



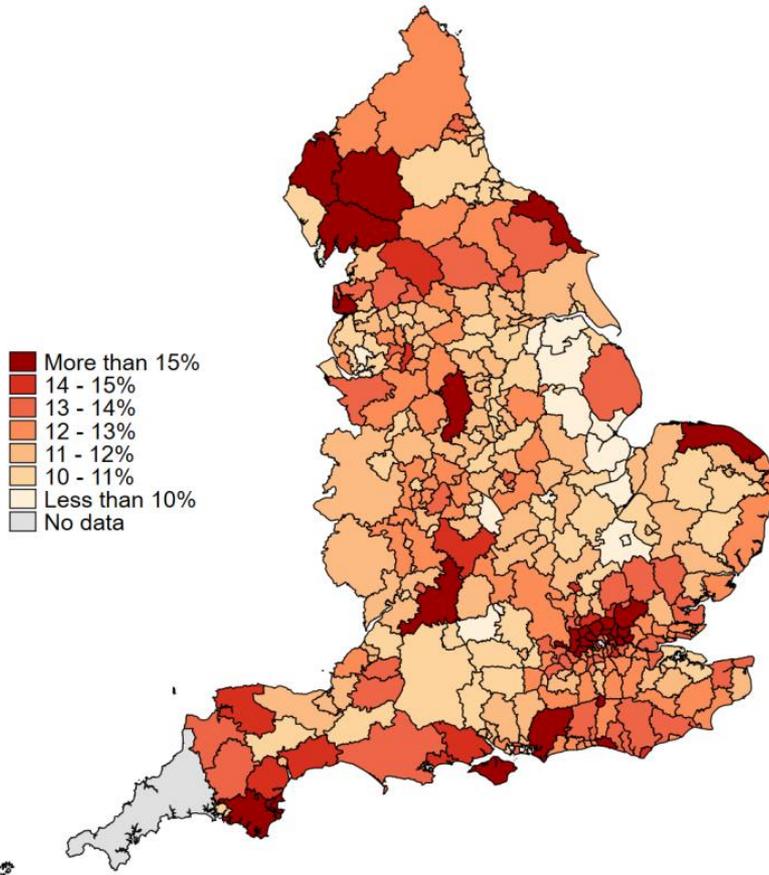
**From support to
recovery measures**

Crisis will leave scars

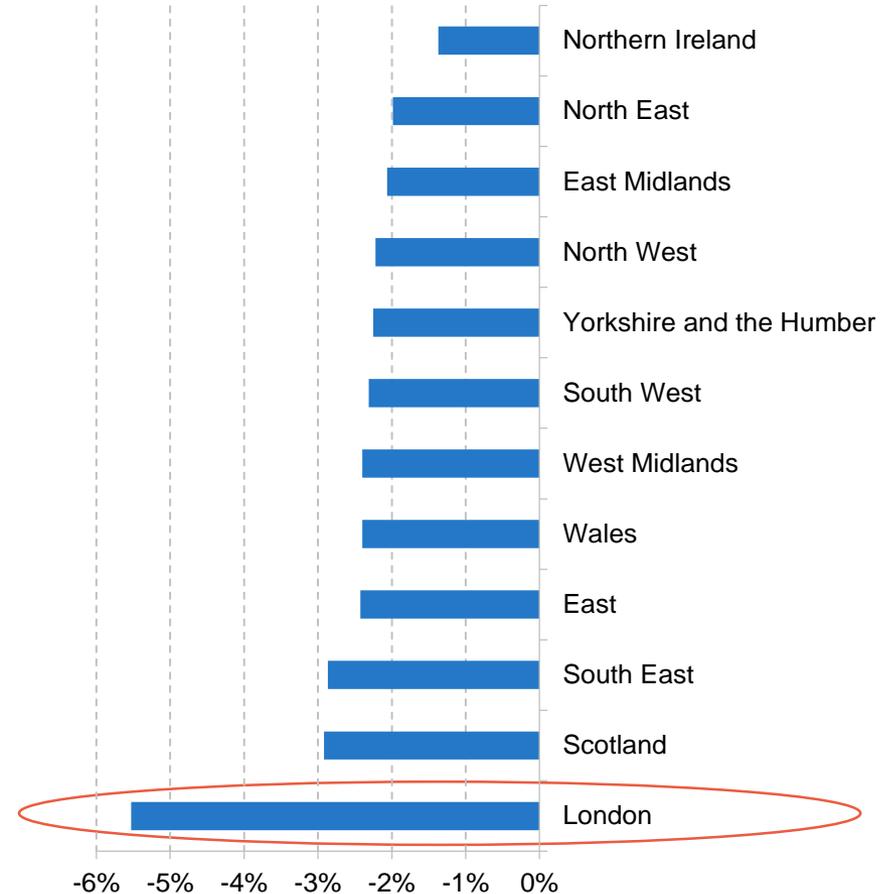
- **Large scale job loss**, with more expected once furlough unwinds
 - 828,000 fewer people in payrolled employment, Feb – Dec 2020
 - Redundancy rate: 14.2 per thousand – record high – in Nov 2020
 - Claimant count: ~2.6m Nov 2020 up from 1.2m in March 2020
- **Business failure expected to increase**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



