Hey big spender

Summer Economic Update: IFS analysis

09 July 2020
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Institute for Fiscal Studies
Hey big spender

Carl Emmerson

Presentation at IFS webinar “Summer Economic Update: IFS Analysis”

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- **NHS**: 31.9
- **Local government and social care**: 4.7
- **Schools**: 1.2
- **Public transport**: 5.3
- **Other services**: 1.2
- **Scotland, Wales and N. Ireland**: 4.1

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- Public transport, 5.3
- Local government and social care, 4.7
- Schools, 1.2
- Other services, 1.2
- Scotland, Wales and N. Ireland, 4.1
- NHS - PPE procurement, 15
- NHS - other, 6.9
- NHS - Test and Trace, 10

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A large and growing package of support

Up to £30 billion new “Plan for Jobs”

- Job Retention Bonus, up to 9.4
- Kickstart, 2.1
- Infrastructure package, 5.6
- Public sector and social housing decarbonisation, 1.1
- Green Homes Grant, 2.0
- SDLT holiday, 3.8
- Restaurant voucher scheme, 0.5
- Reduced VAT for hospitality, accommodation and attractions, 4.1
- Worksearch, skills and apprenticeships, 1.6

Emergency support – and much weaker economic activity – has substantially weakened the public finances deficit of around £350 billion in 2020–21, with a lot of uncertainty around that.

Low interest rates means borrowing now to strengthen the recovery likely to be worthwhile.

“Over the medium-term, we must, and we will, put our public finances back on a sustainable footing”

once a “new normal” has been reached revenues still likely to be depressed: spending cuts or, perhaps more likely, tax rises to follow.

Managing elevated debt – and the risk that the growth to interest rate differential becomes less helpful – will be a task for decades.
Conclusions

Jobs package – of up to £30bn – is large. And it is on top of £33bn more for public services, bringing total support since March towards £190bn

Package keeps being added to, and this pattern likely to continue

Once the economy has reached its new normal tax rises likely
Labour market policies

Robert Joyce
Job Retention Bonus

£1,000 for employing worker you previously furloughed until end-January

• As long as they earn at least £520 per month

Flat rate of £1,000 means:

• Larger impact on incentives to keep on lower earners

• For typical furloughed worker, subsidy covers less than ¼ of the direct employer costs over November-January

‘Deadweight’ – spending money where workers would have been retained anyway – inevitably large

• Especially as it will cover workers already brought back from furlough

Premised on hope that labour demand much stronger by February

• If not, will at most just push problem back
Young people most likely to have been furloughed or lost job
Situation at end of April, among those employed pre-crisis

‘Kickstart Scheme’ for under-25s

6-month work placements for those on universal credit “at risk” of long-term unemployment, if jobs are “additional”

Subsidy up to equivalent of 25 hours per week at minimum wage

• Largest (proportionally) for low-paid, part-time work
• Means it targets some of the most vulnerable with the least good alternative options
• Similar to last recession’s Future Jobs Fund – which had lasting impact on employment rates for those who used it
‘Kickstart’: challenges and limitations

Will low-paid, part-time, temporary work be a ‘kickstart’?

Much will depend on rest of labour market:

- Will vacancies appear higher up the ladder that people can move on to?
- Will long-term matches be formed or will employers rotate unemployed workers in temporary placements?

Spending another year in education probably a better option for some

Nothing on close to this scale for older workers

- About 85% of those made furloughed or unemployed are 25 or over
- Could be especially bad time to be aged just over 24 – a lot more expensive to hire them than people slightly younger
Wrapping up

An array of other measures, e.g. more money for apprenticeships and traineeships and Jobcentre Plus activities

- Reflects a broadly sensible set of priorities

Many policies could be extended again or replaced with new variants

Several policies face common challenge: can they help stimulate lasting, high quality jobs?

- e.g. history suggests doubt about quality of lots of extra apprenticeships

Will be hard to just ‘get back to zero’ – avoiding a large and persistent spike in unemployment

- But also want to avoid the stagnant productivity and earnings that followed the last crisis
Getting the economy moving

Helen Miller

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Support for hospitality and tourism industry

Two measures to help sectors particularly hit by the crisis
• Temporary VAT cut to 5% on food, accommodation & attractions until end January; £4.1bn
• 50% discount, up to £10 per head, on meals eaten out Mon-Wed in August; £0.5bn

If there is capacity in these sectors – policies could boost output

If social distancing is a constraint – policy will be a poorly targeted giveaway
• Customers & firms who benefit aren’t those struggling most

VAT cut may be starting and ending too soon

Strong case for including takeaways in August discount
• Would be more impactful & in keeping with social distancing
Grants for energy efficient investments

Grant to subsidise energy efficient investments by households in England
• To cover at least two-thirds of the cost up to £5000
• For low income households, will cover full cost up to £10,000

How much it boosts jobs will depend on a number of factors

There is a risk that it will lead to higher prices …
• Particularly a concern if the scope of eligible spending is narrow

Fully subsidising low income households could create some problems
• Could lead to some poor investment choices
• And/or incentive for suppliers to inflate prices
Stamp duty land tax holiday

Nil rate threshold increased to £500,000 in England and NI until April 2021; £3.8bn
SDLT holiday was effective stimulus in 2008-09

Source: HMRC. The March 2016 peak was related to the introduction of higher rates on additional properties from April 2016.
Stamp duty land tax holiday

Holiday will boost housing transactions and associated spending
• Evidence shows temporary SDLT cuts are very effective stimulus

Would have been a bounce back in housing transactions anyway
• Could have introduced the measure later

Policy may end too soon
• Will likely bring forward transactions to before April 2021
• Could lead to a depression of housing sales while the economy is still weak