



REOPENING BRITAIN

The economic urgency

By Eamonn Butler and Matthew Lesh

BRIEFING PAPER

EXECUTIVE SUMMARY

- The economy is not a machine that can be simply turned “on” and “off”. It is a complex system, dependent on billions of relationships that are falling apart.
- The outbreak of a deadly pandemic has necessitated the forced closure of one-third of the economy – causing a sizeable immediate decline in incomes and rise in unemployment.
- The short-term damage has been universally acknowledged. However, many analysts and politicians are substantially underestimating the damage being done and the challenge of reanimating the economy after the lockdown.
- The impact of closures spreads through an economy in the same networked fashion as the virus itself spreads between humans: each business’s problems affect several others.
- The longer the lockdown, the more businesses will run out of cash, lose hope, and shut down. This will cause substantial unemployment – the extent of which may currently be hidden by the ability to furlough employees.
- The impact of the lockdown grows deeper and faster over time. Each business that closes causes problems for its staff, suppliers and customers, and their problems in turn knock on to others and on and on.
- While the Government’s policies are logical and necessary, escalating economic hardship is inevitable. It is necessary to stem the damage as quickly as possible to prevent massive economic collapse.
- ‘Lives versus livelihoods’ is a false dichotomy — a strong economy is what keeps people fed, housed, and ensures we can afford quality health services. Economic contractions are not only associated with lower quality of life, but also worse health outcomes and loss of life.
- The UK is falling behind other European countries — including Austria, Czech Republic, Denmark, France, Germany, Italy, Norway, and Spain — who have developed and are beginning to execute strategies to reopen their economies.
- If the Government wants to safeguard the people’s lives and livelihoods they must:
 - (1) develop, and release, a phased plan for lifting the lockdown to provide greater confidence for businesses and citizens:
 - following the best possible public health research and latest evidence;
 - explicitly aiming to prevent subsequent mass outbreaks and loss of life;

- including a strategy for decentralised mass testing, and isolation and tracing of cases while protecting privacy;
 - encouraging physical distancing, maintaining limits on mass gatherings and special measures for at-risk groups in early stages;
 - allowing as many businesses as possible, as quickly as possible, to reopen their operations;
- (2) scale back the state's extensive role in the economy after the crisis to avoid crowding out the rebooting of the private sector; and
 - (3) introduce policies, both permanent and temporary, that will enable the economy to bounce back after the crisis, including cutting excessive red tape and taxes that discourage investment.

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The UK Government initially resisted a lockdown.¹ There was little data about the transmission and severity of the illness. Public health officials and ministers doubted how far the population of a free country would accept such sweeping controls.

When the lockdown came, therefore, it came all the more urgently—largely in response to academic modelling that suggested that the NHS would be hugely overwhelmed and half a million lives lost.² The clinical consensus was that the infection curve had to be flattened in order to (1) give time for critical care to be expanded and (2) keep the caseload below the limit of that capacity. This was particularly important for the UK, given its relatively low critical care provision compared to other developed nations.³

The strategy aimed at (1) *containment*, through the quarantining of elderly persons and those with underlying health issues, and (2) *suppression*, through social distancing. In practical terms, public health officials and ministers banned gatherings and closed business premises (such as pubs, clubs and restaurants) where social distancing would be difficult. The public was also instructed to “stay at home and limit all but essential travel”.⁴ This was extended by law to include shutting of ‘non-essential’ shops, including the likes of hairdressers, nail salons, tattoo parlours, outdoor and indoor markets, auction houses, hotels (for non-essential use), caravan parks (where people don’t live), libraries, youth centres, places of worship, museums, cinemas, theatres, concert halls, casinos, arcades and bowling alleys.⁵

HASTE AND CONSEQUENCES

The haste with which decisions were required meant that, inevitably, the clinical strategy was based on (admittedly) inadequate data, modelling, understanding and planning.⁶ But the immediacy of the clinical priority, and the unique nature of the economic response it entailed, meant that the economic strategy was based on virtually no data, modelling, understanding or planning at all.⁷

1 “Special Report: Johnson listened to his scientists about coronavirus - but they were slow to sound the alarm” Reuters, April 7, 2020, <https://www.reuters.com/article/us-health-coronavirus-britain-path-speci/special-report-johnson-listened-to-his-scientists-about-coronavirus-but-they-were-slow-to-sound-the-alarm-idUSKBN21P1VF>.

2 Neil M Ferguson et al., Imperial College COVID-19 Response Team, “Impact of non-pharmaceutical interventions (NPIs) to reduce COVID19 mortality and healthcare demand” (March 2020), <https://www.imperial.ac.uk/media/imperial-college/medicine/sph/ide/gida-fellowships/Imperial-College-COVID19-NPI-modelling-16-03-2020.pdf>.

3 “I’m an ICU doctor. The NHS isn’t ready for the coronavirus crisis” The Guardian, March 3, 2020, <https://www.theguardian.com/commentisfree/2020/mar/03/icu-doctor-nhs-coronavirus-pandemic-hospitals>.

4 GOV.UK, “Government announces further measures on social distancing” <https://www.gov.uk/government/news/government-announces-further-measures-on-social-distancing>.

5 GOV.UK, “GOV.UK GUIDANCE CLOSING CERTAIN BUSINESSES AND VENUES” https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876905/300320_Revised_Guidance.pdf.

6 “Why modelling can’t tell us when the UK’s lockdown will end” WIRED, April 3, 2020, <https://www.wired.co.uk/article/coronavirus-modelling-uk-lockdown>.

7 It is notable that the announcement of the economic measures came days after the announcement of the beginning of clinical measures.

Almost everyone accepts that, in order to contain and suppress the virus, there must be significant changes that will inevitably produce economic pain.⁸ However, there is good theoretical modelling, and increasing practical evidence, that the economic pain entailed in the strategy is much greater than politicians and officials imagine.

The ‘lives versus livelihoods’ assertion is a false dichotomy — a strong economy is what keeps people fed, housed, and ensures we can afford quality health services. There are also serious consequences on people’s lives from economic downturns. Psychologists in many countries are already warning about the strain on families caused by their confinement, rising depression and anxiety, while social workers are reporting increases in domestic and child abuse.⁹ Many studies have found that economic contractions lead to chronic health conditions and loss of life, from increased cancer mortality to crime, unemployment-linked suicides, and shorter life expectancy.¹⁰ It has been suggested that partly because people are avoiding health-care services, we could have as many as 150,000 deaths as an indirect cost of the lockdown.¹¹ These estimates should be taken with a grain of salt, with different impacts across generations leading to an uncertain overall impact on mortality.¹²

The impact of the virus on the economy will not be because people have fallen ill, but rather because of the steps taken to enable social distancing. This is causing both a demand shock, with people spending substantially less than usual, and a supply shock, since many businesses can no longer produce. This impact will reverberate to every sector of the economy. The complex, hugely integrated, and finely tuned nature of the productive structure — with its just-in-time supply chains

8 “Why the Government changed tack on Covid-19” UnHerd, March 17, 2020, <https://unherd.com/2020/03/the-scientific-case-against-herd-immunity/>.

9 World Health Organisation, “Mental health and psychosocial considerations during the COVID-19 outbreak” (March 2020), <https://www.who.int/docs/default-source/coronaviruse/mental-health-considerations.pdf>.

10 Dr Mahiben Maruthappu et al., *The Lancet*, “Economic downturns, universal health coverage, and cancer mortality in high-income and middle-income countries, 1990–2010: a longitudinal analysis” (May 2016), [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(16\)00577-8/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(16)00577-8/fulltext); Roberto De Vogli, Alessio Vieno, Michela Lenzi, *European Journal Of Public Health*, “Mortality due to mental and behavioral disorders associated with the Great Recession (2008–10) in Italy: a time trend analysis” (November 2013), <https://academic.oup.com/eurpub/article/24/3/419/476146>; Dr Mahiben Maruthappu et al., *The Lancet*, “Economic downturns, universal health coverage, and cancer mortality in high-income and middle-income countries, 1990–2010: a longitudinal analysis” (May 2016), [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(16\)00577-8/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(16)00577-8/fulltext); Aaron Reeves, Martin McKee and David Stuckler, *The British Journal of Psychiatry*, “Economic suicides in the Great Recession in Europe and North America” (January 2018), <https://www.cambridge.org/core/journals/the-british-journal-of-psychiatry/article/economic-suicides-in-the-great-recession-in-europe-and-north-america/DF85FA16DFB256F4DC7937FAEA156F8>; James Banks, Heidi Karjalainen and Carol Propper, Institute for Fiscal Studies, “Recessions and health: the long-term health consequences of responses to the coronavirus” (April 2020), <https://www.ifs.org.uk/publications/14799>;

11 Fraser Nelson, “Boris is worried lockdown has gone too far, but only he can end it” *The Telegraph*, April 9, 2020, <https://www.telegraph.co.uk/politics/2020/04/09/boris-worried-lockdown-has-gone-far-can-end/>.