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

- 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*

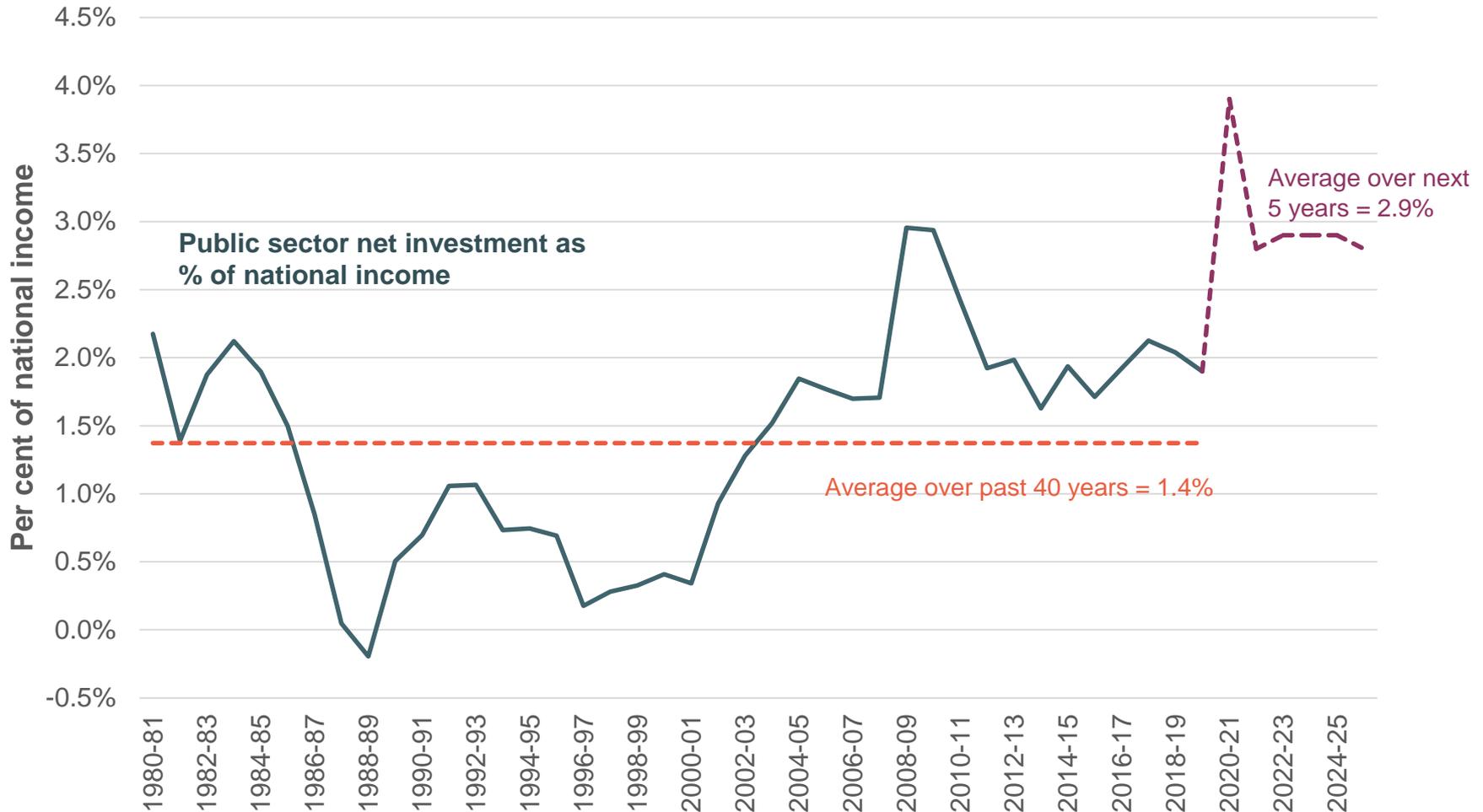
- Potential role for targeted, temporary stimulus at some point

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



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