Dear Reset Initiative,

Positive Money welcomes the opportunity to respond to the APPG on the Green New Deal's Reset inquiry.

We are a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

Our submission makes the following key points:

- Significant steps must be taken to mobilise both public and private finance towards supporting a fairer and greener recovery.
- The government should take full advantage of conditions for monetary financing to minimise the costs of higher public spending
- Other central bank policies, such as the Term Funding Scheme with additional incentives for SMEs (TFSME) and macroprudential regulation could be repurposed to help support a just green transition
- Weaknesses which made the response to the coronavirus more difficult include high levels of private debt, growth dependency, labour market weakness, and the effects of austerity
- Overcoming growth dependency is vital for ensuring a green and fair recovery. Social and environmental outcomes must be prioritised over the pursuit of GDP growth
- Environmental and social conditions must be applied to the public financial support being enjoyed by Britain's biggest corporations

Public and private finance

This section seeks to provide answers to the following questions:

- **What policy measures or initiatives were introduced in response to Covid-19 that we should look to replicate for the long-term?**
- **What changes are needed to the structure of public and private finance to support a fair and green recovery?**

<u>Reforming the structure of private finance to support a fair and green recovery</u>

More needs to be done to mobilise both private and public finance towards supporting a fairer and greener recovery from the covid crisis.

Britain's long-term economic recovery from the coronavirus pandemic may be held back by banks' unwillingness and inability to lend to small businesses in the 'real economy'. UK banks' failure to lend to SMEs is a chronic issue which hindered our economy before the Covid crisis, with only around a tenth of bank lending going towards the 'real economy'.[1]

After the 2008 crisis, bank lending to non-financial companies collapsed in the UK, whereas

[1] https://positivemoney.org/2018/06/how-has-bank-lending-fared-since-the-crisis/

countries with strong stakeholder banking networks, such as Germany and Switzerland, saw their local banks step-up lending.[2] The fact that Britain's banking system is particularly poor at providing funds to productive enterprises is a significant factor in explaining why the British economy has fared so poorly in comparison to other countries' in the years since 2008.

Buying the remainder of RBS could provide a long-term solution to the difficulty of getting money to businesses. Under full public ownership, the government could use RBS as a vehicle to establish a network of stakeholder banks which are able to build relationships with small businesses and would be well-placed to support local economies.[3] Doing so at the historically low share price (currently around 120p per share, less than a quarter of the 502p per share the government paid in 2008) would cost less than £5bn, representing strong value for money.

The Bank of England introduced measures to encourage banks to increase their lending to small businesses, by adapting their Term Funding Scheme to offer additional incentives for lending to SMEs in March (TFSME).[4] There could be potential to use the TFSME as a basis for further 'credit guidance' which would encourage banks to shift lending away from unproductive assets and fossil fuels, and towards supporting projects which would help tackle the economic and environmental crises we are facing.[5]

There are other steps the Bank of England must take to support a greener and fairer recovery. It must deliver on its pledge to decarbonise its balance sheet, starting with the exclusion of fossil fuel assets from its QE programme.[6] The central bank should also utilise the macroprudential powers at its disposal to clamp down on risky fossil fuel lending. This would mean the Bank of England applying the same tools it uses to manage risk in the mortgage market to guard against the risks posed by climate collapse as well. By increasing the amount of capital banks need to hold against high-carbon loans to accurately reflect the risk, the Bank of England can help stem the flow of money going towards environmental breakdown, and similarly use such tools to help guide credit towards green investment.[7]

Monetary financing

Similarly, the central bank should use monetary financing as a means of enabling the huge increase in public investment a just green recovery requires. The Treasury and the Bank of England have been engaging in monetary financing in order to pay for the substantial

[2] https://neweconomics.org/uploads/files/141039750996d1298f_5km6y1sip.pdf

[3] https://neweconomics.org/uploads/files/CONTROL-OF-RBS_BULLETIN_E.pdf

[4] https://www.bankofengland.co.uk/markets/market-notices/2020/term-funding-scheme-market-notice-mar-2020

[5] http://positivemoney.org/wp-content/uploads/2019/10/Positive-Money-Seeking-Legitimacy.pdf

[6] https://www.theguardian.com/business/2020/apr/16/bank-of-england-failing-climate-with-covid-19-stimulus-programme-oil-firms-debt-bond-governor

[7] http://positivemoney.org/wp-content/uploads/2018/05/PositiveMoney_AGreenBankofEngland_Web.pdf

increases in public spending in response to Covid-19. 'Monetary financing' refers to various arrangements where the central bank's power to create new money is used to support public spending. Typically it involves the central bank 'monetising' government debt by exchanging it for newly created money and holding the debt permanently on its balance sheet. During the coronavirus crisis quantitative easing (QE) has served as an indirect form of monetary financing, and the Bank of England has offered to undertake direct monetary financing through the government's Ways and Means 'overdraft' facility at the central bank.[8]

QE is an indirect form of monetary financing, which involves the central bank buying up government debt from the secondary market with newly created money. The Bank of England bought up £435bn of government bonds (gilts), in addition to £10bn of corporate bonds, through QE between 2009-2016. Since the covid-19 outbreak the BoE has announced a further £300bn of QE purchases - of which £290bn will be gilts and £10bn corporate bonds. As a publicly owned central bank, the bonds bought by the Bank of England sit on the public sector's consolidated balance sheet - meaning the government effectively owes the debt bought up by the BoE 'to itself', rather than private creditors.