12 Thomas Hone PhD et al., *The Lancet*, “Effect of economic recession and impact of health and social protection expenditures on adult mortality: a longitudinal analysis of 5565 Brazilian municipalities” (November 2019), [https://www.thelancet.com/journals/langlo/article/PIIS2214-109X\(19\)30409-7/fulltext](https://www.thelancet.com/journals/langlo/article/PIIS2214-109X(19)30409-7/fulltext); Ralph Catalano, PhD et al., *PubMed Central*, “THE HEALTH EFFECTS OF ECONOMIC DECLINE” (December 2013), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3855327/>.

involving multiple producers both domestic and overseas—can be thrown widely out of kilter by events in any one part of it. The closure of any business causes pain to its workers, owners, suppliers and customers—and to workers, owners, suppliers and customers in related businesses, and in turn to the next, and so on.

There have been concerns that the public have taken the ‘stay at home’ messaging too literally, with more workplaces shut and fewer children attending school than expected.¹³ The closing of workplaces, and the lack of children at schools which would enable more parents to work, is particularly concerning since only half of people are capable of working from home.¹⁴ The Centre for Economics and Business Research have estimated that economic output is down by 31%, meaning the lockdown is costing £2.4 billion a day in lost output.¹⁵ The Office for Budget Responsibility (OBR) have claimed that the economic effect of a three month shutdown would be a 35% decline in economic activity, 10% unemployment, and public sector borrowing increasing by £273 billion (14% of GDP).¹⁶

THE DIFFICULTY OF FREEZING AND UNFREEZING AN ECONOMY

The Government has taken steps to attempt to ‘freeze’ the economy in place. This includes wage subsidies for employees and the self-employed, extending sick leave, business loans, and specific reductions in the likes of business rates.¹⁷ As a result of these policies, the OBR “assume no lasting economic hit”.¹⁸ This is “a scenario rather than a forecast” premised on a three month shutdown followed by a three month reopening. A Resolution Foundation report has also assumed “the shock currently hitting the economy should – for the most part at least – not lead to wholesale change to its structure,” and therefore, combined with Government support measures, a three month lockdown will lead to a “the economy experiences something approximating a V-shaped recovery”.¹⁹ They do assume a longer shutdown would substantially slow a recovery.

This is excessively optimistic.²⁰ It is impossible to see how, for example, accommodation and food services could decline by 85% (as the OBR forecasts) and suddenly

13 Fraser Nelson, “Boris is worried lockdown has gone too far, but only he can end it” The Telegraph, April 9, 2020, <https://www.telegraph.co.uk/politics/2020/04/09/boris-worried-lockdown-has-gone-far-can-end/>.

14 “Half of people unable to work from home in coronavirus lockdown, figures suggest” The Telegraph, April 13, 2020, <https://www.telegraph.co.uk/news/2020/04/13/half-people-unable-work-home-coronavirus-lockdown-figures-suggest/>.

15 Cebr, “AS THE UK REMAINS IN LOCKDOWN, GOVERNMENT MAY NEED TO TARGET MORE SUPPORT AT MANUFACTURING SECTOR” (April 2020), <https://cebr.com/reports/as-the-uk-remains-in-lockdown-government-may-need-to-target-more-support-at-manufacturing-sector/>.

16 Office for Budget Responsibility, “Coronavirus reference scenario” <https://obr.uk/coronavirus-reference-scenario/>.

17 GOV.UK, “Financial support for businesses during coronavirus (COVID-19)” <https://www.gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19>.

18 Office for Budget Responsibility, “Coronavirus reference scenario” <https://obr.uk/coronavirus-reference-scenario/>.

19 Richard Hughes et. al., “Doing more of what it takes: Next steps in the economic response to coronavirus,” *Resolution Foundation*, April 16 2020, <https://www.resolutionfoundation.org/publications/doing-more-of-what-it-takes/>

20 Project Syndicate, “Mapping the COVID-19 Recession” <https://www.project-syndicate.org/commentary/mapping-covid19-global-recession-worst-in-150-years-by-kenneth-rogoff-2020-04>.

return to normal by the end of the year. It is built on a flawed understanding of economic systems. The economy is not a machine that can be turned “on” and “off” by central planners. It is a complex system. It will take time to recover.

In the forthcoming book, *Cryoeconomics: How to Unfreeze an Economy*, Darcy Allen, Chris Berg, Sinclair Davidson, Aaron Lane and Jason Potts write:

“Governments cannot freeze an economy, thaw it out a few months later and expect it to come back to life. Economies do not hibernate for the winter like a sleepy but otherwise unharmed and intact bear... We’re putting something that was complex and living in a freezer, and when we take it out of the freezer we need to reanimate it, bring it back to life. That’s a much harder problem than flipping a switch or defrosting a pizza.”²¹

The economy is not simply factors of production, such as land, labour and capital, but rather dependent on “relationships ordered in firms, markets and community groups, built out of expectations, agreements, contracts, prices and institutions, and held together with trust and other mechanisms of governance”.²² When these relationships are left to deteriorate the economy suffers.

Millions of people who are currently unemployed will struggle to find work, potentially taking years to return to current levels of employment. Many businesses now lack cash flow, won’t be able to pay rent and bills, and could be forced to shut. Business investment is already frozen, reducing long-term capital stock, and will likely be down for some time. Consumer confidence and spending is likely to be down as well, as people save, creating what John Maynard Keynes’ called the “paradox of thrift”.²³ Social distancing will likely continue in some form until there’s a vaccine (up to 12-18 months), meaning fewer people in restaurants, clubs and travelling.²⁴

The lockdown could even change consumer preferences and reduce spending in some areas in the long-run. We could see greater working from home and use of video conferencing software, therefore reducing travel. When the economy is re-animated relationships will have frayed and businesses will operate differently. This will likely mean, despite claims otherwise, will lead to a wholesale in the economic structure.²⁵

21 Darcy W. E. Allen, Chris Berg, Sinclair Davidson, Aaron M. Lane and Jason Potts, “Chapter 1: The problem of ‘freezing’ an economy in a pandemic” (April 2020), <http://chrisberg.org/wp-content/uploads/2020/04/SSRN-id3572365.pdf>.

22 *ibid.*

23 Robert Colvile, “Economy will struggle to escape coronacoma,” *The Times*, April 7, 2020, <http://thetimes.co.uk/article/stand-by-for-a-stuttering-economic-recovery-2fxt2kbv8>

24 “Coronavirus vaccine: when will we have one?” *The Guardian*, April 15, 2020, <https://www.theguardian.com/world/2020/apr/12/when-will-we-have-a-coronavirus-vaccine>.

25 For the opposite view, see Richard Hughes et. al., “Doing more of what it takes: Next steps in the economic response to coronavirus,” *Resolution Foundation*, April 16 2020, <https://www.resolutionfoundation.org/publications/doing-more-of-what-it-takes/>

In any scenario, the economic impact of the COVID-19 lockdown will be substantial and long lasting. The general public, looking to their own finances, jobs, and businesses, share this view. A YouGov poll found that 42% expect the outbreak to leave the economy weakened for a few years, while a further 41% think the damage will be much more long term.²⁶ Just 11% think the economy will bounce back quite quickly.

THE ECONOMIC CONTAGION

The effect of closures ripping through the economic system is not dissimilar to that of a virus ripping through the population. Just as each infected person affects several others such that the cases and the deaths rise exponentially, so does each business's problems affect several others such that the dislocation to the productive system expands and deepens over time.²⁷

Similarly, just as it is therefore important to suppress the spread of a virus as early as possible in order to prevent massive disease and death, so is it important to stem the economic damage as early as possible to prevent massive economic collapse. This implies that, as soon as the clinical priorities permit, we must stem the economic damage—and where, when and in whatever full or partial ways we can. Otherwise the economic damage could become as alarming as the forecasts that produced the lockdown in the first place.

