Winning the Peace

How to safely unfreeze the economy and unleash British enterprise

By Matt Kilcoyne and Matthew Lesh

BRIEFING PAPER

EXECUTIVE SUMMARY

- The protection of public health in response to Covid-19 is raising extraordinary economic challenges.
- The Government has tried to "freeze" the economy using the Job Retention Scheme, generous business loans, and various handouts. But freezing the economy is the easy part. Just like we have not mastered the second phase in cryogenics — unfreezing a human — we do not know how to successfully unfreeze an economy. Both are complex systems that cannot simply be turned "on" and "off".
- The economic scarring has already begun. Thousands of businesses are shutting down, undermining the productive capacity of the economy. There have already been millions of job losses. Many who lose their job during a recession never find one again. Young people who are trying to enter the workforce could experience long-run lost earnings.
- Freezing the economy has also had extraordinary fiscal costs: increasing government debt by hundreds of billions. While this was justified to prevent a total economic collapse, it is simply unaffordable for these sorts of measures or this level of state expenditure to be maintained.
- The Government is now loosening the public health restrictions that have undermined economic activity through a phased plan. The focus must now turn to how to successfully unfreeze the British economy.
- The next stage of the recovery will require a new approach guided by following principles:
    - **Prosperity:** The focus must shift from redistributing a shrinking economic pie to expanding the pie by embracing private sector entrepreneurship and innovation, and earned success to get people back to work.
    - **Temporariness:** Extraordinary emergency measures to "freeze" the economy that undermine long-run prosperity must not be allowed to become permanent.
    - **Flexibility:** Existing ways of thinking will not suffice, it is necessary to be adaptive to circumstance, pursue industry-specific measures and implement radical policies.
    - **Common sense, not micro-management:** The state should not seek to micromanage the reopening of the economy, but rather encourage businesses to adapt to new circumstances.

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  - **Supporting people, not businesses:** Support should be broad-based and focused on helping individuals, not on bailouts to politically favoured companies.
  - **Accepting failure:** The economic structure and businesses must adapt to new circumstances; this will mean accepting some previously viable firms are no longer sustainable.
- This paper outlines a plan to help reboot the economy in the short to medium term, to "unfreeze" the economy in the least possible damaging way.
- In practice, this means taking steps to reduce the footprint of the government in the economy, boost employment, reform insolvency arrangements, support hospitality and retail, reduce the tax burden on enterprises, support housing reform, improve accessibility to child care, champion trade and immigration, and back innovative new transport.

RECOMMENDATIONS

FISCAL AND TEMPORARY MEASURES

- Abstain from increasing taxes that hamper economic activity
- Replace the pension triple lock with a double lock to improve intergenerational fairness and the Government's fiscal position
- Pursue a phased withdrawal of temporary spending and interventions that undermine prosperity

EMPLOYMENT

- Phase the Coronavirus Job Retention Scheme into Universal Credit to ensure continued incentive to work
- Suspend 45 day redundancy consultation notice to discourage businesses from beginning to make staff redundant and encourage hiring
- Exempt microbusinesses from written Covid-19 risk assessments to reduce the red tape burden
- Raise the employer's National Insurance threshold to encourage hiring
- Defer the introduction of the single employment regulatory body to avoid new costs to hire

INSOLVENCY AND LIABILITIES

- Fast-track forthcoming insolvency reforms allowing firms to continue to operate while insolvent for a limited period to allow restructuring
- Introduce a temporary Coronavirus Insolvency Limited Liability Forgiveness Scheme to prevent viable businesses from going bankrupt

HOSPITALITY AND RETAIL

- Allow the world's largest beer gardens in public parks during the summer to save our pubs and breweries
- Fast track approval of drone and robot deliveries for of food, drinks, and shop purchases to support hospitality and retail
- Waive the license fee for a new pub that establishes on a site of a previous establishment that has become insolvent to encourage business turnover
- Scrap Sunday trading laws to enable greater social distancing and economic activity

TAXATION AND INVESTMENT

- Abolish the Factory Tax, by allowing for the immediate full write off on capital investments, to encourage business investment
- Allow companies to bring back revenue from overseas tax-free for 18-24 months to encourage greater investment in the UK
- Combine enterprise investment schemes and refocus on private capital
- Scrap the Key Information Document for Investment Trusts to encourage investment

HOUSING

- Extend Permitted Development Rights to allow for dynamic repurposing of office space to housing, with design codes for amenity and external facade
- Allow councils to continue charging business rates on property converted from commercial to residential to prevent revenue losses
- Provide a temporary suspension of stamp duty to get housing market moving
- Reduce time in homesale conveyancing to encourage activity

CHILD CARE

- Liberalise staff to child ratios to reduce the cost of childcare

TRADE AND IMMIGRATION

- Unilaterally approve Covid-19 treatments, vaccines and other goods such as personal protective equipment and testing processes from comparable countries to speed up medical innovation
- Provide an automatic extension of visas to immigrants to encourage necessary migration and reduce international travel
- Instigate amnesty for illegal migrants to encourage proper public health support
- Unilaterally recognise qualifications and occupational licenses from other developed countries to help fill skills gaps

- End the Transport for London fare freeze and increase ticket prices for public transport to discourage unnecessary use of public transport
- Replace the 'Congestion Charge' with a national dynamic road pricing scheme to better manage the flow of people
- Pursue a liberal approach to e-scooter legislation to encourage social distanced transport

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Covid-19 has radically reshaped our lives. Not only are we undertaking physical distancing and health measures, in an historically unprecedented manner we have been able to prioritise saving lives during a pandemic above immediate economic production. While this has been justified for good public health reasons, it has also been extraordinarily costly to people's lives, livelihoods and liberties.

In order to mitigate the effects of the economic shutdown, the Government has introduced measures to temporarily "freeze" the productive structure in place for the duration of the crisis. This includes the likes of the Coronavirus Job Retention Scheme, generous business loans, deferral of VAT payments, a business rates holiday for certain sectors, cash grants to businesses, and more. This constitutes unprecedented state involvement in the economy.[1]

Despite the Government's best efforts, freezing the economy was never going to be wholly successful. The virus has led millions to become unemployed, increased the indebtedness of the state and businesses, and pushed many companies to the brink. Freezing the economy was the easy part. We are now faced with the immense challenge of unfreezing the economy and returning to economic prosperity.

The Adam Smith Institute has called on the public, as well as business leaders, politicians, policy thinkers and academics to provide ideas for how to recover.[2]

This paper outlines (1) the economic and fiscal challenge, (2) the six key principles to guide the next steps, and (3) specific policy recommendations to help unfreeze the economy.

THE REOPENING CHALLENGE: SAFELY UNFREEZING AN ECONOMY

The economic challenge

It has been claimed that the UK economy has simply been dialled down and switched off in parts for the duration of this crisis, with the corresponding logic being that when lockdown restrictions end that we can simply "switch the economy back on." In other words, the economy will experience a "V-shape" recession.[3]

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1 GOV.UK, "The Chancellor Rishi Sunak provides an updated statement on coronavirus." https://www.gov.uk/government/speeches/the-chancellor-rishi-sunak-provides-an-updated-statement-on-coronavirusl.

2 The 'Post-Lockdown Priorities' questionnaire remains open: https://docs.google.com/forms/d/e/1FAIpQLSeTBeOXdU5eFHg-HJihIpdbhg24kh6GECAKJ5pk-EAwKq8PEQ/viewform

3 Office for Budget Responsibility, "Coronavirus reference scenario" https://obr.uk/coronavirusreference-scenario/.

While this would be ideal, it is by no means guaranteed.[4] The economy is not a machine that can be switched on and off, it is an organic set of complex networks. The economy is made up of "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."[5]

Our current state is one more closely related to the principle of *cryogenics*, with the body of the economy put into a deep freeze.[6] We have yet to determine how to unfreeze a human. We similarly do not know how to freeze and unfreeze an economy without extreme damage to the subject. Many businesses experience reduced revenue for a period of time: bank holidays, Christmas, or even summer periods in the Mediterranean. These are known in advance and are regular. Businesses plan their operations and revenue forecasts with this knowledge. This shutdown, however, was not planned. Businesses could not foresee this "black swan" event.

While the government may be able to keep some parts of an economy frozen for a period of time, the longer it goes on the harder the unfreezing becomes, the more damage the defrost will do.[7] The British public recognise this risk. Over four-in-five (84 percent) of Britons believe that the economy will get "a little or a lot worse" over the next 12 months, while two-in-five (41 percent) expect their own finances to suffer "a little or a lot".[8]

In practical terms, firms are taking on costs while revenue is zero or much lower than usual. This will result in companies running out of cash, ceasing operations and sacking staff. Three-in-five (62 percent) small businesses have warned that they will run out of cash within three months and fall into administration, according to a British Chambers of Commerce survey at the beginning of April.[9] As companies falter, their relationships are strained, and the productive capacity of the economy shrinks. There is strong evidence that the longer a recession lasts the more damage it does to the long-run productive capacity of an economy.[10] The lockdown is likely to have a similar effect.