The BoE has typically justified QE as a means of pushing down interest rates to stimulate[9] the economy by encouraging lending and spending. But by lowering interest rates primarily on government debt, QE also makes it cheaper for the government to borrow. This is something the government had refrained from taking advantage of before the coronavirus crisis, instead trying to reduce public borrowing through austerity. Nevertheless the Office for Budget Responsibility suggests that the first £435bn of QE has reduced the debt burden by £18.2bn on aggregate.[10]

£200bn of QE was announced the day before the Treasury announced plans to pay 80% of private sector wages, indicating that it was coordinated to help keep borrowing conditions easy for such a huge fiscal expansion. Indeed, the chief executive of the Debt Management Office has suggested the government would have struggled to pay for its lockdown rescue[11] package without the BoE's expansion of QE. The £190bn of new BoE gilt purchases neatly covered the £180bn the government seeks to borrow between May and July.[12]

Previous rounds of QE have been distanced from monetary financing by the BoE's insistence that they are purely monetary policy operations attempting to push down real interest rates in the private sector. However in its March announcement, theBank for the first time added deteriorating conditions in the UK gilt market among its reasons for expanding QE, suggesting that the purpose of asset purchases is to support the government's ability to

[8] https://www.ft.com/content/664c575b-0f54-44e5-ab78-2fd30ef213cb
[9] https://www.bankofengland.co.uk/monetary-policy/quantitative-easing
[10] https://obr.uk/docs/dlm_uploads/Direct_fiscal_consequences_of_unconventional_monetary_policy.pdf
[11] https://www.thetimes.co.uk/article/bank-of-england-rode-to-government-s-rescue-as-gilt-markets-froze-w8dkqvvkg
[12] https://www.gov.uk/government/news/hm-treasury-announces-revision-to-the-uk-debt-management offices-financing-remit-2020-21

borrow.[13] The BoE maintains that QE is not monetary financing because it is temporary and will be reversed, in that the government debt will be sold back to the market.[14] However governor Andrew Bailey has since acknowledged that QE is being used to help the[15] government finance public spending. Moreover, the fact that not a single pound of QE has yet been reversed, means that for all intents and purposes, the Bank of England has effectively monetised a large proportion of government debt.

QE represents an 'indirect' form of monetary financing, as the Bank of England is buying gilts from the secondary market, rather than from the government itself. The BoE buying gilts at market price from bondholders means a significant subsidy to the financial sector - the[16] so-called 'auction concession' - with the OBR suggesting the market value of the first £435bn of QE purchases was £62.8bn greater than the nominal value bondholders originally[17] paid for them. This means a £62bn opportunity cost to the public purse from monetary financing being carried out indirectly rather than directly. The Resolution Foundation also suggests that there will be a £30bn cost to the additional £200bn of QE announced in March, based on this same difference between the market and nominal value of bonds purchased.[18] This could mean a cost of around £105bn to the Bank of England going through the secondary market for its total £725bn stock of gilts, a figure which would only increase with further rounds of QE.

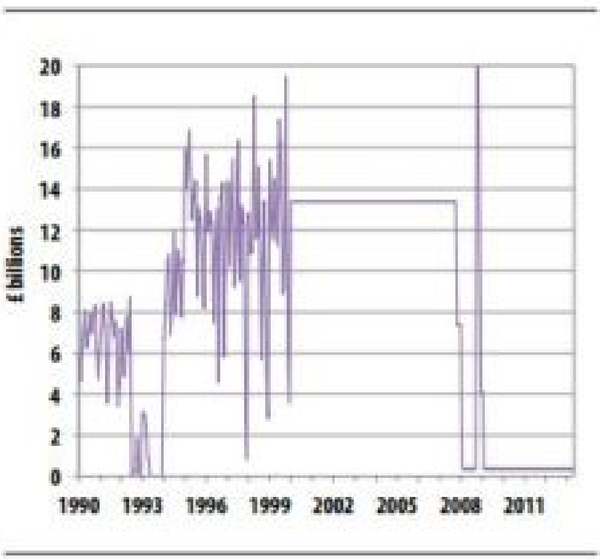
The costs associated with quantitative easing could be avoided by more direct forms of monetary financing. The two main mechanisms through which this could be done are gilt purchases from the primary market or use of the government Ways and Means facility at the Bank of England. In going through the primary market, the BoE would use QE to buy gilts directly from the Treasury's Debt Management Office, which would mean newly created money going straight to the government's account, as opposed to via financial intermediaries on the secondary market. The need for such primary market operations has however been forestalled by the Bank of England extending its 'Ways and Means' advance to the government in response to the developing coronavirus crisis, offering an even more direct means of monetary financing which cuts out unnecessary intermediaries.[19]

