



# THE BIRTH OF JOHNSONOMICS?

## LEVELLING UP AGENDA OVERSHADOWED BY CORONAVIRUS THREAT

New Chancellor Rishi Sunak today gave the official unveiling of Johnsonomics. The first Budget in every parliament is much more about long-term politics than short-term, and today's Budget was no exception. While the Government laid out significant measures to address the immediate challenge of coronavirus, they did not miss the opportunity to lay the fiscal foundations for their core mission: 'levelling up'. This Government looks serious about its intention to use the levers of the state to strengthen local economies.

The biggest break with the past was around fiscal policy. What was once derided as a 'magic money tree' appears to be flourishing. This Budget projects additional public expenditure of nearly £42bn in 2024/25. State spending as a share of GDP is projected to be higher than at any point since 2010. The Government's key pledge was a £600bn infrastructure spend which it claims will improve roads, rail, broadband and housing by 2025. New money will be spent in towns that are considered to have been overlooked in the past as part of the Transforming Cities Fund. To symbolise this 'new politics', the pledge to create a new HMT economic campus 'in the north' illustrates its commitment to move decision-making out of the South East of England.

The Government's rhetoric is different, but their approach to business policy suggests more continuity with the last Government's emphasis on industrial strategy. Projects like the 'moonshot' research establishment ARPA (Dominic Cummings' pet project) show a government willing to support industry; while a continuation of the energy price cap and other levies demonstrate a willingness to maintain levels of state intervention.

No 10 had a clear audience in mind: the people who switched to the Conservatives at the last election. This Budget was about showing them that they made the right decision and that they were listened to. No 10 will hope today's spending commitments will be the first in a series of announcements that keeps these voters locked in and eventually leads to a long-term shift in political identity.

For business this presents new opportunities and challenges. Organisations that can show they are supporting the levelling up agenda are likely to do well, as will companies who can effectively engage with a state that is becoming more active rather than less. Companies that are more concerned about protecting the status quo will, ironically given it is a Conservative administration, find it harder going.

## CORONAVIRUS

Coronavirus led this year's Budget, with Chancellor Rishi Sunak opening his speech by describing the virus as the key challenge facing Britain today. Sunak recognised that business would face significant, temporary disruption, with up to a fifth of working age people off work at any one time, consumer spending falling, and productivity declining. He said that people and businesses were worried about jobs, income and financial security – and they wanted to know what the Government was going to do to fix things.

The Chancellor set out a wide-ranging, multi-billion pound package of measures designed to help British businesses meet the challenges of coronavirus. From changes to statutory sick pay, through to business rate relief and the creation of a Coronavirus Business Interruption Loan Scheme designed to ease cash flow, Sunak made clear that he was working in close co-ordination with the Bank of England and that the Government would do whatever it took to support the economy. Key announcements for business include:

### STATUTORY SICK PAY

- The Government will support small businesses with 250 employees or fewer by refunding eligible statutory sick pay costs for a period of two weeks per employee.
- People who have Covid-19 will temporarily be able to claim Statutory Sick Pay from the first day of sickness absence, rather than the fourth day.
- The Government will temporarily extend Statutory Sick Pay to cover people who have been advised to self-isolate, as well as those caring for people in the same household who display Covid-19 symptoms.
- Employers have been asked to use their discretion to not require a doctor's note to cover Covid-19 absences. The NHS 111 service will soon be able to issue sick notes.

### TIME TO PAY

- The Government pledged to help businesses and self-employed people in financial distress with their outstanding tax affairs and liabilities. A dedicated Covid-19 phone line has been set up by HMRC, with 2,000 experienced call handlers made available to help businesses work out tailored arrangements that support their recovery whilst enabling them to meet their tax liabilities.
- HMRC will also waive penalties or interest where businesses run into difficulties as a result of coronavirus.

### CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME

- To ease cash flow, the Government will establish a temporary Coronavirus Business Interruption Loan Scheme that will provide loans of up to £1.2m in value. The Government will provide lenders with a guarantee of 80% on each loan and will not charge businesses or banks for this guarantee, and the scheme will support loans of up to £1 billion on top of current support offered through the British Business Bank.

