Institute for Fiscal Studies

The fiscal policy response to Covid-19

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IFS Spring Budget 2020 briefing

12 March 2020

Economic and Social Research Council

WiFi Network: The Building Centre (Open Network)

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Case for Government intervention

Additional challenges for some public services

support for public services: £5 billion set aside for NHS and social services in 2020–21

Individuals hurt by falling incomes

directly ill or self-isolating and therefore off work (perhaps for 2 weeks)

not ill but reduced income for example because their employer has reduced demand or because they have caring commitments

Business that might go under but would otherwise have been productive/profitable

fall in demand

supply constraints due to absent workforce

Directly ill or self-isolating

Statutory Sick Pay (£94.25pw) available for all but 2m employees

Government is

making this payable from first day rather than day four

covering cost first 2 weeks per employee for small employers but refund mechanism finalised over “coming months” could be more timely

SSP policy doesn’t cover self-employed, perhaps it should

though could be administratively challenging and would require monitoring

Those suffering income falls

Universal Credit available for those with low income

income falls would increase numbers entitled

potentially big new challenge for Jobcentre Plus

Removal of Minimum Income Floor (MIF) for self-employed

significant for those impacted, e.g. £133 per week for a typical 1-earner renting couple with 2 children, rather than nothing

though 61% of the self-employed would not be entitled to UC if unable to work

Of course there are others who are potentially vulnerable e.g.:

some with renting on reasonable earnings but few savings in high-rent areas

working parents if childcare providers or schools start closing

nearly 1/4 working families have less than £1,000 in liquid savings

Support for businesses

Government concerned about businesses that might go to the wall because of a temporary drop in demand

This might be made more challenging by sharp rise in National Living Wage that will put pressure on many businesses within affected sectors

Temporary cuts to business rates

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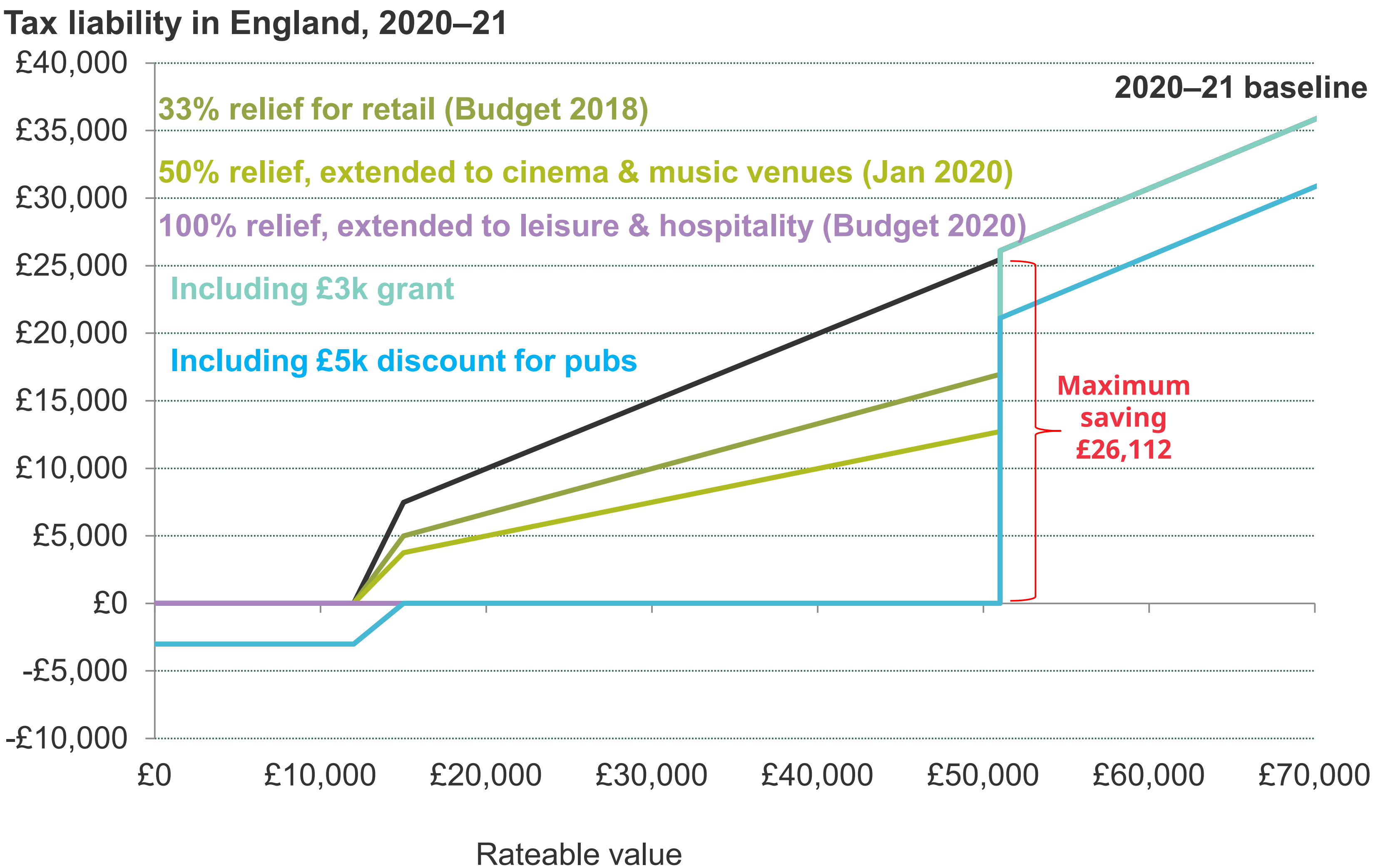