The Ways and Means, which dates back to the central bank's founding in 1694, is the government's 'overdraft' with the BoE, in which the Bank credits the governments account directly with newly created money. As figure 1 shows, the government regularly took advantage of the Ways and Means up until the turn of the millenium, at which its balance was frozen at £13.4bn until the 2008 crisis, when £20bn was created for the bailout of Bradford & Bingley. The Ways and Means was extended to an effectively unlimited amount

[13] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/monetary-policy-summary-for-the-special-monetary-policy-committee-meeting-on-19-march-2020
[14] https://www.ft.com/content/3a33c7fe-75a6-11ea-95fe-fcd274e920ca
[15] https://www.ft.com/content/ad63e45c-ad55-41a2-ae2e-8d550ff0ac92
[16] https://www.bis.org/publ/work571.pdf
[17] https://obr.uk/docs/dlm_uploads/Direct_fiscal_consequences_of_unconventional_monetary_policy.pdf
[18] https://www.resolutionfoundation.org/app/uploads/2020/04/Doing-more-of-what-it-takes.pdf
[19] https://www.bankofengland.co.uk/news/2020/april/hmt-and-boe-announce-temporary-extension-to-ways-and-means-facility

in April 2020, but the government has not yet taken advantage of this, with the size of its outstanding balance remaining flat at £370m since 2009.[20]

Figure 1 - Ways and Means Advance to HM Government (£ billions)[21]



Source: ONS

A common criticism of monetary financing is that it would be inflationary. However, such concerns are inconsistent with empirical evidence and are usually based on flawed understandings of the monetary system. The link between money creation and inflation is not as tight as is commonly believed. Inflationary pressures depend on a variety of factors, including the spending patterns of households, changes in the economy's output, and distributional conflicts between employers and workers. Empirical evidence shows that [22] inflation is rarely caused by increases in the money supply, and in advanced economies like the UK, there is no causal relationship between monetary financing and inflation.[23] Despite the Bank of England's QE programme following the 2008 financial crisis, inflation has remained low, often even below the 2% target. As explained by a member of the Monetary Policy Committee, the Bank's recent decision to expand its QE programme by £200bn was deemed necessary to avoid falling even further below the inflation target.

In the current crisis, all of the signs so far (such as recent CPI figures and plunging oil prices) suggest that deflation rather than inflation is the bigger danger presented by the coronavirus crisis. The Bank of England's own projections indicate below-target inflation for

[20]https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2009&TD=31&TM=Dec&TY=2025&FNY=Y&CSVF=TT&html.x=66&html.y=26&SeriesCodes=RPWB72A&UsingCodes=Y&Filter=N&title=RPWB72A&VPD=Y

[21] https://positivemoney.org/wp-content/uploads/2013/11/Sovereign-Money-Final-Web.pdf

[22] https://www.ineteconomics.org/perspectives/blog/rapid-money-supply-growth-does-not-cause-inflation

[23] https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp-wp-2018-08.pdf

the next two years.[24] Further monetary financing may therefore be necessary for the Bank to reach its 2% inflation target.

Like any form of spending, monetary financing may be inflationary if it does not generate productive output or reduce debt burdens. The phenomenon of 'too much money chasing too few goods' will not appear if the newly-created money is facilitating the production of new goods and services, or reducing debt burdens as monetary financing would particularly help do during the coronavirus recovery phase. Especially with the right institutional checks in place, namely making sure that the BoE's Monetary Policy Committee ultimately retains authority over the method and amount of monetary financing, there is no reason to fear excessive inflation.

Like any form of financing, monetary financing is not without costs. By keeping interest rates well below inflation, monetary financing suppresses real yields on financial assets, and effectively acts as a 'tax' on asset wealth and speculative rentierism. In doing so monetary financing allows the costs of increased public spending to be borne primarily by the wealthiest in society, which is more equitable than forcing workers on lower incomes and more productive sectors of the economy bear the costs through higher taxes.

