Wages, Welfare, and Wellbeing:

Labour's Economic Plan for Individuals Affected by Coronavirus

Labour

We are in the midst of a potentially unprecedented human, social, and economic crisis. The Government accepts the state must play an expanded role in response. It also recognises whatever funding is necessary will be provided to put an end to this crisis.

But what the Government has proposed so far for people whose work lives are affected by coronavirus is inadequate. We therefore set out alternative proposals below, not for the purpose of political point-scoring but to ensure we all deliver the best possible response to coronavirus: a response that provides certainty and security.

The proposals provide the economic support needed for people to be able to make choices that protect their own health and the health of others. They are a plan for securing wages, welfare, and wellbeing. In short, the proposals:

- *Underwrite wages so people don't lose their job (Part I below)*
- *Give full financial support to people sick and self-isolating (Part II below)*
- *Provide security for those out of a job (Part III below)*
- *Point to gaps in existing plans for business, which could harm broader wages, welfare, and wellbeing (Part IV)*

This brief note does not cover all of Labour's proposals on coronavirus. It should be read alongside proposals on rents and evictions; public services (including the requisitioning of private beds); business support; the voluntary sector; and other areas.

1. Protecting Wages: A Deliverable Plan to Keep People in Work

The Government made some announcements to support individuals, public services, and businesses at the Budget. Recognising that these were insufficient on Tuesday 17 March the Chancellor, Rishi Sunak, made further announcements to support business, in particular a scheme for loans and loan guarantees.

Leaving aside the adequacy and deliverability of the business loans package, it is clear that a gaping hole exists in supports to keep people in work. The challenges facing all those affected by coronavirus are significant. But the Government has, regrettably, been very slow in delivering a package to protect wages. Denmark and New Zealand had their first reported coronavirus cases on 27 and 28 February, respectively, and announced major wage subsidy plans on 15 March and 17 March. The United Kingdom had its first reported coronavirus cases on 31 January and still no comprehensive plan to keep people in work exists, despite widespread reports of people who have already lost their jobs.

Two groups of people need to be at the heart of this plan: those at risk of losing their jobs and those who are temporarily out of work. The second group includes teachers no longer teaching because of the closure of schools, people suspended from work but told that they will return, and people who must take time out of work to care for individuals who cannot look after themselves and who are usually cared for by facilities that have been closed (such as children in schools that have been closed). The first group should include the self-employed, only 4% of whom have their own private safety net.[i] In both cases it is crucial that as much as possible is done to ensure people are kept on in their jobs, for the sake of these individuals, the businesses and services they work in, and the economy as a whole.

Denmark has announced a robust supportive scheme – following discussions with trade unions, businesses, and government – that provides a useful guide for what is workable and optimal here. In Denmark, the state has said it will cover 75% of the wages of workers threatened by job loss up to £2,800; companies cover 25% of wages; and workers give up five days of paid holiday. Companies then commit not to lay off any staff while receiving compensation. Qualifying companies are those who need to lay off at least 30% of staff or 50 staff or more.[ii] In Austria, a short-time work plan was agreed, with replacement rates staggered by income, so that the lowest earners receive 90% of wages; the middle band receives 85% of their wages; and the higher earners receive an 80% replacement rate.[iii] New Zealand offers another model: it has developed a scheme that pays a flat rate for full-time workers and a reduced rate for part-time workers, to companies as a lump sum for a 12 week period, if a company has experienced a coronavirus-related 30% or more decline in actual or predicted revenue over a month (compared with the same month last year).[iv] There is a cap on what one employer can receive.

A version of the Danish model, possibly with adjustments drawing from Austria and New Zealand, seems the best package to deliver here given the need for urgent action. Government underwriting of wages will help to keep people in work, with substantial govenrment support providing assistance to businesses in need. The guarantee from businesses that they will not lay off workers will provide assurances. It makes sense – as has occurred in Austria – for low earners to receive greater economic support from the government, given the public interest in keeping low earners (likely to be less economically resilient) in work. Further, there is a need for some kind of cap on compensation to ensure fairness, as well as a threshold for qualifying workers and companies. That said, the heightened risk facing the UK economy may justify a more relaxed threshold, to ensure that more rather than fewer workers receive the support they need.

