



**The Centre for Economic Justice**

# **WHO WINS AND WHO PAYS?**

## **RENTIER POWER AND THE COVID CRISIS**

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and Shreya Nanda**

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# CONTENTS

<b>Summary</b> .....	<b>3</b>
<b>Introduction</b> .....	<b>6</b>
<b>1. Who wins and who pays? Distributional implications of the crisis response</b> .....	<b>7</b>
1.1 Businesses .....	7
1.2 Households.....	13
1.3 Conclusions: the protection of rentier income .....	22
<b>2. Policy solutions</b> .....	<b>27</b>
2.1 Conditionality for ‘implicit bailouts’ .....	27
2.2 Reducing income flows to rentier interests .....	28
2.3 Clawing back income from rentier interests.....	31
2.4 Structural reforms to reduce rentier power .....	32
<b>3. Conclusion</b> .....	<b>37</b>
<b>Appendix</b> .....	<b>38</b>

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# SUMMARY

The massive expansion of state intervention in response to the Covid-19 pandemic – in particular, to underwrite wages for workers and loans for small and medium-sized businesses – may at first sight seem to be progressive. However, whether this is really the case depends on how these interventions ultimately affect the balance of wealth and power in the economy. Our analysis suggests that in fact the crisis will exacerbate inequalities between the working poor and the asset-owning wealthy.

## WHO WINS AND WHO PAYS? ANALYSIS OF THE GOVERNMENT'S CRISIS INTERVENTIONS

The government's flagship schemes to support businesses and households have primarily focussed on providing cash to replace lost incomes and revenues, rather than on waiving or reducing expenditures. This cash is being paid for by a massive expansion of debt, both public and private. These decisions have significant distributional implications.

- In the case of households, the **Coronavirus Job Retention Scheme** underwrites (some of) the wages of (some of) those unable to work during the shutdown. Of course, many remain excluded from government support schemes or have been laid off despite being eligible. Even those who are included may still experience a significant loss of income, since the scheme only supports 80 per cent of wages up to a cap, and employers are not required to top this up.
- In the case of businesses, the **Coronavirus Business Interruption Loan Scheme** underwrites lending by commercial banks, so that businesses can more easily access short-term cash by taking on private debts. It is important to note that state loan guarantees protect lenders, not businesses, who remain fully liable for their debts and bear the full risks of defaulting. Despite this state support, banks have been widely criticised for failing to rapidly scale up access to affordable credit.
- On the other side of the equation, steps to lift the pressure on household expenditure have been limited to **payment 'holidays' on mortgages and personal debt**. These also amount to households themselves taking on additional private debts, rather than to a sacrifice on the part of creditors: payments are being deferred rather than waived and must later be repaid with added interest. Renters have not even been given the right to this limited relief, leaving many in significant financial hardship.

## IMPLICATIONS: THE PROTECTION OF RENTIER POWER

Rather than being shared fairly across society, the economic risks and costs of the shutdown are disproportionately being shouldered by those who are already financially vulnerable. Even where the state steps in to share these risks, they will usually still take an economic hit. Meanwhile, the incomes of banks and landlords are effectively being underwritten without any obligation to take a similar hit. In effect, those least able to weather the crisis are being asked to make further sacrifices in order to protect the incomes of those most able to weather it.

On the one hand, all of this means that many households and small businesses will emerge from the crisis (more) over-indebted, as they bear the deferred costs of the shutdown in the form of increased private debt repayments. Just as the debt

overhang held back the UK's economic recovery after 2008, this is likely to prolong the recession, as well as causing extensive hardship.

On the other hand, flows of income to rentiers (ie those who profit from ownership of resources that are scarce or monopolised, rather than from productive work) are being almost entirely protected.<sup>1</sup> Because of this, we estimate that up to 45 per cent of the net cost of the furlough scheme will be spent on rent and debt repayments, amounting to £10 billion under a three-month shutdown, and £21 billion under a six-month shutdown. Since many would otherwise be unable to meet these obligations, this amounts to an implicit bail-out for banks and landlords.

All of this will exacerbate inequalities of wealth and power. In the short term, the combination of restrictions on discretionary spending and the continuation of essential spending (including on rent and bills) will have radically different impacts on households in different circumstances. For instance, our analysis shows that households in the second highest income decile could be saving an extra £189 per week if earners are able to continue working from home. Meanwhile, households in the second lowest income decile could be in debt by an extra £12 a week if earners are furloughed on 80 per cent of salary.

The long-term effects of rising indebtedness on the one hand, and a likely rebound in asset prices on the other, are likely to further widen inequalities between the working poor and the asset-owning wealthy.

### TACKLING RENTIER POWER: REBALANCING THE RESPONSE

- Without steps to actively redress these inequalities and to ensure the risks of the crisis are fairly shared, the UK's economic recovery is likely to be slow, uneven and unfair, worsening existing structural imbalances.
- Some of the potential steps are short-term: the crisis support schemes could be tweaked or redesigned to rebalance the burden and limit rent extraction. For example, struggling households could be entitled to a freeze on rent, debts and bills without new debts accruing. Meanwhile, interest rates on the state-backed portion of new business loans should be capped at 0 per cent or 0.5 per cent, as in the successful Swiss scheme. Bans on dividends and share buybacks could be considered to ensure that government support for large businesses, intended to protect their workers, does not indirectly subsidise shareholders and highly paid executives.
- If such short-term measures are not taken, it will be all the more critical to take longer-term steps as we emerge from the crisis to redress the resulting imbalances – between workers and asset-owners, creditors and debtors, landlords and tenants. Such measures could include higher taxes on wealth, land ownership or excess profits; rent controls; and retrospective write-downs of debts accrued during the crisis. This would recognise the implicit subsidies enjoyed by creditors and landlords and the sacrifices borne by low-paid debtors and tenants.
- Ultimately, if we want to address the root causes of these inequalities, we will need structural reforms to democratise ownership of wealth-creating assets and reduce rentier power. Given the crisis has created an urgent and ongoing need for access to affordable credit, the banking system would be a good place to start. State-owned RBS is already the single largest provider of

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<sup>1</sup> Although lenders will likely be hit by a rise in defaults on loans extended before the crisis, they are benefitting from significant state protection from losses incurred during the crisis. They are not being asked to extend debt relief to borrowers who are struggling and may even benefit from payment holidays in the form of increased flows of interest in the long term.

state-backed crisis loans to SMEs. Government should take advantage of its historically low share price to bring the bank into full public ownership and give it an explicit public interest mandate. Meanwhile, the British Business Bank should be turned into a full-fledged National Investment Bank, with a view to nurturing a new public and co-operative banking ecosystem.

- In relation to housing, the ban on ‘no fault’ evictions should be brought forward urgently as the first step in a wider package of reforms to boost renters’ rights. Longer-term, alternative models of land and housing ownership such as public ownership, municipal ownership, cooperative ownership and community ownership can help deal with the problems of rent extraction while aligning housing more closely with social needs.
- Finally, steps should be taken to avoid the crisis creating a more concentrated business landscape, with wealth and power consolidating in the hands of predatory capital. This could include establishing a state holding company to safely mothball distressed SMEs until the point when they can be re-launched as part of the economic recovery. A social wealth fund could also be created to purchase assets on behalf of the population in order to help challenge inequalities of resource and control in the economy, and ensure that returns to capital are more equally shared across society after the crisis subsides.