Monetary financing is often deemed unnecessary on the basis that government debt is debt we 'owe to ourselves'. Indeed around a quarter of government debt is held on the public sector balance sheet precisely because the Bank of England has been absorbing it through QE, a form of indirect monetary financing. It is also true that many households will be invested in government debt through their pensions, with around a third of gilts held by[25] insurance companies and pension funds. But like with any asset ownership, the distribution of pension wealth is highly unequal, with nearly half of private pension wealth being held by the top 10% of households.[26] The other major owners of government debt are overseas investors, meaning that a large chunk of debt repayments are going to wealthy bondholders outside of the UK. As public sector debt is predominantly owned by the wealthiest in society, it is therefore more useful to think of this not as debt we 'owe to ourselves' but debt owed by the general public to wealthy households. To avoid a transfer of wealth through interest payments from the public purse to private bondholders, the Bank of England should buy a larger proportion of public debt. If the government does not take advantage of monetary financing to minimise debt costs and instead pursues austerity, wealthier households which

24 https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy report-may-2020.pdf

25 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785550/debt_management_report_2019-20_final_web.pdf

26 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/pensionwealthingreatbritain/april2016tomarch2018

gain from interest payments will benefit, while poorer households, who own little or no savings but pay a higher proportion of their incomes in tax, will see net losses.[27]

The government has currently pledged to repay any drawings from the Ways and Means "as soon as possible before the end of the year."[28] Doing so is not only unnecessary, with historical experience showing that states are able to keep debts monetised for long periods of time, but could also be counterproductive to any recovery, especially if achieved through austerity. Attempting to 'pay back' the Bank of England through austerity would be extremely ill-advised at a time when the private sector's balance sheet is also contracting as private debts are repaid and aggregate demand has collapsed, and could lead to a debt deflationary spiral into a severe depression.

What were the benefits (including any unexpected benefits) of some of the policy measures implemented in response to Covid-19 that we should look to secure for the long-term, and how could this be done?

Emissions reduction

Lockdown measures implemented in response to Covid-19 significantly eased environmental pressures. As consumer demand plummeted, factories and businesses shut down, and global supply chains experienced widespread disruptions, carbon emissions, resource extraction, and pressures on biodiversity fell. At the height of lockdown, global emissions decreased approximately 17%.[29] Projections of the decrease over the entire year range from 4-8%.[30] In order to meet Paris Agreement commitments, yearly global decreases must reach[31]

7.6%, the upper end of the projected range. In the UK, territorial emissions fell by over 30%, with a recent estimate projecting the decrease over the year will reach 11%.[32] This is significantly larger than the 3% target set by the Climate Change Committee, though this target is highly insufficient for the UK to stay within a fair carbon budget.[33]

[27] https://leftfootforward.org/2018/11/debt-disaster-how-the-budget-will-stuff-more-money-into-the-pocke t s-of-the-financial-sector/

[28] https://www.gov.uk/government/news/hm-treasury-and-bank-of-england-announce-temporary-exten sion-of-the-ways-and-means-facility

[29] https://www.nature.com/articles/s41558-020-0797-x

[30] https://www.nationalgeographic.co.uk/environment-and-conservation/2020/05/plunge-in-carbon-emiss ions-from-lockdowns-will-not-slow

[31] https://wedocs.unep.org/bitstream/handle/20.500.11822/30797/EGR2019.pdf?sequence=1&isAllowed =y

[32] https://news.sky.com/story/coronavirus-effects-of-lockdown-could-see-uk-carbon-emissions-drop-by-1 1-this-year-12004148

[33] https://www.cusp.ac.uk/wp-content/uploads/WP18%E2%80%94Zero-carbon-sooner.pdf

In order to have a significant impact in slowing climate change, these kinds of emissions reductions would have to be sustained and repeated over time.[34] Yet these reductions came at a significant cost, as the shutdown in economic activity that caused them generated a [35] [36] 24.5% drop in GDP, resulting in rising unemployment and poverty.[37] This highlights the extent to which our economy is dependent on environmentally destructive GDP growth. Unless this changes, we are unlikely to meet ambitious climate targets without increased human misery. Reducing the dependence of the UK economy on GDP growth, such that wellbeing can flourish despite a slowdown in large swaths of non-essential and environmentally harmful economic activity will be key to achieving an economy that supports wellbeing for all within planetary boundaries.

Reducing the UK economy's dependence on GDP growth necessitates deep structural transformations related to all aspects of the economic system. For example, it will require an expansion of universal basic services and forms of public/democratic ownership, provision of socially and environmentally useful work that is more evenly shared across the population, relocalisation of production and consumption, continuous minimisation of socio-economic inequalities, and profound changes to the ways in which money is created, circulated, and destroyed.[38] Such economic transformations would generate an economic system that could successfully meet human needs while reducing environmental pressures, which would likely result in lower GDP.

What existing weaknesses in UK society and economy made the

response to Covid-19 more difficult, and how might these be addressed to improve life in the UK and reduce the risk of future crises?