Taking these factors into account, and following consultation with stakeholders (including trade unions and businesses), we propose the following scheme in outline:

- *A progressive approach to underwriting wages:* all workers at risk of losing their jobs, or temporarily out of work (but still attached to an employer), will have the bulk of their wages underwritten by the Government, with:

    - A lower earner band receiving 90% of their wages from the Government;
    - A middle earner band receiving 85% of their wages from the Government; and
    - A higher earner band receiving 80% of their wages from the Government.
- *A contribution from business and a guarantee of work:* the business for which the worker works will pay 10%, 15%, or 20% of their wages, depending on earner band, and while in receipt of government compensation will guarantee not to lay off workers for economic reasons; where the worker is in the public sector (and, say, temporarily out of work) the Government will guarantee the entirety of the worker's wage package;
- *Payment going straight to workers:* compensation will be paid directly to workers using existing departmental transfer mechanisms;
- *No reduction in workers' rights or entitlements:* now is not the time for workers to lose core protections, and is not essential to the success of the scheme, so the model omits the Danish element of worker loss of five days of paid holidays;
- *Wide eligibility criteria for qualifying workers:* those workers 'at risk' of losing their jobs will include workers in companies facing 20% of redundancies or the loss of 30 staff, or workers in companies or the self-employed that can show an actual or potential drop in 30% of revenue in a month between January and June compared to the same month in the year before;
- *A cap on incomes to be compensated:* a ceiling will exist on high earners able to be compensated;
- *A further guarantee from businesses in receipt of loan guarantees from Government:* to doubly reinforce the protection that workers get, all businesses receiving loans as part of the Government's Tuesday 17 March will also guarantee that they will not lay off workers for economic reasons.

This is a scheme tailored to the needs of workers and businesses. But it is also practical and deliverable. New Zealand is using existing DWP-equivalent departmental mechanisms to transfer money to companies. While New Zealand and Denmark are smaller economies, the greater size of the UK also makes large-scale action more urgent and allows access to a larger number of civil servants.

This plan to keep people in work does not provide for those already laid-off. For that reason it is imperative that the Government introduces a scheme rapidly. However, the longer the wait for the introduction of the Government scheme, the greater the case may be for the introduction of further measures to support workers already laid-off, on top of the reforms to social security discussed above. Political judgments will have to be made about the fairness of extending additional support to those laid off for coronavirus reasons and not to those laid off (say, earlier in 2020) for non-coronavirus reasons. But the position should be kept under review, with consideration given to the payment of direct cash transfers or the creation of a Special Fund for affected individuals.[v]

2. Securing Wellbeing: Urgent Reforms to Statutory Sick Pay

It's crucial that no one hesitates to self-isolate or take time off work if they believe they have the symptoms of coronavirus. To achieve this, and to maintain wellbeing, people have to know that when self-isolating or taking sick leave they will be supported.

But the level of Statutory Sick Pay is inadequate. People can't live on £94.25 a week. Some workers are entitled to occupational sick pay. However, that isn't guaranteed to all. And the UK has the second-lowest level of statutory sick pay in Europe.[vi]

Statutory Sick Pay, which has been paid entirely by businesses since 2014,[vii] is not available to those who earn less than £118 a week (the 'Lower Earnings Limit').[viii] It isn't guaranteed to those without a formal contract of employment, including part-time workers and zero hours contract workers.[ix] It isn't available to the self-employed.

The Government has announced it will cover the costs of Statutory Sick Pay for businesses with under 250 employees for 14 days. It's also announced that Statutory Sick Pay can be claimed from day one of a sickness and for self-isolation.

In a further package for individuals affected by coronavirus, the Government should:

- Abolish the Lower Earnings Limit to extend SSP to low-paid workers;
- Guarantee Statutory Sick Pay to people who don't have a formal contract of employment, including part-time workers and zero-hours contract workers;
- Announce it will keep covering the costs of Statutory Sick Pay up until 30 June 2020 (and not only for 14 days), with the possibility of extending this deadline;
- Provide equivalent compensation for the self-employed;
- Immediately increase the level of Statutory Sick Pay.

