Westminster: at best, it has been seen as a delivery agency for badly planned and executed central government programmes.

Despite being overlooked, local government is often doing the hard and innovative work. Before Covid-19, entrepreneurial councils took part-ownership of airports, science parks and even cutting edge genomics firms. Now they have been working through the crisis – often taking big risks, trying desperately to make some of Whitehall's hapless schemes work, while managing a hugely complex situation on the ground. They do all this with little resource or respect from central government. Councils should not need to prove themselves worthy, but they truly have in recent months.

In other countries such as Germany, Italy and France, local, regional and national governments work much more closely together in order to tackle such challenges. This is not always straightforward – people disagree and places diverge in their approach. But it is, on balance, a far better way to govern, whether during a crisis or in calmer times.

Devolution can improve people's lives in important and tangible ways. Across the developed world, local decisions tend to be more interventionist. Regional governments, mayors and municipalities have the power and independent funding streams to invest, from infrastructure to education. Provided local governance and institutions are strong, greater equality and inclusion tend to be the result.

Devolution of tax powers is particularly important to enable this intervention: businesses and people can be more willing to pay higher taxes if they are invested locally – on infrastructure they can see before them, instead of being swallowed by the Treasury hundreds of miles away, never to be seen again. And the fear – on the left especially – that this will result in more regional inequality is misplaced – regional redistribution is, across the developed world, the natural partner of fiscal devolution.

Both political parties must improve their offer of devolution to the country – to respond to this crisis, and to rebuild. The prime minister's next move has been well-trailed: 'build back better' will be used to reinvigorate Johnson's ebullient interventionism. The signs are that they will make a big show of devolution and regional investment – in green and tech industries – between now and 2024.

Of course, the government's regional plans might only be there to sweeten the pill of yet more austerity, forced council mergers and back-office restructures. But the Conservatives have a positive story to tell about the regions – it may be a work of fiction, but it is a story the electorate often wants to hear over the pessimism that has often characterised Labour's approach.

Now, and especially ahead of the 2024 election, Labour will need to set out its own positive stall on devolution. When Labour was last in government, it let most of England down on devolution, having gone so far in Wales, Scotland, Northern Ireland and London. And in successive manifestos, the offer to England's regions has appeared as an afterthought – although the 2019 manifesto was, in this respect at least, more comprehensive than in previous years. Labour must now finally develop a proposal for devolution in England and a federal settlement for the whole of the UK, as Keir Starmer pledged during his leadership campaign.

Within this parliament, both parties must face up to the short and long-term challenge of building new local and regional governance.

> Labour will need to set out its own positive stall on devolution

First, they must work through many irrational fears and distractions. The fears of postcode lotteries, a 'race to the bottom', or regional funding inequalities betray an ignorance about how things work in other countries, where such challenges are resolved.

Likewise, parties must not heed calls for an English parliament. It is an attempt to address questions of English identity and patriotism, but it reinforces centralisation – the root cause of much disaffection – at a slightly smaller scale. The country's challenges will not be resolved by a new parliament and government for England's 55 million people instead of the UK's 65 million.

Second, the parties must set out what devolution can do to improve people's everyday lives. The Conservative vision of devolution is typically individualistic and top-down – it is a vision of 'strong-man' mayors, competing for investment to build shiny skyscrapers and productive cities. The Labour vision must be different. It must be democratic, positive and visionary, but it must meet the challenges of everyday life, building on the real actions that Labour mayors and leaders are already taking – which is why existing mayors and leaders should be at the heart of Labour's devolution policy.

Finally, we need a coherent plan for all of England, and all of the UK. One look at a map of the UK's governance shows the mess that both parties have made over the years. While neat, uniform territorial divisions are not practical – and most other countries have their idiosyncrasies – ours stands out as especially incoherent.

We need a federal UK that reconciles these differences. This does not mean the same powers for every nation, region, city or county. But it does mean putting the devolved nations on a secure and stable footing; one which doesn't become ever more incoherent every time Scotland breaks out the ballot boxes.