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4 Eamonn Butler and Matthew Lesh, "REOPENING BRITAIN: The Economic Urgency" (April 2020), https://www.adamsmith.org/research/reopening-britain-the-economic-urgency.

5 Chris Berg, "Cryoeconomics: how to unfreeze the economy" April 2, 2020 http://chrisberg.org/2020/04/cryoeconomics-how-to-unfreeze-the-economy/.

6 Chris Berg, "Cryoeconomics: how to unfreeze the economy" April 2, 2020 http://chrisberg.org/2020/04/cryoeconomics-how-to-unfreeze-the-economy/.

7 Eamonn Butler and Matthew Lesh, "REOPENING BRITAIN: The Economic Urgency" (April 2020), https://www.adamsmith.org/research/reopening-britain-the-economic-urgency.

8 Office for National Statistics, "Coronavirus and the social impacts on Great Britain: 14 May 2020" https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/bulletins/coronavirusandthesocialimpactsongreatbritain/14may2020?hootPostID=baec603d1375dee38861f073b1ef019c.

9 British Chambers of Commerce, "BCC Coronavirus Business Impact Tracker: First results show heavy toll on UK business communities as majority of firms face cash flow crisis" https://www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker.

10 Martin, Robert F., Teyanna Munyan, and Beth Anne Wilson (2014). "Potential Output and Recessions: Are We Fooling Ourselves?" IFDP Notes. Washington: Board of Governors of the Federal Reserve System, November 12, https://www.federalreserve.gov/econresdata/notes/ifdp-notes/2014/potential-output-and-recessions-are-we-fooling-ourselves-20141112.html.

There is also a very real impact on individuals and skills in the economy. People who become jobless during a recession find it difficult to find future employment, as their skills and professional networks weaken.[11] Young people, particularly those with higher skills, who enter the workforce during a recession have been found to have lower long-run lower earnings.[12] This is what causes the "scarring" effect of lockdown.

While Government schemes should help alleviate some of the scarring, they are unlikely to be completely effective. For example, the Chamber's end-of-April business impact tracker found just 13 percent of firms that had applied for finance had been successful, while nearly 20 percent of all firms said that they had no plans to apply for loans as they would not be able to make the repayments.[13] This may be alleviated to some extent by more recent schemes such as Bounce Back Loans.

The UK entered lockdown from a position of partial economic strength. The unemployment rate was 4.0 percent. Nevertheless, growth had remained flat in the final few months of 2019, as political risk from the election and continued uncertainty over the direction of Brexit dragged on the UK's productive sectors.[14] The global pandemic began substantially hurting the economy in the first quarter of 2020, with a 2.0 percent fall in GDP over the three month period according to the Office for National Statistics.[15] In the final month of the quarter, as the pandemic reached Britain, GDP is estimated to have fallen by 5.8 percent with services and construction particularly hard hit. The UK's imports and exports also substantially declined, as part of a global fall in trade.

The Office for Budget Responsibility has projected a Real GDP fall of 12.8 percent across the whole of 2020, with 10 percent unemployment.[16] The Bank of England, in their Monetary Policy Report on May 7, forecast that the UK economy will have shrunk by 3 percent in the first quarter of 2020, followed by an unprecedented 25 percent decline in the three months to June with a GDP decline of 14 percent across the whole of 2020.[17]

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11 Davis, Steven J., and Till von Wachter (2011). "Recessions and the Costs of Job Loss," Brookings Papers on Economic Activity, Fall, pp. 1–72, https://www.brookings.edu/wp-content/uploads/2011/09/2011b_bpea_davis.pdf.

12 David N.F. Bell and David G. Blanchflower, "Young People and the Great Recession" (April 2011), http://ftp.iza.org/dp5674.pdf; Bart Cockx, "Do youths graduating in a recession incur permanent losses?" (August 2016), https://wol.iza.org/uploads/articles/281/pdfs/do-youths-graduating-in-recession-incur-permanent-losses.pdf.

13 British Chambers of Commerce, "BCC Coronavirus Business Impact Tracker: Loan schemes still slow to help many cash-strapped firms – but furlough scheme preventing redundancies" https://www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker-loan-schemes-still-slow-to-help-many-cash-strapped-firms-but-furlough-scheme-preventing-redundancies.

14 Office for National Statistics, "GDP monthly estimate, UK: January 2020" https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/january2020.

15 Office for National Statistics, "GDP first quarterly estimate, UK: January to March 2020" https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2020.

16 Office for Budget Responsibility, "Coronavirus analysis" https://obr.uk/coronavirus-analysis/.

17 Bank of England, "Monetary Policy Report" (May 2020), https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020.pdf?la=en&hash=A1F1423FAF045273CF6A7940130725CAF183AA07.

The Government now faces the twin catastrophic risk of both mass firm failure and another spike in viral cases.[18] Both of these could damage our health and wellbeing. The idea that we are in a simple competition of "lives versus livelihoods" is a false dichotomy — a strong economy is what keeps people fed, housed, and ensures we can afford quality health services.

As the Government begins lifting restrictions on economic activity, ongoing business support, spending and borrowing, it is important to consider:

1. Transactions — the ability of private individuals and firms to buy and sell;
2. Investment — the purchase of goods and services that to enable future growth;
3. Employment — the ability to enter contracts between employers and an employees; and
4. Access to goods and services — the availability and the liberty to consume products.

In recent months each of these have been restricted, with resulting economic costs. These restrictions must now be lifted and steps taken to help grow each of these.

The fiscal challenge

In addition to the broader economic challenge, there are substantial fiscal costs from the decline in economic activity, reducing tax receipts, automatic stabilizers such as Universal Credit during a downturn, and specific measures taken to "freeze" the economy. The "best case scenario" is reportedly now a £337 billion budget deficit this year, a substantial increase from the £55 billion projected in the March budget.[19] The worst case is a £516 billion deficit, with a cumulative total of £1.19 trillion additional debt over five years.

The cost of borrowing is currently extremely low. In April bonds were three times oversubscribed and 5 year bonds were sold with a rate of between 0.63 percent and 0.654 percent, £2 billion of bonds maturing in 2049 had returns of between 1.021 percent and 1.046 percent.[20] There is, nevertheless, a substantial multi-billion pound annual cost to service the interest on the debt.

There is also a possibility of higher borrowing costs in future years if market actors judge there is a risk of nonpayment. This is not unprecedented. The market's unwillingness to lend to the Government necessitated a loan bailout by the IMF in 1976. State spending or tax cuts, if not matched by spending reductions, are inevitably funded with debt. All borrowing is a form of taxation deferred.

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18 Mario Castro, Saúl Ares, José A. Cuesta and Susanna Manrubia, "Predictability: Can the turning point and end of an expanding epidemic be precisely forecast?" (April 2020), https://arxiv.org/abs/2004.08842.

19 Gordon Rayner and Anna Mikhailova, "Exclusive: Treasury blueprint to raise taxes and freeze wages to pay for £300bn coronavirus bill" The Telegraph, May 12, 2020, https://www.telegraph.co.uk/politics/2020/05/12/exclusive-treasury-blueprint-raise-taxes-freeze-wages-pay-300bn/.

20 Tim Wallace, "Boris is worried lockdown has gone too far, but only he can end it" The Telegraph, March 25, 2020, https://www.telegraph.co.uk/business/2020/03/24/government-ramping-coronavirus-spending-does-money-come/.

There are three main ways to deal with this overspend:

1. Austerity: spending cuts and tax rises

This was, to some extent, the approach taken during the 2010s after the financial crisis. This was uneven, and despite popular characterisation, not particularly harsh.[21] Some taxes were increased, but many were reduced. Spending was momentarily reduced in some departments, but overall state spending increased during this period, led by pensions and healthcare spending. By comparison to Greece, where the state was shrunk along with the economy, the UK has not had an extreme period of austerity. While some rationalisation of the size of the state may be necessary, policymakers should be particularly wary about tax increases that undermine economic activity — precisely what we need to recover from this crisis.

