Resolution Foundation

BRIEFING

Doing what it takes

Protecting firms and families from the economic impact of coronavirus

March 2020

Summary

The coronavirus health crisis is now a full-blown economic crisis, and one that may last for much more than a few months. Firms will go bust and unemployment will rise. The majority of this economic damage will be driven not by the direct impact of coronavirus itself, but by the necessary measures – such as social distancing – that we put in place to respond to it.

Lower earners are likely to be hit most swiftly, in stark contrast to the 2008 financial crisis. Sectors already heavily affected have typical weekly pay of £320, compared to £455 for the economy as a whole. These include retail (excluding food), hotels and restaurants, airlines, travel operators, cleaning, arts and entertainment, and personal services like hairdressing, comprising 5 million employees and 1.2 million self-employed people. 2 million of the lowest earners also lack entitlement to sick pay. Less than one-in-ten of those in the bottom half of earners say they can work from home, making it much harder for them to protect their incomes in the face of social distancing measures. Those in the most at-risk sectors and occupations also have less to fall back on, being around 25 per cent more likely than average to live in families with no savings at all.

This is the backdrop to an urgent need for the Government to step up its economic response. In recent days, the Chancellor has set out additional measures to those announced in the Budget, with a continued focus on subsidised loans and direct cash payments to firms. These are very welcome and important measures to reduce the permanent economic damage from what is now clearly a major economic shock. But much bolder steps to support family incomes are needed, as the Chancellor himself has set out. That is crucial not only to avoid hardship, but to reduce the depth of the crisis by reassuring families that they will not suffer deep and long-lasting hits to their income.

We propose a broad and radical approach in three areas: relatively simple extensions of sick pay itself, much bolder moves to aid the retention of workers by struggling firms, and a stronger social security safety net.

On Statutory Sick Pay (SSP), the Government should extend it to the 2 million employees who earn less than £118 per week (£120 from April) and are ineligible. This would cost around £200 million. The Government could go further and make SSP more generous, but only if it met the costs of that increase, for small and medium-sized firms at least. Increasing SSP from £95.85 to £160 per week would ensure it covered half the earnings of employees that rely on it, up from the current third, and cost a further £800 million for small and medium-sized firms.

But the economic hit from short periods away from work when ill is now a small part of the economic damage the country faces. The response needs to swiftly reduce struggling firms' wage costs while simultaneously offering families reassurance that they will not face a long-lasting huge income hit. Both objectives are best achieved in tandem, via the introduction of a new Statutory Retention Pay (SRP) scheme in which people who don't have work to do stay formally employed by their firm, but with a significant amount of their pay covered by the state. This must be delivered by exploiting mechanisms that are already in place to ensure it can be done swiftly, with Statutory Maternity Pay (SMP) providing the model. Firms would continue to pay workers at least two-thirds of their previous wages via their payroll (above the SMP minimum of £151 per week), with the state providing a rebate for those payments at a cost of £4 billion for an initial six months if 500,000 employees were involved, and £8 billion if a million were. Firms that are in a position to do so would top up SRP to nearer 100 per cent of the previous wage. A simpler flat-rate payment of £151 per week would cost £3.6 billion if 1 million workers were involved.

Introducing such a scheme would not be straightforward, but is the best option within existing structures. Workers would still be paid when and how they are used to being paid. Established payment mechanisms would be used, which is significantly preferable in terms of operation and targeting to proposals being made, particularly in the US or among long-standing universal basic income advocates, to send flat-rate payments to all households. Given the benefits of maintaining existing links between firms and workers, preventing lasting rises in unemployment and reducing firm costs swiftly, making such a scheme a reality is not only highly desirable but urgent.

But even with such bold action, unemployment will rise. Some firms will go bust and work will dry up for many of Britain's 5 million self-employed people. To protect those families affected from hardship, and strengthen the automatic stabilisers that support demand in the economy, we therefore also need to strengthen the social safety net. The usual arguments against doing so rest on the idea that it will discourage work, but that is of no relevance during a crisis of this sort. We do not start from a position of strength. Recent years of working-age benefit freezes have left the main rate of unemployment benefit lower in real terms than in the early 1990s, despite the economy growing by more than 75 per cent in that period.

To address this, the main adult rate of out-of-work support in Universal Credit (UC) and other benefits should rise by one-third, to £100 per week, with equivalent increases in young-adult and couple rates. This would cost £10 billion over a year. The Government could go further and target a 10 per cent uprating of other elements of the means-tested benefit system (UC and tax credits), which would bring the total cost to £13 billion.

Wider reforms of the benefit system are also needed to improve its functioning during this crisis. As was the case before 2012, tax credits must be allowed to increase as workers' incomes fall, so that they can play the crucial role of cushioning income shocks for those with fewer hours. Advance payments in Universal Credit should be as automatic as possible, with these loans not recouped during the next six months at least. Jobcentre Plus will need significant new resources to cope with big rises in claimant numbers, and the conditionality and sanctions regime suitable for normal times has no place in a recession.

Taken together, this three-part package would amount to a bold response to a very serious economic crisis. It would target the core problems that the nature of this shock is posing to individual firms, families and the economy as a whole. And crucially, it rests on measures that are not always easy but which can actually be taken, and taken swiftly. Now is the time to act.

Introduction

It has been clear for some time that the UK is facing a major health emergency, but it is now equally clear that we are heading for a deep economic shock. Recognition of this fact means that there is widespread agreement that much more needs to be done in response.

The crucial question is what exactly can and should be done. The answer is a lot, with the intensification of measures to reduce the spread of coronavirus in fact meaning we need an intensification of the economic policy response.

Concrete and comprehensive recommendations for how that intensification should be delivered are the focus of this paper. We argue that given the scale of the shock, its nature and who is most likely to bear its impact, we now need a new approach.

Understanding the nature of the economic shock is crucial to responding to it

The approach the government should take in responding to this crisis, like any economic shock, must be based on a clear view about the nature of the shock. While some policy measures are of some use in almost all crises (like lower interest rates), all crises also involve bespoke responses that reflect their specific causes and the situation of the country experiencing them.

A few weeks ago, the dominant view was that the main economic impact of this crisis was the temporary absence of sick workers alongside disruption to sales and supply chains. On the basis of that diagnosis, the Government has focused to date on two responses in its Budget measures and the subsequent statement by the Chancellor on 17 March. First, temporary support, largely via cheap loans and tax deferrals, for firms to prevent them going under (which would turn a temporary supply shock into a permanent hit). And second, economy-wide demand support from Bank of England rate cuts and broad increases in public spending over the course of 2020.

Sitting behind the first set of measures is the idea that the temporary impact of coronavirus should not fundamentally change the long-term profitability of almost all individual firms, while the scale of interventions on the second (with rate cuts on just one tenth of the scale seen during the financial crisis) reflected a view about the length and depth of the shock to come.

But it is now clear that this was far too optimistic, both with regards to the size of the shock but also its length. Crucially, it will not be the illness itself driving the bulk of the economic damage, but our response to it. The economic implications of (fully justified) steps to intensify social distancing, not least the move to close schools, are likely to far outweigh those from forced work absence due to sickness or self-isolation.[1]

We are on course for job losses to be significant, with the initial sudden stop to economic activity being concentrated in the jobs-rich parts of our economy, like non-food retail and hospitality. Timely economic data from other European countries suggests that unemployment is already rising.[2] Alongside the smaller effect from reduced earnings due to sickness or self-isolation, the resulting income shock to families (or even just the potential for such a shock given the uncertain outlook) will induce wider economic effects through reduced aggregate demand.[3]

In that context, the Chancellor has recognised the challenge, promising to introduce measures focused on households, not just firms. Those cannot come quickly enough and what they should be is discussed in detail below.

In all crises, the key objective is to address the root cause of the economic shock, providing certainty to firms and families that the problem will not persist. This is because the combination of an economic shock, along with huge uncertainty about how long the problem will last, is a recipe for a massive retrenchment in spending both from households and businesses. This will in turn drag down aggregate demand further, leading to an even deeper recession. But the danger is that this is exactly where we are today. The open-ended nature of our response to the health crisis makes the economic shock much harder to deal with.