Moreover, it requires a bold rewiring of England's governance from the bottom up. Councils need to be given constitutional status, fiscal autonomy and financial security for the long term; mayors, combined authorities and other reformed sub-regional authorities need to be constitutionally established as powerful, legitimate democratic institutions, delivering transport, employment support, housing, training and education; and larger regional tiers are also needed, to take on real power over pan-regional transport, trade, investment and innovation.

Finally, Westminster and Whitehall need to change. Like in other countries, devolved government must be represented at the national level, to prevent places being sidelined and to help make better, more responsive decisions.

Devolution could soon move to the front and centre of parties' offer to the public – both now in 2020, and through to the election in 2024. Immediately, the economic crisis will require local agility and economic intervention that devolution promises. But within that immediate response must lie the building blocks for a comprehensive and coherent solution for all parts of the UK to have real power over their future.

Come together

Stronger trade unions in the workplace will be crucial to recovery from Covid-19 argue *Tim Sharp* and *Janet Williamson*


Tim Sharp and Janet Williamson are senior policy officers in the rights, international, social and economics department at the Trades Union Congress

For many of us, the sound of claps, cheers and banging saucepans is an enduring positive memory amid the otherwise grim period of the coronavirus pandemic.

Across the country, people gathered on their doorsteps on 10 successive Thursday evenings to show their appreciation for carers and other key workers. Roles that had long been overlooked and underpaid – shopworkers, delivery drivers, care workers, nurses and school staff – were recognised as crucial to the functioning of a country in lockdown. But even as their value was acknowledged, those jobs remain in many cases low paid, insecure and unsafe. Yet the crisis also showed that better ways of working are possible and that trade unions should be at the heart of this change.

Unions and their representatives have never gone away. What has now changed is that unions have been seen to be central to tackling the problems thrown up by the pandemic.

Unions have been key to negotiating safe working practices in many workplaces and sometimes entire sectors during the coronavirus crisis. They were also active in Whitehall, thrashing out wage subsidy arrangements and national safety standards with ministers and civil servants to safeguard millions of workers' incomes and health.

The coming months will be tough for many workers as the economy continues to be buffeted by the fallout from Covid-19. But we should not attempt to return to business as usual. We need to ensure that workers, including those who were cheered on our doorsteps so recently, have quality jobs, with decent pay and pensions, security and a voice at work.

Individual rights for basic dignity

As we rebuild the economy, we have an opportunity to tackle the endemic low pay and insecure conditions faced by many workers, including large numbers of key workers.

We can start by raising the national minimum wage to £10 an hour for all workers.

TUC analysis estimates that 38 per cent of key workers, some 3.7 million people, are paid less than £10 an hour and half of our frontline care workers are paid less than the real living wage, according to the Resolution Foundation. This follows cuts for public sector workers and years of pay stagnation in the private sector. These workers need a pay rise now. They should not have to wait to see if the government will meet its commitment to raise the national living wage to two-thirds of median earnings by 2024.

There should also be immediate steps taken to deal with one-sided flexibility, seen at its most egregious form in zero-hours contracts. Zero or short-hours contracts give vast power to employers. Workers are often afraid to raise concerns or turn down work offered at sometimes incredibly short notice in case they are not offered further shifts. During the pandemic this left some workers incredibly vulnerable: some saw their hours dry up and employers refuse to put them on paid furlough. Others felt pressured into unsafe working practices. These workers need the right to demand a normal-hours contract and robust rules governing notice of shifts and compensation for cancelled shifts.

Often, workers such as delivery drivers are told by their ostensible employers that they are self-employed. But frequently this is a false assertion to deny workers' rights such as the minimum wage and paid holiday leave. There should be a crackdown on bogus self-employment with a presumption that a worker is an employee and penalties should be imposed on employers who mislead workers on their employment status. Measures such as these are designed to achieve a basic level of dignity for workers. But the evidence shows that the most sustainable way to boost pay and improve conditions is to give people a greater say in pay negotiations through collective bargaining.

A collective voice for workers – in the economy and the workplace

The coronavirus crisis has demonstrated the importance of workers speaking together through their trade unions – with individual employers, across sectors and at the national level.