EXAMPLE: JIMMY'S FISH AND CHIPS

The theoretical example of a local family-run restaurant, which we shall call Jimmy's Fish and Chips, shows the trouble the economy could face.²⁸ The number of patrons at Jimmy's were down for a couple of weeks because of concerns about COVID-19.²⁹ But matters became truly dire for the business on the evening of 20 March when Prime Minister Boris Johnson announced that their business must now shut.

Suddenly, Jimmy's owners' plans are thrown into chaos. They have borrowed from the bank in order to pay for premises, furniture, decoration and kitchen equipment. Like many small businesses and entrepreneurs, they depended on their daily income from customers in order to keep paying the bills for supplies and outgoings

²⁶ Matthew Smith, "How is COVID-19 affecting British opinions, jobs and wellbeing?," *YouGov*, <https://yougov.co.uk/topics/politics/articles-reports/2020/03/24/how-covid-19-affecting-british-opinions-jobs-and-w>

²⁷ The Office for Budget Responsibility has concluded that "the longer the period of economic disruption lasts, the more likely it is that the economy's future potential output will be 'scarred' (thanks to business failures, cancelled investments and the unemployed becoming disconnected from the labour market)," Office for Budget Responsibility, "Coronavirus reference scenario" <https://obr.uk/coronavirus-reference-scenario/>.

²⁸ "Don't let coronavirus destroy the UK restaurant industry" *The Guardian*, April 11, 2020, <https://www.theguardian.com/commentisfree/2020/apr/11/coronavirus-death-uk-restaurant-industry-rent-government>.

²⁹ There was already evidence of a drop in customers before the official lockdown, "'The last thing an already struggling industry needed' – how coronavirus is affecting British restaurants" *The Telegraph*, March 12, 2020, <https://www.telegraph.co.uk/food-and-drink/features/last-thing-already-struggling-industry-needed-coronavirus/>.

such as rent, gas, electricity, phones, maintenance, cleaning, insurance, accountancy and much more. Their restaurant is located in a coastal town where the busy Easter season accounted for a large part of their annual trade. The shut down, with no end date in sight, is causing more and more uncertainty.

The Government's rates rebate will help a bit, and the furlough scheme can provide 80% of the wages of the now idle staff. But with no money coming in, and huge uncertainty when and how the lockdown might be eased, the other 20% is an impossible burden. Waiting and kitchen staff, many of them on low pay and zero hours contracts, will have to be let go sooner or later. At that point the economic contagion will spread to them and their families.

By the time the lockdown is finally lifted, the staff may have found other jobs or decided to leave the labour market (particularly if they are second earners in a household). So, for the owners of Jimmy's, it will not be a case of simply starting up again as if nothing had happened. If Jimmy's survives the shutdown they will have to scabble around to find new staff; and it will take time, and probably a fair amount of error, before a new team can be assembled, trained, and made efficient.

Perhaps Jimmy's will try staying open by offering takeaway meals and home deliveries. The automatic granting of permission to all restaurants to become takeaway is welcome. But to do so, they will need to advertise, perhaps develop their website, retrain staff, arrange delivery services, and much else. Even with services like Deliveroo and UberEats, it may not be a financially viable proposition, especially with so many other restaurants trying the same. It is a steep learning curve and amounts to setting up a new business. It is a dangerous proposition at the precise time many have just bought substantial quantities of food for home cooking.

The owners of Jimmy's have been trying to take out a business interruption loan from the Government, however they, just like the 98.6% of businesses who have made an enquiry about the scheme, could not secure one quickly.³⁰ In any case, it was a risky proposition to take out a loan when the owners' didn't know when or even if they could repay it. With no revenue coming in Jimmy's cannot pay their outgoings, meaning the rent payment from 25 March is now overdue.³¹ Many other bills keep piling up but there's no money left to keep paying them. There are serious questions about how long the business can keep operating while effectively insolvent.

The economic contagion of just this one restaurant closing has ripple effects throughout the economy. It may be a theoretical example, but it represents thousands of other businesses across industries that cannot simply be "switched back on" when the lockdown is lifted.

³⁰ "Loans scheme must work faster, government admits" BBC News, April 12, 2020, <https://www.bbc.co.uk/news/business-52260748>.

³¹ This has been a struggle for many hospitality businesses, UKHospitality, "UKH warns over sector multi-billion pound rent bill due this week" <https://www.ukhospitality.org.uk/news/495300/UKH-warns-over-sector-multi-billion-pound-rent-bill-due-this-week.htm>.

THE SPREADING CONTAGION

Elsewhere, other people who were thinking of starting new restaurants have been forced to put their plans on hold. So, the suppliers of chairs, tables and kitchen equipment, not to mention the fitters and decorators will be hit too, suffering the same sort of shortfall that has the same sort of effects for their own staff.

Meanwhile, the suppliers of food and drink to restaurants like Jimmy's, perhaps specialising in fish, meat, fruit or vegetables, will be hit by the immediate fall in orders. As will the laundries that process the staff uniforms and the table linen, equipment suppliers and maintenance firms, and many others. If they supply only restaurants, cafes, clubs and so on, that could mean a one-hundred percent drop in their income. And while restaurants will get a full rates rebate, they do not. Their biggest fear is that their commercial customers go into liquidation: indeed, it could be much cheaper for restaurant owners to liquidate than to keep paying rent and other fixed costs when they have zero revenue. Many will be tempted to do so. Which means that the suppliers will end up with no customers and massive debts. So, they will be looking to cut staff costs too.

Next down the chain are the farmers and growers who produce the food and the drinks for restaurants, the merchant traders who import it from abroad, the transport companies who deliver it and many more. They face exactly the same problems. Many have tried to respond by seeking to supply supermarkets instead or deliver to private homes—though their bulk packaging, together with strict consumer labelling laws, has counted against them. And again, this switch amounts to starting a new, risky business in particularly unfavourable times.

NOT JUST DOWN, BUT OUT

It is wrong, however, to think of the problems as affecting only a single 'supply chain'. The modern economy is more of a network, or a fabric, of highly tuned supply relationships. Any tear in it inevitably spreads out in all directions. The reduced spending by each person who finds themselves out of work and having to economise. This will affect the livelihoods of countless others in other sectors, from clothing and footwear outlets to phone, television and internet companies, to cinemas and concert producers, to travel and hotel operators, DIY stores, garden centres, petrol stations—and so on.

Returning to our example, even without a ban on free movement, the closure of restaurants—along with health clubs, garden centres, cinemas, theatres, music venues, museums and much else—affects every supplier to the leisure and hospitality sector, including wedding and other event managers, conference businesses, concert producers, sound, lighting production and other teams for events — despite its Royal Warrant, even the firm that supplies portable toilets for events such as Royal Ascot has now gone out of business.³² It will also impact the likes of logistics firms, garages, packaging suppliers, equipment service businesses, and more. We have already seen a number of high profile firms file for administration, includ-

³² "Queen's portable lavatory firm files for administration" The Telegraph, April 10, 2020, <https://www.telegraph.co.uk/business/2020/04/10/queens-portable-lavatory-firmjohn-anderson-hire-files-administration/>.

ing Debenhams, Laura Ashley, and FlyBe — they will be the tip of the iceberg of many thousands of businesses forced to shut because of the lockdown that will never reopen.³³ Those in turn will pass the disruption on to all sorts of other sectors that are crucial to their business and integrated into their services.

SUBSTANTIAL DAMAGE

If businesses know how long the lockdown is going to last, and how it might be lifted, at least they could make some plans. Though the last thing that most businesses want is extra debt, interest rates have been forced down, a state-backed loan scheme is in place, and they might calculate that they could borrow and just see the crisis through. But the longer the lockdown continues, the less feasible this becomes. The same is true for their own suppliers and in turn their suppliers. Liquidation becomes more attractive.

The longer that the lockdown goes on, therefore, the more businesses will run out of cash and be forced to close. Hardest hit will be small and medium sized enterprises—5.9 million of them in the UK, accounting for most of the country’s businesses and employment—which typically are highly dependent on cash flow to survive.³⁴ An analysis by the Corporate Finance Network suggested that a million firms would run out of cash and collapse within the next month, while one-third of all small firms would collapse after three months of lockdown.³⁵ The British Chamber of Commerce has found that a majority (57%) of businesses have three months or less in cash reserves, while 6% of firms have already run out of cash.³⁶ The more personal and business bankruptcies, the more investments that will have to be written off, the more loans that will be defaulted on, and the more jobs that will be lost, probably never to return. It will not be a case of merely ‘switching on’ the economy again. In all practical terms that will be impossible. The UK’s complex capital and production structure has already been thrown out of equilibrium; it will take years to create a new one.