The weekly level of Statutory Sick Pay could be set as a percentage of earnings,[x] at the level of a week's pay on real living wage,[xi] or using a mixed model.[xii] We propose a mixed model where weekly Statutory Sick Pay is paid either at a rate of 90% of average earnings or at the level of the real living wage.

The Government has already established a system to pay for Statutory Sick Pay for 14 days. So this requires no new machinery and is deliverable rapidly.

3. Strengthening Welfare: Practical Reforms to UC and Social Security

The social security system is broken for people who have lost their jobs or are otherwise in need. Labour maintains its position that Universal Credit should be scrapped. It is also possible to make immediate changes to provide greater security.

The Government made some tweaks to Universal Credit at the Budget. But it has retained discretion to apply sanctions at a time when those claiming social security may be needing to self-isolate or facing other burdens.[xiii] It hasn't been clear about whether the 'claimant agreement', signed by those receiving social security with an outline of obligations, still needs to be signed. It hasn't been clear about obligations for claimants to attend Jobcentres at a time when it is unsafe for claimants to do so – though it has announced moves to improve phone and online access to benefit. It's made no undertaking to reduce the five-week delay for receiving Universal Credit, only reiterating that advance payments can be made but must be paid back. As well, benefit levels remain frozen at April 2015 levels, creating real-terms cuts in living standards for the poorest households.

Labour has proposed a series of changes to Universal Credit and other benefits at this time to support the increased number of people in need of social security:

- Immediately suspend all sanctions;
- Make clear that the claimant agreement will not be necessary and that claimants will not have to attend Jobcentre interviews;
- Convert the advance payment for UC into a non-repayable loan (i.e. turning the loan into a grant), following the call of the Child Poverty Action Group;[xiv]
- Take immediate actions to reduce the five-week delay, including by repurposing civil servants (including those working at home);
- Increase the level of other benefits, including those still on Jobseeker's Allowance, Employment and Support Allowance, and Carer's Allowance, to £100.

Raising benefit levels provides some cushion for those who have lost their jobs. It may also produce broader economic benefits, by providing more cash-in-hand to maintain some consumption spending (though is only likely to mitigate a downturn in demand).

Labour has elsewhere discussed the need for further action on evictions and utility bills and those measures are not discussed at length here. But, in the spirit of constructive engagement and in the context of social security reforms, it is worth highlighting that many who are laid off or face reduced hours will claim Housing Benefit for the first time and urgent reforms could help people to get by. The Benefit Cap, Two-Child Limit, and Bedroom Tax could be suspended, with the Local Housing Allowance raised from the 30th percentile to 50th percentile of market rates. More should be done to keep families and individuals in their existing homes if that is their preference, to ensure continuity for the purposes of work, school, study, and relationships. The

Government could raises or abolish the savings threshold that guides eligibility for Housing Benefit (for example, from £16,000 to £32,000). As already discussed elsewhere the suspension of evictions should apply for a six month period. Bailiff proceedings must be suspended (in part for health and safety reasons) and further action is needed to tackle rising debt so that evictions are not simply deferred; one suggestion is that benefit debt be cancelled.[xv] As with the other social security proposals, these further measures are likely to act as automatic stabilisers with the effect of supporting incomes, living standards, and local economies.

4. Better Business Support to Enhance Wages, Welfare, and Wellbeing

So far the Government has announced a series of measures to support businesses as they tackle economic impact of the Covid-19 pandemic. Those measures have focused overwhelmingly on the retail, hospitality and leisure sectors. Labour is concerned that the measures announced do not go far enough to support the self-employed, freelancers, small and micro businesses that face a real threat to their survival from a protracted demand shock resulting from social distancing measures the Government has introduced.

In line with the calls of business representative bodies, Labour calls for the Government to go further in its support for business and particularly with those smaller businesses and the self-employed most immediately at risk.

The targeted business support measures the Chancellor announced in his Budget on the 11th of March included: suspension of business rates for one year (2020/21) for businesses in the retail, leisure and hospitality sectors with a rateable value of below £51,000; local authorities providing small businesses currently eligible for small business rate relief or rural rate relief with a one-off grant of £3,000; the launch of the Coronavirus Business Interruption Loan Scheme; and an extension of HMRC's Time to Pay service, which allows eligible businesses to defer tax payments.