Take for example the new system of safe working negotiated by Unite at Rolls-Royce in Derby with its 12,000-strong workforce. Or at sector-level, look at the work that Usdaw did with the British Retail Consortium on putting in place safe working practices for non-food retail stores. And on the national stage, the TUC and its affiliated unions have negotiated huge wage support packages that have kept millions of families out of poverty if their workplaces had closed or health or caring responsibilities meant they were unable to work.

We need to build on this to strengthen the rights of workers to speak collectively with their employer and ensure that workforce interests are represented in discussions about how work is organised across sectors and the economy as a whole.

Within the workplace, the relationship between an individual worker and their employer is fundamentally unequal. It is only through coming together and speaking with one voice that workers can reduce, if not completely remove, this imbalance.

Workers coming together in unions delivers significant benefits in good times, as well as protection in bad times.

Workplaces with collective bargaining have higher pay, more training days, more equal opportunities practices, better holiday and sick pay provision, more family-friendly measures, less long-hours working and better health and safety. Staff are much less likely to express job-related anxiety in unionised workplaces. The difference is particularly striking for women with caring responsibilities.

Employers benefit too. Collective bargaining is linked to lower staff turnover, higher innovation, reduced staff anxiety relating to the management of change and a greater likelihood of high-performance working practices.

And society gains, with organisations such as the International Monetary Fund and the Organization for Economic Co-operation and Development recognising the role of collective bargaining in reducing inequality and supporting economic growth.

To ensure that all workers can access the support of a union at work and can speak with colleagues through a union to negotiate with their employer we need:

- Unions to have access to workplaces to tell workers about the benefits of union membership and collective bargaining (as they have in New Zealand).

- New rights to make it easier for working people to negotiate collectively with their employer.

- To broaden the scope of collective bargaining rights to include all pay and conditions.

© Clint Budd/Flickr

- The abolition of the Trade Union Act of 2016, which unfairly limited unions' ability to organise.

The coronavirus crisis has shown the importance of establishing workforce standards across sectors, particularly those that are weakly unionised and characterised by poor working conditions. Take the care sector – the problems caused by its fragmentation and the low pay and poor terms and conditions endured by many care workers have been starkly highlighted by the crisis. In May, unions and employers wrote a joint open letter calling for a new settlement for paid and unpaid care workers that recognises and adequately remunerates their crucial work. We need to build on this and create a national care body on which unions, employers and commissioners can work together to agree a pay, skills and development strategy for care workers. This should be part of a broader initiative to establish new bodies for unions and employers to negotiate workforce pay and conditions across sectors, especially those characterised by low pay and poor working conditions.

> Staff are much less likely to express job-related anxiety in unionised workplaces

Government support for the economy will continue to be needed. It is vital that working people are represented in the development and delivery of the interventions required to protect employment, stimulate the economy and ensure work is safe. This is why we need a National Recovery Council, bringing together government, unions and employers, to develop plans for the recovery across the UK. This should be supported by regional, sectoral and devolved nation recovery panels, also including unions and employers, to ensure that plans reflect the needs of different sectors and regions and protect the interests of working people.

Our care for carers and other key workers should not end as the echoes of the weekly claps and cheers die out. The creation of good quality jobs should be at the centre of any recovery plan. This must involve raising the floor of basic rights and ensuring that workers' collective voices can be heard in the workplace and at the sectoral and national level.

Unions' democratic legitimacy and unparalleled expertise in workplace matters have been crucial in helping firms, sectors and government tackle the pandemic. They can be crucial to the recovery too. F

Post-crisis purpose

The right bailout package gives us an opportunity to cut carbon emissions and reduce inequality, writes *Andrew Pendleton*

Andrew Pendleton is director of policy and advocacy at the New Economics Foundation

In the post-pandemic world, the government bailout of firms, and in some cases whole sectors, is unavoidable.

The jobs guarantee schemes which the government has already brought forward and the loans it is providing to businesses are, in themselves, a blanket form of bailout. But from hereon in, as we move from an acute health crisis to a form of pandemic purgatory and then, hopefully, towards recovery, there are profound choices to be made that will influence the economy for many years.

Unlike the 2008 financial crisis which began as a credit crunch and spread into the real economy, the post-coronavirus economic crisis is beginning with a collapse in demand, which jeopardises jobs and household income. But large-scale job losses also increase state welfare payments significantly and simultaneously harm government revenues as tax yields fall, risking a much deeper crisis.