2. Inflation: increasing the money supply to reduce the value of the debt

Many countries throughout history have dealt with their debts by simply reducing their value. As the Government controls the supply of money, albeit a power now independently exercised through the Bank of England, it is theoretically possible to 'print' money thereby reducing the real value of the debt. The Bank of England has done this during the crisis by expanding the Ways and Means facility or the Government's overdraft. This is, however, on a "temporary and short-term" and will be "repaid as soon as possible before the end of the year".[22] This is because in the long run this is not a sustainable approach. It would discourage the purchase of government bonds pushing up interest costs, devalue assets in an effective tax, and lead to a decline in the pound (which may be useful for exporters but reduces the purchasing power of British citizens). Furthermore, it risks an extremely dangerous inflationary spiral, as the various crises during the 1970s displayed.

3. Economic growth — real economic growth means an increase of the value of the economy and the purchasing power of its participants

A larger pie can be divided into more pieces. Less activity means fewer firms for the Government to raise revenue from, meaning less tax revenue to service the debt. Economic growth leads to increased tax revenue that can be spent servicing debt and supporting public services. The ideal way to deal with Government debt is to have a bigger economy. This will be the focus of the remainder of this paper.

A pro-growth strategy is essential. Not only will it help address the fiscal issues now faced by the state, but it is necessary to secure lives and livelihoods.

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21 There were just two years when total managed expenditure declined, see https://obr.uk/download/public-finances-databank-april-2020/

22 ibid.

As *Our Plan to Rebuild: the UK's Government's COVID-19 recovery strategy* explains:

> "The world will not return to 'normal' after COVID-19; much of the global economy is likely to change significantly. The UK will need to be agile in adapting to and shaping this new world if the Government is to improve living standards across the nation as it recovers from COVID-19."[23]

SIX PRINCIPLES FOR REOPENING THE ECONOMY

PROSPERITY

The focus must shift from redistributing a shrinking economic pie to expanding the pie by embracing private sector entrepreneurship and innovation, and earned success to get people back to work.

Many British businesses have adapted well to their new circumstances, continuing to pay their employees and taxes as well as safely providing innovative goods and services to their customers. They have kept us fed, our internet flowing and ensured we are entertained and informed. They have adapted their production lines to manufacture personal protective equipment, offered to provide testing to healthcare workers and the public, and are helping develop and potentially manufacture new treatments and vaccines.

This is precisely the sort of innovation that makes us all richer. It will be necessary to maintain a culture of entrepreneurship that encourages creativity in the years ahead. Free innovation is how people come up with ideas to boost our quality of life, adapt to new circumstances, and, right now, develop the medical tools that are necessary to overcome this virus and future pandemic risks. Deirdre McCloskey has written that the discovery and innovations that derive from this market process are the drivers of our growth and prosperity.[24]

About one-third of the UK economy is now shut. This limits innovation and undermines human flourishing. We cannot and should not separate lives and livelihoods. The UK economy is the lifeblood of its citizens and vice versa. Our prosperity defines both our physical and mental health. Deprivation is not only correlated with fatalities from this particular virus, but is also linked to a range of other diseases.[25]

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23 HM Government, "OUR PLAN TO REBUILD: The UK Government's COVID-19 recovery strategy" (May 2020), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/884171/FINAL_6.6637_CO_HMG_C19_Recovery_FINAL_110520_v2_WEB__1_.pdf.

24 Deirdre Nansen McCloskey, "How Growth Happens: Liberalism, Innovism, and the Great Enrichment." (November 2018) , http://www.smf.co.uk/publications/intergenerational-fairness-coronavirus/.

25 Office for National Statistics, "Deaths involving COVID-19 by local area and socioeconomic deprivation: deaths occurring between 1 March and 17 April 2020" https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand17april.

It is necessary to appreciate the social and economic costs of Covid-19 and the associated lockdown.

Measures that restrict transactions, investment, employment, or access to goods and services, should continue for only as long as necessary. Not a moment longer. As Adam Smith wrote in *The Wealth of Nations*:

> "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things."

The inverse is true too: measures that boost prosperity should be maintained, and those that restrict it should be jettisoned at the end of the restrictive period. This includes the various efforts to cut unnecessary red tape during the crisis, ranging from fast-approval of medical goods to food businesses operating as takeaways and incorporating fintech firms into lending schemes.

The loss of employment that millions of Britons are now facing is a traumatic experience. While some jobs are gruelling and not fully rewarding, having no job and no income is worse. Unemployment is closely linked to a loss of life satisfaction, worse mental and physical health, and even undermines decision making.[26] There is even evidence that employed individuals experience lower life satisfaction when they live in a community with higher unemployment.[27] This underscores the need for a prosperity-focused agenda.

Government transfers, such as Universal Credit and the Job Retention Scheme, can alleviate material need. But in the longer run the pursuit of happiness means having access to opportunities to build a better life. Providing something for others, allowing people to earn their own success. Work establishes a "coherent web of expectations" of the rhythm, direction, and definition of our lives.[28] Arthur Brooks, the former President of the American Enterprise Institute, explains that:

> "...the secret to the pursuit of happiness is earning our own success; creating value with our lives and in the lives of others. This earned success is the fruit of hard work and just rewards in a system built on merit. Only in a free enterprise system is effort and innovation rewarded over connections and predation."[29]

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26 Rainer Winkelmann, "Unemployment and happiness" (October 2014), https://wol.iza.org/uploads/articles/94/pdfs/unemployment-and-happiness.pdf.

27 John F. Helliwell and Haifang Huang, "NEW MEASURES OF THE COSTS OF UNEMPLOYMENT: EVIDENCE FROM THE SUBJECTIVE WELL‐BEING OF 3.3 MILLION AMERICANS" (April 2014), https://onlinelibrary.wiley.com/doi/full/10.1111/ecin.12093.

28 Gini, Al. My job, my self: Work and the creation of the modern individual. Psychology Press, 2001.

29 Arthur C. Brooks, "The value of free enterprise has nothing to do with money or wealth" American Enterprise Institute, January 11, 2012, https://www.aei.org/articles/the-value-of-free-enterprise-has-nothing-to-do-with-money-or-wealth/.

Extraordinary emergency measures to "freeze" the economy that undermine long-run prosperity must not be allowed to become permanent.

The use of taxpayer funds to support wages and companies is justified by the economic impact of responding to the virus, the loss of revenue to firms caused by state restrictions on trading, and the short-run nature of the crisis. It is appropriate for the Government to act as an "insurer of last resort" against a threat of this magnitude that businesses could not expect to be insured against. During this unique crisis it is appropriate for the Government to take every reasonable step to prevent companies that are otherwise viable from failing, to prevent the long-run risk of reduced productive capacity.

The cost of inaction, for now at least, would be simply too high. But it is important to acknowledge that the costs of action, hundreds of billions of pounds, are extremely high.[30] New programmes should be temporary in scope, phased out, and have both a reevaluation date and sunset clause attached. This is akin to the public health measures in the *Coronavirus Act 2020*, which is set to be reviewed every six months by Parliament.[31]

This is similar to a flash flood. During the flooding, we prioritise resources to address the initial danger and do not discriminate. As waters recede we means-test support and assess viability of rebuilds. The goal has changed and so must the policy response. This will be the same with temporary economic measures brought in during the Covid-19 crisis.

In the next phase, the blanket support must come to an end. After a while, what was set up to restrain damage will do damage. The reason for current measures — the freezing of productive capacity in place — would severely undermine dynamism and allocative efficiency in the long run. During normal times, large scale state intervention of the sort currently being applied props up unprofitable companies, reduces the incentive to look for alternative employment, damages productivity, crowds out investment, stymies entrepreneurship, and restrains economic growth.

The worst possible outcome for the UK would be a repeat of the controls on prices and consumption, or even of rationing during the war continuing for a decade after its end.[32] Individuals must be able to respond in their own way and use the price mechanism. This is a far better way to address the sheer diversity of circumstances, issues, consequences, requirements and abilities. As Hayek put it, we can thereby

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30 See "The fiscal challenge" section

31 Ashley Cowburn, "Coronavirus: MPs will review new emergency measures every six months after government relents to pressure" The Independent, March 23, 2020, https://www.independent.co.uk/news/uk/politics/coronavirus-emergency-bill-review-boris-johnson-a9418236.html.

32 Gillborn, David, and Deborah Youdell. Rationing education: Policy, practice, reform, and equity. McGraw-Hill Education (UK), 1999.

"extend the span of our utilization of resources beyond the span of the control of any one mind."[33]

FLEXIBILITY

Existing ways of thinking will not suffice, it is necessary to be adaptive to circumstance, pursue industry-specific measures and implement radical policies.

The Government has shown a high degree of flexibility to support businesses and remove red tape where possible to keep key elements of the economy operating throughout this difficult period. This flexibility and responsiveness must be maintained not only during the immediate period, but also to ensure we can boost growth in the months and years to come. Existing ways of thinking will not suffice, it is necessary to be adaptive to circumstance and pursue radical policies where necessary.

