A beta bailout: the near future of state intervention

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What interventionist measures would best secure a long-term and equitable economic recovery?

The spread of Covid-19 has induced an unprecedented economic downturn. Although it is impossible to make accurate forecasts of its impact, the Office for Budget Responsibility forecasts a 13% economic contraction in 2020 (with even this dependent upon a return to normal levels of economic activity in the third and fourth quarters - an assumption which already seems far-fetched).[1] Globally, the OECD suggests that the economic impact of this crisis could 'far outweigh anything experienced during the global financial crisis in 2008-09'.[2] The government's response has been to put in place a wide range of new economic tools, designed both to respond to the immediate requirements of the UK's health and social care system, and to ensure that the economy did not collapse in the height (or first wave) of the pandemic. These include extra funding for the NHS; financial aid for businesses including VAT deferrals and business rate holidays; an increase in welfare payments; the creation of wage subsidies; business loans; and profit guarantees for the self- employed. Further stimulus measures will be necessary to avoid a shock from the outside evolving into an internally embedded economic depression.

The government's job retention or 'furlough' scheme has been the most radical economic policy response. It was designed to allow businesses to retain workers

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whilst not having to pay their wage. The scheme, which is now being phased out, covered up to 80% (or £2500 per month, whichever is lowest) of an employee's salary, during which time they could not work. Help for many (but not all) self-employed people arrived in the form of a profit guarantee worth up to 80% of their average monthly profits (or £2500, whichever is lowest) for individuals earning under £50,000. The Coronavirus Business Interruption Loan Scheme (CBILS) pledged £330 billion worth of government-backed loans up to a value of £5 million, designed for small and medium-sized businesses. The loans were provided without personal guarantees from businesses, and government will pay the interest and fees for twelve months (although the interest rate banks could charge was not capped).

Though it is hard to calculate the total cost of all of these measures, the fiscal effort is huge. The Institute for Fiscal Studies suggested that the UK could be facing a deficit of over £200 billion in 2020/21.[3] The monetary response has also been significant: basic interest rates were cut from an already historically low level of 0.25% to 0.1% - the lowest level they have ever been. The Bank of England's (BoE's) quantitative easing programme has been expanded by £300 billion thus far, and bank reserve requirements have been relaxed to free up lending for businesses. The BoE has also taken the extra step of directly financing government spending via the 'Ways and Means Facility' to an effectively unlimited amount, and purchasing the bulk of gilts issued by the Treasury (this is one of the reasons that gilt yields in the UK have turned negative for the first time in recent months).

As radical as this programme has been - in terms of breaking from economic policy norms - some mainstream commentators have pressed the government to further expand the scope of state intervention. For example, Martin Wolf of the *Financial Times* has backed calls by Berkeley economists Emmanuel Saez and Gabriel Zucman for governments to act not as a 'lender of last resort', but instead as a 'buyer of last resort': [4] rather than simply guaranteeing business loans, government would step in to replace demand that has temporarily vanished. For example, it could 'buy' all of the cinema tickets not sold during the lockdown, allowing cinemas (or any other affected business) to keep paying workers and maintain their capital stock without risking bankruptcy.

Is it likely that a Conservative government will contemplate such measures? For the moment, the government's interventions are arguably consistent with the notion of a 'nightwatchman' state, preserving the order which has already been established rather than acting progressively via the state to improve society. To extend the cricketing metaphor, all that has happened is that the night that has stopped play is darker and longer than usual (a similar dynamic justified interventions after the 2008 financial crisis). That said, the Johnson government is also committed, rhetorically at least, to using the state to 'level up' parts of the UK that have lagged behind in economic terms.[5] If the (enlarged) nightwatchman state proves insufficient to generate economic recovery, or if its rescue efforts derail the levelling up agenda, the Conservative government may be forced to choose between adopting an extensive and enduring set of interventions to sustain the UK's capitalist order, or allowing the existing distribution of wealth to be threatened by nascent political forces.