It is a perfect economic storm, as the precise dimensions of the pandemic are unknown and so even a Conservative government has and will be forced to step in to try and prevent a downward spiral. But as firms and sectors such as those in aviation, hospitality and manufacturing come knocking on the door, by what yardstick should ministers and officials judge their requests?

If the government's only desire is to preserve the status quo and find an early return to 'normal', then they need not go much beyond an extension of the current job retention schemes. But the problem is that even if a return to the pre-pandemic normal is possible, some firms – such as those in aviation – have already signalled they intend to lay off tens of thousands of workers regardless. And despite the government job retention schemes, since the introduction of the lockdown the number of people claiming universal credit has risen to close to 3 million. Plus, the pre-pandemic normal was a world in which the structure of the economy – with high ecological cost and deep social and regional inequality – needed urgent change anyway.

> There are profound choices to be made that will influence the economy for many years

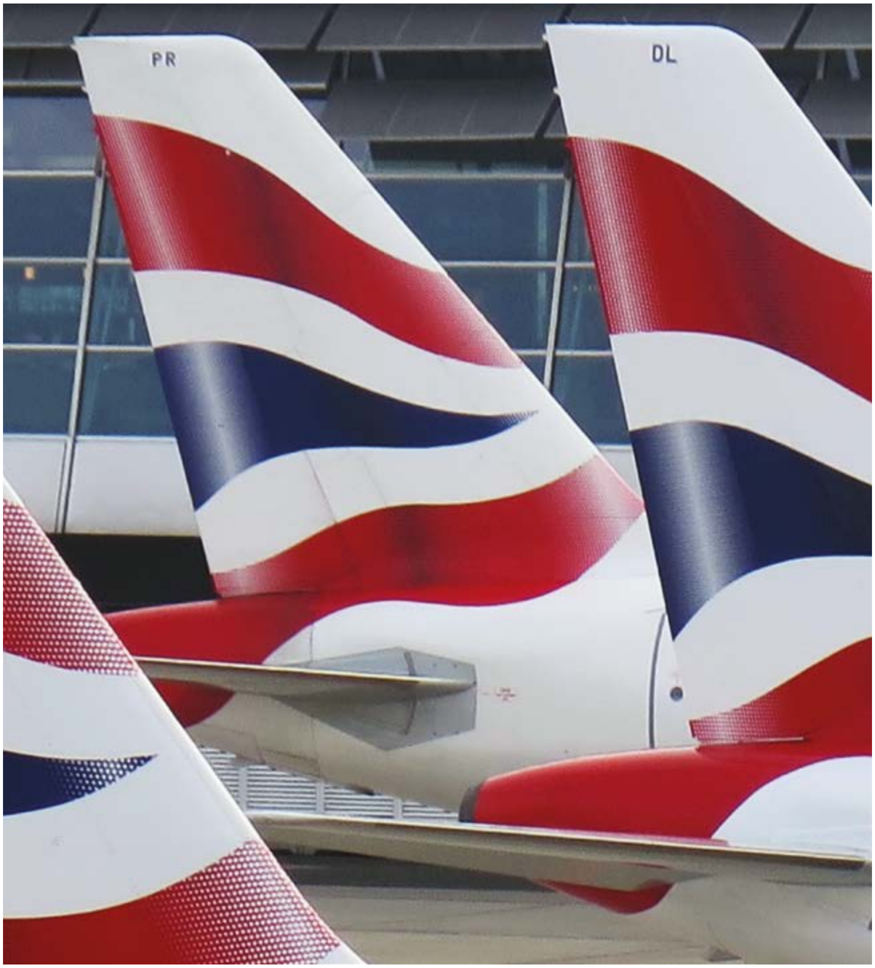
The key to bailouts, then, is not just crisis response, but a strong sense of post-crisis purpose. Reducing emissions to net zero – much sooner than 2050 – and reducing inequality are two key objectives that can both be served with the right structure to bailout policy.

Size matters. It will not be possible to provide the 5.9 million small and medium-sized enterprises (SMEs) in the UK with bespoke packages, nor to set them firm-specific bailout conditions.

