

The UK government economic policy responses to the COVID-19 pandemic: Three possible lessons for climate emergency planning

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Introduction

The COVID-19 pandemic is a global tragedy. From the tragedy, can we find realistic grounds for hope? Can the present crisis allow us to take a progressive direction? [Some](#) have argued that we must use the pandemic as transformative, a moment to reshape the economy from one organised around narrow benefits to a system provisioning social needs. Specifically, can we draw lessons from the COVID-19 pandemic for the climate emergency?

In non-trivial ways, the COVID-19 crisis is different from the climate emergency: it is sudden and unplanned, likely short-term rather than a regime shift, meaning people's apparent acquiescence to it may rest on their hope to return quickly to normal. In other ways, though, the COVID-19 moment may allow us to draw longer term lessons. Here, I examine events which have occurred, explore possible applications to climate emergency and consider the conditions for their possibility.

This brief paper will consider government economic policy. After several missed steps, two features of government economic policy have shown us a potential different future. First, the designation of key sectors and key workers imply a reshaped economy with very different underlying value bases. Second is the huge expenditure to support sectors, firms and workers affected by public health measures, principally physical distancing.¹ Together these suggest a radically different role for the state than we have seen for decades. Could and should this role continue?

Lesson one: re-evaluation is key

The Government response to COVID-19 involved a rapid re-evaluation of what are society's – as opposed to the economy's – key sectors. These are those most essential to meeting most basic human needs: health and social care, food production and distribution, and energy. In addition, in an acceleration of existing trends, access to information technology such as broadband has become a basic human need, essential to maintaining social connection during physical distancing, in turn essential to mental health. Beyond that, some sectors were deemed essential to the functioning of the state, such as the criminal justice system and the armed forces.

Linked to the notion of key sectors is the explicit identification of *key workers*, mainly working in the sectors above. Key workers do the jobs that are deemed important to the functioning of society. Crucially, as [data recently published by ONS](#) show, there is a weak relationship between the earnings of these key workers and the prevailing hierarchy of occupations by labour market value. The data show that whilst key workers are spread across the distribution of salaries, many key jobs are also

¹ Typically, the term used is 'social distancing' but this is inaccurate. People are keeping physically apart but in other ways, socially closer.

the worst paid. As a corollary, some of the best paid jobs are arguably socially much less [valuable than their market price suggests](#).

The concepts of key sectors and workers imply a fundamental re-categorisation of activity. In turn this is underpinned by a re-evaluation, a re-ordering of importance to society. Broadly, it redefines the type of economy we want: as a system which provides for human needs.

Further, the COVID-19 emergency has revealed [structural inequalities in the economy](#). Workers in key sectors are being exposed to greater risk (without greater compensation); workers in non-key sectors but who are able to work from home can do so risk-free and with secure income. Others are dependent on the new government support. Yet more are dependent on meagre universal credit, risking further health effects. Thus, both the death rates and economic impact of COVID-19 – and henceforth likely climate emergency – have a class dimension. Further, given the distribution of jobs by ethnicity, these risks are disproportionately borne by BAME groups. The regional distribution of sectors means some parts of the UK are affected more than others.

How might these processes be applied to climate emergency planning? Clearly, in that sphere, a similar process of evaluation would be necessary. Many of the key sectors identified during the COVID crisis are those we would identify in a climate emergency. Indeed, in any feasible crisis, food production and distribution, health and social care, childcare and education, other basic public services, energy, telecommunications and security would be prioritised. Hence, workers in those sectors would be key, and workers outside may not be.² In this case, though, rather than a rapid response to an exceptional short-term emergency, climate emergency planning would require revolutionising industrial policy to become more activist than it has been for decades. However, the discarded sectors are amongst the most powerful in the economy, as reflecting vestiges of industrial capitalism (fossil fuel industries) as well as the nature of modern financialised capitalism.

More fundamentally, the notion of re-evaluation is *potentially* the most radical element in the current crisis, simultaneously the most controversial and most likely to face resistance. Why? It suggests a profound change in the basis of deciding *value* in the economy.

An important pair of concepts here is [use value and exchange value](#). Use value (value in use) expresses the ability of something (or someone) to satisfy human wants or needs. Exchange value (value in exchange, or *price*) is what you can get in exchange for that thing. This distinction is well-established in economics. Value in use *ought* to be reflected in value in exchange. However, use value and exchange value usually do not coincide. An economy as a sustainable provisioning system ought to focus on use value. Crucially, the crisis identifies key workers as having a high use value; but the labour market generally suggests that for many, their labour power has a low exchange value.