If the former course is chosen, some have prophesised that a form of 'state capitalism' may be the most likely economic outcome of Covid-19 in countries such as the UK.[6] We must see this prospect in relation to the development of neoliberalism over the last few decades. A neoliberal accumulation regime is currently clearly failing on its own terms: it is producing only low-wage employment in abundance, and is hamstrung by sluggish (or non-existent) productivity growth.[7] At the same time, relentless marketisation has undermined the resilience of the economy and its ability to recover from crises - the financial crisis of 2008, the public health crisis of 2020, and the climate crisis already upon us. From the establishment of tax credits in the late 1990s, to supplement low wages, to the bailout of the banking sector, to rescue a finance- and real estate-led development model, the history of neoliberalism is paradoxically one of intensifying state interventions in order to substitute malfunctioning elements of the private economic sphere.

Neoliberalism will undoubtedly reassert itself in some ways. A post-stimulus bout of austerity, in the form of public spending cuts, has been proposed.[8] The urge to reopen non-essential shops reflects an ambition to resurrect a consumption-led 'privatised Keynesianism' growth strategy.[9] The extension of 'Help to Buy' and establishment of 'First Homes' - that is, schemes which support first-time buyers to get onto the housing ladder - point to a renewed dependence on house prices to support consumption.[10] Yet this does not mean we have seen the end of state bailouts - to support large firms or strategically important industries, or, if a major second wave of the pandemic necessitates a further national-scale 'lockdown', to again cover the wages of a large proportion of private sector workers. The likely impact of Brexit on the UK's trade relationships will, at best, exacerbate the economic downturn, but it may also create the political circumstances in which certain firms and industries are considered 'national champions', warranting public support. But the bailout we need is not one which sustains a modified form of neoliberalism. Instead, we need to bail society out from the wreckage of the neoliberal paradigm. In this article we sketch the strategy the UK economy needs if it is to recover from the impact of Covid-19 and ensure greater resilience should similar conditions arise in the future. At its heart is a programme of citizen-led state intervention both to secure jobs and to enable industrial transformation. Bailout 2.0 must involve workers and citizens, not simply policy elites, through state intervention that is designed to create new public assets, managed via new forms of democratic ownership, and used to finance programmes which enhance social as well as economic value.

An industrial policy revolution

UK policy elites have in recent years rightly identified the inadequacy of industrial policy as one cause of the economic malaise which was exposed and exacerbated by the 2008 financial crisis. There have been various attempts since 2008 to devise an 'industrial strategy' through which the economy could be supported towards recovery and, over the longer term, a more sustainable development model. Alas, these attempts have all failed.

At best, they represent rather half-hearted efforts to boost an array of vogueish 'fourth industrial revolution' industries, with little coherent thought given to the economic geography of production, the implications for labour market practices and outcomes, or the institutional mechanisms by which strategic goals could be embedded in economic policy-making.[11] At worst, we can view the UK's inter-crisis experiments with industrial policy as opportunities for 'reseeding' the neoliberal economic statecraft of the pre-2008 era. As the state became more involved in the private sector following the financial crisis, a business-led approach to industrial policy involved new opportunities for private economic actors to deliver, and extend their dominance over, the public goods which ostensibly underpin industrial strategy. Any notion that industrial policy tools would be used to reshape private sector business models, rather than simply deploy public resources to sustain profitability, has remained conspicuously absent from elite discourses.[12]

The inadequacies of UK industrial policy have been laid bare during the pandemic. The government's failure to produce the thousands of ventilators now required by the NHS (not to mention Covid-19 testing kits, and protective gear for healthcare workers) may have been unique in terms of its immediate, tragic consequences, but it will be a familiar story to those well-versed in the decline of UK manufacturing. As Peter Foster and Michael Pooler explained in the *Financial Times*, this failure is due to: the limited capacity of a residual and over-specialised UK manufacturing sector; an over-dependence on international supply chains, even for basic inputs; an intellectual property regime which encourages rent-seeking; and public sector procurement practices driven by short-term cost rather than long-term resilience and innovation.[13]

There is 'reseeding' evident in the economic policy response to Covid-19. Operating corporate loan guarantees via private banks, as noted above, served to simultaneously support banking sector practices. Similarly, offering the opportunity to existing firms to determine whether to furlough workers, or to instead to take advantage of the UK's flimsy employment protection regime by laying off some staff, left decisions over which skills we need to retain (and which individuals will see their income slashed) to 'the market' - at a time when there were no meaningful market signals. By default, firms such as Amazon - whose business model fortuitously happens to suit the present circumstances - were allowed to make super-profits, despite myriad concerns about its treatment of workers (who were placed at greater risk of contracting Covid-19), tax practices and wider impact on local economies.