# INTRODUCTION

Recent weeks have seen government intervention on an unprecedented scale to shore up the finances of businesses and households during the Covid-19 pandemic. Most people have agreed that these measures were essential: criticism has tended to focus on the significant gaps remaining in the coronavirus safety net. However, the urgency of the situation, and the scale of the spending involved, has tended to obscure the political decisions being made about who should bear the economic costs and risks of the crisis and who should be protected.

A consensus seems to be emerging on both left and right that the massive expansion in the size and reach of the state amounts to ‘pushing politics to the left’.<sup>2</sup> But the bank bailouts of 2008 were also an unprecedented state intervention to shore up the economy. By unconditionally socialising bank losses while allowing banks to continue privatising the gains, they exacerbated rather than reduced existing inequalities of wealth and power. This was compounded by the political choice to follow the bailouts with a decade of austerity, which hit the poorest hardest. Far from pushing politics to the left, these interventions ultimately pushed it further to the right.

The critical question is therefore not the size of the state, but how the crisis and the response will affect the balance of wealth and power in the economy. This is the question we set out to explore in this paper. We assess the emerging evidence on the current and likely impacts of the government’s flagship schemes to support businesses and households, including via:

- a review of government documents and news coverage on the design and implementation of the schemes to date
- phone interviews and a virtual roundtable with experts and civil society representatives
- quantitative analysis of changes to household income and expenditure using the ONS Living Costs and Food Survey.

We conclude with a discussion of possible policy responses to mitigate the inequalities we have identified.

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2 See for example James Roberts, 29 April 2020, ‘Forget post-war socialism, it’s 1979 that should inspire our post-crisis recovery.’ CapX. <https://capx.co/forget-post-war-socialism-its-1979-that-should-inspire-our-post-crisis-recovery/>

# 1. WHO WINS AND WHO PAYS?

## DISTRIBUTIONAL IMPLICATIONS OF THE CRISIS RESPONSE

There are two key ways the government could seek to alleviate pressure on businesses and households during the crisis: by waiving or deferring expenditures, or by providing access to cash to replace lost incomes and revenue, either in the form of grants or repayable loans. The government's flagship schemes have focussed on the latter: for example, the Job Retention Scheme underwrites 80 per cent of the wages of furloughed workers, while the coronavirus Business Interruption Loan Scheme underwrites 80 or 100 per cent of the value of loans to businesses made by commercial banks. In what follows, we explore the implications of these choices. We also look at the limited measures that have been taken on the expenditure side of the equation, including temporary relief on mortgage and personal debt repayments. We do not pretend that this is a comprehensive overview of all the government's crisis response measures: rather, we have focussed on those which we believe have the most significant implications for our purposes.

It is important to note that the political context is still rapidly evolving. The cost of the various government interventions is, for the time being, being largely underwritten by the state in the form of increased public borrowing, state guarantees and central bank financing. While this is meeting the immediate funding needs, how the costs of these measures are ultimately shared across society over the long-term ultimately depends on political choices. What follows is an assessment of the distributional implications of the government's response to date, although we recognise that this may change as the government makes new policy decisions going forward.

### 1.1 BUSINESSES

The shutdown of large parts of the economy poses an obvious threat to many businesses, particularly small businesses without large cash reserves. A survey released on 8 April by the British Chambers of Commerce suggested that 57 per cent of British businesses did not have enough cash to survive beyond three months of lockdown, while 6 per cent had run out of cash already.<sup>3</sup>

Although the government has provided some direct cash support to businesses (for example via the Small Business Grant Fund), and has extended business rates relief and allowed VAT payments to be deferred, the central plank of its response has been to make it easier for businesses to take on private debt to see them through the crisis period.

#### Loans to small and medium-sized businesses

The government's flagship scheme to support small and medium sized businesses – the £330 billion Coronavirus Business Interruption Loan Scheme (CBILS) – is

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3 BCC Coronavirus Business Impact Tracker, 8 April 2020. <https://www.britishchambers.org.uk/news/2020/04/bcc-coronavirus-business-impact-tracker-businesses-not-yet-successfully-accessing-government-loan-and-grant-schemes>

in effect a state subsidy for commercial lenders to incentivise them to extend credit. The government is underwriting 80 per cent of the value of loans of up to £5 million for businesses with turnover of up to £45 million, and now 100 per cent of the smallest loans (up to £50,000).<sup>4</sup> A parallel scheme for larger businesses was launched in late April.<sup>5</sup> The government also pays the interest on the loan for the first year, along with any up-front lender fees. The ultimate cost to the public exchequer depends on the extent to which borrowers default on the loans and lenders call the guarantees. The Resolution Foundation estimates that the fiscal impact of the scheme will be £24 billion under a scenario where social distancing measures last for six months.<sup>6</sup>

Crucially, these guarantees against default are for the lender, not the business itself. A business that found itself unable to make the repayments on a CBILS loan would still face bankruptcy and potential repossession of its assets. In other words, businesses still bear the risk of borrowing during a downturn, and the cost of servicing this debt after the first year, while the lender's risk is substantially transferred to the state. Banks also benefit from Bank of England interventions such as the extension of the Term Funding Scheme, which offers them low-cost funding to support their real economy lending, with additional incentives for lending to small and medium-sized enterprises (SMEs).<sup>7</sup> In theory, these direct benefits to lenders should translate into an indirect benefit for businesses by making it easier for them to access credit on affordable terms. However, evidence so far suggests that this mechanism is largely failing.

As of 2 April, just £90 million of loans had been provided via the scheme, with businesses complaining they were being turned away, could not get a response, or had been asked to meet prohibitively complex conditions to demonstrate that they would still be viable after the crisis. That day the scheme was overhauled to scrap the rule that only businesses deemed ineligible for commercial credit could apply (a significant expansion of its scope). Since then lending has accelerated, but as of 21 April the scheme had still only lent £2.8 billion to 16,600 businesses, out of 300,000 thought to have enquired and £330 billion promised by Rishi Sunak.<sup>8</sup> This prompted the government, under pressure from various sources including the Bank of England,<sup>9</sup> to increase loan guarantees for the smallest businesses to 100 per cent.<sup>10</sup> Effectively, the failure of big banks to fulfil their public functions has forced the government to increase the subsidies it is providing them. While this may have been a necessary step, it is difficult to see what incentive banks face to pull their weight when not doing so is effectively rewarded rather than sanctioned.

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4 BBC, 27 April 2020, 'Sunak unveils 100% state-backed loans for small businesses'. <https://www.bbc.co.uk/news/business-52445988>

5 UK Government. 3 April 2020. 'Guidance: Apply for the Coronavirus Large Business Interruption Loan Scheme.' <https://www.gov.uk/guidance/apply-for-the-coronavirus-large-business-interruption-loan-scheme>

6 Hughes, R. et al. 2020. 'Doing more of what it takes: Next steps in the economic response to coronavirus.' Resolution Foundation. <https://www.resolutionfoundation.org/app/uploads/2020/04/Doing-more-of-what-it-takes.pdf>

7 Bank of England. 11 March 2020. 'Term Funding Scheme with additional incentives for SMEs (TFSME) - Market Notice.' <https://www.bankofengland.co.uk/markets/market-notices/2020/term-funding-scheme-market-notice-mar-2020>

8 UK finance. 23 April 2020. '£2.8bn provided to SMEs through coronavirus loan scheme.' <https://www.ukfinance.org.uk/press/press-releases/billions-provided-to-smes-through-coronavirus-lending-scheme>

9 Elliott, L. 17 April 2020. 'Bank of England tells lenders to 'get on with' covid 19 business loans.' Guardian. <https://www.theguardian.com/business/2020/apr/17/bank-of-england-tells-lenders-to-get-on-with-covid-19-business-loans>

10 BBC News, 27 April 2020, 'Sunak unveils 100% state-backed loans for small firms'. <https://www.bbc.co.uk/news/business-52445988>

Another approach, advocated by Policy Exchange<sup>11</sup> and the FT,<sup>12</sup> would have been to sidestep them altogether by providing government grants or loans direct to the smallest firms.