The withdrawal of lockdown is most likely to be a phased process, meaning certain workers and activities will be allowed while others will continue to be forbidden. It has been mooted that the likes of manufacturing could be allowed to return to nor-

33 “Debenhams files for administration” *Financial Times*, April 6, 2020, <https://www.ft.com/content/56767546-677f-45e1-a85f-011da4fe10ee>, “Laura Ashley to file for administration as coronavirus takes toll” *The Guardian*, March 17, 2020, <https://www.theguardian.com/business/2020/mar/17/laura-ashley-suspends-trading-and-files-for-administration-coronavirus>, “Carluccio’s files for administration” *Gloucestershire Live*, March 30, 2020, <https://www.gloucestershirelive.co.uk/whats-on/food-drink/carluccios-files-for-administration-3999917>, “Celebrity chef Mark Hix’s businesses file for administration” *The Telegraph*, April 5, 2020, <https://www.telegraph.co.uk/business/2020/04/05/celebrity-chef-mark-hixs-businesses-file-administration/>.

34 GOV.UK, “Business population estimates for the UK and regions: 2019 statistical release” <https://www.gov.uk/government/publications/business-population-estimates-2019/business-population-estimates-for-the-uk-and-regions-2019-statistical-release-html>.

35 “Coronavirus: A fifth of small businesses could go bust within a month” *The Independent*, April 1, 2020, <https://www.independent.co.uk/news/business/news/coronavirus-small-businesses-collapse-bust-research-a9440771.html>.

36 British Chambers of Commerce, “BCC Coronavirus Business Impact Tracker: Businesses not yet successfully accessing government loan and grant schemes,” April 8, 2020, <https://www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker-businesses-not-yet-successfully-accessing-government-loan-and-grant-schemes>

mal before entertainment companies.³⁷ While epidemiologically sensible, a drawn out reopening of the economy could add to uncertainty, particularly for those sectors that see no end in sight. Harvard economist Kenneth Rogoff has predicted that we could be facing a downturn “likely to rival or exceed that of any recession in the last 150 years”.³⁸

The longer the lockdown continues the fewer businesses will be able to pull themselves out of their current cryogenic state. Over time their fixed costs will grow while the hope that they can return to profit will shrink. It is not the case, therefore, that the damage done by six weeks of lockdown would be twice that done by three weeks of lockdown. On the contrary, the damage done could accelerate if the shutdown is allowed to continue beyond what is absolutely necessary.

There is a danger that Government support could be hiding a deeper economic malaise. Many businesses that have not closed operations, and have taken advantage of the Government’s job retention scheme, could nevertheless find themselves unable to reopen operations after the crisis. While current statistics will not show their staff as unemployed or the business shut, when the economy is reopened these businesses will quickly add to the economic horror story. The longer the shutdown continues, the higher the number of these businesses.

Additionally, even if the economy were fully reopened straight away, consumer behaviour will have substantially changed: many will seek to avoid crowded locations, whether or not there are specific rules on social distancing. This post-COVID-19 reduction in demand for certain products could lead many firms to go bust. For example, it is unlikely many will be interested in taking international holidays for quite some time. These industries will inevitably be smaller for some time. It will be necessary for the economy and employment to be allowed to quickly adapt to new consumer preferences.

DIRE ECONOMIC PREDICTIONS

INDICATORS OF ECONOMIC STRAIN

The UK economy is not starting from a healthy position. The UK economy shrank by more than 6% during the recession after the 2008 financial crash.³⁹ It took five years to get back to the size it was before. By 2011, unemployment reached 8.4%, the highest rate since 1995 and did not return to the pre-crash rate until late 2015.⁴⁰ Productivity growth has been nonexistent since 2008.⁴¹ For most of the decade

³⁷ “UK lockdown could end ‘with sector-by-sector plan’ for firms” The Guardian, April 9, 2020, <https://www.theguardian.com/politics/2020/apr/09/uk-lockdown-could-end-with-sector-by-sector-plan-for-firms>.

³⁸ Project Syndicate, “Harnessing the power of the free market is key to defeating COVID-19” <https://www.project-syndicate.org/commentary/mapping-covid19-global-recession-worst-in-150-years-by-kenneth-rogooff-2020-04>.

³⁹ Office for National Statistics, “The 2008 recession 10 years on” <https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/the2008recession10yearson/2018-04-30>.

⁴⁰ *ibid*

⁴¹ “UK productivity continues lost decade” BBC News, April 5, 2020, <https://www.bbc.co.uk/news/>

after the crash, earnings lagged behind prices, and barely rose in real terms.⁴² Uncertainty over a protracted Brexit process has caused further problems. It all left the UK in a weakened economic state to deal with the virus crisis.

There are even worse problems within the European Union. The Club Med countries (Cyprus, France, Greece, Italy, Malta, Portugal and Spain) in particular are troubled by large debt, weak banks and an unwillingness to restructure. Even some larger countries, like France, are under pressure. Despite a €750bn emergency spending programme, calls for more centralisation or the creation of Euro-wide bonds have been rebuffed by Germany and the Netherlands.⁴³ Countries have not been united, adopting various strategies. The crisis seems to be feeding nationalism and weakening the EU.⁴⁴ Given that the EU is our largest trading partner, this is all bad news for the UK.

The virus crisis has caused economic shocks both in the UK and worldwide. World stock markets are down around 25% since January.⁴⁵ The price of gold (a traditional hedge against chaos) is up almost 15%.⁴⁶ Ratings agencies have downgraded companies and countries whilst central banks are rushing to preserve liquidity.⁴⁷ Oil prices have fallen after disagreements between Saudi Arabia and Russia on production volumes, and now production is being cut.⁴⁸ Other commodity prices are down, as are freight and storage rates.

In the UK, business confidence has fallen, while the FTSE leading share index is down about 22% since February.⁴⁹ The Office for National Statistics reports that the majority of UK businesses are unsure they can survive the crisis, rising to 73% in construction and 83% in the hospitality sector.⁵⁰ The construction industry's Purchasing Managers' Index (PMI) has fallen to 39.3 in March, down from 52.6 - the largest fall since the survey began.⁵¹ The contraction in the services sector is the sharpest since records began. Consumer confidence fell nine points in a single

business-47826195.

42 Office for National Statistics, "The 2008 recession 10 years on" <https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/the2008recession10yearson/2018-04-30>.

43 Politico, "Dutch 'no' on corona bonds undermines European project" <https://www.politico.eu/article/dutch-no-on-corona-bonds-undermines-european-project/>.

44 Politico "How Europe failed the coronavirus test" <https://www.politico.eu/article/coronavirus-europe-failed-the-test/>.

45 MarketWatch, "Stock Ticker Symbol Lookup" <https://www.marketwatch.com/tools/quotes/lookup.asp?lookup=djia;>.

46 MarketWatch, "Gold Continuous Contract" <https://www.marketwatch.com/investing/future/gold>.

47 "Rating agencies brace for backlash after rash of downgrades" Financial Times, April 2, 2020, <https://www.ft.com/content/253210d5-4a2d-439f-a4a6-204a7f66d445>.

48 "OPEC+ reaches deal to cut oil production by 9.7 million barrels per day" CNN, April 13, 2020, <https://edition.cnn.com/2020/04/12/energy/opec-deal-production-cut/index.html>.

49 MarketWatch, "FTSE 100 Index" <https://www.marketwatch.com/investing/index/ukx?countrycode=uk>.

50 Office for National Statistics, "Business Impact of COVID-19 Survey (BICS)" <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessimpactofcovid19surveybics>.

51 "UK construction activity falls in March at fastest rate since 2009 - PMI" Reuters, April 6, 2020, <https://uk.reuters.com/article/uk-britain-economy-pmi/uk-construction-activity-falls-in-march-at-fastest-rate-since-2009-pmi-idUKKBN21O0TB>.

quarter, while sentiment about the state of the economy fell to -71.⁵² In just three weeks, there were more than 1.2 million new claims for Universal Credit.⁵³

EXPERIENCE OF PAST CRISES

How big an economic hit will this turn out to be? The truth is that not even the most respected economists can say, because the uncertainties are vast, and events are changing so quickly.⁵⁴ On 10 March, for example, Capital Economics judged that a 5% overall fall in GDP might be pessimistic, calling it a “worst-case hit”.⁵⁵ Just a week later, it thought that a 15% fall would be more realistic.⁵⁶ Meanwhile the National Institute for Economic and Social research estimates that GDP could contract 25% in the April-June quarter of 2020 alone—much faster than in 2008 and even faster than during the Great Depression of the 1930s.⁵⁷ Other estimates vary widely.