Private Debt

[34] https://www.nationalgeographic.co.uk/environment-and-conservation/2020/05/plunge-in-carbon-emissions-from-lockdowns-will-not-slow

[35] https://www.independent.co.uk/news/business/uk-economy-shrink-gdp-rate-fall-decline-ons-lockdown may-a9617261.html

[36] https://www.theguardian.com/business/2020/jul/16/rising-unemployment-uk-hidden-problem-furlough coronavirus

[37] https://www.ippr.org/news-and-media/press-releases/1-1-million-more-people-face-poverty-at-end-of 2020-as-a-result-of-coronavirus-pandemic-finds-ippr

[38] http://positivemoney.org/wp-content/uploads/2020/05/Positive-Money-Tragedy-of-Growth-Digital-Singl e-Pages.pdf

The UK economy is characterised by high levels of private household and corporate debt. This is the consequence of a decades long finance-led growth model and relative stagnation of the real economy in which real wage growth has been on a declining trend. A finance-led model simply means that growth is dependent on financial activities and asset price inflation rather than the productive economy. Consumer demand is driven by debt rather than wages while low interest rates have fuelled asset price inflation such as rising house prices. One obvious concern is that rising asset prices lead to bubbles which will eventually burst. This was observed with the dot com bubble of the late 1990s, and again in the subprime mortgage crisis that triggered the global financial crisis.

The UK's total household debt pile in March 2020 was £1.685 trillion.[39] This is made up of £1.464 trillion of property debt (mortgages), and more than £220bn billion of consumer debt (unsecured credit cards and loans). The ratio of household debt as a share of disposable income has been rising since 2016, reaching 127% by Q1 2020[40]. The current crisis is highlighting the extent to which households are struggling with high levels of debt. The average UK household's total debt amounts to £60,363 (including mortgages).[41] Financial institutions depend on rising household debt with £139 million per day in interest payments[42] from households to financial markets. The government also depends on this to stimulate the economy through consumer demand. Another worrying aspect is the extent to which dependence on private debt and asset price inflation is fuelling wealth inequality. A recent study found that inherited wealth is becoming a far more important determinant of a person's standard of living over lifetime earnings.[43] One in 10 UK adults born in the 1980s will inherit more from their parents than the average person earns in a lifetime.

The lockdown resulting from the pandemic, large scale job losses and slow recovery is likely to have damaging effects on the average household's ability to keep up interest and mortgage payments. This means the hardest hit will be those on low wages, who have either lost their job or are forced to accept reduced working hours. Not to mention the most vulnerable who depend on a working member of the family if disabled or elderly.

High levels of private debt for businesses also presented a significant obstacle in the UK's response to the coronavirus pandemic, and could continue to pose a threat to any economic recovery. Prior to the covid crisis many SMEs were already drowning in debt, which made both business owners and lenders hesitant to increase their debt pile with emergency loans. Due to banks' unwillingness to lend, the government had to step in to fully guarantee loans

[39] https://www.bankofengland.co.uk/statistics/money-and-credit/2020/march-2020
[40] https://commonslibrary.parliament.uk/research-briefings/sn02885/
[41] https://themoneycharity.org.uk/money-statistics/
[42] https://tribunemag.co.uk/2020/03/the-coronavirus-debt-emergency/
[43] https://www.ifs.org.uk/publications/14954

to small businesses through the Bounce Back Loan Scheme (BBLS), meaning the public will absorb any losses banks feared. Though the government is protecting lenders through such schemes, they are further overburdening businesses with debt at a time when their revenues are taking an enormous hit.[44] As a result, many borrowers may prove unable to repay these loans. For example, banks have estimated that 40 to 50% of borrowers from the Bounce Back Loan Scheme may have to default on their emergency loans.[45] A City taskforce has estimated that overall £36bn of emergency loans could go unpaid by borrowers.[46] To ease the debt burden that businesses are facing as they emerge from the current crisis, the government should at the very least consider lower interest rate caps on emergency loans. For example, in Switzerland small business loans are interest-free, with interest on loans above 500,000 Swiss Francs (£420,000) capped at 0.5%.[47] In the UK, only the biggest corporations are currently benefiting from such low interest rates (see paragraph 1.2), while interest rates on loans to the smallest businesses are capped at 2.5% under the BBLS. However 2.5% is higher than many of the rates banks are charging for mortgages, and therefore an unreasonably high rate for 100% guaranteed loans that carry zero risk for the lender.[48] Further, under CBILS, interest rates remain as high as 8.9%. Going further, the government should consider a heavier focus on grants, as well as policies to reduce small business expenditures, including freezes and write-downs on rent and debt payments.[50]

A clear policy bias has been to focus on the supply-side of the economy by supporting large businesses and financial markets to provide liquidity and funding which is indirectly aimed at keeping people employed. Better coordination between the Bank of England and Treasury
can help design targeted policies that directly support those in most need. Critical is direct income support which will need to continue in some form despite the government's furlough scheme coming to an end in October. Investment in the real economy is needed to ensure those without jobs or losing income will be protected. This will create new employment opportunities which should be strategically aimed at low carbon sectors in order to shift the

[44] https://www.scotsman.com/business/coronavirus-businesses-forecast-substantial-revenue-hit-three-ten-consider-job-cuts-2505412

