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Equity and fairness in a pandemic

The 2020 budget, delivered on 11 March, included measures to address the economic impact of the coronavirus lockdown. The budget envisaged that these impacts would be addressed by business rate cancellation and bridging loans for firms, along with some easing of the rules on Statutory Sick Pay (SSP). SSP is normally paid by the employer for up to 28 weeks; the government would exceptionally cover the cost for the first two weeks. For the self-employed, for whom SSP is not available, rules on accessing Universal Credit and contributory Employment and Support Allowance were eased. Nothing else was said in the budget about Universal Credit, although it would supposedly provide the safety net for many.

The inadequacy of these measures was soon apparent, forcing a frantic rethink at the Treasury. On 20 March, a 'Plan for People's Jobs and Incomes' was announced by the Chancellor. The headline measure was the Job Retention Scheme (JRS), under which employees who could not work because of the lockdown could continue to be paid, with 80% of their salaries up to £2500 per month being funded by the government, via the employer.¹ Universal Credit was also boosted by around £20 per week for the coming year, but its income and assets tests were not eased. Thus a furloughed worker can receive £2500 per month from the state, while a single person on Universal Credit receives around £400 (plus a contribution to rent, if renting), and a third, with too much saved to qualify for Universal Credit, gets nothing.

Some of these inequities may be inevitable given the conditions of emergency, but this should not stop us from asking questions and learning lessons for building stronger institutions before the next crisis. This we singularly failed to do after the 2008 financial crisis. The response to that crisis was marked by vast differences in the protection against loss provided by the state to different classes of firms and people. Notoriously, the banks received substantial injections of capital and sheltered under abundant central bank liquidity, but nonetheless paid themselves inflated salaries and bonuses, while holders of financial assets benefitted from central banks' support for markets. Monetary profligacy was matched by fiscal austerity, which brought steady erosion in welfare benefits in real terms, outright cuts in tax credits, and a devastating reduction in central government funding for local authorities.

While a palpable sense of inequity fuelled political alienation and a general sense of 'them and us', it has proved difficult to nail the nature and scale of social injustice in the response to the financial crisis. Doing the accounting has been difficult: guarantees were potentially costly, but were not necessarily called, and central banks collected substantial fees for some of the insurance they provided. But most important, as the Bank of England has loftily explained, it would have been worse for everyone if it had not taken its measures. Financial companies with the good fortune to be located in the monetary world of risk are thus located in a different value system to everyone else, where bailouts can be justified by their wider economic benefits despite endemic moral hazard. We see some of

the same logic – that wider economic benefits justify badly distributed government beneficence – in this crisis, but these claims are easier to dissect this time around. The funds are coming from the same budget, instead of being hidden behind the veil of monetary policy, and they are going directly to their final beneficiaries in households, instead of swilling around the financial markets, covering the tracks of where the benefits accrue.

The central economic claim made for the Job Retention Scheme is that it will prevent valuable ‘matches’ of employee skills with employer requirements being destroyed, ensuring that, when demand returns, companies can quickly restore their operations. It follows a model found elsewhere in Europe, notably in Germany, where the short-time working scheme was heavily used during the financial crisis. But that scheme has several important differences to ours. There is co-payment: employers must contribute part of the cost, and employees do not get their full salary. In the UK scheme employers can top up the government’s 80%, but they do not have to. The German scheme allows, as its name suggests, for working shorter hours or weeks on and off, whereas the UK scheme requires employees to be completely off work with the participating employer.

Indeed there are several reasons to doubt whether the scheme is really about maintaining valuable worker-firm matches. The most obvious is the widespread encouragement to firms to take back (and then furlough) workers who had the misfortune to leave work, or tender their resignations, just before the cutoff date. Clearly the use of the scheme by this group has nothing to do with job retention. The inclusion of workers on temporary contracts is welcome, but again casts doubt on job retention claims. More generally, the lack of co-payment means that there is no test of whether the worker is really valuable to the employer: valuable enough to be worth sponsoring through a period of idleness. Indeed, economic models of the labour market suggest that firms should be willing to borrow to fund their least-replaceable workers through the sudden stop in demand, in anticipation of future profits. On this logic, the government should not be bearing the whole cost, and credit policy should be playing a larger part.

These objections suggest that the narrative about the scheme is just a cover story, dressing up in the language of economic efficiency a social policy measure to support incomes. And of course such a measure is needed: it seems churlish to object that the economic rationale is largely spurious, when the scheme will do a lot to alleviate the distress of the lockdown. But there is a wider issue at stake. The coronavirus poses risks to life and income that are much more widely distributed than the standard social risks of unemployment and disability. Opportunities for private provision are pretty much nonexistent: insurers have been dusting off their pandemic exclusion clauses. While people are affected in different ways, we are all in it together. As we keep being told, social solidarity has been rediscovered, but whether it endures or not depends a lot on the institutions that are built or strengthened during the crisis response.