It is worth reiterating that the Johnson government had begun to hint at a new settlement for UK industrial policy before the crisis, albeit without adopting the usual terminology. Johnson's focus on 'levelling up' suggests a willingness to embracestate intervention in the economy, focusing on physical infrastructure, and playing a stronger role in financing R&D activity by large firms. Such an agenda (assuming it is still realisable) would sustain rather than relieve socio-economic inequalities, even if, in geographical terms, the centrifugal pattern of UK prosperity would be spread a little more evenly than before. A more ambitious - and, in our view, essential - agenda would prioritise addressing climate change, supporting the foundational economy and providing quality employment opportunities. These priorities are discussed below.

Supporting a green transition must clearly be at the heart of any industrial policy whose aim is to equip economies to address major crises and challenges to societal well-being. As with Covid-19, an ecological crisis will trigger a series of economic convulsions which are likely to include the exacerbation of shortages (including in agricultural production), disruptions to a plethora of precarious globalised supply chains, the abrupt re-evaluation of asset prices, financial disorder, and threats to the business models of companies not equipped to manage systemic risks.[14]

As many analyses have shown, the normalised operations of capitalism are deeply complicit in the ongoing environmental crisis.[15] And this means that any economic strategy must pursue a transformation that is designed to achieve the reduction of the economy's ecological footprint, while simultaneously ensuring the provision of basic needs. This entails fundamentally challenging entrenched patterns of production, trade and distribution in numerous industries. Yet the government's current response to the crisis - based as it is on financing (at great cost to the taxpayer) the preservation of the existing composition of the economy until the pandemic and recession are over - has neglected the imperative of decarbonisation, not to mention the pressing demands of a further series of other deep-seated economic pathologies.

It would be wrong to see the Covid-19 outbreak only in terms of an opportunity to pursue a green industrial policy: it is right that the priority has been the protection of public health, and mitigating the profound effect of the pandemic on livelihoods. However, we can see the pandemic's economic impact as a warning that we need to ensure we are better prepared to address the climate crisis. Furthermore, there is a danger that the state's enlargement in response to the pandemic will serve to further entrench environmentally destructive economic practices.

The second priority within any new industrial policy is that it should recognise the centrality of the foundational economy, and more broadly the concept of 'social reproduction'.[16] The Covid-19 crisis has made clear the crucial role of this part of the economy. As Julie Froud, Sukhdev Johal and Karel Williams have argued, 'much of the economy of the UK or other industrialised countries comprises everyday services meeting household and small business needs. These foundational activities are important not only in terms of employment, but also because they provide the infrastructure of everyday life which can enable households, businesses and other organisations to function.[17] The foundational economy can be understood as part of a broader, locally-rooted system of social reproduction which also includes unpaid domestic activities. When these foundations - the fundamental social infrastructure of everyday life - are rocked, the ostensibly productive and more profitable economy quickly implodes. This is part of what we have seen as a result of the pandemic. As many currently working from home have discovered, without the support of nurseries, schools and home caring services, their ability to complete a day's labour has become increasingly difficult; conversely, large parts of the foundational economy have continued to function - and been recognised as essential - even as the rest of the economy has been halted. This is most obvious in the case of public services such as healthcare. Broader activities around social care have also continued, in exceptionally difficult circumstances. We have also discovered the extent to which the retail, logistic and food production industries - alongside privatised utilities such as water, energy and telecommunications - are staffed by 'key workers'. These activities have been under-funded, poorly regulated and exploited by capital holders for decades: their continuation in the present circumstances has been possible despite this mismanagement. As ever, they are fundamentally reliant upon the dedication of their workforces.

The UK economy, and public sector, would have been better placed to meet the challenge of Covid-19 had it not been for the pursuit of austerity and a neoliberal version of localism in the inter-crisis period. Spending cuts have not simply retrenched the delivery of public services at the local level; they have also greatly undermined a whole series of foundational institutions held within or supported by the local state, and disabled the capacity of policy-makers to build local economic resilience.[18] And to make matters worse, this redistributive switching has coincided with an attempt by the UK state - in a deeply contradictory way - to empower the 'local' via devolution to city-regions.[19] The process of building city-regions has been driven by an economy-first narrative, and with an emphasis upon agglomerative growth (often measured in terms of Gross Value Added uplift). It has focused upon high-end growth whilst simultaneously ignoring the foundational aspects of the economy on which it is built.[20] This is partly because it is based on the faulty assumption that the statutory and non-statutory activities of existing local authorities have a negligible economic function.