This applies to how support is withdrawn. While the shut down of the economy came all at once and was broad, the lifting of restrictions will be phased on a sector-by-sector basis. Garden centres before shops, pubs and hairdressers. Theatres, sporting events and festivals much later. The withdrawal of state support may therefore need to be sectorially based too, in tandem with restrictions being eased. Any ongoing support should be based on a proportional basis only to the restrictions on transactions, investment, employment, and access to goods and services.

Additionally, new expectations during the "covid era" must be flexible. Larger companies with their extensive regulatory compliance, occupational health and safety, and human relations departments will likely find it easier to adapt to new restrictions than smaller companies. More broadly, businesses able to work productively at home will have a different experience than those unable to adapt. The imposition of new regulatory expectations should take into account the different capacity and cost on businesses of varying sizes.

COMMON SENSE, NOT MICROMANAGEMENT

The state should not seek to micromanage the reopening of the economy, but rather encourage businesses to adapt to new circumstances.

The Government must avoid trying to micromanage the economy as it reopens. Rather, like the Football Association, the football league's governing body, they should set the rules and allow each individual to pursue their own goals. That is, to increase their economic activity while ensuring the safety of their workplaces from the virus. We would find it eminently unfair for the rule setting organisation of the

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33 F. A. Hayek, "The Use of Knowledge in Society" (The American Economic Review, 1945), https://www.econlib.org/library/Essays/hykKnw.html.

football leagues to choose a winning side in a football match, and we should have the same distaste for such activity in the real economy.

During the Covid-19 crisis, overly controlling, highly bureaucratic and excessively centralised approaches to testing, personal protective equipment procurement and care homes severely undermined the UK's response.[34] Public Health England's "command and control" approach to testing, which meant rebuffing offers from companies, universities, and charities, has had particularly catastrophic consequences for tackling the outbreak.[35] The UK's governing structures have performed poorly compared to, for example, Germany's highly decentralised länder structure, mixed with public and private provision of healthcare.

The same principle will apply for the reopening: the United Kingdom's overly centralised bureaucracy must not create detailed rules that get in the way of millions of employers and employees, or even thousands of schools, who are muddling through difficult circumstances the best that they can. Intervention should only exist to allow managers to manage, ease the state's burden in cost and regulation, and provide clear guidance on liabilities for actions taken.

A centralised plan to unfreeze the economy will undermine the innovation we need. We must allow creative new ideas to emerge in a dynamic, competitive process. We need our entrepreneurs to be allowed to adapt to their new circumstances. Overly prescriptive rules undermine transactions, investment, employment, and access to goods and services. Each of these, in turn, impacts our ability to allocate our resources, impacts our ability to innovate, and impacts our ability to be productive. All of which, in turn themselves, harm our health and our wealth.

The specific way factories, shops, restaurants, bars, and a myriad of businesses of all shapes and sizes, will operate are dependent on local circumstances. The decisions between employees and those employing them are, on the whole, best decided between the two parties — with recourse if safety is jeopardised.

As per the ASI's paper, *Shifting out of Lockdown*:

> "No single approach can be expected to be successful in all circumstances. What works for a particular industry, or even a specific business, will not necessarily work for others. We should be open to creative, varied, bottom-up solutions to the challenge we now face. Excessive state-direction also risks too much risk-taking, rather than too little, if companies do the minimum necessary in

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34 Matthew Lesh, "The Government's Soviet-style 'command and control' methods are driving our PPE woes" The Telegraph, April 22, 2020, https://www.telegraph.co.uk/news/2020/04/22/nhss-soviet-style-command-control-system-driving-ppe-woes/; Matthew Lesh, "It's no good protecting the NHS by leaving people to die elsewhere" The Telegraph, April 28, 2020, https://www.telegraph.co.uk/politics/2020/04/28/no-good-protecting-nhs-leaving-people-die-elsewhere/.

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

guidelines rather than considering the maximal steps they can take."[36]

Goals and rules developed by companies will need to inspire confidence in their workers and their customers to win back custom — something for which the onus should be on the company, it is their reputation on the line and they should not be outsourcing that decision making or risk to the Government.

Our Plan to Rebuild: the UK Government's COVID-19 Recovery Strategy explains that "Many businesses across the UK have already been highly innovative in developing new, durable ways of doing business, such as moving online or adapting to a delivery model."[37] It is welcome that the Government has sought to embrace the innovative capacity of British businesses and not be overly prescriptive about reopening rules. We can and should depend on common sense. There is strong evidence that Britons began socially distancing before the beginning of mandated lockdown on March 24.[38] This is much better than the likes of bureaucrats in one German region restricting the amount of licks of ice cream may be taken before the customer must leave the shop.[39]

Knowledge is, as Hayek pointed out, highly disperse. A central authority simply does not know the best course of action for millions of people. While the goals might be similar, namely avoiding reinfection with Covid-19, the specific paths taken can and should vary.

SUPPORTING PEOPLE, NOT BUSINESSES

Support should be broad-based and focused on helping individuals, not on bailouts to politically favoured companies.

The UK Government has broadly avoided the trap of handouts to specific industries or businesses in response to Covid-19. The largest support measures, including the Job Retention Scheme and low-interest business loans, have been broad based. This is appropriate. The alternative would mean the highly politicised process of "picking winners". The businesses with the most effective lobbyists would get the most support, rather than those who really need it. In future, measures should be even more people-focused but take a different form: wage subsidies and

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36 Professor Keith Willison and Matthew Lesh, "Shifting out of Lockdown: The Four Days On, Ten Days Off Model" (May 2020), https://www.adamsmith.org/research/shifting-out-of-lockdown-the-four-days-on-ten-days-off-model.

37 HM Government, "OUR PLAN TO REBUILD: The UK Government's COVID-19 recovery strategy" (May 2020), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/884171/FINAL_6.6637_CO_HMG_C19_Recovery_FINAL_110520_v2_WEB__1_.pdf.

38 Professor Keith Willison and Matthew Lesh, "Shifting out of Lockdown The Four Days On, Ten Days Off Model" (May 2020), https://www.adamsmith.org/research/shifting-out-of-lockdown-the-four-days-on-ten-days-off-model.

39 Justin Huggler, "Quick before it melts: Germany issues lockdown rules for eating ice cream" The Telegraph, April 20, 2020, https://www.telegraph.co.uk/news/2020/04/20/quick-melts-germany-issues-lockdown-rules-eating-ice-cream/.

cash handouts to those who lose their job, job retraining schemes, and unemployment assistance.

Employment-based support, in the form of the Coronavirus Job Retention Scheme, has been largely a success. It has kept individuals employed with companies that they can immediately work with again without costly human resources or retraining procedures, and linking corporate welfare in large part to the ongoing goal of high employment. It is precisely the model of state support that focuses on people not businesses.

Nevertheless, there will be difficult times ahead. A rise in unemployment has already begun.[40] It is highly likely that the scheme has at least in part masked inevitable unemployment. As the economy recovers, the goal of the Government will change. It will no longer be to "freeze" people in their existing employment but rather to ensure people are where they are most wanted.

Retaining a worker that is not adding value to a company on a company's books is financially unsustainable for a firm, economically inefficient if multiple firms act in the same way, and actively reduces the ability of the worker in question to progress or have an impression of earned worth in a job. Japan's strict labour laws result in firms instituting "chasing-out" rooms for employees that didn't take early retirement options — places where individuals would be sent with no responsibilities but also no corresponding possibility of recognition of work. In the United States public school system, a similar fate befell teachers that were falling well below expectations, as they were sent to "rubber rooms" until they chose to leave the profession.[41] Workers stuck in these purgatories feel that they are failed by their companies but more often than not they are failed by the law.

At a broader level, it is unethical and inefficient to maintain businesses that are not providing value with subsidies. It is more sensible to support people. In order for the economy to adapt to its new circumstance and support those who need it the most, the current politicised system of patronage must come to an end. In the past we have seen subsidies and preferential agreements at a local and national level for the likes of British Steel, Flybe, Virgin Atlantic, Rolls Royce, GE, Nissan, Merseyrail, Royal Mail, and many thousands more companies. It is imperative that the Government looks to end their attempts to pick winners and losers through bailouts, grants, and preferential loan systems.[42]

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40 "Coronavirus: Nearly two million claim universal credit" BBC News, May 4, 2020, https://www.bbc.co.uk/news/uk-politics-52536210.

41 Hiroko Tabuchi, "Layoffs Taboo, Japan Workers Are Sent to the Boredom Room" The New York Times, August 16, 2013, https://www.nytimes.com/2013/08/17/business/global/layoffs-illegal-japan-workers-are-sent-to-the-boredom-room.html.

42 Chris Edwards, "Ten Harmful Consequences of Handouts for Amazon," Cato Institute, November 15, 2018, https://www.cato.org/publications/commentary/10-harmful-consequences-handouts-amazon.