## KEY ANNOUNCEMENTS



**Small businesses** – almost half of all business properties in England will pay no business rates in 2020-21. Employment allowance will also be increased to £4,000.



**Public services** – the Chancellor has announced 2.8% per year real terms growth in current public service spending, with funding programmes for the NHS, emergency services and schools.



**National infrastructure** – sustained investment in transport infrastructure and connectivity, with £27bn for strategic roads, £5bn for broadband roll-out and £4.2bn for combined authority transport schemes.



**Regional investment** – £242m to fund a further four City and Growth Deals. Additional funding for local authorities to increase housebuilding, including £400m for brownfield sites.



**Net zero** – the Climate Change Levy on gas will be increased from 2022-23, while the rate on electricity will be frozen. The tax relief on red diesel will be abolished for 'most' sectors following a forthcoming consultation, with agriculture, domestic heating and rail unaffected. The Government will support the most energy-intensive industries to transition to net zero by extending the Climate Change Agreements scheme for a further two years.



**National Living Wage** – will rise by 6.2% to £8.72 in April 2020. The Government's ambition is that the NLW will reach two thirds of median earnings by 2024.



**Defined benefit pension schemes** – The Government is to launch a consultation on aligning RPI with CPIH. While it might not generate many headlines, the move has implications for DB pension scheme members whose RPI-linked benefits could fall as a result, with funds from holders of index-linked gilts – predominantly UK pension funds and insurers – transferred to the UK Government.

## WHAT'S COMING DOWN THE LINE?

The Government today provided clarification on its approach to 'levelling up' and spending priorities. Imminent and major policy decisions for the Government that remain open:

- **Brexit** – the Government has said it will soon publish a draft free trade agreement, which will provide further clarity on its approach to negotiations on the UK's future trading relationship with the EU.
- **Social Care** – the Prime Minister pledged during the election campaign to seek cross-party consensus on a way forward to address this controversial issue.
- **Strategic Defence and Security Review** – a comprehensive review of foreign, defence and security policy is set to be launched in June.
- **Heathrow expansion** – a Supreme Court case looms; whatever the outcome, the delay reflects the tension between the Government's infrastructure goals and its net zero commitments.

## REACTION



**Jeremy Corbyn**  
@jeremycorbyn



Austerity failed. #Budget2020 nowhere near reverses the damage. Growth is zero, productivity stalled, investment flatlining, wages only just above pre-crisis levels. Their investment plan is only the biggest since 2010, not the 50s. A chasm between Tory rhetoric and reality.  
3:12 PM - 11 Mar 2020



**Jeremy Hunt**  
@Jeremy\_Hunt



BUT, glaring omission was no extra ££ for social care. Hospitals will continue to fill up & winter crisis will be annual until we fix this issue, which - I fully accept - wasn't solved when I was in office. We desperately need a social care long term plan to go alongside NHS plan  
2:39 PM - 11 Mar 2020



**Rupert Harrison**  
@rbrharrison



Simple way to understand the new direction of fiscal policy:  
- the budget deficit was dangerously high in 2010. It's not now  
- as recently as 2018 it looked possible that global interest rates might still rise towards more "normal" levels. Looks very unlikely now  
- Coronavirus.  
1:42 PM - 11 Mar 2020



**Paul Johnson**  
@PJTheEconomist



Perhaps most remarkable announcement is 2.8% p.a. real growth in current public service spending. As Chancellor says this is much faster than economic growth. With investment spending rising even faster, something has to give.  
1:41 PM - 11 Mar 2020



**Ed Conway**  
@EdConwaySky



The BIG numbers in today's Budget don't include #COVID19 measures. Yet we know from the Chancellor that they'll cost £18bn  
So very difficult to get a sense of how big the deficit will actually be this year. Quite extraordinary but given how fast moving this is, not surprising.  
1:56 PM - 11 Mar 2020



**Yvette Cooper**  
@YvetteCooperMP



#Budget2020 shows downgrade in economic growth even before coronavirus impact. That's after 10 yrs of weak growth & weakest recovery for over century. Same day ONS says growth fell to zero and manufacturing dropped. Economic damage done by 10yrs of Tory Govt is immense  
2:03 PM - 11 Mar 2020