A focus on the green and foundational economies would promise a 'jobs rich' approach to economic recovery. Foundational industries as defined by Froud and colleagues already employ around two-thirds of the UK workforce (on an alternative, narrower, definition, it is around 45 per cent). Investing in decarbonising the UK economy presents an opportunity to create well-paid jobs and educational and training opportunities in technology development, manufacturing and construction.[21] A study from the University of Oxford - co-authored by Joseph Stiglitz and Nicholas Stern, among others - found that government spending on green growth projects would yield higher returns on government spending than a conventional stimulus (based on an examination of 700 stimulus policies since 2008 and a survey of 230 senior officials from Central Banks and Finance ministries in 53 countries).[22]

The third priority for a new industrial policy agenda is a new settlement for employment support, available to all workers. A wave of mass unemployment and under-employment is now a major risk. There have already been more than 3 million new claims for Universal Credit (UC) since March 2020.[23] Almost 9 million employees have received support through the government's furlough scheme; but the proposed withdrawal of the scheme before there is any evidence of economic recovery indicates that it will soon come to be seen as a redundancy-deferral rather than income-replacement programme.[24]

There is not the space here to go into the many flaws of UC. But, from the perspective of active labour market policy (ALMP), one of its key problems is its conditionality regime. Usually, out-of-work claimants are expected to spend a lot of time on intensive job search activities - in many cases up to 35 hours a week. As then Secretary of State for Work and Pensions, Iain Duncan Smith, proclaimed in 2013, 'looking for work should be a full time job'.[25] And as UC has been replacing in-work tax credits, the government have begun to explore ways of extending conditions to working UC claimants - for example by expecting them to try to increase their hours or pay in their current workplace, or take on multiple jobs.[26] The conditionality regime was paused as part of the government's package of crisis measures but has now been re-established as the government seeks a 'return to normal', despite the gloomy prospects for the labour market.

The UK's labour market policy has been overwhelmingly supply-side focused, underpinned by a 'work first' approach that encourages fast work entry rather than work quality. Here the 'problem' of unemployment and low pay is framed as a behavioural one; that is, focusing on the behaviour of claimants has been cast as the solution to tackling these issues. A supply-side approach during this period of crisis and recovery is mistaken; a return to a one-size-fits-all requirement to engage in a 35-hour per week job search regardless of job quality, fit or availability will not help individuals - or, indeed, employers. In research conducted by Katy Jones and colleagues, for example, employers complained about the costs associated with dealing with a high volume of applications, which they felt in part resulted from the emphasis of job centres on requiring jobseekers to make a high volume of applications, rather than focusing on the quality of these applications and the job fit/match.[27]

The government must also recognise its role in shaping economic activities through ALMP. There is growing evidence of a link between the UK's poor productivity performance, its 'long tail' of low-paid, insecure work, and a welfare system that curtails the choice and bargaining power of unemployed and low-income workers.[28] Now, more than ever, a more 'productive' approach to ALMP is crucial, particularly as we face a protracted period of low demand for labour. Job quality is often framed as a benefit solely for the individual: moving from lower-skilled to higher-skilled employment is seen as important for individual and household well-being, but as macroeconomically neutral. However, a predominance of low-quality jobs can also be detrimental to the wider economy. For example, such jobs are concentrated in the service sector, which will be hardest hit by the continuing contraction of consumption. We need to support industries less affected by the pandemic and its implications for demand - and we need a workforce ready to populate them.