1 See, for example: HM Government, COVID-19: guidance on social distancing and for vulnerable people, March 2019.
2 Timely open data sources suggest that unemployment has doubled in Norway in the past week (up 128 per cent Tuesday-Tuesday), with transport, service and retail jobs most affected. Source: https://data.nav.no, accessed 17 March 2020.
3 For a similar discussion in relation to the US, see: A Dube, Filling the Holes in Family and Business Budgets: Unemployment Benefits and Work Sharing in the Time of Pandemics, March 2020.

Recognising the central role of uncertainty in this crisis should in turn change how we think about the task of designing the economic response. Most importantly, if we cannot reduce the actual uncertainty of how long social distancing and other important but economically damaging measures will last for, we need to make that uncertainty matter a lot less for firms and families.

So the Government's focus must switch from offering cheap loans and generalised macroeconomic stimulus. While that approach will provide beneficial support to the economy, it doesn't go far enough (in Box 1 we discuss how the existing loan scheme can be adapted to make it more effective). Instead, we need targeted measures that alleviate hardship, give firms the confidence to avoid laying off staff or shutting up shop, and give families the reassurance that their incomes will not fall far and stay low.

BOX 1: **Ensuring business loans support the economy effectively**

The Government's latest promise of up to £330 billion of guaranteed loans to struggling firms will provide a much-needed source of readily accessible funding (or liquidity) to support fundamentally solvent firms weather the economic consequences of measures to reduce the spread of coronavirus. A key point to recognise here is that such a loan scheme – even if the terms are very generous – will increase the costs faced by firms, and so will increase the risk that firms go out of business.

So the terms under which these loans are offered will be crucial to how successfully they can provide support to businesses. While the details of the Government's loan scheme are not yet known, it appears to favour relatively short-term credit, with interest payments due after six months. But there is considerable uncertainty about both the duration of the public health restrictions required to contain the virus, and about the impact those measures will have on businesses in the short to medium term. A typical small firm holds cash reserves equal to three months' expenses, which could be quickly exhausted in the coming weeks. And once the health emergency has ended and restrictions are lifted, firms will need time to win back customers, replace laid-off workers, reconnect with suppliers, and rebuild order books. If travel and social distancing restrictions need to be in place for more than a few months, it may be several years before some viable firms are able to repay the principal on these loans.

One way to deal with this problem is for the Government to accept a certain level of defaults within the scheme, and cover the costs through the guarantee. Under a similar scheme set up by the

Danish Government, the Ministry of Finance has already forecast a 20 per cent default rate on their small business loans.[4] However, these defaults would have long-term consequences for the creditworthiness of the beneficiaries, and impair their access to other credit needed to recover.

To take account of the uncertainty about the duration and severity of the economic disruption in the coming months and avoid these loans becoming an additional burden on the economic recovery, the Government should consider adapting its scheme in three respects:

- First, the maturity of the loan should be contingent on the lifting of public health restrictions such that the timetable for repayment of interest and principal only commences when it is clear the outbreak and associated disruption is over.
- Second, repayment terms should be contingent on the pace of recovery in the firms' earnings so that no firm is required to repay more than a certain proportion of its earnings in a given month or quarter.
- Third, to prevent firms from using the loans to reduce costs by making people redundant, the Government should retain a share of the collateral of any firm that repays the loan while laying off workers.

In combating the demand shock, we must recognise that the income hit is likely to affect those with the least resources most

The UK is heading into a recession and history teaches us that they are very painful. The average fall in GDP in the UK is 4 per cent, equivalent to £2,500 per household, while the average increase in unemployment is 1 million. Given the scale of the sudden stop to some economic activity and the synchronised nature of the shock across the globe, it is almost certain that this is not an average recession.

Crucially, and unlike 2008 when earnings took a bigger hit, the risk is that negative effects are concentrated on those with the least resources.[5] The policy response must have this risk built into it, partly to reduce severe hardship for those affected but also to ensure it is effective at targeting the source of the demand shock we are most likely to see.

As we've set out previously, the risk that negative effects in this crisis are concentrated on those with the least resources is the case in relation to support for workers off sick or self-isolating. The 2 million lowest-earning employees are ineligible for Statutory

4 The Local, Denmark moves to protect economy from coronavirus impact, March 2020.
5 C Pacitti & J Smith, A problem shared? What can we learn from past recessions about the impact of the next across the income distribution?, Resolution Foundation, August 2019.

Sick Pay (SSP), as are self-employed people (who have lower typical earnings than employees). These groups instead rely on the benefits system in which awards fall below already-low SSP levels.[6] And among SSP-eligible employees, lower earners are much less likely to have sick pay schemes that are more generous than the minimum statutory requirements.[7]

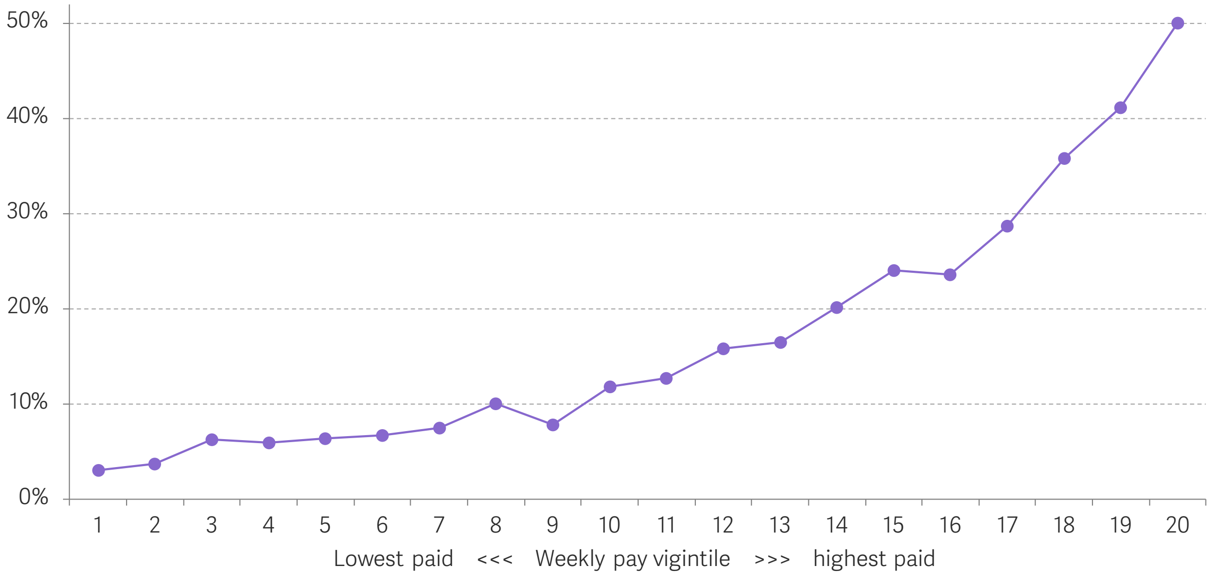
So too are the broader risks of reduced hours or lost jobs concentrated among the least well off. In the first instance, we can consider the sectors most at risk of seeing sharp reductions in revenue from the Government's latest guidance to avoid all but essential travel and social contact. These include retail (excluding food), hotels and restaurants, airlines, travel operators, cleaning, arts and entertainment, and personal services like hairdressing. Britain is a service economy, so it's no surprise that we're talking about sectors that account for 19 per cent of employment (comprising 5 million employees and 1.2 million self-employed people) in the UK today. And they have a low-earning bias: typical weekly employee pay in these sectors was £320 in 2019, compared to £455 across employees as a whole.[8]

Another way of thinking about whose income is most at risk from social distancing measures, particularly given the recent decision to close schools (and acknowledging the difficulty of working from home with kids around), is asking who would be able to continue economic activity during that period? If we consider who can work from home on a regular basis, again the message is clear. Figure 1 and Figure 2 show that whether viewed across the distribution of weekly pay, or through the lens of occupation and sector, being able to work from home is very much a higher-paid phenomenon. The implication is that as with the sectors most at risk from immediately reduced demand, broader reductions in the ability to be physically present at work put the hours and jobs of lower earners at threat the most.

6 K Handscomb, Coronavirus and the benefits system: What support is available?, Resolution Foundation, March 2020.
7 T Bell, L Gardiner, R Hughes, J Smith & T Yates, A Budget action plan: The economic response to the coronavirus, Resolution Foundation, March 2020.
8 Source: RF analysis of ONS, Labour Force Survey.