We might get some indication from the experience of the Spanish Flu pandemic of 1918-19, which affected half a billion people and killed around 50 million worldwide.⁵⁸ In just nine months, from July 1918 to March 1919, industrial production in the United States fell nearly 25% and business activity in general fell by nearly 16%. A year later, things had still not fully recovered.⁵⁹ Other countries were less badly affected: although it is difficult to unscramble the data, as the First World War was ending at the same time, an analysis of 42 countries suggests that overall, the pandemic reduced world GDP by 6% (and the War reduced it by over 8%).⁶⁰

In the next big catastrophe, the Great Depression, global GDP declined nearly 27%, though the recovery was even slower because of disastrous monetary policy, par-

52 Growth from Knowledge, “UK Consumer Confidence decreases by two points to -9 for March 2020” <https://www.gfk.com/en-gb/insights/press-release/uk-consumer-confidence-decreases-by-two-points-to-9-for-march-2020/>.

53 “Universal Credit: New claims for DWP benefit reach 1.2 million during UK coronavirus pandemic” i News, April 9, 2020, <https://inews.co.uk/news/universal-credit-new-claims-dwp-benefit-uk-coronavirus-pandemic-2534201>.

54 Project Syndicate, “Harnessing the power of the free market is key to defeating COVID-19” <https://www.project-syndicate.org/commentary/mapping-covid19-global-recession-worst-in-150-years-by-kenneth-rogooff-2020-04>.

55 Paul Dales, Capital Economics, “A worst-case hit to GDP from the coronavirus” (March 2020), <https://www.capitaleconomics.com/publications/uk-economics/uk-economics-update/a-worst-case-hit-to-gdp-from-the-coronavirus/>.

56 Paul Dales, Capital Economics, “Gov’t needs to step in to confine big hit to GDP to Q2” (March 2020), <https://www.capitaleconomics.com/publications/uk-economics/uk-economics-update/govt-needs-to-step-in-to-confine-big-hit-to-gdp-to-q2/>.

57 National Institute of Economic and Social Research, “April 2020 GDP Tracker” <https://www.niesr.ac.uk/publications/april-2020-gdp-tracker>.

58 Johnson and Mueller, “Updating the Accounts: Global Mortality of the 1918–1920 “Spanish” Influenza Pandemic” (2002), <https://www.savethechildren.org/content/dam/global/reports/emergency-preparation-disaster-risk-reduction/flu-1918-mortality.pdf>.

59 Sergio Correia, Stephan Luck and Emil Verner, Social Science Research Network, “Pandemics Depress the Economy, Public Health Interventions Do Not: Evidence from the 1918 Flu” (March 2020), https://papers.ssrn.com/sol3/Papers.cfm?abstract_id=3561560.

60 Thomas A. Garrett, “Pandemic economics: The 1918 influenza and its modern-day implications,” Federal Reserve Bank of St. Louis Review 90, March/April 2008 <https://files.stlouisfed.org/files/htdocs/publications/review/08/03/Garrett.pdf>; Elizabeth Brainerd and Mark Siegler, The Economic Effects of the 1918 Influenza Epidemic, Centre for Economic Policy Research, 2003 <https://cepr.org/content/free-dp-download-20-march-economic-effects-1918-influenza-epidemic>.

ticularly in the United States. By way of comparison, the fall in global GDP attributable to the 2008-09 financial crisis was a mere 5.1%—and even today, we are still suffering from the effects of that. While financial crises cause a systematic crash in economic activity, which can be especially hard to recover from, it does point to the negative effect of recessions.

DOWNTURN PREDICTIONS

Though today we are not looking at deaths on the scale of Spanish Flu, the indications are that pandemics and other shocks can indeed lead to a very sharp recession. Recovery can be slow, precisely because of the dislocations in the productive network that are caused by the disruption.

An average prediction across seven economic forecasts was that Gross Domestic Product—the size of the UK economy—will shrink by 14% in the second (April-June) quarter of 2020. Given that the productive system is becoming dislocated and cannot simply be restarted, it seems inevitable that there will be further shrinkage in the third quarter. And quite probably beyond. Nobody really knows.

These are scary numbers, particularly because slowdowns in economic growth damage a nation's long-term prosperity far more than is usually understood. With 2% growth, a country's income doubles every 26 years. With just 1.5% growth, that will take 48 years.⁶¹ When growth is going in a negative direction, the long-term impact on income and wealth is just as dramatic.

But even then, this is an overall picture. The devastation in some sectors is likely to be much deeper.⁶² In today's circumstances, the lockdown is likely to have a particularly deep and protracted effect, as we have seen, on travel, tourism, hotels, restaurants, events, conferences, among many others. Charities will suffer because many of them have limited cash reserves.⁶³ It will also impact different people in different ways. The Institute for Fiscal Studies have concluded that lower income and younger workers, those already struggling, are the hardest hit since they work in the industries that are most likely to have been shut down.⁶⁴

The travel restrictions will make it hard for farms to recruit seasonal workers, creating substantial problems for harvests.⁶⁵ Travel restrictions will also hit recruitment in the hospitality and tourism industries and will cause cash flow problems

61 Vincent Geloso, Ideas for a More Prosperous Society, "The Lessons to Be Learned from Past Pandemics" (March 2020), <https://www.iedm.org/the-lessons-to-be-learned-from-past-pandemics/>.

62 Jack Leslie, Resolution Foundation, "The economic effects of coronavirus in the UK" (April 2020), <https://www.resolutionfoundation.org/publications/the-economic-effects-of-coronavirus-in-the-uk/>.

63 "Coronavirus: Charities say COVID-19 like a 'slow motion car crash'" Sky News, March 15, 2020, <https://news.sky.com/story/coronavirus-charities-say-covid-19-like-a-slow-motion-car-crash-11957745>.

64 Robert Joyce and Xiaowei Xu, Institute for Fiscal Studies, "Sector shutdowns during the coronavirus crisis: which workers are most exposed?" (April 2020), <https://www.ifs.org.uk/publications/14791>.

65 "Fruit and veg 'will run out' unless Britain charters planes to fly in farm workers from eastern Europe" The Guardian, March 28, 2020, <https://www.theguardian.com/environment/2020/mar/28/fruit-and-veg-will-run-out-unless-britain-charters-planes-to-fly-in-farm-workers-from-eastern-europe>.

for universities and language schools that rely on foreign students.⁶⁶ Even when formal restrictions are lifted, it may take some time before people return to previous patterns of behaviour.

PREDICTIONS AND POLICY

It is clear from all this that not just recessions themselves, but also policy mistakes made in their handling, can have serious consequences for the long-term wealth of the nation—and therefore in its ability to cope with future crises too. Even in the short term, lockdowns limit the ability of businesses and individuals to find solutions and keep the productive system going. Regulations and taxes designed for a more stable and prosperous time, and over-centralised decision making (regarding the provision and roll out of testing, for example) thwart that innovation too.⁶⁷

The longer the restrictions continue, the deeper and faster will the problems escalate. Ever-rising losses, closures, unemployment and defaults will put strain on the banking system. Meanwhile, the Government will still be burdened with emergency expenditures and a bigger social benefits bill. Business closures and unemployment will mean a fall in tax revenues. That in turn will put pressure on public service budgets, including welfare and healthcare—which are particularly important in recessions.

POLICY RESPONSES TO DATE

THE GOVERNMENT'S PALLIATIVES

It is perhaps unproductive to critique at length the Government's responses to the economic problems that the lockdown must cause to businesses and individuals. Policy made on the hoof, in response to rapidly changing events, is never perfect. Speed is often more important than perfection at a time like this. However, the onus is on flexibility given the mistakes that such speed likely creates and some broad observations are relevant — and important for improving the policies now and in the future.

