From support to recovery measures
Crisis will leave scars

- **Large scale job loss**, with more expected once furlough unwinds
  - 828,000 fewer people in payrolled employment, Feb – Dec 2020
  - Redundancy rate: 14.2 per thousand – record high – in Nov 2020
  - Claimant count: ~2.6m Nov 2020 up from 1.2m in March 2020

- **Business failure expected to increase**
  - Birth/death ratio for registered business steady in 2020
  - But ~15% of businesses have no/low confidence they will survive next 3 months (ONS BICS, Jan 2021).

- **Education lost**: most children to miss >1/2 year of normal schooling

- **Increased inequalities in many areas**
Unequal impacts

Share of jobs furloughed at 30 November 2020

Change in the number of employees on payroll, Feb – Dec 2020

Source: Figures 4.1 & A.10, Employment, income and council tax during the COVID-19 crisis, IFS 2021
Economy v.2019 gone forever

- We should expect the economy to be moving to a new normal
  - Covid
  - Brexit
  - Ambitious policy goals: levelling-up; Net Zero

- In the recovery phase, clear role for policies that:
  - Help economy operate at capacity
  - Increase productivity capacity (undo damage)
  - Steer towards new normal and ease adjustment
  - Reduce various inequalities
Policy response

- Measures announced in 2020 (*estimated cost at announcement*)
  - Eat out to help out, August only, £0.5bn
  - Temporary VAT cut for hospitality, accommodation & attractions, ends 31 Mar, £4.1bn
  - Stamp duty land tax holiday, ends 31 Mar, £3.8bn
  - Green homes grant, ongoing, £2bn
  - Kickstart scheme, ongoing, £2.1bn
  - Job retention bonus, scrapped, £9.4bn

- Potential role for targeted, temporary stimulus at some point
Possible recovery levers I

Spending on investment and employment

- Help to absorb resources and meet short term needs. E.g. extra staff to help with large NHS backlog

- Make investments with long-run benefits
  - physical, human and environment capital. E.g. infrastructure; extra teaching resource; ecological restoration
  - science and technology
Investment spending up

Public sector net investment as a percentage of national income

Average over past 40 years = 1.4%
Average over next 5 years = 2.9%

Source: Author’s calculations using OBR Public Finances Databank and Economic and Fiscal Outlook November 2020.
Possible recovery levers II

Help the private sector to adjust, and adjust to a better place

- Help matching in the labour market
  - Number of work coaches to double by March 2021 (to 27,000), but helping people will be more complicated
  - Possibly extra money to help groups finding it difficult to get paid work, e.g. young people through Kick Start scheme and training support

- Ensure investment incentives are right
  - E.g. set regulations so business can be confident in making large investments
  - Remove investment disincentives within the tax system. E.g.:
    - Increase the size and/or scope of the Annual Investment Allowance
    - Make loss offsets more generous to reduce disincentive to risk taking
    - Remove the tax disincentive to invest money in a company
Conclusion

- Government should be looking to: support demand, increase productive capacity and steer and ease transition to a new normal
  - Using a combination of spending, labour market policies and setting private sector incentives
- There are no silver bullets and don’t just need cash
  - Need well-designed policies in lots of different areas and joined-up policy across different departments
- In the Budget:
  - Some specific measures that can be delivered in short run
  - A strategy – a sense of direction in key policy areas and a plan for developing specific policies