FIGURE 1: **The highest-paid employees are much more likely to be able to work from home if needed**

Proportion of employees who can work from home if needed, by weekly pay vigintile: UK, 2014-2018



NOTES: Pay vigintiles are calculated within each calendar year. Pay is usual gross weekly pay.
SOURCE: RF analysis of ISER, Understanding Society.

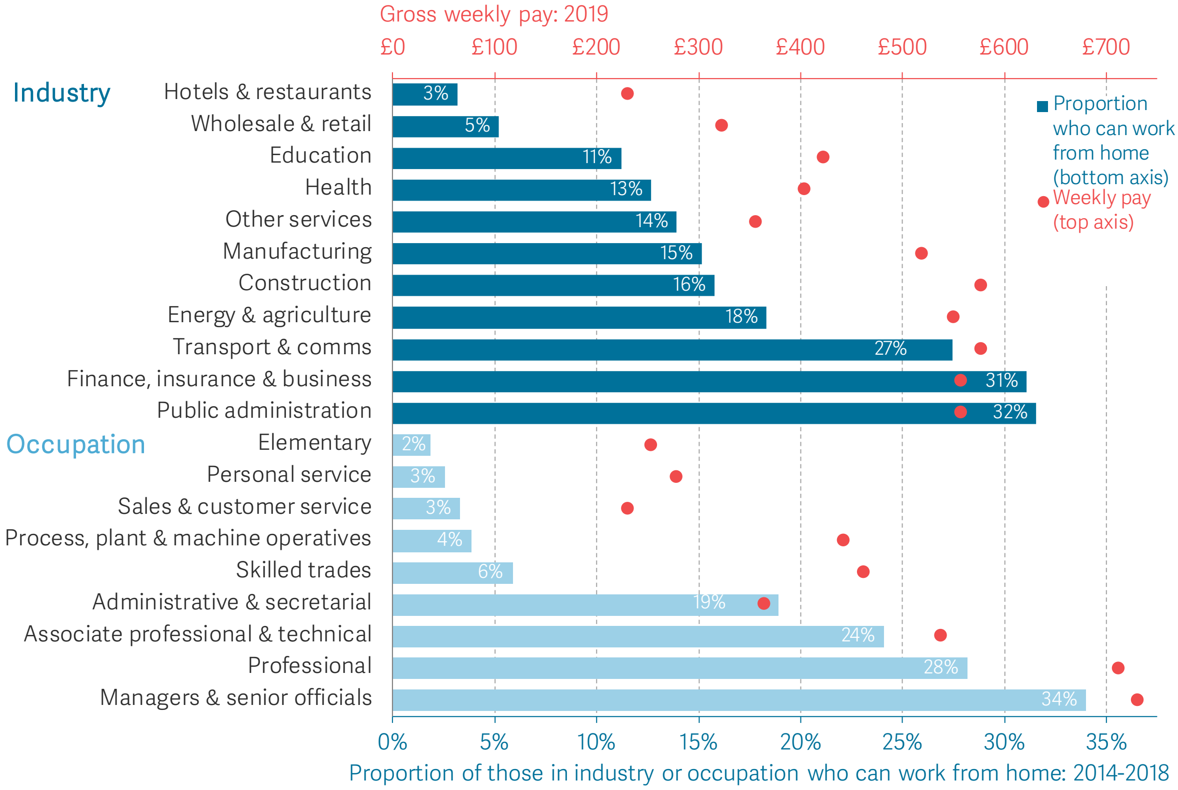
In particular, it's clear from Figure 2 that workers in the bottom-five broad occupational groups are extremely unlikely to be able to work from home. These occupations account for 42 per cent of people in employment, or 31 per cent excluding those also in the sectors most at risk of reduced demand in the face of the latest health advice, listed above.

Finally, while those on lower incomes are likely to be more exposed to the risk of losing all or part of their pay, that group also lacks the financial buffers to smooth through such a period. It is important not just to consider individuals' financial resilience from the perspective of earnings flows. The state of their balance sheets is crucial, too – both in terms of the ability of households to cope with income shocks without severe hardship, and to understand the extent to which demand may fall. While the good news is that outstanding debt levels have fallen over the past decade,[9] we also have a greater proportion of lower-income families without savings.[10]

9 J Ahmed & K Henehan, An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK, Resolution Foundation, January 2020.
10 C Pacitti & J Smith, A problem shared? What can we learn from past recessions about the impact of the next across the income distribution?, Resolution Foundation, August 2019.

FIGURE 2: **Those in lower-paying industries and occupations are least likely to be able to work from home**

Proportion of employees who can work from home if needed and gross weekly pay, by industry and occupation: UK, 2014-2018 / 2019

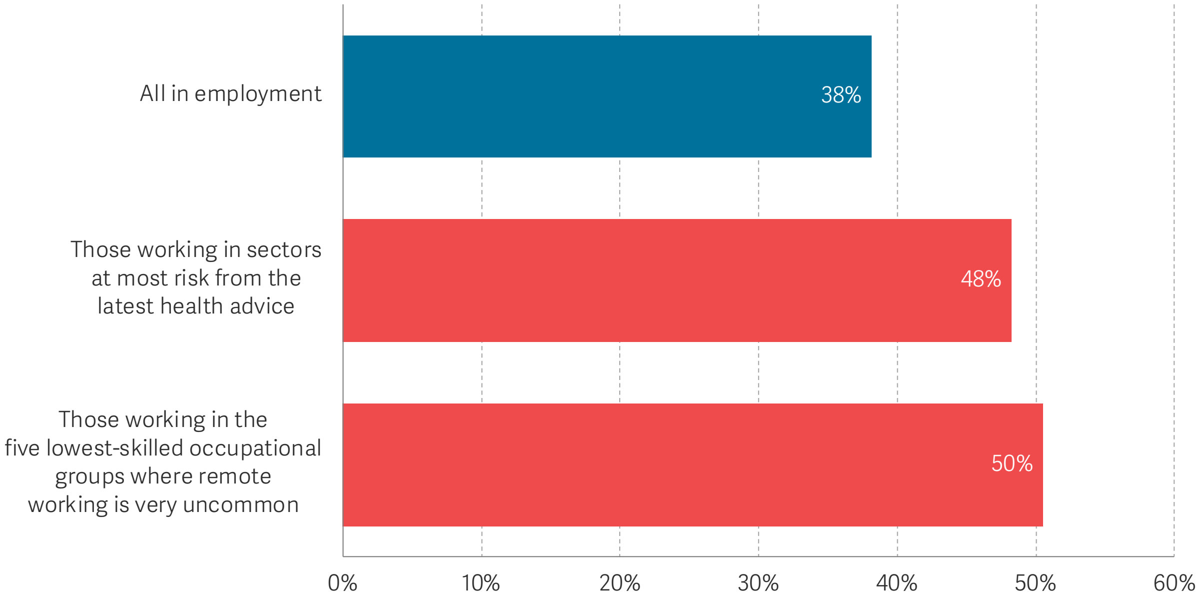


NOTES: Work from home data is from waves 6 and 8 of Understanding Society. Pay data is from the 2019 quarters of the Labour Force Survey.
SOURCE: RF analysis of ISER, Understanding Society; ONS, Labour Force Survey.

As families cope with hits to their incomes during a crisis, having debt you can roll over – or, in extreme, default on – is in fact an easier situation to deal with than not having savings that can be drawn down. Importantly, Figure 3 shows that those in the most at-risk sectors and occupations identified above are each around 25 per cent more likely than average to live in families with no savings at all to fall back on. So the groups most exposed to the direct income shock, with their lack of savings to fall back on to support their consumption, indicate a risk that the size of the aggregate demand shock is amplified. This is the context for designing a targeted policy response, and it is a very different one to previous shocks, including the financial crisis.

FIGURE 3: **Those at risk of reduced employment in the current crisis are more likely than average to have no savings**

Proportion of 16-64-year-old working adults living in families with no savings: UK, 2017-18



NOTES: At risk sectors are defined slightly more broadly than above due to a more limited industry variable. They include retail, air transport, hotels and restaurants, motor vehicle hire, cleaning, arts and entertainment, and personal services.
SOURCE: RF analysis of DWP, Households Below Average Income.