[45] https://www.ft.com/content/8a551c37-2de8-446b-a8b8-d4a61d33ef73

[46] https://www.theguardian.com/business/2020/jun/07/36bn-of-government-backed-loans-will-be-toxic-taskforce-warns

[47] https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-78572.html

[48] https://www.telegraph.co.uk/money/consumer-affairs/small-businesses-spend-twice-much-much-using-wrong-government/

[49] https://positivemoney.org/2020/03/more-private-debt-isnt-the-solution-this-crisis-calls-for-bold-measur es/

[50] https://www.ippr.org/files/2020-05/1589291707_who-wins-and-who-pays-may20.pdf

economy to one that is more resilient and compatible with Paris agreement obligations. The Bank of England can do more to directly support SMEs through direct grants to prevent widespread insolvencies and keep people employed.[51]

Growth dependency

Throughout the pandemic, policymaking's focus and the economy's dependence on GDP growth hampered the public health response to the crisis. Scientists warned of the dangers of the virus as early as January, yet it wasn't until March until lockdown measures were implemented, as public pressure mounted. The government's delay and its initial 'herd immunity' approach can be interpreted as a prioritisation of GDP over public health. Early easing of social distancing measures represents a continuation of this trend. This apparent prioritisation of GDP numbers occurred despite the public's overwhelming support (82%) for the prioritisation of public health and wellbeing over economic growth.[52]

UK's weak labour market

The UK labour market is increasingly characterised by insecure and low wage employment. This crisis magnifies long standing weaknesses in the UK labour market resulting from deregulation of labour markets, a limited role for trade unions in the workplace; and the Bank of England and Treasury's focus on inflation targets over employment. Before the crisis hit, [53] the UK's employment rate was estimated at 76.1% in 2019 , the highest it has been since the 1970s. Unemployment has been at a record low at 3.9% in 2019. This reflects a significant shift in the composition of the workforce in the past decade, towards various [54] flexible forms of work or 'atypical' contracts . These include, self-employment (15%), part-time (26%), temporary (5%) and agency and zero hour contracts (5.5%). The Office for National Statistics' figures show the number of people on zero hour contracts has risen five-fold in the past decade, from 190,000 workers in 2011 to 974,000 workers by 2019 .[55] Another worrying trend has been tight labour markets have not led to wage growth. Wage growth has weakened every decade since the 1980s from 2.9% in 1980s to just 1.2% since the 2000s. The Bank of England has stated that poor wage growth relates to greater labour market flexibility and insecure employment [56] . These structural shifts have resulted in a

[51] https://positivemoney.org/2020/03/more-private-debt-isnt-the-solution-this-crisis-calls-for-bold-measures/
[52] https://positivemoney.org/2020/05/a-majority-agree-public-health-before-economic-growth/
[53] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/march2019
[54] https://www.resolutionfoundation.org/app/uploads/2019/01/Setting-the-record-straight-full-employment-report.pdf
[55] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts
[56] https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/the-labour-market.pdf

growing problem of in-work poverty. Over half the people in poverty in 2018 are living in a household with at least one person working .[57]

Recent survey evidence suggests the crisis has hit low wage and insecure employment [58] categories the hardest. The sectors most affected by lockdown include hospitality and retail, where a large number of workers have been placed on the furlough scheme. Jobs in these sectors are not compatible with home working and tend to be overpopulated with young people. This will have distributional effects throughout the economy, as higher earners tend to be in jobs that can be shifted to working from home and less likely to lose their job, be furloughed and/or experience shorter working hours. The OECD's latest forecast predicts unemployment will rise to 10% and stay high throughout 2021 in a second wave scenario. If there is no second wave the unemployment rate will still rise to a high of 9% by the end of 2020.[59]

The government should be developing a long term vision to deal with the potentially high levels of structural unemployment expected as a result of the crisis. This means strategic investments in sectors that support long term employment opportunities, that at a minimum offer the national living wage. The post covid economy will need to focus on building a more resilient economy and just transition to a low carbon economy. This will mean job creation in sectors such as public and community services, and renewable energy sectors.

Policies that ensure a greater voice to workers such as workers on company boards can provide a social model that balances decision making between employers and workers. This would make the workplace more democractic and lead to greater restraint on excessive executive pay, investment in workers' skills and training, and reduce bad employment practices such as zero hour contracts.