It is essential to remember that the goods people demand and the modes of work change over time. This is a necessary part of a functioning economy, as the next section will discuss. When governments subsidise businesses that are failing they are supporting enterprises providing products that consumers simply do not want. This is a recipe for economic inefficiency. It means in both the short and the long-run a poorer society. The Government has an economic imperative to resist creating deadweight economic activity and a constant transfer of funds to firms that have a reason to make workers redundant.

ACCEPTING FAILURE

The economic structure and businesses must adapt to new circumstances; this will mean accepting some previously viable firms are no longer sustainable.

The productive structure of the economy that existed on March 1, 2020 will not return when this crisis economy is over. But nor should we ever expect the economy to ever be the same. Our economy is in a constant state of flux. We cannot ignore or abey the passage and impact of time — it is like the Heraclitus' river continuing on its never-ending ever-changing journey.[43]

Evidence is emerging that British consumer habits could be fundamentally altered.[44] A recent poll found that even after a vaccine is found, fewer people intend to travel by plane, dine out, attend large public events, use public transport or go to the cinema.[45] In some facets, we could see an acceleration of existing trends. New online shopping habits, for both retail and food, could limit the need for high street shopping and restaurants. The experience of working from home could lead to permanent behaviour changes that mean businesses have less need for commercial real estate. Some companies, such as Twitter, have announced that employees can opt to work from home "forever".[46]

The simple but harsh truth could be that in the coming years we may need fewer restaurants, less commercial real estate and fewer airlines. Taxpayers should not subsidise industries or individual businesses that produce a product the public no longer want. It will be essential that workers and resources are put to other uses, supporting things that people do want.

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43 Plato, Cratylus, section 402a

44 Internet Retailing, "How UK consumer shopping habits are set to be permanently altered by lockdown" https://internetretailing.net/covid-19/covid-19/-how-uk-consumer-shopping-habits-are-set-to-be-permanently-altered-by-lockdown--21245.

45 Dave Lawler, "Many plan to avoid planes and restaurants even after vaccine: poll" AXIOS, May 11, 2020, https://www.axios.com/many-plan-to-avoid-planes-and-restaurants-even-after-vaccine-poll-5c0738c0-e597-4bfe-9c4b-a8eddfe54ca9.html.

46 "Coronavirus: Twitter allows staff to work from home 'forever'" BBC News, May 13, 2020, https://www.bbc.co.uk/news/technology-52628119.

The Government will have to decide, and should admit that the decision will be arbitrary to some degree, a date or ideally a condition that establishes the new normal. At this point the Government must withdraw their emergency support for companies. There will be winners and losers, and businesses that fall through either side of any cut off. It will seem harsh and unreasonable.

To survive, businesses always need to adapt to their circumstances. Entrepreneurs must seek new opportunities, provide products that people want while operating efficiently. Old patterns of behaviour must be replaced by new ones. Economist Joseph Schumpeter called this evolutionary process "creative destruction":

> "[the] process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."

Creative destruction is constantly happening, with millions of people moving between jobs and thousands of businesses starting up and failing every single year. This is a natural process as many firms die out to be replaced by new ventures. This is a chaotic and organic process. It requires that people are able to undertake activity in a free, spontaneous and innovative manner.

In the market, it is possible to both succeed and to fail. We do not know in advance which way ventures will go, this can only be ultimately determined by the wants and needs of consumers. It should not be decided by the special pleading of trade associations and lobby groups, sophisticated PR campaigns of prominent companies, and the politicking of campaign groups seeking investment of taxpayer cash in their particular hobby horse.

It will take courage for policymakers to face down special pleading. Every business that fails is a tragedy. They will claim their failure is special, that they are essential, that they would have survived if it weren't for Covid-19. But if we are to be prosperous in the future and economic dynamism to be restored, many firms must be allowed to fail.

In order for the UK economy to succeed, policymakers must take steps to withdraw their current interventions that hamper long-run prosperity. They must then seek to create an institutional environment in which businesses are able to adapt to their new circumstances.

The existing burdensome structures will struggle to achieve these goals. Success will necessitate creative thinking and changes — while accepting our substantial uncertainty and avoiding the trap of trying to "centrally plan" the economy.[47]

In the future, businesses must be as free as possible to innovate in line with the principles of "permissionless innovation".[48] The oppressive taxes and red tape that prevent businesses from operating to their fullest and innovating must be withdrawn if the economy is to prosper.

Fiscal and temporary measures

- **Abstain from increasing taxes that hamper economic activity**

It is essential that the Government does not mistake the short term health of its own accounts for the nation's economic position. It is absolutely necessary that, particularly in the short to medium term, that the Government does not pursue tax increases that hamper economic recovery. Any tax increase that actively undermines business and employment will send a message to investors that Britain is "closed for business". The Government should distinguish between an increase in the stock of debt, to pay for measures during this crisis, and a structural deficit, like the permanent unsustainable spending that needed to be tackled after 2010. Avoiding tax increases and allowing for economic growth will "pay" off for the state coffers in the long run: a bigger economy generates more tax revenue.

- **Replace the pension triple lock with a double lock to improve intergenerational fairness and the Government's fiscal position**

The state pension triple lock — the commitment for pensions to rise by the highest of wages growth, price inflation, or 2.5 percent — is not sensible in the context of a broader fall in earnings. It is unfair to ask younger taxpayers, who are experiencing a decline in their earnings in order to save the lives of older citizens, to continue paying for this extravagance. The 2.5 percent is an arbitrary figure, it allows for a huge real term increase in pensions while wages and the cost of living is flat, providing pensioners with a rise in wages while workers' wages are stagnant. The triple lock should be replaced with a double lock, so pensions continue to rise

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47 F. A. Hayek, "The Use of Knowledge in Society" (The American Economic Review, 1945), https://www.econlib.org/library/Essays/hykKnw.html.

48 Adam Thierer, Permissionless Innovation: The Continuing Case for Comprehensive Technological Freedom (Mercatus Center, 2014), https://www.mercatus.org/publications/technology-and-innovation/permissionless-innovation-continuing-case-comprehensive.

with wages or price inflation, whichever is higher, so that the value of the pension is maintained over time. This change has been estimated to save £20 billion over five years.[49]

- **Pursue a phased withdrawal of temporary spending and interventions that undermine prosperity**

The Government has introduced dozens of measures to tackle Covid-19, at a rate of at least a few announcements a day. Many of these measures, such as the Job Retention Scheme and Coronavirus Business Interruption Loan schemes, explicitly exist to maintain productive relationships in the economy and help recovery. They would in normal times, however, be completely inappropriate. It does not, for example, make sense to pay people *not* to work outside of a pandemic. These should be phased out in step with the withdrawal of lockdown. There are other measures — particularly in the regulatory space, such as the rapid approval of hand sanitiser and personal protective equipment, as well as abolition of tariffs on medical equipment — that provide a model for future behaviour and should be kept. A forthcoming paper will analyse the hundreds of policies announced during the crisis in depth.

Employment

In recent months millions of people have lost their jobs, with the risk of many more following the end of the Coronavirus Job Retention Scheme. It is essential that the Government takes steps to enable businesses to hire.

- **Phase the Coronavirus Job Retention Scheme into Universal Credit to ensure continued incentive to work**

The Coronavirus Job Retention Scheme serves a specific purpose: freeze employer-employee relations to maintain the productive capacity in the economy. It is, in practice, however, hiding substantial unemployment that could be unleashed if the scheme is suddenly withdrawn. Nevertheless, at some point the economy must be defrosted and people encouraged to get back to work. It would make sense for the scheme to be transitioned from one in which employees are not allowed to work, to a system more akin to Australia's 'JobKeeper' allowance that pays a set amount for all employees who work for businesses that have had a substantial reduction in revenue. The Government has flagged the possibility of such a transition. In the longer run, such a system that provides additional top-up salary to those who only work a limited amount of time already exists: Universal Credit. This system ensures that people continue to have access to a high standard of living, can seek gainful employment while also ensuring that work always pays.

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49 Scott Corfe, "Intergenerational fairness in the coronavirus economy" (Social Market Foundation, April 2020), http://www.smf.co.uk/publications/intergenerational-fairness-coronaviru

- **Suspend 45 day redundancy consultation notice to discourage businesses from beginning to make staff redundant and encourage hiring**

Businesses are in the process of making tricky decisions about their future viability in a fog of uncertainty about future trading conditions. There is a risk that, in order to limit future expenses in a time of uncertain revenues, companies will begin to consult on laying off staff. Under the existing law this requires a 45 day process. This could mean beginning consultations on sacking staff very soon, particularly considering the planned withdrawal of the Job Retention Scheme. In order to maintain the productive capacity of the economy, this strong incentive to pursue redundancies should be withdrawn for the coming months. This flexibility will encourage employers to hold onto their staff for longer, rather than starting to lay them off now, as well as reduce the risk of hiring new staff.