Temporary cuts to business rates

Almost half of properties will pay no business rates in 2020–21

700,000 will get cash grants

Measures cost several billion and there will naturally be much deadweight: many businesses would cope without relief

But they do look designed to benefit businesses that might suffer from a particularly large drop in demand

However:

other industries could be hit by a fall in demand

hit to supply would presumably be widespread: these measures do not directly benefit offices or factories

Other support for businesses

Businesses & self-employed can request delay payment of HMRC taxes

“time to pay” scheme in place and used following financial crisis: between Nov 2008 and March 2010, over 300,000 arrangements, valued at £5.2bn

Boost to HMRC resources to make arrangements

Government to underwrite more loans

guarantee 80% of loans to encourage lenders to provide more finance during period of heightened uncertainty

These policies could be well targeted at helping credit constrained businesses cope with a downturn at relatively little exchequer cost

Short-term hit to the public finances

Direct cost of package £12 billion in 2020–21

Reduced growth

for illustration: 1ppt off growth adds around £12bn to borrowing

Fall in outlook for interest rates

OBR forecast assumes BoE base rate remained at 0.75%, yesterday's base rate cut could save the Government £3bn this year

Other effects also possible, for example:

reduced housing transactions would depress stamp duty land tax

increased saving ratio would depress receipts through lower VAT: for example around £125bn a year is spent in restaurants and hotels

Long-term hit to the public finances

Direct effect from the fall in equity prices, unless bounces back

OBR average over 10 days to Feb 11; as of last night FTSE-All Share down 20%

would reduce capital tax receipts by around £5bn a year

additional hit from reduced City bonuses and smaller DC pension pots

Offset partially by lower debt interest spending for as long as interest rates remain further depressed

Might long-run productivity growth be reduced?

depends on how businesses and individuals adjust, for example if their perceived likelihood of future pandemics rises

0.1% off growth for a decade would reduce annual amount available for public spending by £10bn

Conclusions

Fiscal response package looks relatively well designed

but many individuals remain vulnerable to drops in income

business rates package targeted at industries where demand particularly likely to fall rather than where a more widespread fall in supply could occur

more might be needed

Impact on public finances

direct cost of package, and depressed economic activity this year, will push up near-term borrowing offset slightly by lower interest rates

longer-term damage could come from fall in equity prices and, possibly, any detrimental impact on productivity growth

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