Again, though, re-defining value and choosing an alternative measure of it is not trivial. The value of goods, services, people, laws, *etc.* is multidimensional. Contrarily, measures of value tend to be one-dimensional: that applies to money but equally to carbon, energy or other measures that ostensibly look 'greener'.

² This is not to argue that we would want there to be no musicians, artists, actors, fitness instructors or footballers. These types of occupations could be argued to be essential to public health. However, there is a debate to be had about their remuneration, and the revenue generated by those sectors.

Furthermore, re-defining value is radical because in capitalism, a mode of production in which money is advanced to generate a surplus of money via production processes, exchange value trumps use value. Changing the focus to use value implies a different economic system.

In summary, the first set of lessons from COVID-19 is that the designation of key sectors and workers is a radical departure from normal industrial policy, but one which would need to be mirrored very closely in addressing a climate emergency. This change is stark because it suggests the demand for an economy as a social provisioning system rather than one geared towards producing profit. To bring this about, significant pressure would be required from people. Even then, it is far from trivial to bring it about, particularly within contemporary capitalism.

Lesson two: Governments can spend money if they want to (if we tell them)

During the COVID-19 crisis, after finally the UK Government introduced physical distancing, some sectors were hit very hard. Those connected with entertainment and events had to close immediately and those in most manufacturing became impossible, so only production in essential sectors continued. Collectively this threatened the viability of many businesses and therefore incomes of workers, which therefore threatened their ability to live, eat, heat their homes, etc.

The UK government eventually arrived at a package of measures, including small grants and access to loans for small businesses, totalling tens of billions of pounds.³ Most significantly, to allow firms to cease production but still pay workers, the government created a furlough scheme under which it would pay workers up to 80 per cent of their salary. Subsequently, a scheme to support the self-employed also emerged. As yet, this set of measures does not help those already unemployed.

The furlough scheme supports several million workers in the UK, covering perhaps [25% of wages](#). The scheme, combined with mortgage and rent ‘holidays’ (*i.e.* suspensions and greater flexibility in payments) for households where necessary, is intended to reduce or spread the demand shock to the UK economy. These expenditures are significant in their scale; and beyond that, they constitute an enhanced role for fiscal policy. COVID-19 has led to calls for drastic increases in government spending. The [IMF](#) argues that economic recovery from the COVID crisis requires [‘a response like no other’](#). [Goldin](#) advocates a Marshall Plan for emerging economies hit by the economic effects of COVID.

The greater importance of fiscal policy in this case partly reflects the impotence of conventional monetary policy. Predictably, the Bank of England’s speedy reduction in the base rate was like pushing on a string, when confidence and hence appetite for borrowing were so low. Even so-called unconventional monetary policies such as central bank purchases of government bonds and some corporate bonds principally add liquidity into financial markets without necessarily affecting production, investment and employment.

Considering a climate emergency, for now let’s assume that governments could continue with such policies. What kind of things might they do? As during COVID, government could offer guarantees on loans; but as we also saw, if these are administered by commercial banks, this carries the risk of [profiteering by them](#). Government also offered small grants to firms. In both cases, what would be

³ The US Government has approved \$3tn of support, equivalent to 14% of GDP
<https://www.bbc.co.uk/news/business-52537938>

crucial is the conditionality of these funds: Government would need to prioritise firms that directly helped address the climate emergency. They might also require worker or public representation on boards, for example.

The furlough scheme prompted [calls](#) for a Universal Basic Income (UBI). Such schemes are radical as they break the link between survival and work. However, a permanent UBI scheme would represent a vast permanent increase in government expenditure; or it would offer only a very basic level of support. In any case, it may be better to focus fiscal expenditures into [universal basic services](#), to ensure that schools, childcare, healthcare, housing, transport, etc. are of a better standard, thereby eliminating some of the need for income.⁴ Another option is to expand public sector employment, in jobs and sectors crucial to meeting the climate emergency.

How practical is any of this in the existing economy? If the Government wanted to pursue these routes, how could they do so? A crucial question would be how to fund them. The COVID pandemic response is forecast to increase public sector debt considerably, to at least 120% of GDP. The governing principle of conventional fiscal policy is the doctrine of prudence: minimal public sector deficit or even balanced budgets over the economic cycle. Whilst a temporary uptick in government spending was deemed necessary, it does not constitute a permanent shift. Thus, we are already seeing concerns about the size of the debt; let alone any proposal to permanently increase the size of the deficit.