One important step towards this would be ensuring that the UK's welfare and skills systems do not operate in isolation. This should be central to the government's strategy to re-build our economy and support those who are unemployed or on a low income through the Covid-19 crisis and recovery. For example, better targeting of apprenticeships and other training opportunities for young people and low-paid workers, and better promotion of these opportunities to UC claimants, may be a fruitful area for policy-makers to explore. Adult participation in learning was already nosediving long before the arrival of the virus - which should already have been worrying those interested in supporting people to move into, and progress in, work. There is a danger now that, without government intervention, skills inequalities will be exacerbated, as businesses shift resources away from training and development.[29]

A beta bailout

What will be the policy 'levers' of a new interventionism of the kind we are advocating? As suggested above, one of these should be a green fiscal stimulus entailing public investment in renewable energy production, the innovation and development of new low-carbon technologies, and the upgrading or modification of infrastructure and systems of production in the automotive, manufacturing, agriculture, transport and service sectors. Investment in these industries - highlighted as strategically important in the recently revived 'green new deal' and associated discourses - must be urgently coordinated by the Department of Business, Energy and Industry Strategy and a revamped Green Investment Bank.[30] A series of fiscal instruments could support innovation, infrastructural construction and growth in low-carbon sectors, whilst beginning now to train and employ workers will enable the schemes pertaining to this stimulus to mobilise at speed when lockdown restrictions are relaxed.

There is of course a danger that green jobs related to physical infrastructure and high-tech industries, while creating high-quality opportunities for many, will serve to reinforce existing inequalities - particularly gender inequalities - insofar as some groups are relatively disadvantaged within, or excluded from, advanced manufacturing, engineering and construction industries, etc. It is essential therefore that resources are mobilised in a way that alleviates inequalities, for instance by ensuring a green new deal is predicated upon a new social contract. Labour proposed such an approach in 2019, but tended to focus on class and geographical inequalities rather than those of gender and race.

Secondly, there is a case for a significant uplift in investment in social care (where employment is female-dominated). As Susan Himmelweit argues:

> [C]are and the capabilities that it enables are part of the infrastructure upon which the reproduction of society, the health of the economy and the quality of all our lives depends. Policy that ignores effects on care not only may lead to bad outcomes for people and society as a whole, but also may undermine its own aims for industry and the economy as more conventionally understood.[31]

Social care is clearly on the front line in public health crises: while it is difficult to draw firm conclusions at the moment, it seems likely that generations of under-investment in care has contributed to the economic, as well as human, catastrophe of the Covid-19 pandemic. In fact, we should perhaps think of the future of care not simply in terms of the provision of personal services for children, adults with disabilities and the frail elderly, but also as the integration of caring attributes into a range of occupations, to help combat, among other things, the impact of mental health on society and the economy. In a more conventional sense, enabling a wider range of high-quality care services will alleviate the burden of unpaid care on many people, predominantly women, a move that invariably strengthens labour market performance.[32] Moreover, there are stronger links between addressing climate change and boosting caring capabilities than usually acknowledged: as Maeve Cohen and Sherilyn MacGregor argue, 'care is a green job'.[33]

A third key policy idea - again associated with the foundational economy framework - is the introduction of 'social licensing'. This would require firms operating within a given locality or industry - i.e. taking advantage of foundational goods and services - to contractually agree with a local, regional or national authority to abide by reciprocal arrangements around labour or environmental standards, protection of community resources, etc.[34] Such an approach could be extended: license conditions could include the creation of employment pathways, investment in local supply chains and R&D capacity, and contributing to public health objectives. This new approach to conditionality - applied to firms, not individuals - is potentially applicable nationally to all private firms receiving public support, whether in the form of conventional industrial policy (R&D subsidies, tax relief, infrastructure finance, etc), the more expansive green industrial policy agenda, or indeed in the form of the benefit they receive from workers whose wages or skills development are subsidised by the state.

It will also be worth considering, fourthly, whether job guarantees will be necessary as unemployment rises. Jobs would be guaranteed by central government, but could be implemented locally via social licenses, with trade unions centrally involved, and operating alongside income guarantees or expanded skills provision. Ideally, job guarantees would be utilised to enhance local government capacity in relation to addressing climate change, and supporting care provision and other foundational activities. The current government's introduction of subsidised employment for young people, on a temporary basis, is a small, inadequate, step in the right direction.

Finally, there is also a strong case for the state taking an equity stake in many of the firms in receipt of public support.[35] This will apply in particular to firms above a certain size that have utilised the job retention scheme to cover wages (or which access similar schemes in future). State representation among company owners will help to ensure that firms contribute to a sustainable economic recovery - and behave responsibly amid a possible second wave of the pandemic. But also, crucially, it will create both an asset and income stream for the public sector. Equity stakes in firms which benefit from publicly-funded R&D are a key plank of Mariana Mazzucato's mission-driven industrial policy framework, first outlined in her book *The Entrepreneurial State*.[36] The approach we suggest would go further, potentially involving thousands of firms, spread across a large number of industries.