Businesses have already accessed over £450m of loans under the Coronavirus Business Interruption Scheme, well above the £330 billion of loans and guarantees originally envisaged just weeks ago.⁶⁸ At first banks were unwilling to ease their loan terms, fearing the Government would not guarantee the value of the additional lending they were making or the defaults of debts already on their books, while businesses complained of the length of time it took to access the support.⁶⁹

⁶⁶ "Universities brace for huge losses as foreign students drop out" The Guardian, April 11, 2020, <https://www.theguardian.com/education/2020/apr/11/universities-brace-for-huge-losses-as-foreign-students-drop-out>.

⁶⁷ Matthew Lesh, Adam Smith Institute, "TESTING TIMES: THE URGENT NEED TO DECENTRALISE COVID-19 DIAGNOSTIC TESTING IN THE UNITED KINGDOM" (April 2020), <https://www.adamsmith.org/research/testing-times>.

⁶⁸ "Coronavirus business loans hit £450m but doubts about scheme remain" CITYAM, April 8, 2020, <https://www.cityam.com/coronavirus-business-loans-pick-up-to-450m-but-doubts-about-scheme-remain/>.

⁶⁹ "Exclusive: Just 2,000 UK firms given coronavirus business loans" CITYAM, April 7, 2020, <https://www.cityam.com/exclusive-just-2000-uk-firms-given-coronavirus-business-loans/>.

Many small businesses have taken the view that more borrowing, at any price, is not something they are prepared to risk right now.⁷⁰

Meanwhile the Job Retention Scheme, which pays 80% of the salary for furloughed workers, has expanded far beyond the Chancellor's expectations. A total of 9 million workers are now expected to be furloughed, costing between £30 and 40 billion to the taxpayer, compared to the initial prediction that the scheme would cost £10 billion.⁷¹ Some observers complain that unscrupulous employers are taking the money but still making staff work from home.⁷²

PROBLEMS OF THE MEASURES

There have been other measures too, such as support for the self-employed (who were not covered by the furlough scheme) and rates exemptions for some sectors such as the hospitality sector.⁷³ But businesses complain that the measures have been haphazard and arbitrary, have been applied unfairly to some sectors but not others, have been complex to implement and slow to roll out, and create perverse incentives (such as encouraging people to furlough staff rather than use them in different and more flexible ways).⁷⁴ The British Chamber of Commerce reports that 1% of businesses have successfully accessed the loan scheme, compared to 8% who were unsuccessful because of excessive complexity and slow response times.⁷⁵

Some business people have argued that the problem for them is one of business interruption.⁷⁶ That is generally an insurable risk, but not for all and not on this scale. Perhaps it takes the Government to be the insurer of last resort, underwriting the loss of profits rather than wage bills—allowing businesses confidently to take loans to preserve cash flow and then put in a loss of profit claim later.⁷⁷ That would be easy to audit and enable businesses to survive. But this may be an idea for the future: the current policies are already underway.

www.cityam.com/exclusive-just-2000-smaller-uk-firms-given-coronavirus-business-loans/.

70 "Small businesses worry coronavirus loans 'too risky'" BBC News, April 3, 2020, <https://www.bbc.co.uk/news/business-52158029>.

71 Jack Leslie, Resolution Foundation, "The economic effects of coronavirus in the UK" (April 2020), <https://www.resolutionfoundation.org/publications/the-economic-effects-of-coronavirus-in-the-uk/>.

72 "Fraudsters likely to target furlough scheme, says HMRC chief" The Guardian, April 8, 2020, <https://www.theguardian.com/politics/2020/apr/08/fraudsters-likely-to-target-furlough-scheme-says-hmrc-chief>.

73 GOV.UK, "Chancellor gives support to millions of self-employed individuals" <https://www.gov.uk/government/news/chancellor-gives-support-to-millions-of-self-employed-individuals>.

74 "RBS pays out 70 per cent of government coronavirus loans" CITYAM, April 12, 2020, <https://www.cityam.com/rbs-pays-out-70-per-cent-of-government-coronavirus-loans/>; "The jobs retention scheme's unintended consequences" The Economist, March 26, 2020, <https://www.economist.com/britain/2020/03/26/the-jobs-retention-schemes-unintended-consequences>.

75 British Chambers of Commerce, "BCC Coronavirus Business Impact Tracker: Businesses not yet successfully accessing government loan and grant schemes," April 8, 2020, <https://www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker-businesses-not-yet-successfully-accessing-government-loan-and-grant-schemes>

76 For discussion about the impact of COVID-19 on business see, for example, pwc, "Responding to the business impacts of coronavirus (COVID-19)" <https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19.html>.

77 Adam Smith Institute, "COVID19: HOW TO DEAL WITH BUSINESS COLLAPSE AND KEEP THE ECONOMY ON TRACK" <https://www.adamsmith.org/blog/covid19-how-do-deal-with-business-collapse-and-keep-the-economy-on-track>.

There is also the question of how to finance this unexpectedly costly intervention.⁷⁸ This is hardly the right time to talk about tax rises. Monetary expansion could soften the blow, though traditional Quantitative Easing (QE) takes time to reach the ‘real’ economy: direct grants (‘helicopter money’) may be more effective. However, during the lockdown itself, the economy does not need fiscal stimulus in the traditional sense: the very aim of policy was to reduce spending in the short-run.⁷⁹ In any case, further down the road there is the problem of scaling back the fiscal largesse, and a threat of higher inflation being caused by it. Borrowing seems the main option; the UK Government’s credit is good, and it is seen as a safe shelter. But that might change. The dollar has the edge on it as the world’s reserve currency, and in any event, in a generally troubled world, borrowing may not be so easy. It also raises serious moral questions, to what extent should we expect the unborn to pay for our living standards today in the short-run.

FURTHER WAYS TO BOOST RECOVERY

REMOVING OBSTACLES TO RECOVERY

There are a number of measures that would help, both now in terms of easing the severity of the crisis on business and employment, and in the future in terms of giving businesses a smoother and more open path to recovery and expansion.

It will be necessary when the economy is unfrozen that businesses are able to dynamically respond to its new circumstances. Removing barriers to businesses will be essential. This is not the time for policy experimentation or a new model of capitalism, like some have brazenly claimed.⁸⁰ Excessively directing the economy, and pursuing policies that are either unproven or debunked, risks prolonging the downturn.

Businesses themselves are social goods: they create useful products and provide people with salaries, as well as pay their taxes which will be necessary to fund COVID-19 related debt for many years to come. The goal must be simple: jobs and growth. We need policies that deliver economic growth and jobs to the millions of people who are being sacked.

As we emerge from this crisis, it will also be important to make incentives such as research and development tax credits simpler and quicker - perhaps even a panel of entrepreneurs themselves should be in charge. Entrepreneurs in general are highly mobile; when the travel restrictions ease, we need to ensure we retain them.

We also need to attract investment from wherever we can find it. That means having a much more open attitude to inward investment. It may mean automatically

⁷⁸ CapX, “How should we pay for all this extra government spending?” <https://capx.co/how-should-we-pay-for-all-this-extra-government-spending/>.

⁷⁹ CapX, “Ignore short-term GDP and avoid ‘fiscal stimulus’ – the upside-down economics of coronavirus” <https://capx.co/ignore-short-term-gdp-and-avoid-fiscal-stimulus-the-upside-down-economics-of-coronavirus/>.

⁸⁰ Project Syndicate, “Capitalism’s Triple Crisis” <https://www.project-syndicate.org/commentary/covid19-crises-of-capitalism-new-state-role-by-mariana-mazzucato-2020-03>.

recognising the banking licences of OECD and other developed countries, so that their banks can operate and invest in the UK without hindrance.

The deferral of business rates for some businesses is discriminatory; better would be a general business rates holiday. After all, business rates are meant to reflect rents, which in turn depend on business income. But many businesses still paying rates currently have no income at all.

The same is true of corporation tax.⁸¹ It needs to be deferred in line with the PAYE deferment scheme, which works relatively well. Corporate tax is a major disincentive to starting, running and investing in a UK business. In the short term, we need to have a cut in the rate and abolish the ‘Factory Tax’ in order to encourage the post-crisis investment.⁸² It will also be important to maintain a reformed entrepreneurs’ relief.⁸³

Red tape on small businesses in particular needs to be suspended.⁸⁴ We need to revive them as quickly as possible and encourage them to expand and generate new trade at speed. The regulations that benefit existing players, hold back competition, will need to be addressed. That may mean simple measures such as easing the licensing and trading regulations to allow businesses to stay open longer, including on Sundays—which might have the added virus-slowng benefit of reducing the weekday congestion in supermarket aisles. It could be a temporary suspension, say a year, which can be reviewed when its full effects are known.