Typically, there are four courses of action open to governments: cuts, borrowing, tax and growth. Recall that in the wake of the global financial crisis, the UK coalition government chose a programme of selective austerity that afflicted the vulnerable and gutted local government services. In response to the extra expenditures from COVID-19, calls for such cuts will be made again, alongside further selling off of state assets. However, a [new interactive computer model](#) suggests that even in the case of a 6-month lockdown and scarring effects of ‘super-hysteresis’, public debt is manageable over a range of scenarios – even if borrowing costs go up over time. Thus, increased borrowing is an option, particularly as borrowing rates are low in the short-term.

Taxation is another way to raise revenue. Tax policy also of course has a strategic role in encouraging some activities while discouraging others, categorised according to how they help address the climate emergency. Carbon taxes can have both effects. With the oil price currently low, the case for increasing fuel duty is stronger; however, this must be paired with maintaining public transport to give people the option not to drive. Income tax policy (including changes to [income or national insurance thresholds](#)) could also be used to reduce inequality, a measure that is likely necessary for a [just transition](#). Wealth taxes could have the same effect. Needless to say, efforts to impose taxes on the wealthy (or even reduce tax avoidance) would be resisted. Thus, attempts to raise tax rates in the general population would likely be resisted. Without international co-operation on tax competition it would be a brave government to threaten, for instance, to prohibit activities of non-paying firms in their territory. For this tax route to work would require a different set of political conditions. The current crisis does require courage to make the first move: if one major economy were to do that, others could follow.

⁴ As Green House has argued [already](#), a key element of such changes would be controls on rents and measures to reduce house prices.

A controversial aspect of the furlough scheme has been the role played by the Bank of England. For some time, central bank practice has been dominated by the principle of being independent from political influence. Independence means central banks do not interfere with other government policy goals and do not get involved in fiscal policy. Consequently, the Bank of England's goals are low and stable inflation and ensuring financial stability. Its tools have been buying and selling in money markets and setting a base interest rate. [Some](#), though, argue that during the COVID crisis the Bank has been engaged in *monetary financing* of fiscal policy (i.e. creating new money for the government to spend) via its Ways and Means account, essentially a government [overdraft](#). Further, [Kapoor and Buitert](#) urge CBs to “cross the Rubicon of monetary financing and immediately transfer the 20-30% of GDP [maintaining public health] will cost into fiscal coffers”. These actions are controversial as it goes beyond unconventional monetary policy and blurs the line between fiscal and monetary policies.

Some [commentators](#) have suggested that the direct support of fiscal expenditure by the Bank of England was a move towards the ideas of [Modern Monetary Theory \(MMT\)](#). A central claim of MMT is that sovereign countries with their own currencies can never go bankrupt. They can simply ‘print’ money. They can also then easily pay off debts, if they are payable in their own currency. MMT opens up the possibility of a People's QE, in which households could be transferred money by the Government. Also, should the government choose to invest in a large-scale transformative project, it could simply create the money to do so.

Is this feasible?⁵ ‘Printing money’⁶ often provokes references to inflation in Zimbabwe or Weimar Germany. These are exaggerated as inflation only results under certain conditions; but MMT may be too quick to [dismiss concerns about inflation](#). Another criticism of MMT is that it is only feasible in the USA, a large economy with its own sovereign currency that sits atop the international hierarchy. For countries down the hierarchy, MMT may not be possible. As a sovereign issuer of currency, the UK could adopt MMT but printing money risks exchange rate depreciation bringing, among other things, increased import prices.

The final conventional route to clearing government debt is growth. Indeed, it is implicit in the other routes, all of which have growth implications. For instance, as the economy grows, income grows, and more income tax is collected. Moreover, presumably if people have income, they will spend it, stimulating activity. This is obviously a controversial area for greens, who have rightly [questioned the growth imperative](#). At this point, calls for a Green New Deal (GND) grow louder: a large-scale (probably public) investment programme in infrastructure that would make the economy greener. For this to work, though, the investment must be transformative, facilitating the fundamental shift in the economy away from some existing industries. Further, a GND must indeed be a *new deal*, i.e. a new social contract, part of which must be the re-evaluation process discussed above.

Overall, lesson two is that there are plenty of things Government could spend money on, if it wants to; however, it is constrained. On the one hand, yes, money is a social institution that can be used as we wish, if the public forces its preferences on the Government. On the other hand, the power of

⁵ There are criticisms of MMT that are not discussed here. For instance, there is evidence that money is mainly created in commercial banks, via their issue of loans.

⁶ Whilst of course, banknotes are printed, here ‘printing money’ is a metaphor for expanding the monetary base. The Bank of England would ‘print’ more money by buying government gilts or bonds.

international finance (and thus, for example, of the US dollar) acts as a constraint on the government. Again, though, this could be challenged. It would require a change in priorities: a system pre-disposed to financial stability will be biased towards solutions that create that. COVID-19 showed that a (near) consensus to urgent action led to highly unconventional steps to tackle an urgent existential threat. A similar agreement about the immediacy of the threat of climate change would be necessary to force longer structural change.