This approach would represent a seismic shift within economic governance in the UK. However, interventionism in itself is not a departure: we need to dispel the illusion that the current economic policy response represents an arms-length approach to intervention by the state. Christine Berry, Laurie Macfarlane and Shreya Nanda estimate that up to 45 per cent of the net cost of the furlough scheme will end up in the hands of landlords, banks and other lenders, as households remain liable for the cost of rent and debt repayments despite the economic closure.[37] This represents an enormous expansion of implicit state support for a finance- and real estate-led accumulation regime;[38] but this is very much aligned with the extraordinary measures taken in the wake of the 2008 financial crisis, such as bank recapitalisation and quantitative easing. More generally, the British state, through operating very low interest rates and housing market subsidies - for decades - has not only accommodated this regime, but served to constitute it. Furthermore, the Johnson government itself has already introduced a small-scale version of this finance-supporting approach in the shape of the £500 million Future Fund, which offer loans to pre-profit, venture-capital-backed firms (which might otherwise be ineligible for the main government-backed loan scheme, operated via private banks). The scheme will run initially until September 2020. If the loan is not repaid, it converts to an equity stake in the company.[39] Given the high rate of failure among business start-ups, it seems likely that the government will end up as part-owner of a large number of small firms, potentially affording more space to the business to attain profitability over a longer timeframe.

Any fears about the top-down nationalisation that might be superficially inferred from our approach can be allayed in two main ways. Firstly, equity stakes would not belong to 'the state', but rather a network of citizens' wealth funds (CWFs): collectively-owned investment funds, managing assets on behalf of citizens and generally oriented towards delivering public goods.[40] CWFs would be organised and managed at various scales - by locality, by industry, or by mission - depending on the source and type of intervention that has led to part-ownership being secured. Through democratic processes, CWFs may choose to invest (through grants or loans, where appropriate) in initiatives which serve social, environmental and long-term economic goals. Some may concentrate, in part, on supporting high-quality employment pathways for young people, or retraining schemes for redundant workers. Some, especially where organised by geography, may provide supplementary social security benefits. Clearly, CWFs would seek to make financial returns from the firms in which they own a stake; but their role would also be to ensure that investee firms operate in a way which serves a wider public interest. CWFs could also be used to secure valuable assets for the public realm, given the likelihood of a 'fire sale' by some firms (and public authorities) as a result of the pandemic.

Secondly, we should not necessarily conceive of ownership stakes as a permanent feature of economic governance. Firms will have the option to 'buy out' the citizen-owners once certain conditions are met. It will also be an explicit aim of some CWFs to transfer their stake to employee owners in various ways.[41] We would ultimately expect the sustainable business practices supported by CWFs to be mainstreamed within public policy and regulation. This is not to suggest that some CWFs could not become long-lasting features of the economic governance landscape in the UK. Beyond the pandemic-related bailout, they could be capitalised by new wealth taxes, or new revenues arising, for instance, from licenses to access public data.[42]

Despite the trailing of a new round of austerity, an era of large-scale state intervention in the UK economy is upon us. When faced with the choice between output and employment figures flatlining or declining as the economic policy response to the pandemic is withdrawn, or introducing further bailout measures to support growth and jobs, the Johnson government will choose the latter, eventually. One of the definitional oddities of neoliberal statecraft has always been that the state is required to produce markets in practice, but at the same time markets as theoretical constructs are understood by neoliberals to constrain the scope of state action. An emerging state capitalism paradigm in the UK will be a continuation of, rather than a break from, this dynamic, as the imperative for the state to produce a market-based economic order evolves into one of the state substituting for the market de facto while propagating market discipline de jure.

We have an opportunity now to democratise the necessary mechanisms of state intervention. Ironically, the belief that state and market are inevitably in conflict risks both a version of capitalism whereby state intervention is used to sustain an inequitable economic status quo, and one in which the state's ability to transform the economy is limited, alongside a withdrawal of public spending relating to vital public goods such as social infrastructure, welfare and job creation. We must reimagine the public realm so that we can build a publicly-oriented economy over the long term.

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Notes

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