FACILITATING THE NEW BUSINESS REALITIES

Construction has been particularly hard hit by the lockdown, and many observers have recommended giving the sector a boost. One way to do that would be to cut stamp duty, which is a serious impediment to people buying and moving accommodation.⁸⁵ That in turn means that people are stuck living further from their work than need be, leading to longer and more crowded commuting—another issue with virus transmission.

A cut in stamp duty, and serious deregulation of planning laws, would not only boost construction but would reduce house prices—something particularly beneficial to poorer people who have been disproportionately been made worse off by the virus crisis.⁸⁶ More than that, it would allow the development of new kinds of hous-

81 Ben Southwood, Adam Smith Institute, “Who Pays Corporation Tax” (March 2014), <https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/56f7200545bf216ba3b89f69/1459036166023/CorpTax8.pdf>.

82 Sam Dumitriu and Pedro Serodio, Adam Smith Institute, “ABOLISHING THE FACTORY TAX: HOW TO BOOST INVESTMENT AND LEVEL UP BRITAIN” (February 2020), <https://www.adamsmith.org/research/abolishing-the-factory-tax>.

83 CapX, “Don’t scrap the tax break that gives Britain its edge” <https://capx.co/dont-scrap-the-tax-break-that-gives-britain-its-edge/>.

84 Tim Ambler and Keith Boyfield, Adam Smith Institute, “ROUTE MAP TO REFORM: DEREGULATION” (2005), <https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/5a9695da08522939c93fc1e3/1519818205284/Deregulation.pdf>.

85 Ben Southwood, Adam Smith Institute, “BEYOND THE CALL OF DUTY” (October 2017), <https://www.adamsmith.org/research/beyond-the-call-of-duty>.

86 John Myers, Adam Smith Institute, “FORGET NIMBYS, IT IS ALL ABOUT YIMBYS NOW” (August

ing, that would be more suitable for the rise in homeworking that will undoubtedly happen from now on. Planning relaxation, particularly within the so-called ‘Green Belt’, would help the increased demand for personal space in shops and elsewhere that is likely to follow from the experience of social distancing.⁸⁷

Beyond that, the post-crisis period should be a chance to review all taxation on small businesses, entrepreneurs and self-employed people in general. Disincentives such as capital gains tax and inheritance tax, which have the effect of steering capital into less productive investments, and indeed breaking up productive capital, should be included.⁸⁸ Greater flexibility for self-employed people, contractors and those in the gig economy would be a wise strategy: the days of loading them with cost and regulation are over.

TOWARDS A REOPENING STRATEGY

CLINICAL AND ECONOMIC PRIORITIES

The original stated intent of the lockdown was to prevent the health system from being overwhelmed by ‘flattening the curve’. It is notable that the social distancing, as well as the impressive building of intensive care capacity, has meant that UK hospitals are far from being overwhelmed. Recent reports indicate that London’s Nightingale Hospital is almost empty, while other hospitals have substantial ICU capacity.⁸⁹ The Chief Medical Officer, Chris Whitty, has indicated that the curve is flattening and the UK is “probably reaching the peak overall”.⁹⁰ The decision to begin lifting the lockdown will of course depend on clinical need, and Whitty has indicated that it is too soon to fully lift restrictions.

Nevertheless, the clinical priorities need to be set and stated much more clearly: not only so that people know why the economic pain must be endured, but to allow debate on how much economic pain should be endured in return for the clinical benefits. Most importantly, *there must be a plan*. We must take whatever steps we can, whenever we can, in order to reopen Britain for business. The limbo faced by British businesses must come to an end. The steps taken will of course depend on the clinical need, which is to spread the infection curve such that critical cases can be managed.

2017), <https://www.adamsmith.org/news/forget-nimbys-it-is-all-about-yimbys-now>.

87 Tom Papworth, Adam Smith Institute, “The Green Noose” (January 2015), <https://www.adamsmith.org/research/the-green-noose>.

88 Barry Bracewell-Milnes, Adam Smith Institute, “Captive Capital” (1995), <https://www.adamsmith.org/s/Captive-Capital.pdf>; Barry Bracewell-Milnes, Adam Smith Institute, “Free Wills” (1995,) <https://www.adamsmith.org/s/Free-Willscompressed.pdf>.

89 Lawrence Dunhill, Dave West, Annabelle Collins, “Exclusive: Nightingale largely empty as ICUs handle surge,” HJS, <https://www.hsj.co.uk/service-design/exclusive-nightingale-largely-empty-as-ic-us-handle-surge/7027398.article>

90 Adam Woodcock, “UK reaching coronavirus peak with signs nation is flattening the curve, experts say,” Independent, <https://www.independent.co.uk/news/uk/politics/coronavirus-uk-peak-new-cases-lockdown-chris-whitty-latest-a9467356.html>

This plan must have broad political consensus and be carefully scrutinised. It is notable that Labour leader Sir Keir Starmer has called for a lockdown exit strategy to be revealed. He has called for the publication in an “open and transparent” manner.⁹¹ “Plans need to be in place sooner rather than later,” he said. An open and transparent exit plan is more likely to ensure a broad public and that measures, such as strict social distancing, can be maintained for as long as is necessary. “If we can get a consensus that this is the right strategy going forward, I think that will give trust to the public as well.”

Protecting the most vulnerable groups will remain a priority. In the short run, it will be important to ramp up testing to spot new outbreaks and use new technologies that can anonymously alert people that they have been near someone who has a confirmed infection while protecting privacy.⁹² In the medium term we must embrace treatments, both the trial of existing methods (i.e. blood plasma) and new medications.⁹³ In the longer run, the development of a vaccine will be key to build true ‘herd immunity’.⁹⁴

REOPENING OPTIONS

The most important way to guarantee the health of the nation, however, will be to guarantee its economic revival. Even many clinicians such as Professor Alexander Kekulé, one of the first to warn of an epidemic in Europe, now points out the clinical costs of continuing a lockdown, such as a smaller economy that is unable to fund quality healthcare.⁹⁵ Many European countries, including Austria, Czech Republic, Denmark, France, Germany, Italy, Norway, and Spain, are now laying out plans and beginning to reopen their economies.⁹⁶ The European Commission has published a roadmap for lifting containment.⁹⁷ Various strategies have been proposed, and these will be reviewed in a subsequent publication.

Many such strategies are based on *demographic* considerations, reflecting that the virus is generally less serious for younger people. The Centre for Competitive Advantage at the University of Warwick, for example, recommends the continued

⁹¹ Alan McGuinness, “Coronavirus: Labour leader Sir Keir Starmer wants lockdown exit strategy revealed this week,” *Sky News*, <https://news.sky.com/story/coronavirus-labour-leader-sir-keir-starmer-wants-lockdown-exit-strategy-revealed-this-week-11973322>

⁹² “Coronavirus: phone app will trace every contact of the infected under Big Tech plan” *The Times*, April 12, 2020, <https://www.thetimes.co.uk/article/coronavirus-phone-app-will-trace-every-contact-of-the-infected-under-big-tech-plan-qfjns82k3>.

⁹³ Adam Smith Institute, “THERE’S HOPE: THE EMERGING COVID-19 TREATMENTS” <https://www.adamsmith.org/blog/theres-hope-the-potential-emerging-covid-19-treatments>.

⁹⁴ “Coronavirus vaccine could be ready by September” *The Times*, April 11, 2020, <https://www.thetimes.co.uk/article/coronavirus-vaccine-could-be-ready-by-september-flmwl257x>.

⁹⁵ “‘Infect the young and isolate those at risk’ - One German scientist’s plan to end the lockdown” *The Telegraph*, April 11, 2020, <https://www.telegraph.co.uk/news/2020/04/11/german-scientist-predicted-european-epidemic-calls-end-lockdown/>.

⁹⁶ “Coronavirus: The European countries beginning to lift lockdown measures” *Sky News*, April 7, 2020, <https://news.sky.com/story/coronavirus-the-european-countries-beginning-to-lift-lockdown-measures-11969857>; Politico, “4 things to know as Macron plots coronavirus exit strategy” <https://www.politico.eu/article/4-things-to-know-as-macron-plots-coronavirus-exit-strategy/>.