There are also serious concerns about the terms on which banks are offering loans. A statement by the London Chambers of Commerce complained that “SMEs are being offered loans with outrageous interest rates and demands for security from every possible source (including non-executives)”.<sup>13</sup> The government had to intervene to limit banks’ ability to ask for personal guarantees after widespread reports of small business owners being asked to put their homes up as security.<sup>14</sup> Banks can now only ask for guarantees for loans above £250,000 and recoveries are capped at 20 per cent of the value of the loan (the residual after the government’s 80 per cent guarantee). The fact that this was necessary is shocking; it strongly suggests that banks were seeking to make money from the scheme by clawing back the loan value twice in the event of a default – once from the government and once from the borrower’s assets.

Furthermore, no cap has been imposed on interest rates for loans above £50,000, and reports persist of some banks demanding double-digit interest after the first year.<sup>15</sup> Loans of below £50,000 under the new ‘bounce bank loan scheme’ – which are 100 per cent guaranteed by the state – will be charged a flat rate of 2.5 per cent interest.<sup>16</sup> While this may be lower than banks would otherwise charge this type of borrower, it is nonetheless surprisingly high given historically low interest rates and the guarantee against losses. It would be unacceptable for private lenders to profit from crisis loans to some of the country’s smallest businesses when the state has been forced to step in and fully socialise the losses. The UK approach contrasts to the Swiss scheme, widely praised for its effectiveness, under which the interest rate for the government-backed portion of *all* business loans is fixed at 0 per cent or 0.5 per cent.<sup>17</sup> This seems an obvious step to take, both to ensure that government guarantees are effective in enabling access to affordable credit, and to prevent lenders from exploiting them to extract rent from the system over and above their true cost of lending. The UK government’s failure to do this will likely result in an increased transfer of wealth to large commercial banks, both from struggling small businesses and from the state (for example if businesses are unable to meet the costs of loan repayments and guarantees are called in).

But why has the scheme been so ineffective to date? Of course, the radical uncertainty of the economic situation, and the likely non-viability of many businesses seeking loans, does pose problems for commercial lenders. This raises the question of whether an expansion of private debt is really the best mechanism here. But this is not the whole story. The behaviour of our large shareholder-owned banks so far during the crisis – lending to SMEs slowly and reluctantly, often with onerous conditions and demands for collateral attached

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11 Thicknesse, E. 2 April 2020. ‘Banks must engage with businesses on coronavirus loans or be bypassed, think tank says.’ <https://www.cityam.com/banks-must-engage-with-businesses-on-coronavirus-loans-or-be-bypassed-think-tank-says/>

12 See: <https://www.ft.com/content/0b8e4f90-78d1-11ea-af44-daa3def9ae03>

13 See: <https://www.londonchamber.co.uk/news/press-releases/it-s-all-down-to-the-banks-now-lcci-ceo/>

14 Booth, J. 7 April 2020. ‘Coronavirus loan scheme risks wall of redundancies and defaults say critics.’ CityAM. <https://www.cityam.com/coronavirus-loan-scheme-risks-wall-of-redundancies-and-defaults-say-critics/>

15 Boscia, S. 6 April 2020. ‘Banks ‘being defeated’ by coronavirus business loan scheme.’ CityAM. <https://www.cityam.com/banks-being-defeated-by-coronavirus-business-loan-scheme/>

16 HM Treasury, 4 May 2020, ‘New bounce back loans to launch today’. <https://www.gov.uk/government/news/new-bounce-back-loans-to-launch-today>

17 See: <https://www.ft.com/content/9ab135d3-f85e-4ca8-9bb4-0e487e134b10>

– mirrors their behaviour before the crisis.<sup>18</sup> Unlike the public and co-operative banks that exist in other European countries, the UK's large banks have severely eroded their capacity to undertake relationship-based lending to SMEs. They exhibit a strong preference for asset-backing lending and rely on centralised credit-scoring algorithms to assess creditworthiness. This contributes to making their lending highly pro-cyclical, and favouring property and financial markets over business lending.<sup>19</sup>

In this light, the failings of the CBILS are wholly unsurprising. As the London Chamber of Commerce concluded: “Banks have whittled away at their capacity to engage effectively with small and medium enterprise. The front line of banks are massively overburdened and do not have the depth of relationship or decision-making authority that they need for quick action. It has become painfully obvious that most lending decisions are being taken on algorithmic assessment of the risk of a business sector rather than the specialist ability of a small business banker to understand an individual company”.<sup>20</sup>

The implicit assumptions of government policy – first, that commercial lenders would simply act as neutral and unproblematic transmission mechanisms for pumping credit into the real economy; and second, that they would put their customers and the public interest first – fly in the face of the evidence about how our banking system really works. Banks' lack of a public interest mandate and duty to prioritise their shareholders means that asking them to prioritise the interests of the wider economy during a downturn, including by foregoing opportunities to extract maximum profit, is pushing against the grain. Indeed, the Bank of England had to force the big five banks to cancel their dividends, in the teeth of fierce resistance, at the same time as they seemed unable to fulfil their core public function of financing the real economy.<sup>21</sup>

Overall, then, the picture is one of struggling businesses being asked to take on more debt during an uncertain time, with the risks of these loans being shared between businesses and the state, while banks are significantly protected from losses. Of course, this does not mean that banks will straightforwardly benefit from the crisis overall: on the contrary, they are likely to take a significant hit from higher levels of defaults on loans extended *before* the crisis. The major banks are setting aside significant sums to cover these expected losses, slashing their reported profits for the first quarter of 2020.<sup>22</sup> The point here is that the government's *interventions* in this context act to protect banks from further losses, not to protect businesses against insolvency. If banks could have survived the downturn without these guarantees, they are an implicit subsidy; if not, they are an implicit bailout.