Austerity

A decade of austerity measures have had a significant impact on the capacity of the NHS and social care services to respond to the crisis. Since 2009-10, the NHS has endured the longest funding squeeze in its entire history. This is despite being defined as a 'protected' sector under the 2010 Coalition government's austerity programme. Spending grew on average 3.7% per year (in real terms) in the 70 years since the NHS was established, but dropped to just 1.1% between 2009-10 to 2014-15. Increasing slightly to an average of 2.3% since 2014-15. At the same time as austerity, demand and health cost inflation have been rising alongside an ageing population. In 2016, 18% of the population were UK residents aged 65 years and above, by 2041 this is estimated to increase to 24% of the [60] population. Additionally, people are living longer with chronic conditions that require support and treatment such as diabetes and dementia. These present serious challenges

[57] https://www.jrf.org.uk/report/budget-2018-tackling-rising-tide-work-poverty?gclid=EAIaIQobChMIhpDVj4Op6gIV2- vtCh3ikwT8EAAYASAAEgJHzPD_BwE

[58] https://drive.google.com/file/d/1tVABL3YJHE5I9kzAvjdmRfKjVrzy3D0-/view

[59] http://www.oecd.org/economy/united-kingdom-economic-snapshot/

[60] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livi nglongerhowourpopulationischangingandwhyitmatters/2018-08-13

for the NHS and social care services. A corollary of this, is the deterioration of staffing shortages with NHS trust reporting 100,000 unfilled vacancies[61], particularly acute among nurses and general practitioners.

Table 1: Annual average real growth rates in UK healthcare public spending between 1949-50 and 2016-17.

Period	Average annual real growth rate
1949–50 to 2016–17	3.7%

1949–50 to 1978–79 3.5%

1978–79 to 1996–97 3.3%

1996–97 to 2009–10 6.0%

2009–10 to 2014–15 1.1%

2014–15 to 2016–17 2.3%

Source: Institute of Fiscal Studies (2018, "Securing the future: funding health and social care to the 2030s", p. 5, available at: https://www.ifs.org.uk/uploads/R143.pdf#page=22

Social care services have been highlighted during the pandemic as a deeply neglected sector. A total of 14,000 Covid-19 related deaths in care homes have been reported by the Care Quality Commission between April until 17th July 2020[62]. Austerity at local government level has resulted in heavy cuts to frontline services including social care.[63] [64]

Local governments across England have seen spending fall by 27% in real terms between 2010-11 and 2015-16. Those hit hardest live in the most deprived areas and are amongst[65] the most vulnerable including the very elderly, poorest and disabled. Local authority spending cuts to adult social care are estimated at 9.3% in real terms between 2009-10 and 2014-15, increasing to 14% in the most deprived areas.[66]

In order to reverse the damaging impact of austerity on the capacity and resilience of the NHS and social care services, and to respond to current challenges, there is an immediate need for increased funding across the NHS. The UK spends 9.7% of GDP on health care, while high income countries such as Germany, France and Sweden all spend considerably more, at 11% and above of their GDP on health care.[67] Across both the NHS and social care workforce there is an urgent requirement for better working conditions and pay to support key workers in delivering an improved service, job retention and attracting workers.

[61] https://www.health.org.uk/sites/default/files/upload/publications/2019/A%20Critical%20Moment_1.pdf

[62] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/datasets/numberofdeathsincarehomesnotifiedtothecarequalitycommissionengland

[63] https://www.nuffieldfoundation.org/news/social-policy-in-a-cold-climate-selective-austerity-since-the-financial-crisis

[64] https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/Summary-Final.pdf

[65] https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/hitting-poorest-places-hardest_0.pdf

[66] https://www.instituteforgovernment.org.uk/publication/performance-tracker-2019/adult-social-care?gclid=EAIaIQobChMIuJrkoJ_r6gIVF-vtCh222wZSEAAYAiAAEgISavD_BwE

What should be the primary aims of a post-Covid economy, and

how should progress against those aims be measured?

Only 6% of the British public want to return to the pre-Covid economy. The primary aims of a post-Covid economy should be to deal with pre-existing crises of inequality, poverty, homelessness, climate, and ecology. 61% of the British public agree that post-Covid, social and environmental outcomes should be prioritised over economic growth.[68] Measuring progress against those aims will require abandoning the GDP indicator and focusing instead on a dashboard of social and environmental wellbeing indicators.

We recommend the following changes regarding wellbeing indicators and decision-making:[69]

- The UK government should join the 'Wellbeing Economy Governments' alliance.
- The ONS should conduct a review of its 'Measures of National Wellbeing' dashboard.
- The ONS should publish its wellbeing dashboard report on a quarterly basis.
- The Treasury should further incorporate the dashboard into its macroeconomic framework and budgeting process.
- The review of the dashboard should be based on a wellbeing framework developed by the ONS, with the Treasury's support and public consultation, under the 'Measuring National Wellbeing Programme'.
- The Treasury should incorporate post-normal decision-making tools, such as participatory processes, into its decision-making guidance.

Should there be conditions (or exclusions) applied to government support for particular industries, and if so, what should they be?