The government's current approach to helping SMEs involves the coronavirus business interruption loans scheme and bounce back loans. Loans are extended through high street lenders who have so far proven reluctant to get money out of the door and, though concessional, still come priced at a 2.5 per cent interest rate, at which many SMEs, with no guarantee of a return of customers, may baulk. More will almost certainly be needed, but it will have to be blanket coverage; the loss of tens – perhaps hundreds – of thousands of good businesses, previously secure jobs and billions in tax revenues are at stake. Lose them and it is a long way back.

Besides the unfeasible transaction costs of a bespoke package for SMEs, the reasons a blanket policy is preferable are twofold. First, SMEs are not, on the whole, the source of significant environmental harm. Like households, small firms have their part to play, but larger firms and specific sectors tend to be the major, structural polluters. So, blanket support measures, coupled with a more robust package of policies to help SMEs across the board decarbonise is the best approach. Second, SMEs are not on the whole users of the international financial carousel. Public bailout cash given to stop SMEs going to the wall will generally directly benefit UK domiciled owners, their employees and the locations in which the firms are based.

Large businesses – those with more than 250 employees or with a turnover of more than £45m – are often a different kettle of fish. By dint of their size, firms in some sectors that will need bailout offer



a significant ecological opportunity if government support can be made conditional on, for instance, investment in decarbonisation. But conditions alone will not be enough to guarantee that state bailout cash either prevents job losses or does not end up in the pockets of already wealthy asset owners.

The aviation sector is a case in point. Pre-pandemic, growing demand and UK climate targets were on a collision course, but now even airline bosses concede that demand is unlikely to return to the level it was at pre-pandemic for at least five years. They are right to be circumspect. Even after the 2008 crisis, demand remained suppressed for years. But, with no government intervention, this led to sweeping job cuts. Some of those jobs never returned, others were re-recruited with worse pay and conditions.

Working with many of the trade unions which represent aviation sector workers, including Unite and GMB, and the climate action charity Possible, the New Economics Foundation (NEF) has been examining the potential for job losses in aviation if no action is taken. Forecasting in these unprecedented times is notoriously difficult but NEF analysis, based on recent trends and evidence from the 2008 financial crisis, suggests the industry, without additional government support, could ultimately seek to cut 50 per cent of the workforce, or 69,000 directly employed staff in this financial year. When jobs dependent on the aviation supply chain are included, up to 124,000 jobs could be at risk, according to NEF's new report, Crisis Support to Aviation and the Right to Retrain.

Therefore, along with several of the largest unions representing many of the sector's employees, NEF argues that the government needs a new sector-level policy package which would limit job losses now but also offer retraining in recognition of the need to manage aviation demand in the future in order to achieve climate targets.

The first step would be a bespoke, sector-wide crisis support plan for aviation, with oversight from unions, businesses and government. This would result in a union-negotiated limit on redundancies. A new skills and employment strategy could also be developed to protect workers while they reskill and move into alternative roles.

The government was already looking into how aviation is taxed; this review must now be accelerated as the sector pays no fuel duty or VAT. And finally, the government should take equity stakes in all large businesses bailed out in the aviation sector, so that, once recovered, the state can recoup some of its investment and in the meantime prevent dividend payments being made to shareholders and curb excessive executive pay.

Take the case of British Airways, the national flag-carrier. Our analysis shows over the past five years that the shareholders in the firm's parent company, IAG, extracted more than £3.4bn in dividends and share buy-backs. The risk of merely dripping bailout cash in at the top of large, global, profit-extracting machines is that is precisely where the benefits will stay.

This package of measures – including the creation of new groupings of firms, unions and governments and major support for reskilling workers, while using state-owned equity stakes to guard against profiteering and cash extraction – is equally applicable to other crisis-hit sectors, especially those with high levels of carbon emissions.

A managed, just transition, which prioritises the wellbeing of employees and households, rather than market mayhem in which the beneficiaries are capital markets and often distant owners, is paramount. Unlike the experience of the coal miners in 1980s, under these NEF-trade union proposals, people would be offered meaningful retraining opportunities while continuing in existing work and receiving an income.