Lesson three: state action is crucial but problematic

All of the above begs a key question: Who decides what is valuable, which sectors to support, how to finance all these policy moves?

Current dominant ideology dictates that decisions are best left to private market actors. There are myriad arguments against this position, the main one being that private market actors are driven by profit, not social benefit and hence market 'decisions' are biased. Public health, for instance will be neglected because only those who can pay for it get treatment. Prevention may be less profitable than cure. Indeed, whilst many private actors responded quickly and creatively to the COVID crisis, it is hard to sustain the argument that private markets led on solving it.

A key feature of the COVID-19 crisis worldwide was that the State co-ordinated the response. Governments ventured into arenas they had previously vacated, in ways that appear at odds with their ideology. As already discussed, the UK Government stepped in to guarantee wages. It remains to be seen how the crisis plays out, but it is already apparent that some sectors (mostly in hospitality and events) will be suffering deficient demand for some time, causing unemployment. At the same time, some sectors face labour shortages: agriculture being a prime example. It may transpire that the government will do one (or both) of two things: first, it may act as an employer of last resort and hire people directly to carry out what are deemed essential tasks. Second, it could *direct* workers into essential industries. Those in some jobs may need to be reallocated (at least, temporarily) to more urgent roles (market researchers becoming contact tracers, for instance).

It is easy to imagine other scenarios in which the Government would need to get involved in planning. One is in food rationing. Thus far in the COVID-19 crisis, food shortages were temporary as supply chains adjusted. However, as coronavirus hits the global south, the situation in the UK will worsen. The UN World Food Programme predicts [multiple 'biblical' famines](#) in Africa. So, whilst for now food is not absolutely scarce in the UK, soon it may well be. In a climate crisis, in which food may well be absolutely scarce, rationing of food will almost certainly be necessary. Actual delivery of food may be manageable by commercial suppliers and/or by local community organisations, but decisions about how and where to ration will have to be made centrally. In some cases, where sectors are struggling and/or are regarded as strategically vital, they could be nationalised.

Economic planning fell out of favour because of Hayekian arguments about the ability of governments to collect and process information; and by association with the Soviet bloc. Whilst some of those points stand, what is also true is that governments can now gather and process information in ways unimaginable only a decade ago. That opens up scope for effective central planning.

However, from the COVID episode, regarding the case for greater government intervention, it really depends which examples one uses. Through good planning and swift action some governments were able to intervene successfully: at the time of writing, death rates in South Korea, New Zealand, Germany, for example, were low relative to those in France, Italy, Spain, and Belgium; or indeed the UK. The UK Government response to COVID-19 was flawed by ignoring the precautionary principle and the scientific advice to act early. Above all it is accused of putting the economy ahead of public health. Flawed government responses like that of the UK will perhaps be used by some to weaken the case for government intervention.

Of course, in addition to market capitalism, socialism and the various mixed economies in between (including state-managed capitalism) are more radical solutions based around democratic or community structures of production, planning and distribution. I have no particular model in mind here, although [participatory economics](#) and more recently [mutual aid](#) [see also [Simon Mair](#)] would fit into this category. In these structures, production is for the public good, as defined by the local community. Value would be social, incorporating the current and future use (hence existence) of a good or service. Valuations would be arrived at by citizens' assemblies or some other community mechanism. Such solutions are doubly radical, in that they connect a reconstitution of valuation with genuinely democratic structures, both of which presuppose at least the flattening of current hierarchies, perhaps their removal.

Conclusion

The climate emergency needs a radical planned overhaul of the economy. The COVID-19 crisis has shown what is possible, short term, but much of what is also desirable long term. We need a fundamental re-think of what the economy is for, including the re-assessment of what work is done and a closer alignment of value with that work. The inevitable calls to return to austerity and for further privatisation must be resisted. Instead, we can think more creatively about how to use fiscal policy to drive the transformations in the economy necessary to cope with the climate emergency. Fundamentally, without assuming it will happen, we need to grasp the opportunity to rethink capitalism, which, irrespective of COVID-19 and climate, [is in crisis anyway](#). However, some of the changes discussed above may not be compatible with capitalism at all. As such, the change is unlikely because it will be resisted. Indeed, we are already seeing resistance, from those pushing for a return to normal. It is important to investigate and promote alternatives to that. This brief paper has examined events which have occurred, explored possible applications to climate emergency and considered the conditions for their possibility. It tries to offer grounds for active hope, however slight.

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