Fundamentally, the crisis has highlighted the drawbacks of leaving our money, credit and payments systems in the hands of a small number of private banks who face little incentive to serve the public interest. The highly unequal power

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18 Stirling, A. & King, L. 2017. 'Financing Investment: Reforming Finance Markets for the Long Term.' IPPR Commission on Economic Justice Discussion Paper. <https://www.ippr.org/publications/cej-financing-investment>

19 See Berry, C & Macfarlane, L. 2019. 'Building a new public banking ecosystem'. Report for the Labour Party commissioned by Communication Workers' Union & The Democracy Collaborative. <https://labour.org.uk/wp-content/uploads/2019/03/Building-a-new-public-banking-ecosystem.pdf>; Greenham, T. & Prieg, L. 2015. 'Reforming RBS: Local banking for the public good.' New Economics Foundation. [https://b3cdn.net/nefoundation/141039750996d1298f\\_5km6y1sip.pdf](https://b3cdn.net/nefoundation/141039750996d1298f_5km6y1sip.pdf)

20 See: <https://www.londonchamber.co.uk/news/press-releases/it-s-all-down-to-the-banks-now-lcci-ceo/>

21 Bank of England, 31 March 2020. 'Letter from Sam Woods to UK deposit takers on dividend payments, share buybacks and cash bonuses.' <https://www.bankofengland.co.uk/prudential-regulation/letter/2020/letter-from-sam-woods-to-uk-deposit-takers-on-dividend-payments-share-buybacks-and-cash-bonuses>; <https://www.ft.com/content/356dfb05-4dc1-47e5-afde-324ca1939328>

22 Makortoff, K. 1 May 2020. 'RBS profits halve as bank takes £800m coronavirus hit.' Guardian. <https://www.theguardian.com/business/2020/may/01/rbs-royal-bank-scotland-profits-bank-coronavirus>

relationship between these banks and small businesses may leave many with no choice but to take out loans with punitive conditions or face bankruptcy. If the economy does not rebound swiftly, the costs of servicing this debt could contribute to a further wave of business failures further down the line.

### Support for large businesses

When it comes to government support for large shareholder-owned businesses, public debate has understandably focussed on the prospect of explicit bailouts, such as that being requested by Richard Branson's Virgin Atlantic.<sup>23</sup> Less attention has been paid to the question of whether other aspects of the government's crisis interventions amount to an implicit bailout for shareholder interests.

In contrast to small and medium-sized firms, the government has introduced a number of schemes that enable large firms to access cash without having to secure loans from commercial banks. The Corporate Covid Financial Facility, under which the Bank of England uses newly-created money to buy corporate debt securities from large businesses, has been described by campaigners as a "behind-the-scenes bailout" shoring up large firms' cash reserves (although it is worth noting that the Bank is effectively lending money rather than issuing handouts).<sup>24</sup> So far, £10.7 billion has been extended to 35 businesses under the scheme, implying an average of over £300 million per business.<sup>25</sup> Confidentiality arrangements mean that the recipients of support under the scheme are not in the public domain, although it is known that easyJet has drawn £600 million.<sup>26</sup> Crucially, no social or environmental conditions have been attached to these loans.

On 20 April, the Chancellor also announced the establishment of a new 'Future Fund' to support innovative businesses that have been unable to access other government business support programmes, such as CBILS, because they are either pre-revenue or pre-profit and typically rely on equity investment. The scheme, which was developed in partnership with the British Business Bank, will provide £250 million of convertible loans to eligible companies on the basis that they are matched by investment from private investors. Applications for this funding will open in May, and as of yet no social or environmental conditions have been attached to the lending criteria.<sup>27</sup>

The Job Retention Scheme, under which the government pays 80 per cent of the wages of furloughed workers (which we discuss in more detail in section 1.2), can also be seen as an implicit bailout for companies. Of course, if we assume that furloughed workers would otherwise have been laid off and that their employer would not have continued to pay their wages, the principal beneficiary of the scheme is the worker themselves rather than the business. (Nonetheless, most furloughed workers will still see a 20 per cent drop in their income without a corresponding fall in their costs, and will thus take a substantial economic hit relative to their pre-crisis situation.) However, there are clearly also benefits to employers from being able to retain their workforce through the crisis rather than having to incur the costs of wholesale redundancies, rehiring and retraining.

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23 BBC News, 26 April 2020. 'Branson's Virgin Atlantic in virus bail-out talks.' <https://www.bbc.co.uk/news/business-52431290>

24 Positive Money, 9 April 2020. 'Press Release: Government bailing out big business with public money behind the scenes through CCFF.' <https://positivemoney.org/2020/04/government-bailing-out-big-business-with-public-money-behind-the-scenes-through-ccff/>

25 Bank of England Results and Usage Data (webpage), accessed 29 April 2020. <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data>

26 easyJet, 6 April 2020. 'EasyJet Statement: Covid Corporate Financing Facility and RCF Drawdown.' <http://otp.investis.com/clients/uk/easyjet1/rns/regulatory-story.aspx?cid=2&newsid=1384538>

27 UK Government, April 2020. 'Guidance: Apply for the Coronavirus Future Fund.' <https://www.gov.uk/guidance/future-fund>

The question therefore arises of whether some large companies are using the furlough scheme when they could afford to continue paying staff themselves - effectively allowing the state to underwrite the wages of their low-paid employees, while maintaining rewards to shareholders and senior staff. This was exemplified by public outrage over Premier League football clubs seeking to use the scheme for their low-paid staff while continuing to pay players and managers in full. In response to this backlash, many leading clubs have now announced their intention to pay the wages of all staff in full without drawing on the Job Retention Scheme, and in some cases to defer senior pay and bonuses.<sup>28</sup> It is perfectly possible that other profitable companies, less in the public eye, could afford to do the same but are taking advantage of the scheme anyway. This would indeed amount to an implicit subsidy from the government to these businesses.

Research by the High Pay Centre published on 26 April found that at least 18 FTSE 100 companies were using the furlough scheme. Over the past five years, these companies had paid out a combined £321 million in CEO pay and £26 billion in dividends. Their combined profits over the same period amounted to £42 billion – coincidentally, the same as the OBR’s estimate for the overall cost of the furlough scheme to the state.<sup>29</sup> Data is not available on how many of these companies are topping up wages to 100 per cent of salary, although we do know that many low-paid workers in the fast food and hospitality sectors are still fighting to secure this from profitable companies such as McDonald’s, Wetherspoons, and KFC.<sup>30</sup> Once again, the dominant model of shareholder primacy and the relative weakness of organised labour may result in an uphill battle for workers seeking full pay from companies not legally obliged to offer it. No clear expectation has been established that companies who can afford to contribute to the wages of furloughed staff have a social or moral obligation to do so. While fairness might dictate that those with the broadest shoulders should bear the biggest share of the economic burdens of lockdown, in practice the opposite is often happening.

It is also not entirely clear how far companies using the furlough scheme have reduced senior pay and dividends. In the FTSE 100 overall, at least 33 companies have cancelled dividends and 37 have cut executive pay (although only 13 have reduced the bonuses and long-term incentive plans that comprise the largest component of most executive pay packages).<sup>31</sup> This does suggest at least some degree of burden-sharing between shareholders and workers, although it also suggests that shareholder interests are being substantively protected in the majority of large companies.

Finally, it is worth noting that the necessity of introducing blanket emergency measures to support businesses has inevitably resulted in substantial government support being made available to companies that do not really need it. The most high profile example of this has been Tesco, which came under fire for paying out £635 million in dividends shortly after accepting a business rates holiday worth £585 million.<sup>32</sup> Supermarkets are technically eligible for support targeted at the retail and hospitality sectors to enable them to weather the lockdown, but of course remain open, and are therefore not the intended recipients. Indeed, changes in shopping habits and the shutdown of restaurants and bars mean that

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28 BBC Sport, 25 April 2020. Premier League: What is your top-flight club doing to plug the coronavirus cash flow gap? <https://www.bbc.co.uk/sport/football/52130206>

29 High Pay Centre, April 2020. ‘How are UK listed companies responding to the economic shutdown?’ <http://highpaycentre.org/pubs/high-pay-centre-briefing-corporate-response-to-the-economic-shutdown>

30 See: <https://mcstrike.uk/myplantowin/>

31 High Pay Centre, April 2020. ‘How are UK listed companies responding to the economic shutdown?’ <http://highpaycentre.org/pubs/high-pay-centre-briefing-corporate-response-to-the-economic-shutdown>

32 Wood, Z. 8 April 2020. ‘Tesco defends £635m dividend payout after coronavirus tax break.’ Guardian. <https://www.theguardian.com/business/2020/apr/08/tesco-sales-up-30-per-cent-because-of-pre-lockdown-stockpiling-coronavirus>

sales are booming. Notwithstanding the additional costs of implementing social distancing and hygiene measures, supermarkets are likely to be among the big winners from the crisis.