In this light, the £20 per week increase in basic rates of Universal Credit is welcome, but the benefit remains grossly inadequate, designed for a stigmatised minority and not for a mass of ordinary people affected by common adversity. Indeed, one of the government’s

greatest challenges is that many people, plus their friends and relatives, will find out for the first time what the benefit system is really like: just how mean, arbitrary and impossible to live on. It seems likely that the government's receptiveness to the proposals that became the JRS was due, at least in part, to the knowledge that having millions more people on Universal Credit could have enduring consequences for political attitudes to the benefit system. The government seems determined to retain some of the really nasty features of Universal Credit, notably the two-child limit with its undertone of a eugenicist design to deter the excessive fecundity of the underclass. It is hard to see how this could withstand mass take-up of the scheme.

Decades ago, Richard Titmuss drew attention to the 'social division of welfare' whereby government activities designated as 'social services' were governed by a meagre value system of needs and means-testing, while the tax system generously recognised family obligations and rewarded pension savings.² In effect, the government has just invented a new social division of welfare, with generous provision via PAYE-registered employers presenting a sharp contrast with the benefits administered by the Department of Work and Pensions (DWP). The Confederation of British Industry was a useful ally in this process: making payments via employers will help to ensure that the scheme is temporary and can be reversed without trace.

The creation of this social division is at odds with all the work that has been done in recent years to integrate information from the PAYE system with operations at DWP. The challenge of integration slowed the progress of Universal Credit, but it is no longer the main blockage: meanness in benefit rules and debt recovery are now larger obstacles. Thus the government has, or is near to having, the administrative infrastructure needed to deliver something like a basic income. Other countries have tentatively stepped down this path in this crisis, as in the financial crisis. It is striking, however, that these payments are rationalised in economic rather than social policy terms. They are one-off interventions that invoke not social solidarity and risk-sharing but economic management. The US has called its \$1200 grant to taxpayers an 'Economic Stimulus Payment'. This is nonsense really: there is no call for a general stimulus to demand while the economy is locked down. What is needed, and the \$1200 partly provides, is emergency assistance to people whose income has dried up.

There is an important principle at stake here. A crisis response is needed, but it should serve the economic goal of stabilisation while also being supported by a social policy rationale that justifies the distributive impact of the payments. Not only is this necessary to avoid a repeat of the perverse and divisive distributional outcomes generated by the financial crisis, but also it should be the basis for building sustainable institutions rather than forever resorting to emergency measures. An enduring reform means establishing principles for payments which are socially supportable, usable in addressing smaller and more localised disruptions to livelihoods as well as being capable of gearing up when the next crisis comes, whatever its cause. Conventional social insurance has this property: unemployment insurance payments rise in economic downturns and then fall away, yet the institution of unemployment insurance remains. But conventional social insurance is

oriented to twentieth century risks: the concept of unemployment is too restrictive for contemporary problems of income distribution.

The social policy rationale for income support does not have to be the narrow one of judging needs against means. This has become the dominant rationale for redistribution in the UK, but the ethical basis of redistribution need not be so tightly bound. The principle of insurance, whereby payouts are made for specified contingencies based on prior contributions, may still have a role to play. There is also the neglected principle of compensation, nowadays almost entirely privatised as a principle, and exercised primarily through the courts. It was one of the founding principles of social policy, as the limitations of private law on liability for industrial injuries were recognised in the creation of no-fault workers' compensation schemes. It seems opportune to think about compensation again. We see some compensation for those who are taking the greatest risks to fight the virus, although a social division between the health service and other vital care and infrastructure services is also evident. We might also think of aid to those who have borne the financial brunt of the lockdown in terms of compensation. They have experienced harm from measures imposed collectively in pursuit of the greater good. They are owed compensation by those of us who have not experienced so much economic harm, but are reaping the public health benefits of the lockdown.

The compensation principle does not have to be virus-specific. A Financial Times editorial opined on 21 March: 'When the government closes down large parts of the economy to slow the spread of the virus, it has a duty to protect its citizens from the consequences.' That duty can easily be enlarged to other collective actions which impose costs on some to the benefit of others: environmental harms spring to mind. The principle of compensation highlights how topsy-turvy the allocation of protection against risks has become: we devote ample monetary and fiscal resources to covering the downside risks of those who derive a profit from economic activity, in the name of growth, while allowing those harmed in the process to fall by the wayside.

Of course the principle of compensation is difficult to operationalise, and could easily be undermined by excessive precision. As elsewhere in social policy, the principle can inform public understanding without being reflected in an over-exact basis of entitlement. But if the current crisis is to bring an enduring advance in social solidarity, we should be willing to challenge unfair social divisions of welfare which rely on the excuse of the emergency, and seek broader and more robust principles for both contributing to and drawing from the common pool of fiscal resources.

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20 April 2020

¹ Mackley, A, S Kennedy and F Hobson, 'Coronavirus: Support for household finances' House of Commons Library Briefing Paper No 8894, 8 April 2020.

² Titmuss, R, 'The Social Division of Welfare: Some Reflections on the Search for Equity' in *Essays on the Welfare State*, 2nd edition, Unwin, 1958, pp.34-55.