⁹⁷ European Commission, “Communication - A European roadmap to lifting coronavirus containment measures,” https://ec.europa.eu/info/files/european-roadmap-lifting-coronavirus-containment-measures_en.

isolation of those over 60, but to allow those in their 20-30s (and who are not living with older people) to de-isolate.⁹⁸ Some countries are already moving to reopen schools, on the grounds that children are less affected and are less likely to transmit the disease, and the reopening schools allows parents, including key workers, to return to work as well as reducing the psychological strain of confinement on both parents and children.⁹⁹

Other options propose a *geographical* approach. Businesses and schools can be reopened at different rates in different places. This allows the strategy to reflect local considerations, such as the prevalence of the disease and the travelling needs of the working public. It would allow us to examine and share the experience of different strategies. And it would leave more decision making up to local authorities and businesses, rather than a one-size-fits-all policy being imposed from the centre.

There are opportunities to begin *sectoral* reopening in those sorts of businesses where social distancing is feasible or where the strategic and economic need is high. The food supply sector, for example, is under threat because of the lack of seasonal workers from overseas; with strict conditions on their travel, distancing and accommodation, this blockage might be eased. Outdoor businesses such as garden centres may be included if they can guarantee the relevant protections.

In terms of presenting options to the public, there will be a priority to avoid a free-for-all return to risky behaviour once the restrictions start to be lifted. One ingenious solution by economists Gerard Lyons and Paul Ormerod is a traffic-light system.¹⁰⁰ In the red phase, there would be limited easements and the public would be alerted to the continuing dangers; further easements in the amber phase and then general removal of restrictions in the green. This has the benefit that different activities (work, travel etc) can be phased in and that the public can easily understand what is expected. It also has the psychological benefit of giving people a clear direction of travel, even if the exact timetable is less clear.

OTHER COUNTRIES' REOPENING STRATEGIES

European countries have adopted various reopening strategies. Some are planning to reopen child care centres and schools. There is also reopening of construction and shuttered manufacturing firms, followed by some shops, such as hardware stores and garden centres. The next step will be the likes of restaurants, bars and hotels, while maintaining social distance. And while some limits on small gatherings are being lifted, large gatherings are unlikely to be condoned soon.

⁹⁸ Andrew Oswald and Nattavudh Powdthavee, University of Warwick, "The case for releasing the young from lockdown: A briefing paper for policymakers" (April 2020), https://warwick.ac.uk/fac/soc/economics/research/centres/cage/news/06-04-20-the_case_for_releasing_the_young_from_lockdown_a_briefing_paper_for_policymakers/.

⁹⁹ "'Coronavirus in the UK: School closures 'have little impact on spread of virus'" i News, April 6, 2020, <https://inews.co.uk/news/education/coronavirus-uk-review-little-evidence-school-closures-curb-covid-19-spread-2531305>.

¹⁰⁰ Gerard Lyons and Paul Ormerod, "The traffic-light route to ending the economic lockdown" (April 2020), http://www.algorithmiceconomics.com/wp-content/uploads/2020/04/ending_lockdown.pdf.

Denmark reopened primary schools on 15 April.¹⁰¹ From 10 May, social gatherings will be allowed, but up to a maximum of ten persons. On 20 April, *Norway* re-opens kindergartens, and plans to re-open other schools a week later.¹⁰² It will lift the ban on families visiting second homes, and some businesses—notably hairdressers—will be allowed to re-open.

Further south, *Austria* has begun opening some shops (such as small shops, hardware stores and garden centres), with a limit of one shopper per 20 square metres.¹⁰³ Their customers, and travellers on public transport, must wear face masks. It is expected that larger shops will reopen on 1 May, followed by restaurants, schools and hotels, subject to clinical advice. There will be no public events until at least June. In the *Czech Republic*, shops selling hardware, hobby supplies and bicycles will be allowed to reopen but will have to have disinfectant and disposable gloves at entrances and observe social distancing. Other shops are likely to be included soon.¹⁰⁴ International travel for business, family or medical reasons to be permitted soon, subject to two-week isolation on return. In *Spain*, like some other places, older people and those with underlying medical conditions will continue to be confined to homes longer than young and healthy people. This means, in practice, allowing industrial and construction firms to reopen.¹⁰⁵

TRUST THE PEOPLE

British supermarkets are an interesting case study in how, if given the freedom to do so, businesses can devise innovative ways to deal with the virus crisis and return quickly—and yet safely for both staff and customers—to near-normality.¹⁰⁶ Within days of the panic buying, they had put restrictions on the quantity of any item that customers could buy. They also stepped up their supply systems so quickly that the shelves were soon restocked, and the purchasing restrictions could be relaxed. In response to the special problems faced by the elderly and healthcare workers, they introduced special hours for the former and special all-day priority for the latter. They also moved quickly to mark safe-distance indicators on the floors, and introduce capacity controls with one-in, one-out marshalling systems. They stepped up the disinfection of surfaces and erected Perspex screens to help protect checkout staff.

101 “Coronavirus: Denmark takes first step out of lockdown with schools set to reopen” *The Times*, April 11, 2020, <https://www.thetimes.co.uk/article/coronavirus-denmark-takes-first-step-out-of-lockdown-with-schools-set-to-reopen-hpmzgx078>.

102 “Norway to open kindergartens in first step to end lockdown” *The Local* no, April 7, 2020, <https://www.thelocal.no/20200407/norway-to-open-kindergartens-from-april-20-as-first-step-to-end-lockdown>.

103 “Austria Will Start to Reopen Next Week” *The Wall Street Journal*, April 8, 2020, <https://www.wsj.com/articles/austria-will-start-to-reopen-next-week-11586386670>.

104 “Czechs to start easing restrictions as coronavirus infections slow” *Reuters*, April 6, 2020, <https://www.reuters.com/article/us-health-coronavirus-czech/czechs-to-start-easing-restrictions-as-coronavirus-infections-slow-idUSKBN21O1IZ>.

105 *Politico*, “Europe begins tentative easing of coronavirus lockdown” <https://www.politico.eu/article/coronavirus-europe-begins-tentative-easing-of-lockdown/>.

106 *Free Market Conservatives*, “Harnessing the power of the free market is key to defeating COVID-19” <https://freemarketconservatives.org/harnessing-the-power-of-the-free-market-is-key-to-defeating-covid-19/>; “Why grocery shelves won’t be empty for long” *BBC News*, April 2, 2020, <https://www.bbc.com/worklife/article/20200401-covid-19-why-we-wont-run-out-of-food-during-coronavirus>.

On a more modest scale, smaller shops have taken many of the same steps, on their own volition and in response to customers' natural concerns. It seems likely that many other shops and businesses, now closed either by Government regulation or the simple lack of footfall in urban centres, could re-open, even if only partially, while still respecting social distancing and public safety. Our relatively spacious out-of-town shops, hardware stores, garden centres, furniture and carpet stores, and car showrooms might be one place to start.

Social distancing and other safety measures might be feasible even in restaurants and cafes. But rather than set detailed rules on individual businesses, perhaps a better strategy is to set out the broad principles and objectives and trust the ingenuity of entrepreneurs and business owners to find innovative ways of achieving them.

CONCLUSION AND RECOMMENDATIONS

The economic lockdown was justified by good evidence of the dangers of inaction. In the same vein, the planning of the end of the lockdown must follow the epidemiological and economic evidence. Ending the lockdown does not mean immediately reopening the economy without substantial consideration of how to prevent the reemergence of the virus. In fact the opposite, it means adopting intelligent and proven strategies to prevent further outbreaks while enabling economic life to get back to normal. If nothing else, it means having a clear strategy.

If the Government wants to safeguard the people's lives and livelihoods they must:

- (1) develop, and release, a phased plan for lifting the lockdown to provide greater confidence for businesses and citizens:
 - following the best possible public health research and latest evidence;
 - explicitly aiming to prevent subsequent mass outbreaks and loss of life;
 - including a strategy for decentralised mass testing, and isolation and tracing of cases while protecting privacy;
 - encouraging physical distancing, maintaining limits on mass gatherings and special measures for at-risk groups in early stages;
 - allowing as many businesses as possible, as quickly as possible, to reopen their operations;
- (2) scale back the state's extensive role in the economy after the crisis to avoid crowding out the rebooting of the private sector; and
- (3) introduce policies, both permanent and temporary, that will enable the economy to bounce back after the crisis, including cutting excessive red tape and taxes that discourage investment.