Overall, then, it is reasonable to suggest that many large profitable companies are benefiting from government support principally designed to benefit others, be it their own workers or vulnerable businesses in other sectors. In at least some cases, this may be indirectly subsidising continued payouts to shareholders and highly paid executives.

## 1.2 HOUSEHOLDS

As with businesses, the government can seek to alleviate pressure on households either by waiving or deferring expenditures, or by providing access to cash to replace lost income in the form of grants or repayable loans. So far, it has focussed primarily on the latter, through the Job Retention Scheme and some increases in benefits. In almost all cases, steps towards the former have been limited to the deferral of payments, often with interest, rather than their cancellation. In other words, households who are still struggling to weather the crisis financially are being encouraged to take on additional private debt to tide them over. As we will show, this is a political decision with highly significant distributional implications – particularly when the state is stepping in to subsidise the wages of a large proportion of the workforce.

### **Expenditure: Rent, debt and bill payments**

For holders of mortgages and other types of personal debt, the key measure has been the extension of payment ‘holidays’. The government has agreed with mortgage lenders that anyone not already in arrears who is struggling because of the pandemic can access a mortgage holiday for up to three months.<sup>33</sup> As of 27 April, UK Finance reported that 1.6 million mortgage holidays had been granted, affecting one in seven UK mortgages.<sup>34</sup> Many borrowers already had access to mortgage holidays, but this depended on the terms of their contract. In addition to widening eligibility, the government has agreed with providers that taking a holiday during the crisis should not impact a borrower’s credit file. Meanwhile, the Financial Conduct Authority (FCA) has announced its expectation that lenders should offer similar payment holidays in relation to personal debt.<sup>35</sup> This was initially limited to credit cards and unsecured loans, but now extended to rent-to-own, car finance and payday loan agreements.<sup>36</sup> The FCA has also required banks to offer interest-free overdrafts up to £500.

The crucial thing to understand about payment ‘holidays’ is that they do not amount to a direct sacrifice of income on the part of creditors. On the contrary, borrowers who take a payment holiday will ultimately pay more money in cash terms to the lender than they would have done otherwise. This is because interest

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33 HM Treasury, 9 April 2020. ‘Guidance: Support for those affected by COVID-19.’ <https://www.gov.uk/government/publications/support-for-those-affected-by-covid-19/support-for-those-affected-by-covid-19>

34 UK Finance, 28 April 2020. ‘Lenders grant 1.6 million payment holidays to mortgage borrowers.’ <https://www.ukfinance.org.uk/press/press-releases/lenders-grant-1-6-million-payment-holidays-to-mortgage-holders>

35 FCA, 9 April 2020. ‘FCA confirms temporary financial relief for customers impacted by coronavirus.’ <https://www.fca.org.uk/news/press-releases/fca-confirms-temporary-financial-relief-customers-impacted-coronavirus>

36 FCA, 17 April 2020. ‘Rent-to-own, buy-now pay-later and pawnbroking agreements and coronavirus: draft temporary guidance for firms.’ <https://www.fca.org.uk/publications/guidance-consultations/rent-to-own-buy-now-pay-later-pawnbroking-agreements-coronavirus>; FCA, 17 April 2020. ‘Motor finance agreements and coronavirus: draft temporary guidance for firms.’ <https://www.fca.org.uk/publications/guidance-consultations/motor-finance-coronavirus>; FCA, 17 April 2020, ‘High-cost short-term credit and coronavirus: draft temporary guidance for firms.’ <https://www.fca.org.uk/publications/guidance-consultations/high-cost-short-term-credit-coronavirus>

continues to accrue on the outstanding loan amount during the holiday period (and at a much higher rate of interest than banks' own borrowing rates, which are currently close to zero). The borrower then must make up both the missed payments and the extra interest once the holiday is over. This can be done in various ways, for example through higher monthly payments or by extending the life of the loan. For this reason, the FCA cautions that it is in borrowers' interests to keep making repayments if they possibly can. The exception to this is short-term, high-cost credit (payday loans), where the FCA has specified that no interest should accrue.<sup>37</sup> (It is worth noting that these new arrangements do not affect the FCA's existing guidance on forbearance for borrowers already in severe financial difficulty, which can include reducing or waiving future payments as well as deferrals, at the discretion of the lender.)

According to UK Finance, the average mortgage holiday offered so far amounts to £755 of suspended payments, which includes £260 of deferred interest.<sup>38</sup> This is calculated with reference to the average interest rate in the UK (2.37 per cent) on an average loan size (£132,128). On this basis, taking a three-month mortgage holiday would see monthly payments increase by around £12 after the holiday to account for the additional interest incurred. Overall, the total amount repaid would increase from £163,033 to £163,388 – putting the eventual 'cost' of the holiday, paid from the household to the bank, at £355 in nominal cash terms.

Holders of mortgages and personal debt, therefore, are only being given a temporary breathing space – a service for which they will eventually pay. In this, however, they are still in a much better position than private renters, who have no comparable rights. Buy-to-let landlords are eligible for mortgage holidays, which they are 'expected' but not required to pass on to tenants in the form of a rent holiday. Even if they do, guidance makes clear that the resulting rent arrears must be fully repaid afterwards, and that there is no expectation on landlords to waive or reduce rent payments altogether.<sup>39</sup> Evictions have been paused for three months, but many are concerned that without wider changes this simply amounts to a stay of execution for tenants in financial difficulty. The government has made some changes to Local Housing Allowance, but these will inevitably still leave large shortfalls between actual rents and housing support for many low-income tenants.<sup>40</sup>

Government guidance declares that "most tenants will be able to pay rent as normal" and stresses that landlords are "not required" to suspend rents.<sup>41</sup> It is therefore unsurprising that the National Landlords' Association felt emboldened to warn that the crisis is "not a green light" for tenants to stop paying rent.<sup>42</sup> Yet emerging evidence shows beyond doubt that many private renters are facing severe financial difficulties. Renters are more likely than those in other tenures to be affected by the coronavirus income shock, and less likely to have a financial

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37 FCA, 17 April 2020, 'High-cost short-term credit and coronavirus: draft temporary guidance for firms.' <https://www.fca.org.uk/publications/guidance-consultations/high-cost-short-term-credit-coronavirus>

38 UK Finance, 28 April 2020. 'Lenders grant 1.6 million payment holidays to mortgage borrowers.' <https://www.ukfinance.org.uk/press/press-releases/lenders-grant-1-6-million-payment-holidays-to-mortgage-holders>. See also: <https://www.financialreporter.co.uk/mortgages/one-in-seven-mortgage-borrowers-take-covid-19-payment-holiday.html>