This merits a three-part focus: 1. Boost sick pay

Periods of time off sick, hours reductions or job separations for the groups described above will lead to economic hardship, increase pressures on the benefit system, and risk having long-term scarring effects on the individuals concerned. This would bear down on current and future consumption and so make the shock worse. As a result, the Government needs to expand its policy response considerably. This expanded response should have three parts, focusing on: boosting sick pay itself, maintaining workers' attachment to firms in the face of temporarily reduced demand, and a strengthening the social security safety net for those who fall out of employment.

The first of these has been the most discussed, but the key remaining actions for the Government bear repetition. Building on measures announced in the Budget last week to pay SSP from day one of absence and to those self-isolating but not ill, the Government should also extend SSP to the 2 million employees who earn less than £118 per week (£120 from April) and are thus ineligible. As suggested in a Government consultation last year, SSP could be paid at 80 per cent of earnings for those getting less than the full rate, to maintain incentives to (return to) work.[11] Based on the assumption that 50 per cent of this group will take a full two weeks' sick leave in the coming months as a result of

11 Department for Work and Pensions/Department for Health and Social Care, Health is everyone's business: proposals to reduce ill health-related job loss, July 2019.

contracting coronavirus or self-isolating, this policy carries a cost of around £200 million, which the Government should support firms in meeting.[12]

In addition, SSP could be made more generous. Increasing it from £95.85 (from April onwards) to around £160 per week would lift SSP from less than one-third to around half the value of each of: the earnings of employees currently eligible for SSP only; full-time earnings on the National Living Wage; and the minimum income standard for a single working-age adult.[13]

Again based on the assumption that half of eligible employees take sick leave in the coming months, this policy change would increase SSP costs by £2 billion across firms, and by £800 million in small and medium-sized ones (SMEs, defined as those with fewer than 250 employees).[14] The Government should reimburse firms, or at least SMEs, for this increase in sick pay costs. This would effectively entail an increase on the £2 billion committed to SSP rebates for small and medium-sized firms in last week's Budget.

This merits a three-part focus: 2. Maintain workers' attachment to firms in the face of reduced demand

Simply supporting incomes during periods of sickness-related absence themselves is only relevant to a small part of the economic shock we face. The broader reduction in economic activity means firms' revenues falling and choices between going out of business or swiftly reducing costs – including wage bills. And workers without childcare working in industries where remote working is not possible will now face a difficult choice between caring for their children and quitting (or be fired from) their jobs while schools are closed. The result will be rising unemployment and shorter hours, the reality and fear of which will further deepen and prolong the downturn beyond the impact of social distancing itself.

The huge uncertainty about how long these economic impacts will continue for also risks deepening the downturn via its effect on both firm and family behaviours. Firms facing what may feel like an indefinite reduction in revenue are much more likely to respond by laying off staff than those knowing it will only last a few months. In this context, the

12 These costings are derived as follows. Based on earnings distributions in the ONS's *Annual Survey of Hours and Earnings*, we estimate that around 8 per cent of employees earn less than £120 per week, with mean pay of around £76 per week. We apply SSP at 80 per cent of earnings for this group, and assume that 50 per cent are in receipt for two weeks. The number of employees in the UK (27.8 million) is taken from the ONS's latest Labour Market Statistics bulletin.

13 SSP-eligible employee earnings are estimated by adjusting median weekly earnings across employees according to the characteristics of employees eligible for SSP only, as opposed to more generous occupational sick pay schemes. See: Resolution Foundation, Spring Budget 2020 response, March 2020.

14 These costings are derived as follows. SSP is applied at £160 per week for all employees currently eligible for SSP (based on earnings distributions in the ONS's *Annual Survey of Hours and Earnings*), and we assume that 50 per cent are in receipt for two weeks. The number of employees in the UK (27.8 million) is taken from the ONS's latest Labour Market Statistics bulletin. We do not adjust these calculations for employees who have sick pay schemes above the statutory minimum (in other words, we capture the costs of the statutory element of these schemes). Our costing for small and medium-sized firms is calculated at 50 per cent of the total cost, based on BEIS's Business Population Estimates for the private sector, adjusted for the proportion of employment in the public sector.

Government's strategy of providing bridging loans to firms, while beneficial, is unlikely to be sufficient. Similarly, families will cut back consumption more severely in the face of the reality or risk of an income hit if they have no idea how long it will last. This risks a much deeper downturn, and needs to be addressed with timely and substantial policy measures.

The answer to these very significant challenges, apart from whenever possible providing the greatest possible clarity about the extent of measures to stop the spread of the virus, is to broaden the policy response beyond loans for firms, or sick pay for workers. Instead, swift action is needed to help struggling firms with their wage costs while simultaneously offering families reassurance that they will not face a long-lasting reduction in their incomes. Both objectives are best achieved in tandem with the introduction of a new Statutory Retention Pay (SRP) scheme in which people who do not have work to do stay formally employed by their firm, but with a significant amount of their pay covered by the Government.

Such an approach also recognises the longer-term benefits of keeping workers out of unemployment and retaining matches between them and their fundamentally viable employers. A 'middle way' between short-term periods of strictly sickness-related absence in which the firm maintains the employment relationship – and full-blown lay-offs – is highly desirable. As Box 2 sets out, such approaches have been implemented in recent days and weeks in many European countries.

BOX 2: **Policies to support firms and workers in other countries**

A range of policies have been put in place in other countries to shield households and businesses from the economic effects of the coronavirus outbreak. Below we set out the main features of the policy response in five European countries where major policy measures have been announced in recent days, that is: Denmark, France, Germany, Ireland and Sweden. In many cases, these policies are mutually reinforcing, with support for firms' finances tending to reduce lay-offs and so also acting to help workers.

A key takeaway from this analysis is that, as well as significant support for firms, all these countries have put in place significant measures to help workers remain attached to firms in the face of a temporary loss of revenue. The announced measures (alongside broader support from monetary and other fiscal policy) are summarised in Table 1.

Denmark

The Danish Government has committed to reimburse firms for outlays on sick pay,[15] extend 70 per cent guarantees for bank lending to firms that have experienced a drop of more than 50 per cent in their revenues as a result of coronavirus, and extending the period over which firms can make tax payments. Sick pay coverage has also been extended to apply from the first day an employee becomes ill or enters quarantine. Perhaps the most material response, however, is a scheme to pay 75 per cent of the salary of workers who have been laid off temporarily (up to the equivalent of around £2,800 per month per employee).

France

The French Government has taken a variety of measures to prevent bankruptcies. Most eye-catching is a plan to extend around €300 billion of loan guarantees through the banking sector. There have also been offers of forbearance on tax payments, a suspension of rent and utility payments for struggling small firms, and promises to recapitalise or nationalise key businesses if necessary. On top of these policies, €8.5 billion has been earmarked to provide two months of state support for temporarily laid-off workers. The payment level is currently unspecified but will be higher than existing unemployment support.

Germany

The German Government has announced a new lending programme for businesses, provided through its state-owned bank KfW, with the terms of the loans adjusted to shift more risk onto the Government. Future increases in funding will be granted to ensure "unlimited" liquidity is available. In addition, tax relief will be provided for companies. The Government has also announced plans to fully reimburse social contributions for retained workers on shorter hours. And after being required to enter quarantine, employees must continue to be paid for six weeks (refunded by the Government). Short-time work allowance has been a long-standing policy in Germany, compensating workers for taking a cut in hours. This benefit applies to cuts in hours due to coronavirus and is paid at 67 per cent of the net wage difference (i.e. if an employee's pay falls by €100 because of lost hours, the Government will pay the employee €67) for employees with children, and 60 per cent for those without children.[16]

15 For more information, see the Danish government website: stat.dk, Business Help Package – Questions and Answers, March 2020.
16 These benefits are available if at least 10 per cent of workers have lost at least 10 per cent of their income. Existing temporary workers are allowed to claim short-time allowance. Application processes will also be streamlined and achieved faster.

