The Telegraph

'Don't mention the virus' was Rishi Sunak's mantra in this mini-Budget

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July 16, 2020

We have moved from economic Phase 1 to Phase 2 of the pandemic. That was the message from Chancellor Rishi Sunak's summer statement. Gone are the days of enforced lockdowns and relief for jobs and businesses through the furlough scheme. With companies reopening, the additional announcement of £30bn in support was justified to help jobs – with new government schemes to "create" them, protect them and help the unemployed find them.

The Chancellor spoke with admirable candour about what this meant for workers. Yes, taxpayer furlough support was appropriate when the Government had ordered workplaces shut. But continuing furlough indefinitely would give people "false hope that it will always be possible to return to the jobs they had before", while their skills wasted away. Sunak was brave to say so.

So the furlough scheme will be wound down in October, as previously announced. But it will be replaced with a "jobs retention bonus" for businesses, of £1,000 for any previously furloughed workers continuously employed through January.

That is a reasonable compromise – easing constraints for firms with viable chances of maintaining jobs, while not doing too much to subsidise unviable ones.

Yet for all his brutal honesty on furlough, Sunak's statement overall elided the biggest reality weighing down the economy: the virus itself. Fawlty Towers' famous "don't mention the war" episode was temporarily banned from UKTV recently as part of the Great Awokening. For Sunak, the statement had a theme of "don't mention the virus".

Much of the Chancellor's analysis seemed predicated on the idea our economic problems stemmed from an irrational lack of consumer confidence to engage in "social spending", rather than a pathogen. Hence his new policies to nudge consumers to get back socialising through a temporary VAT cut on "food, accommodation and attractions" from 20pc to 5pc, and a Monday to Wednesday 50pc eat-in discount worth up to £10 per meal through August.

The Treasury admits households have been saving plenty and have paid down debts. So they aren't avoiding pubs, cafes and restaurants because of being cash-constrained. They are staying away because of Covid-19. Sunak's subsidies will create lots of "deadweight", with taxpayers funding meals of those content to frequent restaurants anyway. To the extent he adds activity, it will be by convincing folk that the public health risks are worth bearing to save a tenner a time.

Is that really the signal the Government wants to send out? Perhaps Sunak is bullish on the virus.

Maybe the UK's contact tracing is so effective, and the social distancing protocols in affected establishments so robust, that flare-ups will be quickly extinguished. If the virus is set to peter out, Sunak will be vindicated. But events in the US, Israel, Spain and Melbourne show the virus hasn't gone away. Actively subsidising activities that just a few weeks ago were deemed too high-risk seems bizarre.

There is a world of uncertainty here, but it seems likely that until a vaccine or effective treatment is developed, consumer behaviour will change semi-permanently, with hospitality, air travel, tourism and entertainment inevitably depressed because of the virus, even after any VAT cut passed on in a modest reduction of prices.

As a country, that means we will have to adapt to living with it, with businesses repurposing premises and enduring inefficiencies to assure customers, more start-ups to serve needs in novel ways, and workers shifting into different industries. Yet on this adaptation front – or what Sunak describes as support to "create" or help people find new jobs – the announcements are likely not up to the task.

The Chancellor correctly recognised that long-term and youth unemployment could have "scarring" effects of joblessness or lower lifetime earnings, justifying a major expansion in "work coaches" and resources to find people new roles quickly. But the other make-work schemes and job subsidies beyond that will probably prove little more than expensive signals that the Government cares.

The Kick Start Scheme – a £2bn subsidy for new 25-hour-per-week 16-24 year-old jobs for six months – will no doubt increase youth employment. However, previous variants of such programmes around the world have found that once one accounts for businesses using the scheme for people they would have hired anyway, or to replace older workers, very few net jobs are created.

Then there are the jobs "created" by bringing forward infrastructure investment and green work schemes. Much infrastructure is unlikely to be shovel-ready and such investments should be judged according to their costs and benefits, not whether they create very temporary roles.

I'd have liked to see the Chancellor instead deliver a market-led agenda of adaptation. Fiscal loosening could have delivered meaningful tax cuts on employers' national insurance contributions to encourage new hiring, or relief for firms investing in repurposing premises to give consumers confidence to return.

Much more should be done on deregulation, to allow people to move into new occupations or adjust the activity, opening hours or location of their business. The one policy announced that will really help on adjustment is the stamp duty holiday, which will encourage workers to move.

How appropriate you consider Sunak’s statement highly depends on how you see the pandemic evolving. If the virus is now successfully contained and risks are low, actively stimulating people back to social activity might be appropriate. But it's a big if.

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