In truth, there is no bailout package the Johnson government could pursue which would return us to the pre-pandemic status quo but there remains a very real risk of yet another mass transfer of wealth and assets to an elite few. However, with purposeful intervention focused on future ecological efficacy and on 'levelling-up', a bailout package of this sort can be a blueprint for saving whole sectors from collapse while keeping people in work. F

Paying for the pandemic

What should a progressive tax system after Covid–19 look like?
Carys Roberts and *Carsten Jung* discuss

Carys Roberts is executive director of Institute for Public Policy Research (IPPR) and Carsten Jung is a senior economist at IPPR's Centre for Economic Justice

There is a political debate coming about the shape and size of the UK tax system in the aftermath of Covid-19. Progressives need to be ready: both with demands of the government now, and with a long-term, credible agenda for the public finances ahead of the next election. That agenda should be informed by a number of major observations.

Tax revenues will need to rise

If the goal is a more prosperous and just economy and society, tax revenue will need to be higher as a proportion of gross domestic product. This would be true with or without a pandemic, but has become more important.

The recovery from Covid-19 will require huge government spending to help workers and businesses weather the crisis, and to invest in the jobs of the future to prevent an unemployment catastrophe. The lockdown and economic fallout has also had a large impact on tax revenues. The good news is that right now, government can safely afford to substantially increase its debt level as interest rates are at an all-time low, supported by action from the Bank of England. But interest rates might not stay as low as they are now forever, and ultimately, the public finances will need to be put on a firm footing.

No progressive – or indeed anyone who has seen the evidence – should be advocating a return to austerity, which has deeply damaged our society, dangerously weakened the capacity of the state and public services, and counterproductively held back economic growth and productivity. Instead, by far the best way to ensure stable debt is to ensure a healthy economy. The stronger the economy and employment, the higher tax receipts and the easier it is to repay the debt. In the current situation this would require investments that help generate jobs, such as green infrastructure projects, and investing in health and care services.

Alongside this, other options to manage the debt include inflating it away, only partly repaying it, or rolling it over forever. All of these have played a role in debt reduction in the past and can do so again. But they can come with significant negative side-effects and the government will only be able to use them sparingly this time around.

This brings us to tax reform. Even with higher tax receipts from a stronger economy, it is likely taxes will need to rise eventually to manage the public debt as a result of Covid-19. What is more, Covid-19 has put in stark relief that we were not raising enough in tax before the crisis to properly fund strong, resilient public services and social security. A progressive vision for the renewal of Britain must include a higher-tax and higher-spend economy.

Taxes can reduce inequality and shape better outcomes

The Covid-19 crisis is no equaliser. Instead, the pandemic has served to deepen existing inequalities both through its health and economic effects. As the Resolution Foundation has shown, higher-income workers have been more likely to work from home, saving money and building wealth through lockdown, while lower-income workers have been more likely to have to take on debt to manage cuts to their income and job losses. And IPPR analysis showed that government schemes have ultimately insulated rentier interests – those of creditors and asset-owners, including landlords – from the worst of the pandemic, while many of the most financially vulnerable have struggled to make ends meet.

These issues are symptoms of deep structural problems with the UK economy which long predate the pandemic. As the economy recovers, to avert deepening inequality, it will be important to 'claw back' the gains made by some through the crisis and ensure those with the broadest shoulders pay their share. The tax system is a powerful tool by which to do this – but is not currently fit for purpose, with income from wealth relatively under-taxed compared to income from work.

The tax system shapes markets. For example, the relative under-taxation of housing compared to other assets distorts

investment decisions, driving higher prices and diverting investment away from the productive economy. Environmental taxes, alongside measures to protect those on low-incomes, could be a powerful tool for the UK to reach net zero emissions by encouraging climate and nature-friendly behaviours. Progressives tend to talk about tax primarily as a revenue raiser or equaliser, but there are revenue-neutral tax reforms that could generate productive economic activity and help achieve social goals.

What should progressive tax reform look like?

Any tax changes, and particularly tax rises, would need to be introduced carefully and with consideration to the stage of economic recovery.