TABLE 1: **A range of monetary and fiscal policy measures have announced following the outbreak of coronavirus**

Responses to the coronavirus outbreak, various countries

	Monetary Policy		Fiscal Policy			Total stimulus (excl. effect of rate cuts)	
	Rate cuts	**Liquidity support for financial sector**	**Lending for firms**	**Sick pay**	**Temporary support for workers**	**Cash support**	**Cash support and loans**
UK	-50bp	Launch of new Term Funding Scheme for SMEs (c. £100bn) and Covid Corporate Financing Facility; macroprudential loosening	Yes (£330bn)	Statutory Sick Pay, ESA and UC reforms	Mortgage forbearance, evicition protection for renters; Local Authority Hardship Fund	1.4%	16.2%
Ireland	No		Yes	Reforms to sick pay, including for the self-employed		0.8%	Not costed
France	No	ECB market liquidity operations	Yes (£270bn)		Partial unemployment benefit for temporarily laid off workers; no penalties on late payment of local taxes	1.8%	13.7%
Germany	No	ECB market liquidity operations	Yes (up to £510bn)	Full wages during first six weeks for those in quarantine	Payments to workers facing shorter hours	Not costed	15.2%
Sweden	No	£25bn purchases of securities; macroprudential loosening	Yes	Payments from first day of illness, Government covering all costs to May, including for the self-employed	Short-term lay-offs scheme	5.8%	15.6%
Denmark	No	£24bn in liquidity; macroprudential loosening	Yes	Payments from first day of illness, Government covering costs	Temporary pay compensation scheme	0.2%	0.5%

Ireland

A variety of lending schemes have been announced by the Irish Government, including: a scheme to provide €200 million in working capital loans – with up to €1.5 million available at reduced rates to individual firms; €200m for restructuring vulnerable but viable firms; and an increase in the size of loans available from MicroFinance Ireland. Meanwhile, all workers losing their jobs as a result of coronavirus are eligible to receive payments of €203 per week. Employers who have to temporarily shut businesses have been asked to continue paying staff €203 per week, reimbursed by the Government. Sick pay will rise to €305 per week and will also be available for those asked to self-isolate.[17] And there is support for short-time working, with previously full-time employees eligible to receive a proportion of unemployment benefits.

Sweden

The Swedish Government has put in place measures to allow the deferral of payment of employers' social security contributions, preliminary tax on salaries and VAT. In addition, the Swedish Riksbank is set to take steps to increase the flow of credit to businesses through commercial banks. On sick pay, like the UK and Ireland, workers in Sweden are now eligible for payments from the first day of illness, with the Government to cover the cost to firms of all sick pay at least up to May. The benefit has also been extended to self-employed workers. Quarantined workers receive support worth 80 per cent of their salary from the Government while they are absent from work. Finally, the Government has introduced a 'short-term lay-offs' scheme, under which employers can halve their wage costs, and temporarily stand down their employees, who would still receive more than 90 per cent of their wage from the Government.

Could the UK do something similar to the worker-retention focused schemes in other countries? A key test for any policy being proposed in the face of the current outbreak is the ease and pace with which it can be delivered within existing mechanisms. Many European countries have extensive systems for employer-provided social insurance, so can perhaps arrive at the approaches set out in Box 2 more quickly than we would be able to in the UK. In short, we need to work with what we've got given the pace with which the economic shock is developing. Our view is that the best avenue to build on for a worker-retention scheme is the approach we currently take to Statutory Maternity Pay (SMP).

17 Additional emergency support is available for workers whose firms do not pay above the minimum state level.

SMP is paid for up to 39 weeks, initially at a proportion of earnings and then at a flat rate (£151.20 per week from April 2020). Employers can reclaim the majority of payments from the Government (92 per cent, or over 100 per cent for very small firms) and apply for an advance if they cannot meet the costs up front.

Mimicking this scheme, we suggest temporary 'Statutory Retention Pay' (SRP) is introduced for employees (other than those off sick or isolating) not delivering any work due to coronavirus measures (including the need to care for children who are off school), and who the firm intends to keep employing beyond the SRP period (with the Government able to recoup support from firms that in fact let staff go but remain viable themselves). Unlike the Irish scheme, SRP could be used in firms that aren't temporarily closing entirely (i.e. they are reducing their workforces rather than temporarily side-lining everyone), with the explicit intention that it is one of the mechanisms businesses can use to stay open and maintain some economic activity.

While the swift operationalisation on the basis of an existing scheme means SRP could not be easily applied to the self-employed, policy makers should look to extend it to this group where possible. While that is unlikely to be possible for most self-employed people, it may be possible to do for large firms that operate entire self-employed workforces, particularly in the transport sector.

SRP could be paid at a flat rate equivalent to SMP – £151.20 per week – to everyone earning at least 25 per cent more than this amount (and at 80 per cent of earnings below that). This flat-rate approach would be targeted at relieving firms' costs and ensuring workers do not end up in severe need. However, given the policy priority of avoiding a deep shock to demand, we should go further and offer more reassurance on income protection for workers. To achieve this, SRP payments could be linked to earnings, in line with many of the non-Irish European examples in Box 2. One option would be for SRP to be paid as a percentage of the workers' previous typical earnings[18] above the minimum amounts set out for the flat rate scheme above. We suggest a rate of around two-thirds, subject to a cap at high earnings. The costs of SRP itself would be reclaimed from the government, and as with SMP, firms that are in a position to do so would top up SRP to nearer 100 per cent of the typical wage.

The lower replacement rate of the SRP scheme we propose than in the French approach is an explicit exchange for a longer payment period – we suggest paying SRP for up to six months initially. We think this is important given the unknown extent of the crisis and the need for cost and income certainty for firms and families, respectively. Finally, while the hours reduction approach in Germany has much to recommend it, we haven't suggested something similar for the UK given the logistical challenges of

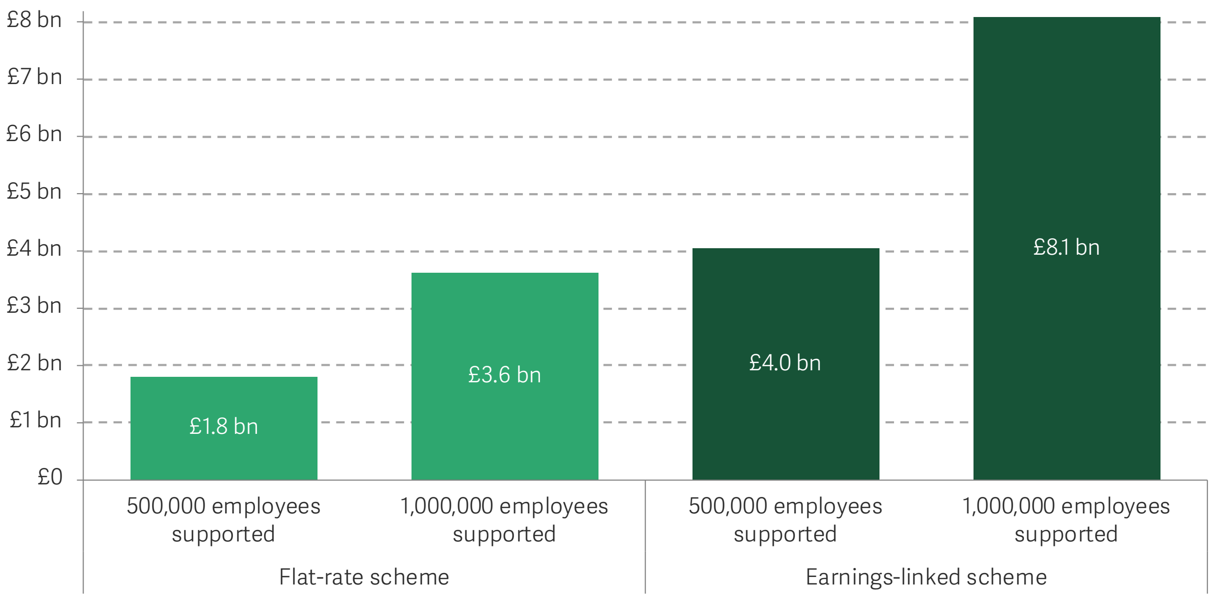
18 As in SMP, typical earnings could be calculated based on pay over the eight weeks prior to coronavirus impacts.

setting up the necessary systems swiftly (in comparison, Germany has a long history of hours-reduction mechanisms). For families on low incomes, Universal Credit will offer relatively swift compensation for reductions in working hours. For tax credits recipients, the Government should immediately make adjustments to tax credits to return to the pre-2012 approach of not having a threshold for how much someone's income must fall before their tax credits start to rise to compensate.

Figure 4 sets out indicative estimates of the costs of the SRP scheme we propose, based on two scenarios for the number of employees moving onto it: 500,000 and 1 million (chosen with reference to the roughly 1 million increase in unemployment during and after the financial crisis). These costs take account of certain employees (those in the most at-risk sectors from the health response and those in lower-skilled occupations) being more likely to move onto the scheme. Based on a caseload of 1 million our estimates suggest the flat-rate scheme would cost the Government around £3.6 billion, while the proposed earnings-linked SRP scheme would come in at £8 billion.