- **Exempt microbusinesses from written Covid-19 risk assessments to reduce the red tape burden**

The Government is requiring all businesses with 5 or more staff to undertake a written Covid-19 risk assessment, and publish it online if the organisation has more than 50 staff.[50] This regulatory burden is inconsistent with the Government's definition of a microbusiness. To bring these in line, and reduce the red tape burden on the smallest businesses at this difficult time, the Government should update their Covid-19 risk assessment guidelines to state that businesses with 9 or fewer employees are exempt. The Government should, in the longer term, commit to a review of all health and safety, employment, and pensions legislation for firms that have five or more employees but fewer than nine, in line with the formal definition of a microbusiness.

- **Raise the employer's National Insurance threshold to encourage hiring**

Employers' National Insurance is an unnecessary drag and cost to employment. Employees currently pay National Insurance at the following rates on their earnings. For the first £7,605 they pay 0 percent, for the next £34,870 a rate of 12 percent is levied, and a further 2 percent is levied for amounts over £42,475. Employers pay 13.8 percent on every pound the employee earns over £7,488 with no cap. If the government wants to encourage firms to hire they should immediately fast track raising the bottom threshold for employer's National Insurance to £12,500.

- **Defer the introduction of the single employment regulatory body to avoid new costs to hire**

The Government has expressed an interest in introducing a single enforcement body for employment rights.[51] While there may be some longer term justifications

50 Health and Safety Executive, "Managing risks and risk assessment at work" https://www.hse.gov.uk/simple-health-safety/risk/index.htm.

51 Department for Business, Energy & Industrial Strategy, "Good work plan: establishing a new single enforcement body for employment rights", UK Government, 16 July 2019, https://www.gov.

for simplifying employment law regulation in the UK, which is currently undertaken by various departments and bodies, a time of wide scale unemployment is not it. Such a body would have a strong bureaucratic impetus to "crack down" on businesses to show its weight and importance. This would discourage businesses from hiring, including those acting completely legally, because of heightened regulatory enforcement costs. While this may have little impact on employment during an economic boom, it could have a large impact when unemployment is high. Now is not the time for new regulatory arrangements.

Insolvency and liabilities

Debt is not evil. It is often necessary for businesses to borrow to fund investment, creating jobs and opportunities. For individuals, debt allows them to purchase assets such as houses or consume goods like cars and holidays while spreading repayment over time. The Government's various loan schemes have meant an accumulation of billions of pounds of debt, while revenues in many sectors have been curtailed totally.[52] These new debts, combined with existing liabilities, could cause mass firm failure. Many businesses are either technically trading while insolvent, under suspension of usual trading laws, or on the verge of bankruptcy.[53]

Investors and creditors, including major banks and the Government in the case of 80 percent secured loans, face the risk of substantial losses. A mass defaulting on loans could create a credit crunch. The collapse of thousands of companies would lead to a loss of productive capacity on a catastrophic scale, substantial decline in employment and incomes. This would prolong the Covid-19 induced recession and risk a depression.

- **Fast-track forthcoming insolvency reforms allowing firms to continue to operate while insolvent for a limited period to allow restructuring**

The Government has committed to reforming insolvency laws.[54] This includes creating a 28-day breathing space to give companies experiencing difficulty time to explore options for rescue, without a director becoming liable for continuing activity. This would provide a temporary ability for firms to restructure or find a new buyer while continuing purchases of essential materials for trading such as energy, raw materials or broadband. There are also options to bind dissenting minority shareholders on restructure plans.

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uk/government/consultations/good-work-plan-establishing-a-new-single-enforcement-body-for-employment-rights

52 UK Government, "Financial support for businesses during coronavirus (COVID-19)" https://www.gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19.

53 The CEBR and Opinium Research on May 10 suggests that more than 250,000 businesses will not be able to survive if trading conditions remain as they are for another month, with a further 1.1m likely to fall if trading restrictions are carried on a further three months, given the current lending arrangements. Opinium, "Coronavirus emergency pushes more than half a million UK businesses to the brink of insolvency" https://www.opinium.co.uk/coronavirus-emergency-pushes-more-than-half-a-million-uk-businesses-to-the-brink-of-insolvency/.

54 GOV.UK, "Insolvency and corporate governance" https://www.gov.uk/government/consultations/insolvency-and-corporate-governance.

- **Introduce a temporary Coronavirus Insolvency Limited Liability Forgiveness Scheme to prevent viable businesses from going bankrupt**

If large numbers of businesses cease trading who have taken out loans creditors stand to lose one way or another, with taxpayers being asked to foot a considerable portion of the bill. It would also come with a catastrophic loss of productive capacity. It may be necessary to introduce a scheme that allows firms that have borrowed unsustainable amounts to keep their operations alive by forgiving some debt. This must be extremely limited, only be available for companies that (1) are effectively bankrupt; (2) can show a substantial fall (50-75 percent) in revenue due to coronavirus; and (3) display long-term viability through cash and cash equivalents ratio to short-term liabilities (above a certain level). This would by no means be ideal but it would allow these firms to keep operating, therefore maintaining the productive capacity of the economy. It would recognise the restrictions on trading still in place or in proportion to the lost revenue during the period of the debt being accumulated.

Hospitality and retail

Britain's pubs face an uncertain future, with 15,000 saying they will not survive until the autumn even with bounceback loans, small business grants, rate relief, and the furlough scheme in place. Retailers are facing a similar fate. Revenue is likely to be severely impacted for the entire period restrictions are in place with even partial reopening postponed until near or total eradication of the disease. It is necessary to allow these struggling businesses to find new revenue sources and support them during this period.

- **Allow the world's largest beer gardens in public parks during the summer to save our pubs and breweries**

Many of Britain's pubs and cafés have nearby parks and gardens. Off license sales from pubs have already begun. These licenced venues should be able to also set up stalls to sell directly to people in parks. Many such businesses in large parks would help alleviate bottlenecks and the risk of infections. This could be coupled with a removal of bans and by-laws on drinking and eating in parks. This would allow Britain's parks to effectively become socially distanced, responsible beer gardens. The UK Government could also build on the suggestion by Nicholas Boys Smith to give blanket permission under Section 115E of the 1980 Highways Act for shops, restaurants, and cafés, to trade on the pavements outside their premises.[55] This would follow the model pioneered by Lithuania, who are now allowing a temporary transformation of public shared space to private use. Cafés and bars in the capital city Vilnius are entitled to use public spaces throughout the summer for socially distanced serving.[56]

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55 Nicholas Boys Smith, "Let's allow eating out to mean eating out" Conservative Home, May 5, 2020, https://www.conservativehome.com/platform/2020/05/nicholas-boys-smith-lets-allow-eating-out-to-mean-eating-out.html.

56 Jon Henley, "Lithuanian capital to be turned into vast open-air cafe" The Guardian, April 28, 2020, https://www.theguardian.com/world/2020/apr/28/lithuanian-capital-to-be-turned-into-vast-open-air-cafe-vilnius.

- **Fast track approval of drone and robot deliveries for of food, drinks, and shop purchases to support hospitality and retail**

We are on the technological cusp of widespread robot and drone technology for delivery of food, drinks and shop purchases to customers.[57] While the technology is close, there are consistent regulatory barriers. In order to help the food, drink and retail sector, the local authorities and Civil Aviation Authority (CAA) should fast-track the approval of new delivery methods by drone and robot. This could be done safely, with speed and help limit human contact. The CAA could also look to "air auctions" to allocate key tracts of airspace for drone usage, and forthcoming air taxi usage.[58]

- **Waive the license fee for a new pub that establishes on a site of a previous establishment that has become insolvent to encourage business turnover**

Many pubs, restaurants, and cafés will struggle to maintain operation during lockdown and many may close. In order to avoid public spaces becoming derelict and crime ridden, and to bring in new enterprises, councils should forgo the fee for an incoming company to apply for a replacement Premises License under the Licensing Act 2003 to sell alcohol on premises. Those people who have previously held a Personal License to sell alcohol in a business that has gone insolvent in the last twelve months should be able to renew their license without incurring a charge. Any one who has been a designated premises supervisor at a pub that has gone into administration or insolvency and has taken up new employment at an alternative premises should have their Personal License auto-renewed with no fee.

