

# We need resilience, rather than a quick fiscal fix



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*There can be no return to austerity, argues **Frances Coppola**. We must learn from the mistakes of the recent past to build a resilient economy to withstand the next shock, whenever it may come.*

We are approaching a dangerous point. As Covid-19 vaccination is rolled out across the population, and the threat to life from the virus starts to recede, thoughts naturally turn to other dangers. Already, a narrative is starting to develop that the UK's public finances are "unsustainable", and there is talk of spending cuts and tax rises.

We have played this scene before. After the global financial crisis of 2008, when the Bank of England had warded off a 1930s style Depression, the same narrative developed. The debt-driven conflagration enfolding Greece added fuel to the austerity flames: by May 2010, many people were convinced that if the UK's public deficit wasn't hacked back hard, the UK would walk the same path as Greece. Many of us, then as now, pointed out that Greece's situation was hardly similar to the UK's: it had a history of unstable finances and debt default, and was using a currency it didn't issue. But the austerians won the day, and in 2010, the people of the UK elected a government whose manifesto was to "fix the public finances".

The Coalition government cut public spending and investment to the bone. By 2011 a promising recovery was derailed and the economy stagnated. When the deficit did not fall as fast as the austerians had hoped, the cuts continued. By the time the pandemic hit early in 2020, health and social services had been systematically underfunded for a decade. It is no surprise that at this point the Government's overriding objective was prevent a hollowed out NHS from being overwhelmed. "Protect the NHS" should have been the mantra of previous governments.

The aggressive program of public sector cuts and underinvestment has cost the UK dearly, both in lives and in economic destruction. The UK's finances are now far worse than they were after the 2008 financial crisis and will take much longer to repair.

It is essential that we do not make the same mistake again. There can be no return to "austerity" in any form. The priority must be to restore the economy, repair the damage done to health and social services and invest in infrastructure and skills development. This generation of young people has been hurt worse than any other group. Imposing austerity on them on top of the damage they have already suffered to their education and career prospects would be a moral injustice.

Even if austerity is resisted, we could make a different mistake, namely to focus so much on restoring economic growth that we neglect resilience. The pandemic showed us how vulnerable we are to economic shocks, and how badly people can be hurt by them. When the next shock hits, people must be protected.

Measures such as a universal basic income to ensure that no-one loses their entire income overnight or is forced to work when ill; universal basic housing, so that no-one ends up homeless because of an economic downturn; job guarantees for people who have difficulty finding jobs in conventional workplaces; skills development schemes that support lifetime learning for all ages, so that people can transfer more easily to the jobs of the future; support schemes for small businesses temporarily disrupted by economic shocks. These are the basic requirements for a resilient economy in the 21st Century.

Some similar measures already de facto exist, having been created in a hurry during the pandemic. These need to be converted into long-term support schemes rather than completely wound up as some are recommending.

None of this will be cheap, and eventually we will need to have a national conversation about fair taxation. I believe that over the longer term, the burden of taxation needs to shift somewhat from income to capital. But raising taxes is itself a form of austerity, and therefore a mistake when the economy is so badly damaged. Better to wait until the economy is growing again.

There are ways the government can build resilience in its own finances without raising taxes prematurely. Firstly, the government should lock in today's very low interest rates for as long as possible by issuing debt of long tenors, even 50 years or more. This debt could be index-linked or even, more controversially, GDP-linked.

Secondly, borrowing an idea from Keynes's treatise "How to Pay for the War", the government could take advantage of exceptionally high household savings by issuing Pandemic Bonds directly to the public. These would need to be at slightly above the interest rate on equivalent gilts and could be index-linked.

Thirdly, the Government could establish a national development bank which would issue its own bonds to finance infrastructure, housing and skills development projects.

The lesson of 2010 is that aggressive deficit reduction after a severe economic shock makes the economy less resilient and ultimately worsens the fiscal finances. So don't let policy be dictated by short-term focus on the fiscal finances. Rather, focus on building a vibrant, resilient economy for the future, and let the fiscal finances fix themselves.

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