FIGURE 4: **Statutory Retention Pay could cost up to £8 billion over six months**

Estimated costs of a Statutory Retention Pay scheme over six months: UK, 2020-21



NOTES: The flat-rate scheme provides a weekly payment of £151.20 (equal to Statutory Maternity Pay in 2020-21) to every retained employee with gross weekly pay above £189, and a payment of 80 per cent of each individual's gross weekly pay to those earning below £189 each week. The earnings-linked scheme provides a weekly payment of two-thirds of an individual's gross weekly pay to every retained employee earning above £189, and a payment of 80 per cent of each individual's gross weekly pay to those earning below £189 each week. The total size of population shown is broadly in line with the increase in unemployment that took place following the financial crisis (1.09 million), and we also present costs for an unemployment rise of around half this amount. The composition of the population is determined such that those in the most 'at risk' sectors (set out above) are four times as likely to use the scheme as those at low risk (all other employees), and those at medium risk (anyone else in the five lowest-skilled occupational groups) are twice as likely to use the scheme as the low-risk group. We assume that some low-risk employees will need support not because of the direct impact of the public health response, but because of the broader hit to demand that it causes. Costed using 2019 figures for gross weekly pay and reweighting of populations to match assumed totals (of 500,000 and 1,000,000).
SOURCE: RF analysis of ONS, Labour Force Survey.

Introducing such a scheme would not be straightforward, but it appears feasible within existing structures. It could be delivered through existing payroll systems so that workers would still be paid when and how they are used to being paid. The Government would need to ramp up capacity but has established mechanisms for rebating (or paying up front) the costs of SMP to firms. Operating via firms' payroll systems and existing mechanisms is significantly preferable in terms of speed and targeting to proposals being made, particularly in the US or among long-standing universal basic income advocates, to send flat-rate payments to all households. Given the benefits of maintaining existing links between firms and workers, preventing lasting rises in unemployment and reducing firms costs swiftly, making such a scheme a reality is not only highly desirable but urgent.

This merits a three-part focus: 3. Strengthen the social security safety net

The proposal to introduce SRP would make a material difference to the number of families facing severe income shocks, to firms' costs, and to the depth of the demand shock facing our economy. But unemployment will still increase. Even if the two approaches discussed above are followed to full effect, there are individuals and firms that they will not work for, not least 5 million self-employed people (a group that has grown over the 21st century). So, to provide further protection from income shocks to those lower-income families least likely to have savings or other resources to fall back on, the third priority for the Government is to strengthen the social security safety net.

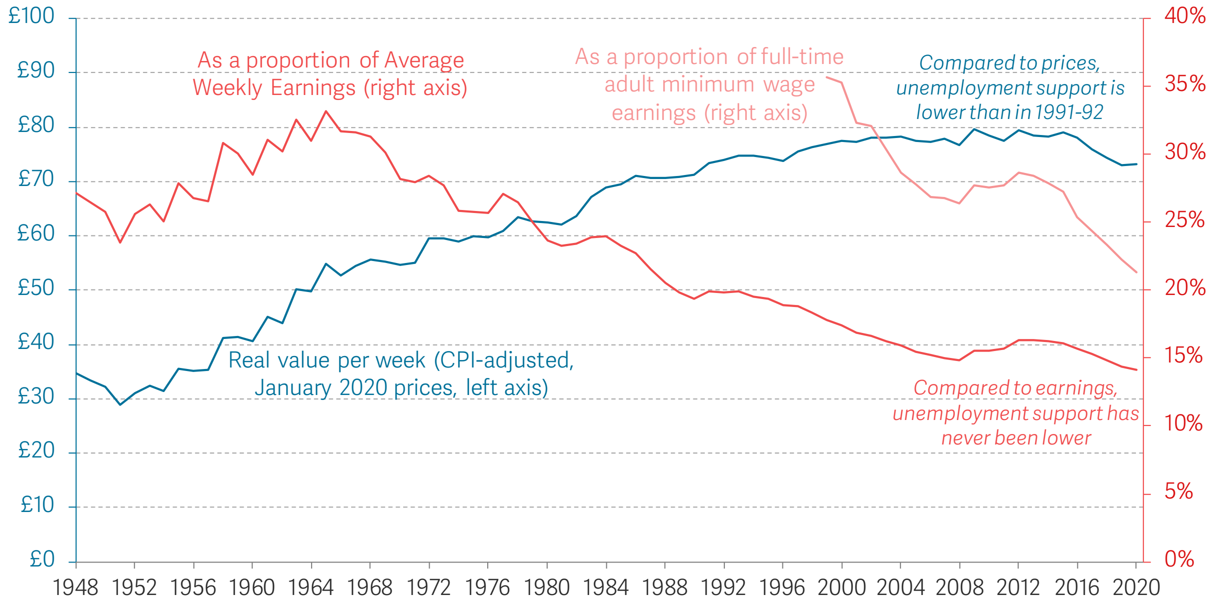
Unfortunately, we do not start in a good place. Recent years of working-age benefit freezes and below-earnings uprating before that have left the main rate of unemployment benefit lower than in the early 1990s, despite the economy growing by amore than 75 per cent in that period, as Figure 5 shows.[19]

These changes to unemployment support have run alongside broader reductions in recent years to working-age benefit entitlement and generosity. While in normal times this is a problem for the families concerned, and anyone worried about current increases in child poverty, it is now a macroeconomic problem too. The result of these cuts is that the economy's 'automatic stabilisers' – the extent to which incomes, and therefore consumption, are maintained in the face of a shock – have been somewhat weakened over the past decade. For example, in a simulated recession like that of 2008-09, net household incomes in the second quartile of the income distribution would fall today by 4.5 per cent.

19 A Corlett, The benefit freeze has ended, but erosion of the social security safety net continues: Expected benefit uprating in April 2020, Resolution Foundation, October 2019.

FIGURE 5: **Unemployment benefits have been in continual decline relative to earnings**

The value of the main rate of unemployment-related benefit over time



NOTES: Full-time earnings on the minimum wage calculated based on a 40-hour week.
SOURCE: RF analysis of IFS, Fiscal Facts; ONS; Bank of England.

Had no tax and benefit policy changes been rolled out since 2010, however, that same shock would deliver a smaller income decline in the second quartile, of 4.1 per cent.[20] Or for a specific example, consider that a full-time median earner in a couple with two children would maintain 59 per cent of their income if falling out of work today, compared to 66 per cent absent the welfare cuts of the past decade.[21]

The crisis has intensified calls for some form of universal basic income system to be set up, or for cash payments to be made to all individuals or households. Such a response would be a lot more expensive, less well targeted, provide a less powerful boost to aggregate demand and, more importantly, take far too long to introduce when families need support immediately. We should therefore focus attention on the tools we have available now.

In the first instance, the priority should be to raise the main adult rate of unemployment benefit in Universal Credit (UC) and Jobseeker's Allowance and Employment and Support Allowance by one-third, to £100 per week in April 2020 (with equivalent increases to

20 For a discussion of changes to the UK's system of 'automatic stabilisers', see: J Smith, J Leslie, C Pacitti, & F Rahman, Recession Ready?: Assessing the UK's macroeconomic outlook, Resolution Foundation, September 2019.
21 We assume that this family owns their own home, and that the second earner (who does not fall out of work) earns at the 25th percentile of hourly wages and works 20 hours per week.