- **Scrap Sunday trading laws to enable greater social distancing and economic activity**

The inability for larger shops to trade for more than six hours between 10.00am and 6.00pm on Sundays has always appeared highly arbitrary. Recent innovations, in particular online deliveries and the expansion of smaller supermarkets, combined with the need to maintain social distance, makes these laws increasingly antiquated. Sunday trading laws reduce transactions and make people's lives more difficult, in particular for those with set working schedules. In the next phase, it would be a sensible issue to reform.

Taxation and investment

- **Abolish the Factory Tax, by allowing for the immediate full write off on capital investments, to encourage business investment**

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57 Alex Hern, "Robots deliver food in Milton Keynes under coronavirus lockdown" The Guardian, April 12, 2020, https://www.theguardian.com/uk-news/2020/apr/12/robots-deliver-food-milton-keynes-coronavirus-lockdown-starship-technologies; Dave Lee, "Amazon to deliver by drone 'within months'" BBC News, June 12, 2019, https://www.bbc.co.uk/news/technology-48536319.

58 Matthew Lesh, "READY FOR TAKEOFF: BUILDING COMPETITION IN THE AVIATION INDUSTRY" (June 2019), https://www.adamsmith.org/research/ready-for-takeoff.

The Factory Tax is the inability to fully expense investments in machinery and buildings. Unlike expenditure on running costs (e.g. salaries, stationary), expenditure on fixed investment can only be written off over time, which fails to account for inflation and a real return on capital. This means, in real terms, firms pay a tax — a Factory Tax — on investment in buildings and machinery. This hurts our productivity and investment. It encourages low-capital intensive knowledge economy businesses in the South East and London over high-capital intensive businesses in the Midlands and North. ASI Fellow Sam Dumitriu and academic economist Dr Pedro Serodio estimate that eliminating the Factory Tax, by allowing businesses to immediately write-off capital expenditures, would boost investment by 8.1 percent and labour productivity by 3.54 percent (£2,214 per worker) in the long-run while increasing the UK's broader tax competitiveness to the 6th best in the Tax Foundation's International Tax Competitiveness Index from our current place of 15th.[59]

- **Allow companies to bring back revenue from overseas tax-free for 18-24 months to encourage greater investment in the UK**

The UK is a rich country but there is no reason it could not be richer. Hundreds of billions of pounds of money in the name of British businesses sits in other countries. This cannot currently be invested in the UK. Capital flows from overseas should be encouraged for economic recovery. Part 7A charges under the ITEPA 2003 should be suspended for a period of twelve months to allow offshore wealth to be brought back into the UK without tax liabilities. These funds could then be directly invested in the UK economy, boosting economic growth. This would echo a key element of President Donald Trump's 2017 tax plan that allowed companies to bring offshore cash to the country, and resulted in hundreds of billions of transfers.

In the short-run, keeping any barriers to accessing cash from abroad is unnecessary. Both the self-assessments on an Arising Basis and Remittance Basis Charge from remittance cases incur large costs on the free flow of capital and unfairly penalises small earners — loss of personal allowances, the remittance charge itself, capital gains tax relief all lead to complex charges and foregone income. A holiday on all income (remembering that large amounts earned criminally abroad can still be investigated under existing legislation) could be included for this tax year and for companies using offshore schemes to bring money onshore for a period of 18 to 24 months.

- **Combine enterprise investment schemes and refocus on private capital**

The UK currently has four venture capital support schemes: the Enterprise Investment Scheme (EIS; max investment of £12m), the Seed Enterprise Investment Scheme (SEIS; max investment of £150k), the Social Investment Tax Relief (SITR; max investment of £1.5m), and Venture Capital Trust (VCT; max invest-

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59 Sam Dumitriu and Pedro Serodio, "Abolishing The Factory Tax How to Boost Investment and Level Up Britain " (February 2020), https://www.adamsmith.org/news/abolish-the-factory-tax-to-level-up-britain

ment of £12m). These were established in 1994, while SEIS was added in 2012 by the then-Chancellor George Osborne.[60]

All four schemes offer financial support to small and medium sized companies and social enterprises significant tax advantages to the investor, including income tax relief of up to 30 percent of investment, no capital gains tax on profits if held over a defined period, investment losses that can be offset against income taxes, and no inheritance tax on shares.

The seven year restriction on EIS should be removed. Knowledge Intensive Companies' ten year restriction should also be removed. The seven year restriction is already not hard and fast with multiple exceptions for new geographic markets or new products. Simplification where possible is positive. The preference should be for private capital and not creating incentives to seek out taxpayer reliance.

In addition, the Government should commit to a target of all advanced assurance applications under the schemes to be complete within two weeks.

- **Scrap the Key Information Document for Investment Trusts**

A Key Information Document provides theoretical information about the potential scenarios facing an investment product. These are required by law so, in theory, investors have greater knowledge of the potential risks. In practice, however, they have become a box ticking exercise, that provide an extra cost to funds with little benefit for the investors. The current position is therefore a poor half-way house. Either the information should be much more detailed to open up funds to ordinary investors more broadly, or it should be scrapped entirely.[61] In the case of investment trusts, they provide particularly low levels of benefit and discourage investment, and accordingly should be scrapped.

Housing

The Government needs to get the housing market moving to enable the capital locked up in assets to be used in the wider economy — a large number of impacted businesses during this crisis taking up-front costs, from care homes to funeral directors and banks taking on extra debts to distressed companies, are funded in normal times in large part by forms of equity from house sales. With the market frozen a credit crisis risks building up.

- **Extend Permitted Development Rights to allow for dynamic repurposing of office space to housing, with design codes for amenity and external facade**

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60 GOV.UK, "Use a venture capital scheme to raise money for your company" https://www.gov.uk/guidance/venture-capital-schemes-raise-money-by-offering-tax-reliefs-to-investors.

61 IT Investor, "Key Information I'd Like To See" https://www.gov.uk/guidance/venture-capital-schemes-raise-money-by-offering-tax-reliefs-to-investorshttps://www.itinvestor.co.uk/2019/04/key-information-id-like-to-see/.

Covid-19 is substantially reducing the need for commercial real estate. This could prove a permanent change. In order to allow space to be put to its best use, the successful Permitted Development Rights for conversion could be extended immediately. In practice, this would mean the removal of Article 4 Directions, which have been used by inner London boroughs to block developments.[62] This could be replaced with broad minimal requirements for environmental health and amenity, such as hours of operation, air quality, noise and parking, as well as requirements for the external facade. In addition, urban space classification could be melded together (merging classes A1, A2, A3, D1, D2, B1) following Urben Studio's recommendation to allow flexible use on commercial properties too.[63] These changes would not only boost housing supply, allowing people to live near where they are most productive, but would also provide direct business for refurbishers and refitters, builders, painters, joiners, plumbers and all manner of tradesmen.

- **Allow councils to continue charging business rates on property converted from commercial to residential to prevent revenue losses**

Additionally, in order to ensure no council is financially worse off as a result of these conversions, councils could be allowed to continue charging the same business rates as were previously applied to the property. This tax should be levied on landlords rather than tenants for a set period of time.

- **Provide a temporary suspension of stamp duty to get housing market moving**

Stamp duty is widely acknowledged as one of the most problematic taxes.[64] It is a tax on transactions and does precisely what it says on the tin: limits the number of transactions. This discourages people from moving to the most appropriate accommodation. The Government could look at a temporary suspension of all stamp duty. Britain's transaction tax on property is four times more harmful to economic efficiency than income tax, eight times more harmful than VAT.

- **Reduce time in homesale conveyancing to encourage activity**

- The average length of time to purchase a residential property in the UK is around 4 months. In England, Wales and Northern Ireland current legislation means a conveyancing process period of between eight and twelve weeks.65 In Scotland, a streamlined pre-approval process means that period is between just four and six weeks.66 Reforms to the conveyancing system being trialled, with a two page

62 Mark Wilding, "Westminster direction blocking office-to-resi PD conversions comes into effect" Planning Resource, https://www.planningresource.co.uk/article/1583456/westminster-direction-blocking-office-to-resi-pd-conversions-comes-effect.

63 Urban Studio, "Use Class F(lexible)?" https://www.urbenstudio.com/journal/use-class-f.

64 Ben Southwood, "BEYOND THE CALL OF DUTY: Why we should abolish Stamp Duty Land Tax" (October 2017), https://www.adamsmith.org/s/Beyond-the-Call-of-Duty.pdf.

65 Lesley Tallis, "Buying a home – the timeline" Money Saving Expert, January 1, 2020, https://www.moneysavingexpert.com/mortgages/buying-a-home-timeline/.