39 MHCLG. 'Coronavirus (COVID-19). Guidance for Landlords and Tenants.' [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/876500/Consolidated\\_Landlord\\_and\\_Tenant\\_Guidance\\_COVID\\_and\\_the\\_PRS\\_v4.2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876500/Consolidated_Landlord_and_Tenant_Guidance_COVID_and_the_PRS_v4.2.pdf)

40 See: <https://www.resolutionfoundation.org/app/uploads/2020/04/Housing-Outlook-April-2020.pdf>

41 MHCLG. 'Coronavirus (COVID-19). Guidance for Landlords and Tenants.' [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/876500/Consolidated\\_Landlord\\_and\\_Tenant\\_Guidance\\_COVID\\_and\\_the\\_PRS\\_v4.2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876500/Consolidated_Landlord_and_Tenant_Guidance_COVID_and_the_PRS_v4.2.pdf)

42 Peachey, K. 6 April 2020. 'You can't just stop paying rent, tenants told.' BBC News. <https://www.bbc.co.uk/news/business-52182377>

buffer to help them weather this.<sup>43</sup> Financial precarity was already a reality for many renters before the crisis hit: research by Shelter in 2017 found that one in three had gone into debt the previous year to help them cover their rent.<sup>44</sup>

Recent polling has found that six in 10 renters have suffered financially because of the crisis. Of these, one in five had been forced to choose between rent and food or bills, and one in four had felt compelled to leave their homes.<sup>45</sup> Meanwhile, a survey by Landlord Action found that 74 per cent of landlords had been contacted by tenants who were struggling to pay their rent.<sup>46</sup> Research published on 9 April suggested that residential tenants were already paying less than half what they owed.<sup>47</sup> Far from being restricted to a small minority, inability to pay rent is fast becoming a systemic crisis.

The government's approach appears to assume an equal power relationship in which landlords can be trusted to "show compassion" and tenants can negotiate with them on a level playing field. Guidance refers to "maintaining the positive partnership between tenants and their landlords", making the assumption that such a positive partnership exists. Mortgage holidays for landlords "will ensure no unnecessary pressure is put on their tenants", and when the crisis is over, landlords and tenants will "work together to agree an affordable rent repayment plan".<sup>48,49</sup> In reality, the power relationship between UK tenants and their landlords is among the most unequal in Europe, and the response to the current crisis reflects this. Anecdotal evidence suggests that landlords are not consistently passing mortgage holidays on to their tenants, with many renters still being told they must pay their rent in full or face eviction later – or even being served with eviction notices in response to requests to defer rent payments.<sup>50</sup> One recently-reported case involved a billionaire-owned corporate landlord refusing tenants' collective request for a 20 per cent rent reduction on the basis that their savings on lunches and holidays should more than offset any drop in their income.<sup>51</sup> (It is noteworthy that the landlord in question had agreed similar rent reductions with individual tenants on condition that they did not disclose them to others in the building – suggesting their real objection was not to the tenants' claims about affordability but to the principle of negotiating with them collectively.)

This response shows how far removed the reality is from the world of government guidance. But it is also unusually honest about the economic trade-off that is being expected here. The discretionary spending of the low-paid has been curtailed drastically, with all the knock-on impacts on the rest of the economy that

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- 43 Judge, L. & Pacitti, C. 2020. 'The Resolution Foundation Housing Outlook.' Resolution Foundation Briefing Q2 2020. <https://www.resolutionfoundation.org/app/uploads/2020/04/Housing-Outlook-April-2020.pdf>
- 44 Jones, R. 12 May 2017. 'One in three tenants borrow money to pay rent, says Shelter.' Guardian. <https://www.theguardian.com/money/2017/may/12/tenants-borrow-money-pay-rent-low-earners-shelter>
- 45 Gayle, D. 13 April 2020. 'Millions in UK having to choose between paying rent and eating, poll suggests.' Guardian. <https://www.theguardian.com/world/2020/apr/13/millions-having-to-choose-between-paying-landlord-or-eating-research-suggests-coronavirus>
- 46 Kirkman, W. 21 April 2020. 'Three quarters of landlords warn their tenants will fail to pay rent as coronavirus lockdown continues.' Daily Mail. <https://www.thisismoney.co.uk/money/buytolet/article-8236551/Three-quarters-landlords-say-tenants-worried-struggle-pay-rent.html>
- 47 See: <https://www.ft.com/content/0fe28f08-b340-4191-a9e0-dd723eb062e2>
- 48 MHCLG, 18 March 2020. 'Press release: Complete ban on evictions and additional protection for renters.' <https://www.gov.uk/government/news/complete-ban-on-evictions-and-additional-protection-for-renters>
- 49 MHCLG. 'Coronavirus (COVID-19). Guidance for Landlords and Tenants.' [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/876500/Consolidated\\_Landlord\\_and\\_Tenant\\_Guidance\\_COVID\\_and\\_the\\_PRS\\_v4.2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876500/Consolidated_Landlord_and_Tenant_Guidance_COVID_and_the_PRS_v4.2.pdf)
- 50 See for example letter to Robert Jenrick from London Renters' Union, 31 March 2020. <https://twitter.com/LDNRentersUnion/status/1244921356334108672>
- 51 Mohdin, A. 21 April 2020. 'Tenants told to use lunch and holiday savings to pay full rent.' Guardian. <https://www.theguardian.com/money/2020/apr/21/tenants-told-to-use-lunch-and-holiday-savings-to-pay-full-rent>

this entails; but they must at all costs continue to pay their rent. In effect, those least financially able to weather the crisis are being asked to get into debt (to lenders if a rent suspension is not offered, and to the landlord themselves if it is) in order to protect the incomes of those most financially able to weather it.

This lack of equitable burden-sharing is extremely hard to justify. Only 36 per cent of landlords surveyed by Landlord Action said that they would struggle to pay a mortgage if they did not receive rent that month. Indeed, 39 per cent of all landlords do not have a mortgage at all, and less than half report holding property for the income stream.<sup>52</sup> Those who would struggle are able to access a mortgage holiday. By contrast, recall that one-third of renters were already struggling to pay their rent even before the crisis struck. As London Renters' Union have pointed out, many renters pay 60 to 70 per cent of their income on rent, so even for furloughed workers, a drop to 80 per cent of salary may leave them struggling to make ends meet.<sup>53</sup> When so many are suffering financial hardship, why should landlords alone be entitled to complete protection of their income? If there is an economic cost to be borne, is it not reasonable to expect them to shoulder a share of it?