On the 17th of March the Chancellor announced a series of additional measures, which included: support for liquidity amongst large firms, with a new scheme being lending launched by the Bank of England; an increase in the Coronavirus Business Interruption Loan Scheme from £1.2 million to £5 million interest free for the first 6 months; providing retail, hospitality and leisure businesses in England a 100% business rates holiday for the next 12 months; increasing grants to small businesses eligible for Small Business Rate Relief; and providing £25,000 grants to retail, hospitality and leisure businesses operating from properties with a rateable value over £15,000 and below £51,000.

No mention was made of the self-employed in the Chancellor's statement of 17 March and no additional support for the self-employed or small businesses that do not operate from rateable properties has been announced as the economy has deteriorated in response to Covid-19.

Labour is calling on the Government to go further in introducing measures to support the self-employed, small and micro-businesses (in addition to the proposals in Part I of this note). The principle underlying Labour's demands follows discussions with businesses, including the Federation of Small Businesses, that support must be fast, accessible to all sizes of businesses, and include the both the self-employed and businesses operating from non-rateable properties not currently covered by the Governments Grant's schemes.

The Government should urgently consider the following:

- The case for extending government cash grants to small and micro-business that do not operate from ratable properties.
- The need to expand eligibility criteria for government grant support currently targeted at retail, leisure and hospitality sectors.
- Whether more can be done to facilitate the urgent delivery of credit.

5. Conclusion

There is no denying that the measures outlined above will incur significant cost for the Government. But the scale would not necessarily be unprecedented or at a different level to what governments have already committed around the world. The current crisis requires nothing less.

Endnotes

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[i] Ibid.
[ii] https://tribunemag.co.uk/2020/03/denmarks-answer-to-the-coronavirus-recession
[iii] TUC, 'Protecting workers' jobs and livelihoods: The economic response to coronavirus', at p. 7.
[iv] https://www.employment.govt.nz/leave-and-holidays/other-types-of-leave/coronavirus-workplace/wage-subsidy/
[v] According to the Office for Budget Responsibility, total wages and salaries as of 2020-21 were projected to be around £946 billion: see 'supplementary economy tables', 1.6, at https://obr.uk/efo/economic-and-fiscal-outlook-march-2020/. It will be a small proportion of 90% of £946 billion (which is roughly £850 billion), given the operation of the sliding scale, and given that it will not be the entire workforce that is at risk of losing its job or temporarily out of work. If one million of the workforce were at risk in this way, a rough upper estimate of the cost would put it at around £26 billion, before adjusting for the sliding scale and taking into account what would be gained in tax revenue and other receipts.
[vi] See European Commission, 'Sick Pay and Sickness Benefit Schemes in the European Union', Background Report for the Social Protection Committee's In-Depth Review on Sickness Benefits, Brussels, 17 October 2016, Graph 3 at p. 14.
[vii] The 'percentage threshold scheme' was abolished by the Coalition Government, which provided a rebate to some businesses paying statutory sick pay: https://www.gov.uk/hmrc-internal-manuals/statutory-payments-manual/spm180200
[viii] https://www.gov.uk/guidance/statutory-sick-pay-manually-calculate-your-employees-payments
[ix] An employer may add entitlements to sick pay to these contracts but it is not guaranteed.
[x] Other European countries have levels between 25% and 100% of earnings: see above n i, at p. 12.
[xi] This is the TUC's proposal: https://www.tuc.org.uk/research-analysis/reports/sick-pay-all. The proposal assumes a real living wage based on an average full-time week.
[xii] Of the kind adopted for Statutory Maternity Pay: https://www.tuc.org.uk/research-analysis/reports/sick-pay-all.
[xiii] https://commonslibrary.parliament.uk/insights/coronavirus-claiming-welfare-benefits/
[xiv] https://commonslibrary.parliament.uk/insights/coronavirus-claiming-welfare-benefits/
[xv] https://www.opendemocracy.net/en/oureconomy/how-fix-uks-safety-net-four-point-plan/

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