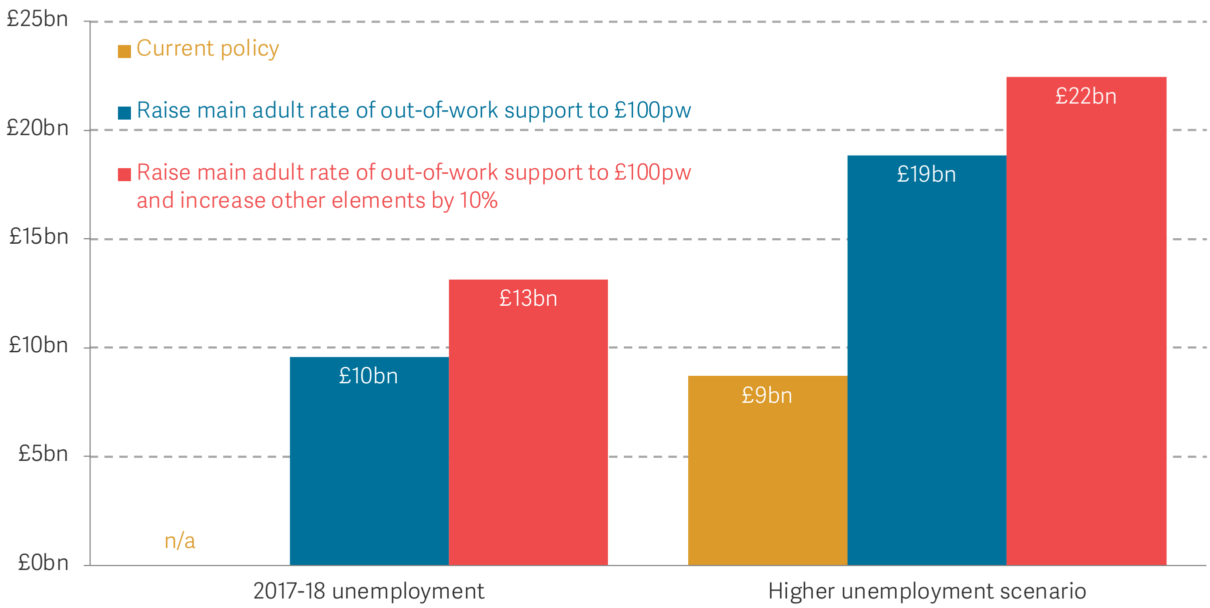
under-25-year-old and couples' rates). The usual arguments against doing so rest on the idea that it will discourage work, but that is of no relevance during a crisis of this sort.[22]

Beyond that, the Government could target a 10 per cent uprating of other elements of the means-tested benefit system (UC and tax credits) in April 2020.23 As Figure 6 shows, this package comes at a cost of around £13 billion annually, with the majority of that cost (£10 billion) deriving from the increase in the main rate of out-of-work support.

Figure 6 also shows costings in a higher unemployment scenario (based on the unemployment rate coming close to doubling). This pushes up costs, but the difference between the gold bar and the other bars on the right-hand side of the chart demonstrates that this is mainly driven by higher claimant numbers as a result of higher unemployment, rather than the policy change itself.

FIGURE 6: **Increasing the main adult rate of out-of-work support to £100 per week would cost £10 billion annually**

Additional costs of means-tested benefit uprating policies, 2020-21



NOTES: Assumes partial roll-out of UC, and accounts for benefit take-up. The higher unemployment scenario is based on the unemployment rate almost doubling from the 4.3 per cent average across 2017-18. In the second and third scenarios, young adult and couple rates of out-of-work support are increased by the same proportion as the main adult rate. In the third scenario, other elements of tax credits, Housing Benefit and UC are uprated by 10 per cent.
SOURCE: RF analysis using the IPPR tax-benefit model.

22 The effects of such a move would be limited to out-of-work support in the legacy benefits (tax credits) system, but, because of the single calculation that includes a standard allowance across those in and out of work, would also boost incomes for the minority of in-work benefit recipients already on UC. This pushes up costs, but maintains work incentives as a result.
23 We do not suggest uprating Child Benefit or disability cost benefits. Such measures may be desirable, but are less relevant to the current crisis.

The costs set out here are higher than those for SRP above, despite the weekly payment being lower. This is because more people are affected and elevated unemployment is likely to last for longer than the need for SRP, based on the experience of previous recessions. That is why we provide a costing for the full-year impact of these policy changes (as opposed to our SRP costing of six months, initially). A further consideration is the extent to which the SRP scheme and our benefit policy costings interact. The costings set out in this briefing note are not fully integrated, but a high-take-up SRP scheme would be expected to reduce pressures on the social security system. This would perhaps push gross costs towards the left-hand side of those set out in Figure 6.

This approach to increasing means-tested benefits would have a material impact on the level of the safety net provided to families turning to the benefits system in the face of coronavirus-related income falls. For example, the median earner in a couple with kids, mentioned above, would benefit from a higher replacement rate when falling out of work – rising from 59 per cent to 62 per cent.

Beyond this fundamental increase in the generosity of support, there is more that the Government should do to ensure that the social security safety net is fit for the current challenge.

First, there are other changes to be made to UC. The minimum income floor (MIF) that applies to the self-employed will need to be suspended. The MIF means that, when assessing the circumstances of the self-employed, UC assumes that self-those people whose business has been operating for more than a year earn an amount at least equivalent to 35 hours of work per week at the National Living Wage (NLW). This rule is intended both to prevent fraud and to reduce the extent to which UC subsidises unprofitable instances of self-employment. But it is wholly inappropriate during the current crisis, when there is a clear need to allow what were viable instances of self-employment to survive. The 2020 Spring Budget relaxed this rule for "those who have COVID-19 or are self-isolating according to government advice". This does not go far enough: it means that someone whose business has collapsed because of the fall in demand would still be treated as if they were earning the NLW. We therefore recommend that the MIF be scrapped for all self-employed UC claimants for the duration of the economic crisis.

One of the most controversial features about Universal Credit is the five-week wait from making the claim to receiving the first payment. This feature is baked into the design, operation and crucially the IT systems that lie behind UC payments. It cannot be changed on a timeline relevant to this crisis, so those worried about the speed of payments to households should focus elsewhere. The Government's solution to the five-week wait is advance payments. These mean that people receive some of their first month's entitlement in advance, which is then repaid out of future UC payments over 12 months (the 2020 Spring Budget confirmed that repayments could be made over 24 months, but only from October 2021). Given where we are today, the best way to ensure people take advance payments to support their living standards immediately is to provide them as a matter of course and specify that repayments will not be taken for the first six months of a claim, or for the duration of the crisis. This will involve accepting a higher risk of bad debts within the benefits system.

As mentioned above, a related change, also intended to make sure that the safety net responds quickly to families' greater needs, involves adjusting tax credits to return to the pre-2012 approach of not having a threshold for how much someone's income must fall before their tax credits start to rise to compensate.

During the next few months when the economic impacts of the virus are most severe, hard job-search requirements make less sense, and neither will Jobcentre Plus have the capacity to enforce them properly as the priority switches to processing new claims. We therefore recommend that the existing system of conditionality within UC and legacy benefits, and the application of sanctions, are pared back to the absolute minimum during the immediate period of the crisis. In practical terms this will also simplify judgements that Department for Work and Pensions (DWP) staff will otherwise have to make about who is excused from conditionality, or not subject to sanctions because of self-isolation or the need to care for dependants.

Second, an additional part of the UK's safety net is provided by local authorities, in the form of Council Tax Support (CTS), which offsets some or all of the costs of Council Tax for low-income families.[24] In the Budget, the Chancellor provided an additional £500 million for local authorities to use to support low-income households, in particular with Council Tax bills. This is a good approach, recognising that Council Tax is a significant cost for many, and that there is value in having some funds administered locally with more discretion to support need as they find it than a national benefits system can ever provide. However, as with many of the measures announced only a week ago, the level of support is too small. In practice it is likely to mainly help councils deal with increased claimant numbers as a result of the crisis, rather than actually improve the generosity of schemes.

The support announced in the Budget is much less than the amount by which local authorities have scaled back CTS compared to the pre-2013 system of Council Tax Benefit (cuts since 2013 by English local authorities are estimated by the Institute for Fiscal Studies to mean that £706 million a year less is being paid out).[25] With Council Tax bills

24 CTS schemes are set by English local authorities, and by the Welsh and Scottish governments. CTS does not apply in Northern Ireland.
25 S Adam, R Joyce & T Pope, The impacts of localised council tax support schemes, Institute for Fiscal Studies, January 2019.

for the new financial year landing on people's doormats soon, and with an estimated 1.4 million households being liable to pay Council Tax who would have received a full rebate under the pre-2013 system, we recommend that the Chancellor substantially increases the local authority support fund.

Third, in terms of support for housing, the only way that the Government has said it will provide direct support to home owners in the social security system is through a scheme called Support for Mortgage Interest (SMI). This provides a top-up loan to Universal Credit or Pension Credit to cover interest on up to £200,000 of a mortgage. UC recipients have to wait for nine months before receiving SMI. We recommend that these waiting periods be abolished.