Finally, it is worth briefly noting the position with respect to utility bills, council tax, and social security debt, since these can be significant areas of problem debt for those in financial hardship. The government has agreed that credit meters will not be disconnected during the outbreak for those struggling to pay. They can also seek help from suppliers 'which could include considering reassessing, reducing or pausing debt repayment and bill payments'.<sup>54</sup> However, Ofgem has been less interventionist on this front than the FCA has on personal debt, leaving this largely to the discretion of energy companies. There is thus a real possibility of many financially vulnerable households being left with additional debts to utility firms to repay when the crisis is over, on top of additional rent, mortgage or personal debt. There has also been no blanket suspension of council tax debts and social security debts, although ministers have suggested that the £500 million hardship fund being administered through local authorities will be used principally to provide council tax relief to struggling households.<sup>55</sup>

As with rent, there is growing evidence of widespread problems paying bills which could be storing up a debt crisis for the future. A recent survey by Citizens' Advice found that one-quarter of respondents had missed a payment, and 20 per cent had missed paying rent, council tax or telecoms bills. Young people and those in insecure work were particularly likely to struggle. The charity warned that 11 million people could face a "looming financial cliff-edge" when government support schemes come to an end.<sup>56</sup> As after 2008, this debt overhang is likely to prolong the recession as swathes of low and middle earners are subjected to an ongoing squeeze on spending. Debt advice charities have called for enforcement action to be suspended and a three-month council tax holiday provided to those who need it, funded by central government.<sup>57</sup>

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52 Judge, L. & Pacitti, C. 2020. 'The Resolution Foundation Housing Outlook.' Resolution Foundation Briefing Q2 2020. <https://www.resolutionfoundation.org/publications/housing-outlook-q2-2020/>

53 See: <https://twitter.com/LDNRentersUnion/status/1244921356334108672>

54 BEIS, 2020. 'BEIS / domestic energy supply companies: agreement'. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/873960/Supplier\\_Agreement\\_19.3.2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873960/Supplier_Agreement_19.3.2020.pdf)

55 Martin, R. 21 March 2020. 'Do you have to pay council tax during the coronavirus outbreak?' Metro. <https://metro.co.uk/2020/03/21/coronavirus-uk-pay-council-tax-covid-19-outbreak-12435217/>

56 Osborne, H. 1 May 2020. 'Millions face 'financial cliff-edge' due to Covid-19 crisis, says Citizens' Advice.' Guardian. <https://www.theguardian.com/money/2020/may/01/financial-covid-19-citizens-advice-bill-payments>

57 See: <https://www.stepchange.org/media-centre/press-releases/coronavirus-pause-bailiff-action.aspx>

## Incomes: The Job Retention Scheme

The government's flagship scheme to support households is the Job Retention Scheme, which enables employers to apply for a grant to cover 80 per cent of the wages of furloughed staff, as well as pensions and national insurance contributions, up to a maximum of £2,500 a month. Workers can be furloughed because of the economic impacts of the lockdown or because of caring responsibilities; for example, parents with children out of school. This money is paid direct to employers and is designed to avoid layoffs. Crucially, however, the support is not conditional on avoiding redundancies, as is the case with similar schemes in Denmark and France.

The scheme is expected to be the most expensive of all the new measures introduced so far. The Resolution Foundation has estimated that the net fiscal impact of the scheme will be £46 billion under a scenario where social distancing lasts for six months.<sup>58</sup>

While we consider that the scheme is essential to prevent widespread layoffs, in the context of the expenditure policies discussed above and the prevailing balance of power in the economy, in practice it may end up reinforcing existing inequalities. To see why, it is informative to consider how the response to Covid-19 has impacted the flow of money through the economy.

In normal times, the UK economy is driven by household spending (last year household consumption accounted for 63 per cent of GDP).<sup>59</sup> Some of this spending is on essential goods like housing, utility bills and food, while the rest represents discretionary spending on things like transport, household goods, holidays, restaurants and cultural activities.

What matters for how well households can weather the economic shock of Covid-19 is not simply how much income they have, but how much money they have left after their essential expenses have been paid. As the Institute for Fiscal Studies recently noted:<sup>60</sup>

***“If a household typically spends much of its budget on essential or inflexible items, it has less scope to adjust to a lower income by reducing spending without incurring relatively severe hardship. Hence it is relatively likely to run down savings, miss bill payments or go into debt. At the other extreme, if a large fraction of a household’s budget goes on the kind of social and recreational activities that are now prohibited, or on commuting, which is now unnecessary for many workers, it may require little – or even no – further adjustment to cope with a fall in income.”***

Building on the methodology developed by the Institute for Fiscal Studies, figure 1.1 shows spending in each income decile grouped into three broad categories.

1. **Essential spending** that is hard to adjust in the short run (coloured green): groceries, utility bills, mortgage costs (including repayments), council tax and rent.
2. **Discretionary spending** on goods and services now prohibited or discouraged due to social distancing (coloured blue): travel, leisure and eating out.
3. **Other spending** (coloured grey): for example, clothing and shoes, and household goods.

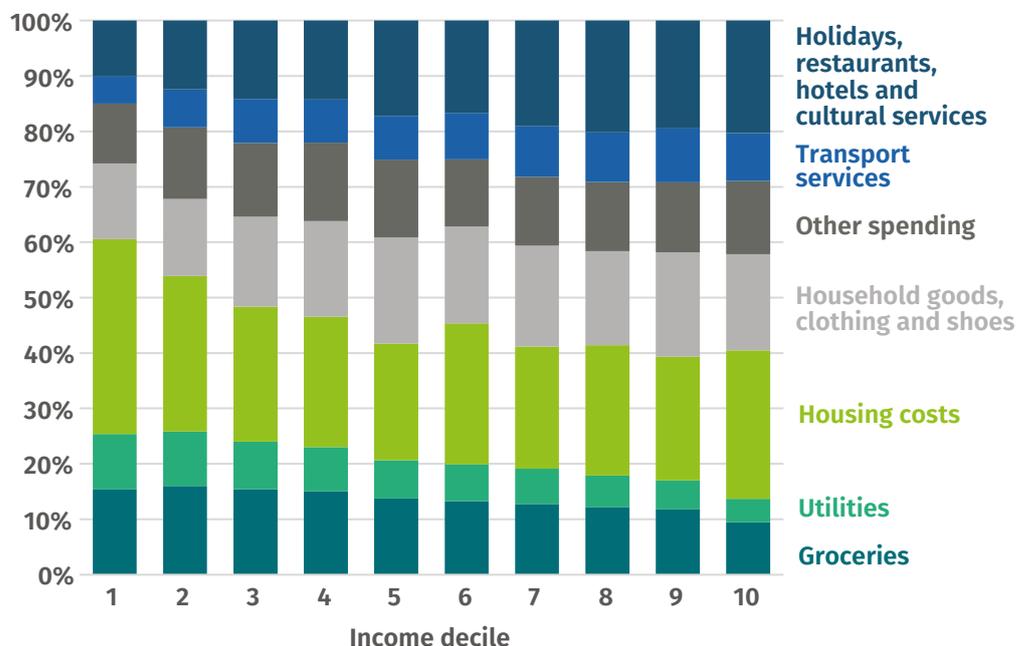
58 Hughes, R. et al. 2020. 'Doing more of what it takes: Next steps in the economic response to coronavirus.' Resolution Foundation. <https://www.resolutionfoundation.org/app/uploads/2020/04/Doing-more-of-what-it-takes.pdf>

59 House of Commons Library, 2020. 'Components of GDP: Key Economic Indicators'. <https://commonslibrary.parliament.uk/research-briefings/sn02787/>

60 Crawford, R., Davenport, A. Joyce, R. and Levell, P. 2020. 'Household spending and coronavirus'. <https://www.ifs.org.uk/publications/14795>

**FIGURE 1.1: LOWER INCOME HOUSEHOLDS SPEND PROPORTIONATELY MORE ON ESSENTIALS THAN HIGH INCOME HOUSEHOLDS**

Average share of spending on different categories by income decile



Source: Authors' calculations using the ONS Living Costs and Food Survey (2019)<sup>61</sup>

Note: Figures are given as a share of total household spending including mortgage interest and capital costs. 'Groceries' includes food and drinks consumed at home, tobacco and personal care goods. 'Utilities' includes rent, maintenance, water and sewerage, gas, electricity and fuel (excluding vehicle fuel). 'Housing costs' includes rent, mortgage interest and capital costs, and council tax. 'Household goods' includes furniture, textiles, appliances, tableware, tools, vehicle purchases, personal effects, audiovisual equipment, recreational goods, personal care appliances, phone equipment and newspapers/books. 'Other spending' includes social protection, education, health spending, phone services, insurance, financial services and postal services. 'Holidays, restaurants, hotels and cultural services' also includes personal care services such as hairdressing.