66 Lesley Tallis, "Buying a home in Scotland: the timeline" Money Saving Expert, April 3, 2019, https://www.moneysavingexpert.com/mortgages/buying-a-home-timeline-scotland/.

reservation agreement to bring house sale time in England and Wales down and in line with the four week quicker system in Scotland, should be sped up with an immediate nationwide roll-out.67

Child care

- **Liberalise staff to child ratios to reduce the cost of childcare**

Childcare will be essential to get people back to work. Child ratios are a huge drag on young people's incomes with no benefit in quality or quantity of provision of childcare. A two-earner family will spend over a third of their after-tax income on nurseries and childminders, three times that of a similar family in Germany. This is the time to revisit this issue by relaxing staff to child ratios in crèches for children. This would cut the cost of living for some of Britain's poorest families while allowing women to get ahead in the workplace.[68] [69]

Trade and immigration

- **Unilaterally approve Covid-19 treatments, vaccines and other goods such as personal protective equipment and testing processes from comparable countries to speed up medical innovation**

There has been substantial medical innovation in recent months. Nevertheless, there remains many barriers to entry. Many of these come from the European Union-level, but soon too at the UK level, because of the lack of acceptance of medical products from other jurisdictions. This means a lower quality and higher cost of healthcare. We should unilaterally recognise goods and processes deemed safe by medical regulators in comparable countries and trading blocs such as Japan, Australia, the United States, Canada, South Korea and the EU.[70]

- **Provide an automatic extension of visas to immigrants to encourage necessary migration and reduce international travel**

The UK's response to Covid-19 has depended in no small part to the tireless work of immigrants from across the world, from the NHS doctors and nurses to shop workers. Many of these immigrants now face the increasingly expensive and difficult task of renewing or changing to new visas, which can include requirements to return to their country of origin. This now comes with the heightened risk of spreading Covid-19 across borders. This discourages foreign entrepreneurs who want to start up businesses in the UK, as well as UK companies that require specific skills from immigrants. The UK should expand the visa extension programme

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67 Gnomen, "Reservation agreements – what could they mean for agents?" https://www.gnomen.co.uk/news/reservation-agreements-what-could-they-mean-for-agents.

68 Full Fact, "Childcare in the UK: the tightest and most expensive?" https://fullfact.org/education/childcare-uk-tightest-and-most-expensive/.

69 Sam Dumitriu, "DEREGULATE CHILDCARE TO MAKE IT AFFORDABLE" Adam Smith Institute, April 12, 2017, https://www.adamsmith.org/blog/deregulate-childcare-to-make-it-affordable.

70 Mark Lutter, "INSTRUMENTAL VARIABLES How the UK can become a world leader in medical innovation" (June 2017), hhttps://www.adamsmith.org/research/instrumental-variables-how-the-uk-can-become-a-world-leader-in-medical-innovation.

for NHS workers to all visa holders in the UK, giving an automatic one year extension for anyone whose visa is due to expire by March 1, 2021.

- **Instigate amnesty for illegal migrants to encourage proper public health support**

The Prime Minister should revisit his own suggested amnesty for illegal migrants already in the UK. While the pull-factor of an amnesty was already questionable, with borders and ports shut across the main migrant routes it is even less so, while the positive benefit of providing migrants with an ability to access economic opportunity and access medical support becomes more imperative, while undermining unscrupulous grey and black market employers.[71]

- **Unilaterally recognise qualifications and occupational licenses from other developed countries to help fill skills gaps**

The UK does not automatically recognise many comparable non-European Economic Area (EEA) foreign qualifications, instead requiring expensive and unnecessary retraining. In practice this means "Luis from Portugal" did not have to retrain upon arrival in the UK, but "Jenny from New Zealand" did. This is despite Jenny being taught and having practiced in an English speaking, developed country with an equivalent healthcare system. The General Medical Council have sped up their recognification of non-UK or EEA qualifications, but for developed countries and those of reputable English-speaking institutions, this should be automatic.[72] This can be done through trade deals, as well as unilaterally. The United Kingdom should commit to a review of all national and local occupational licenses.

Transport

- **End the Transport for London fare freeze and increase ticket prices for public transport to discourage unnecessary use of public transport**

The fare freeze has substantially contributed to Transport for London's deficits in recent years, as well as the need for a £1.6 billion bailout of the organisation this month. The fare freeze has only ever applied to individual journeys, not weekly, monthly or annual travel cards. It is therefore a benefit only for "sometimes" users of transport, particularly tourists. In the context of limiting transport to essential journeys to limit overcrowding, which has been a serious public concern in recent weeks, the price freeze no longer makes any sense. More broadly, the price mechanism should be used to discourage people from overusing public transport. A higher price for transport encourages people to consider whether their journey is absolutely necessary, incentivises alternative transport, and will help fund struggling transport systems that must now have fewer passengers.

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71 Charlie Richards, "SHOULD THE UK GRANT AMNESTY TO UNDOCUMENTED MIGRANTS?" Adam Smith Institute, July 31, 2019, https://www.adamsmith.org/blog/should-the-uk-grant-amnesty-to-undocumented-migrants.

72 General Medical Council, "Acceptable overseas qualifications" https://www.gmc-uk.org/registration-and-licensing/join-the-register/before-you-apply/acceptable-overseas-qualifications.

- **Replace the 'Congestion Charge' with a national dynamic road pricing scheme to better manage the flow of people**

London's congestion charge was world leading at the time of its introduction in 2003, however, it has barely changed since with the exception of an increasing cost.[73] The charge is currently £11.50 for all vehicles entering a limited central London zone between 7.00am and 6.00pm, Monday to Friday. It will shortly increase to £15.00, operate seven days a week and extend until 10.00pm. This does not reflect differing traffic levels throughout the city or throughout the day. A more dynamic system of road pricing, that charges different amounts throughout the day in different areas to encourage journeys to be staggered, could help manage flows of people and social distancing.[74] This could be helpful in both encouraging more economical use of roads, and as a result reducing lost productivity from the time spent driving on busy roads, as well as help prevent the spread of the virus.

- **Pursue a liberal approach to e-scooter legislation to encourage social distanced transport**

Electric scooters — or "e-scooters" — provide low-cost, environmentally-friendly "last mile" transport. They are a central plank of the "micromobility" revolution that is transforming urban transport.[75] In the context of the effort to avoid crowding on public transport, e-scooters provide an important transport alternative.[76] The Government's announcement that they will fast-track e-scooter legalisation is welcome. It is necessary that they take a liberal approach to ensure the technology is not stillborn. The devices have a similar level of risk and characteristics to bicycles, and accordingly should not require helmets or insurance. Additionally, share scheme numbers should not be excessively limited.

CONCLUSION

Over the coming weeks and months the viral threat will more likely than not recede following tough social distancing measures, as well as new testing and tracing capacity. This will allow the Government to safely and slowly loosen restrictions on economic activity.

We have done something truly unique over the last few months: shut down swathes of the economy for the righteous goal of saving lives. This will mark not only the first time we have tried to freeze an economy, but now the first time trying to unfreeze. This will raise many unforeseen challenges.

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73 Transport for London, "Congestion Charge" https://tfl.gov.uk/modes/driving/congestion-charge.

74 Roads in a Market, "Roads in a Market Economy," (Gower Technical: January 1996)

75 Matthew Lesh, "SAFE TO SCOOT: HOW LEGALISING E-SCOOTERS WILL SAVE LIVES, BUST CONGESTION AND HELP THE ENVIRONMENT" (February 2020) , https://www.adamsmith.org/research/safe-to-scoot.

76 Matthew Lesh, "It's time to liberate Britain with an e-scooter revolution" The Telegraph, March 16, 2020, https://www.telegraph.co.uk/news/2020/03/16/time-liberate-britain-e-scooter-revolution/.

Governments must change their goal from economic lockdown to delivering on future prosperity. This means withdrawing temporary measures, being flexible and not excessively prescriptive, and supporting people not failing businesses. Ultimately it will be economic growth that delivers prosperity.

The larger the economic pie, the larger each individual piece. This includes the Government's slice that is used to fund public spending. It is essential that the Government does not strangle growth with new, excessive taxes. In fact, they must take the opposite approach: reforming taxes to reduce the burden on enterprises while dealing with red tape that undermines prosperity. This means a laser-eye focus on how to enable transactions, investment, employment and access to goods and services.

The UK has a highly dynamic, flexible economic model.[77] This will allow the British people to weather the economic storm much better than most. The ability to relatively freely employ, start up businesses, and develop innovations will put the UK in good stead. Nevertheless, these institutional features will not guarantee a rapid return to normality.

Economic recovery is likely but by no means guaranteed. The ability to recover will be determined not by luck but by strategic decisions over the coming weeks and months. It will depend on an acceptance of a central role of private enterprises. In order to unleash British enterprise this will take a campaign of tax reform and red tape cuts.

If there's ever been a moment to be bold, now is that time.

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77 David Soskice and Peter A. Hall, Varieties of Capitalism (Oxford: Oxford University Press, 2001).