Conditions and/or exclusions should be a critical aspect of any government backed financial support to companies/industries in responding to the pandemic and to ensure a recovery that aligns with the government's promise to 'build back better'. On balance, existing

67 https://www.kingsfund.org.uk/publications/spending-and-availability-health-care-resources?gclid=EAIaIQobChMI 1afm5a3t6gIV14BQBh1uxwn9EAAYAyAAEgIbuPD_BwE

68 https://positivemoney.org/2020/05/new-polling-only-12-want-uk-to-prioritise-economic-growth-over-wel lbeing/

69 http://positivemoney.org/wp-content/uploads/2020/05/Positive-Money-Tragedy-of-Growth-Digital-Singl e-Pages.pdf

schemes have privileged larger corporations over Small and Medium Enterprises (SMEs).[70][71]

The Covid Corporate Financing Facility (CCFF) stands out for its generous government backed funds to the UK's largest companies across airlines, industrial, and hospitality and retail sectors. The CCFF provides corporations up to £1bn in public money at low interest rates between 0.3- 0.7 % through the Bank of England.

Given the generous terms of the CCFF to investment grade corporations, able to weather the crisis better than SMEs, there is a need to improve the scope of conditionalities and transparency in the design of the scheme. As of 22nd of July 2020, the Bank of England via the CCFF extended financial support to 77 businesses, totalling £18.7bn .[72]

The lack of social and environmental conditions built into the design of the CCFF has resulted in companies receiving large amounts of funds at the same time as paying out dividends to shareholders and announcing widespread job cuts. For example, BASF went through with a €3 billion dividend payout to shareholders after having received £1 billion from the CCFF. Further, 39% of CCFF companies have announced large-scale redundancies, totaling at least 34,000 UK jobs.

The CCFF lacks any suitable environmental conditions, with 56% of funds allocated to high carbon sectors (as of the 25th of June).[73] These sectors include airlines, car manufacturers, and oil and gas companies. Analysis from ESG consultancy AG suggests that around 7 [74] billion trees would need to be planted to sequester all of the carbon emitted by CCFF companies in the 2018/19 reporting year - a feat which would require covering an area three times the size of the UK with trees capable of carbon storage. Further, only 19% of companies using the CCFF have disclosed accurate statistics for carbon emissions, energy, water and waste.

The lack of conditions for CCFF lending appears all the more inexcusable when contrasted with conditions the government has since announced for loans as part of its so-called 'project birch' last-resort bailout scheme. On 2 July the government announced that its £30m emergency loan to Celsa Steel (around a 10th of the size of the average CCFF loan) would come with conditions to "ensure public money is used to aid wider government policies to further benefit the UK. These conditions include commitments to protect jobs, climate change and net zero targets, improved corporate governance, such as restraints on executive pay and bonuses, and tax obligations."[75]

[70] https://positivemoney.org/2020/07/new-report-where-are-the-conditions-for-the-bank-of-englands-broken-bailout scheme/

[71] https://www.bankofengland.co.uk/markets/covid-corporate-financing-facility

[72] https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data

[73] https://positivemoney.org/2020/07/new-report-where-are-the-conditions-for-the-bank-of-englands-broken-bailout scheme/

[74] https://agsvs.uk/covid-corporate-financing-facility-ccff-live-company-list.html [75] https://www.gov.uk/government/news/government-agrees-support-package-to-uk-steel-company

Alongside the July 'mini-Budget' it was announced that all companies receiving government support "need to agree to appropriate conditions, including those relating to tax, supplier [76] payment terms, climate change and corporate governance." However as of yet no such conditions apply to firms which are able to access support from the Bank of England through the CCFF. This is despite the 'investment grade' companies eligible for the CCFF being the country's biggest and seemingly the most able to weather the financial storm. Meanwhile firms like Celsa Steel must accept conditions, despite being less able to withstand them. While these conditions are welcome, it is vital that they also apply to bigger companies using the CCFF, in order to ensure that they are not gaining further competitive advantages which could see power in the economy further centralise around a small number of corporations.

A final concern regards the lack of transparency in the design of the scheme. This limits the vital role of public scrutiny regarding the use of public funds. For example, neither the Bank nor the Treasury have published a comprehensive record of total amounts borrowed by each company since the start of the scheme, nor have they provided the public with information on how loan amounts are being agreed upon. This lack of transparency is deepening issues of democratic accountability and legitimacy at the Bank of England.

Positive Money's report on the CCFF[77] provides a more detailed analysis of the CCFF and recommendations on how to improve the lack of social and environmental conditions and transparency.

Such conditions are not only necessary for a fairer and greener recovery, but would be popular, with polling showing that two-thirds of the UK public believe that large corporations should only be given financial support if they agree to certain environmental and social conditions, such as cutting carbon emissions and protecting workers' jobs.[78]

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[76] https://www.gov.uk/government/publications/a-plan-for-jobs-documents/a-plan-for-jobs-2020
[77] https://positivemoney.org/wp-content/uploads/2020/06/The-Covid-Corporate-Financing-Facility.pdf [78] https://positivemoney.org/2020/07/two-thirds