The first phase of tax reform should kick in shortly after the acute phase of the crisis has passed and the economy reopens. The focus here should be on 'no regrets' reforms that can take place even before the recovery is fully achieved. This could include environmental taxes to discourage activities that a ccelerate the onset of the next crisis: the climate and nature crisis. It could also include a tax on windfall profits made by firms as a result of the pandemic. For instance, some industries may see increased concentration, because smaller firms go bust and incumbents – with larger cash buffers – can easily expand their dominance. Other sectors, including in tech and online shopping, have seen their profits soar as a result of the health emergency, while continuing to pay lower taxes than for instance high street businesses. Some firms may have taken advantage of government support schemes and been able to gain a relative competitive advantage as a result. In all these cases an 'excessive profits tax' can be deployed to address profits that are disproportionally high due to crisis measures as opposed to genuine productivity increases. Such taxes have been successfully deployed at various points in history.

Before triggering phase two of tax reform a number of 'recovery tests' would need to be passed, because tax rises should only be introduced when recovery is well under way and at a pace that does not dampen the recovery. One such test could be hitting a certain low level of unemployment and achieving sustainable, consistent wage growth; or for wealth tax reforms, the recovery of asset markets.

Taxes on wealth and income from wealth should be top of the list for this stage of reform. There is no economic reason why income from wealth should be taxed at a lower rate than income from labour. On the contrary, giving preferential treatment to wealth income is opening the door to tax avoidance. At present, someone who makes £100,000 in capital gains will pay about £14,000 in tax, while someone who makes the same amount in earnings will pay £33,000 (or closer to £40,000 once employer national insurance contributions are taken into account). The biggest beneficiaries of this are the wealthy – 90 per cent of capital gains made are over £100,000, and 60 per cent over £1m. This must be rectified.

Corporation tax is another priority. The government has stepped in to carry many of the risks posed to firms by the pandemic and economic crisis, and calls have been made for this to come with appropriate responsibilities including payment of tax. The UK, over the last 10 years, was a first mover in a global tax race to the bottom. It cut its profit tax from above the global average to the lowest among rich economies. Rather than undercut other countries, the UK should promote global corporation so that taxes on profits are coordinated and sustained at an adequate level, with income raised on the basis of where economic activity takes place rather than simply where a company is headquartered.

There are many more candidates for progressive tax reforms, from a rationalised property tax system to asking older workers to pay national insurance contributions like their younger counterparts. None are politically simple, and all require careful consideration. But the prize is great: a more equal and efficient economy, with world-class and resilient public services.

The pandemic has given cause to re-evaluate what we value and who should be asked to contribute more – progressives should respond with an ambitious agenda for reform. F

Mutual interests

A more dynamic partnership between government and the insurance and long-term savings sector can be beneficial for all, writes *Huw Evans*

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No society and economy can build sustainable prosperity without widespread insurance and long-term savings to protect against risk and ensure life-long income. For those at the lowest ends of the income scale, this is especially true; if you can't afford to lose it, it is vital to protect it with insurance. That is why so much of the modern UK insurance and long-term savings market dates back to mutuals and friendly societies founded by communities struggling with industrial and rural poverty in the 18th and 19th centuries.

Today the UK insurance and long-term savings market is world-leading. London is the international capital of insurance and the sector overall is the fourth largest in the world and the largest in Europe. It employs over 300,000 people in well-paid, skilled jobs and contributes over £29bn to the UK economy. To some on the left of British politics, the size and strength of this pillar of the UK financial services sector make it a behemoth of capitalism. In fact, both the economic and structural purpose of insurance, and many of its key public policy concerns, make for common cause with those who identify with a progressive political viewpoint. This contribution sets out the benefits of a thriving insurance and long-term savings market to those who want a more equal society, and notes some of the ways in which insurers are natural partners of the state. It identifies three areas of policy for progressive policymakers and the sector to work on together.

The role of insurance in a healthy and prosperous economy is much less well understood than banking but as the UK faces the greatest economic crisis since the 1930s, it is worth looking a little closer. The sector is vital to the post-Covid-19 bounce-back of our economy, sustaining supply chains through trade credit insurance, managing basic risks for businesses unable to afford anything else to go wrong, investing in social housing and the corporate debt of large companies and maintaining its regional employment base (two-thirds of insurance-related employees are currently outside London). Investing directly in small and medium-sized enterprises (SMEs) is currently very difficult to do because of insurers' strict capital rules. But innovative proposals from TheCityUK offer new ways in which insurers could help re-float SMEs, if prudential regulation rules were adjusted by the Bank of England after the UK leaves the Brexit transitional period.