On 17 March, the Government announced that mortgage lenders have agreed they will support customers who are experiencing issues with their finances as a result of coronavirus, including through payment holidays of up to three months with no impact on their credit rating. If further measures are deemed necessary to support home owners, then the Government and the Bank of England could revisit some of the schemes implemented after the 2008 financial crisis. However, as interest rates are already so low, it seems unlikely that the coronavirus will have as much of an impact on home owners as even the, much smaller than expected at the time, effects felt in 2008. Private renters, on the other hand, will be more exposed, especially given the cuts to housing support since 2011 and the fact that many lack their own resources to fall back on. The appropriate policy response on housing is discussed in Box 3.

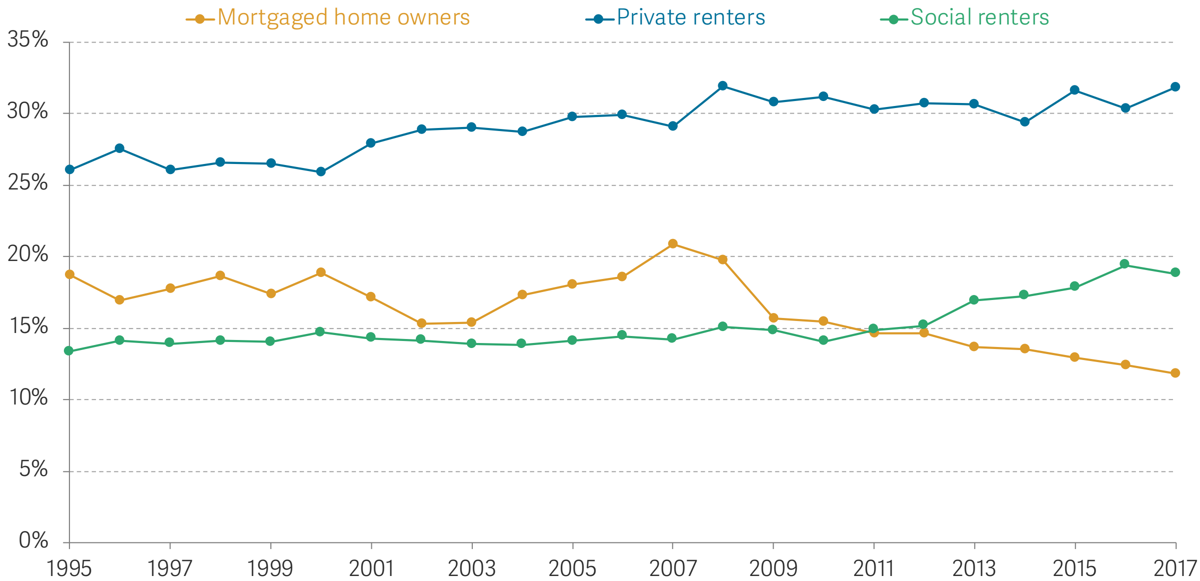
BOX 3: **The response of housing policy to coronavirus**

Housing costs are the largest single outgoing for most families, and one that it is very difficult to adjust in the short term to an income shock. Given this, the Chancellor's announcement on Tuesday that many mortgagors would be offered a three-month mortgage holiday in the event that they experience financial stress was welcome. However, home owners are in general well-placed to manage their housing-cost burden over the coming months: they tend to have both higher income and higher wealth than those in other tenures, and have seen their housing costs fall considerably in recent years as a result of low interest rates (Figure 7).

So, what should be done right now to help those who do not own their own property? The response should involve balancing the interests of tenants, landlords (both public and private) and the Government. It is very welcome that the government acted on 18 March to ban new evictions during the course of this crisis. The interests of buy-to-let landlords were protected by extending the coverage of the mortgage holiday noted above to them.

FIGURE 7: **Mortgage interest payments have fallen in recent years**

Average housing cost to income ratio by tenure, net of Housing Benefit: UK



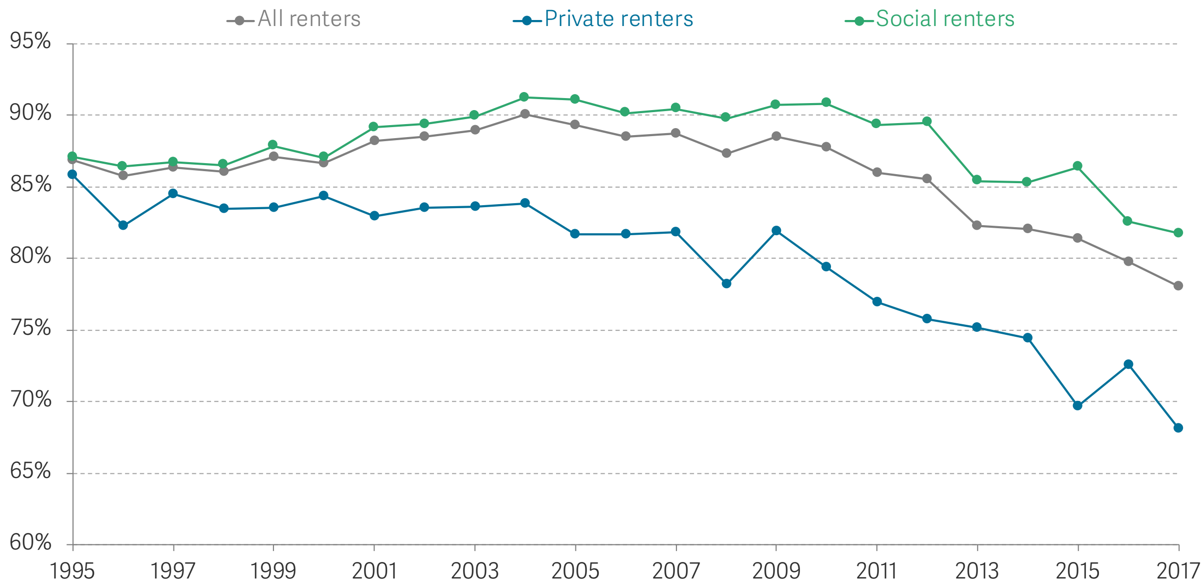
NOTES: Housing costs are calculated net of Housing Benefit such that Housing Benefit is excluded from both income and housing costs. Income is net income after Housing Benefit is deducted. Data is for Great Britain only between 1994 and 2001. Year refers to main year in fiscal year e.g. 2017 = 2017-18.
SOURCE: RF analysis of DWP, Households Below Average Income.

But ultimately rents will need to be paid, and for lower-income families the only way to protect both tenants and landlords is for the benefits system to take the strain. As has often been noted (not least, by us), the generosity of housing support provided by the state has declined significantly in recent years (see Figure 8), alongside the proportion of families who have the totality of their rent covered by a benefit.[26] Putting value back into housing support will be essential if renters are to be protected in the coming months, as will be simplifying the new claims process for those who are not currently in receipt of any housing support.

26 D Tomlinson, Inequality street: Housing and the 2019 general election, Resolution Foundation November 2019.

FIGURE 8: **Housing Benefit generosity has declined over time**

Average share of housing costs covered by Housing Benefit for those receiving Housing Benefit, by tenure: GB



NOTES: Year refers to main year in fiscal year e.g. 2017 = 2017-18.
SOURCE: RF analysis of DWP, Households Below Average Income.

Finally, it is crucial that the DWP is adequately resourced to deal with the additional demand on its staff and systems. In the Budget, the Chancellor established a £5 billion coronavirus response fund to "ensure that funding is available so that [all public services] are prepared and protected". We recommend that DWP be allowed to access this fund so that it can cope with the imminent increase in claims for UC and other benefits. Experience tells us that the process of quickly ramping up new claims is a major challenge for Jobcentre Plus, this time complicated by the fact that staff will be coping with sickness and home-working themselves. To reduce that pressure, we also recommend allowing everyone to claim UC without having to immediately attend an appointment (not just if they have been advised to self-isolate, as announced in the Budget). This will ease the burden on DWP staff, as well as reducing the risk of transmitting the virus through face-to-face interaction.

Conclusion

Taken together, the three-part package set out in this briefing note would amount to a bold response to a very serious economic crisis. It would target the core problems that the nature of this shock is posing to individual firms, families and the economy as a whole. And crucially, it rests on measures that are not always easy but which can actually be taken, and taken swiftly. Now is the time to act.

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