> The economic and structural purpose of insurance make for common cause with a progressive political viewpoint

Insurers and long-term savings providers therefore offer some key benefits for any advanced economy. By acting as shock absorbers, they enable companies to grow, safe in the knowledge that floods, fires, employee accidents and director mistakes are less likely to be financially ruinous; these typically result in £7bn of claims, every year. By acting as long-term investors, insurers provide a key source of patient capital to firms, looking beyond the near-term preoccupations of the stock market. By providing retirement, protection and long-term savings products, they help companies provide for employees' later life, while also helping them navigate workplace illness. This makes the sector a key part of the welfare framework in most developed economies.

Even so, not every risk can be covered – as became apparent during Covid-19, when the limits of firms' business interuption insurance became clear. Insurance works on the basis that the premiums of the many pay for the claims of the few. This model cannot work in a pandemic when nearly all businesses are shut down, and insurers have never claimed it does. Even so, insurers expect to pay £1.7bn in Covid-19 related claims to businesses and individuals, covering a minority of business interruption claims, cancelled travel and school trips, postponed events, supply chain failures and urgent private medical care. If the UK, or other major economies, are to develop

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a more advanced system of widely affordable and available business cover for pandemics, it will require significant involvement from their governments.

Such partnership with the state is the norm for the insurance and long-term savings sector and there are three major opportunities ahead to develop it further, beyond any Covid-19 related challenges.

The first opportunity is developing the role of the workplace, building on the success of auto-enrolment which nudges and incentivises employees into retirement saving. The higher than expected rates of retention here are a reminder that employees typically have high rates of trust in their employer, especially on financial matters. We should build on this, making workplaces a natural place for employees to access financial guidance on how to protect themselves, minimise debt and understand how money works. Incentivising workplace protection insurance provision can play a key role in making workplaces more inclusive, as it helps employees with additional support and pro-actively deals with such common conditions as muscular-skeletal problems and mental health challenges, conditions which otherwise result in long periods of sick leave and increased pressure on the NHS.

The fight against climate change leads to a second opportunity. As carriers of insurance risk and major long-term investors across the economy, insurance and long-term savings firms have a major stake in us successfully moving to a world with less than 2ºC global warming. Critical to this will be the freedom to transition investments away from browner assets to more sustainable green options, including more significant infrastructure spending. Also vital will be continued innovation in the global insurance market to be able to provide ongoing protection to those most exposed to the risks of a rapidly warming world.

The UK's ageing population offers a third opportunity for close partnership between insurers and the state. A baby girl born in 2018 in the UK can now expect to live to 90 and by 2050, globally there will be more people aged over 65 than under 15 for the first time in history. This is welcome but the challenges posed to our health and welfare systems is huge. To meet it, we need to look at a more active partnership between governments and their insurance and long-term savings markets to help provide sustainable retirement income, affordable social care provision and support for disability.

In the UK, we have plenty of experience of such partnerships; recent examples include enabling flood and terrorism insurance through the Flood Re and Pool Re schemes, the pensions dashboard project and auto-enrolment in workplace pensions to name but a few. These arrangements are often difficult to develop and maintain; they require work, commitment and good will on both sides. Critically, progressive governments have to be comfortable with the fact that the owners of insurance and long-term savings companies have to see returns on their capital. If the state doesn't want to run everything, it has to be comfortable that those who do, also make money. But there is no reason, as the examples above illustrate, why this need act as a barrier to working together.

The challenges of the 21st century are significant; a warming planet, ageing populations, more complex worker needs to name but three. But all offer opportunities for a more dynamic partnership between governments and the insurance and long-term savings market. The world has changed beyond recognition from the circumstances in which the modern insurance market began to develop. But the basic needs of individuals, families and businesses to protect themselves and plan for the long-term remain and offer a shared platform of mutual interest with those who believe in progressive values. F

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