Unsurprisingly, lower income households spend proportionately more on essential goods, while higher income households spend proportionately more on the kind of discretionary activities that are now prohibited due to social distancing. For many households, a significant proportion of the income they earn ends up flowing upwards to asset-owners in the form of rents and interest. As described in the previous section, none of the policies introduced by the government so far have materially changed this.

The Resolution Foundation estimates that the net cost<sup>62</sup> of the Job Retention Scheme to the Treasury will be £21 billion, assuming that one-third of private

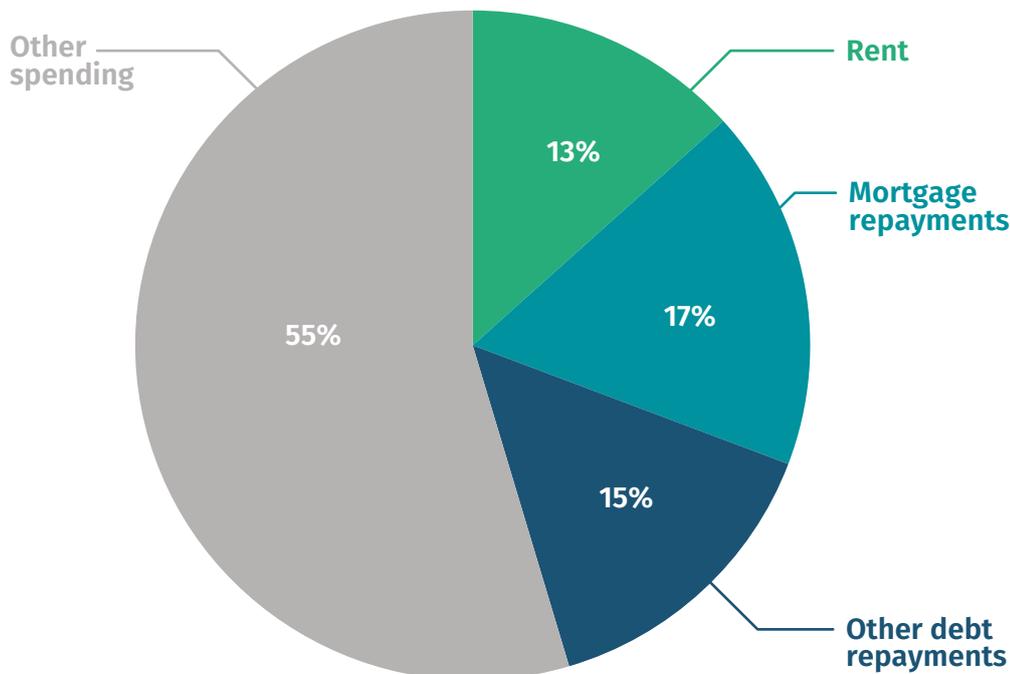
61 ONS, 2020. 'All data related to Family spending in the UK: April 2018 to March 2019'. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/april2018tomarch2019/relateddata>

62 The Resolution Foundation estimates the net cost by calculating the additional spending on furloughed wages and pension contributions, and netting off the increase in income tax and employee NICs revenues paid while the JRS is in operation. This tax take is calculated relative to a scenario in which no Job Retention Scheme was implemented and a much larger increase in unemployment takes place.

sector employees are placed on the scheme for three months.<sup>63</sup> This amounts to £1,014 per employee per month.

**FIGURE 1.2: UP TO 45 PER CENT OF THE NET COST OF THE JOB RETENTION SCHEME WILL GO TO LANDLORDS, BANKS AND OTHER LENDERS**

**Estimated breakdown of Job Retention Scheme support spending**



Source: Authors' calculations using the Resolution Foundation's estimate of the net cost of the Job Retention Scheme,<sup>64</sup> the ONS Living Costs and Food Survey 2019,<sup>65</sup> ONS data on employment in the UK,<sup>66</sup> ONS data on households by economic activity in the UK,<sup>67</sup> and the ONS Wealth and Assets Survey.<sup>68</sup>

A detailed assessment of how much of this will be spent on rent and interest is beyond the scope of this report. But on average, per working adult, working households spend £147 on debt repayments (excluding mortgages) per month,<sup>69</sup>

63 Hughes, R. et al. 2020. 'Doing more of what it takes: Next steps in the economic response to coronavirus.' Resolution Foundation. <https://www.resolutionfoundation.org/app/uploads/2020/04/Doing-more-of-what-it-takes.pdf>

64 Hughes, R. et al. 2020. 'Doing more of what it takes: Next steps in the economic response to coronavirus.' Resolution Foundation. <https://www.resolutionfoundation.org/app/uploads/2020/04/Doing-more-of-what-it-takes.pdf>

65 ONS, 2020. 'Family spending workbook 5: expenditure on housing'. <https://www.ons.gov.uk/people/populationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook5expenditureonhousing>

66 ONS, 2020. 'Employment, unemployment and economic inactivity for people aged 16 and over and aged from 16 to 64 (not seasonally adjusted)'. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/nsaemploymentunemploymentandeconomicinactivityforpeopleaged16andoverandagedfrom16to64a02>

67 'Households by combined economic activity status of household members'. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/workingandworklesshouseholdstableahouseholdsbycombinedeconomicactivitystatusofhouseholdmembers>

68 Authors' analysis of ONS, 2020. Wealth and Assets Survey, Waves 1-5 and Rounds 5-6, 2006-2018. [data collection]. 11th Edition.

69 Authors' analysis of ONS, 2020. Wealth and Assets Survey, Waves 1-5 and Rounds 5-6, 2006-2018. [data collection]. 11th Edition.

£135 on rent and £177 on mortgage costs.<sup>70</sup> Together, this amounts to £459 per month (although one in seven UK mortgages are now subject to a payment holiday as described above, this money is still owed and interest continues to accrue, therefore we do not consider it to be a form of relief). Overall this means that as much as 45 per cent of the net cost of the Job Retention Scheme may ultimately end up flowing to landlords and banks in the form of rent, debt repayments and mortgage repayments. This would amount to £10 billion under a three-month lockdown, and £21 billion under a six-month lockdown.

In the absence of measures to freeze outgoings such as rent and debt repayments, the Job Retention Scheme and other household income measures can therefore be viewed as in part an indirect means of protecting income streams for asset owners.

While the Job Retention Scheme will ensure that wages continue to be paid that might otherwise be lost, many workers will still experience a drop in income to 80 per cent of their previous wages. Others have not been so lucky: a wave of redundancies has already led to more than 1.8 million new people applying for universal credit.<sup>71</sup> In some cases, this will provide an income of just £94 per week.

At the same time, richer households, who normally spend proportionally far more on the kind of discretionary spending that is now prohibited or discouraged, have seen their expenditure fall dramatically as restaurants, bars, theatres, cinemas and cafes have all closed, and domestic and international travel has ground to a halt. This means that many higher income households who have maintained their employment and income will now find themselves with more money left over each month, and will be accumulating significant cash savings.

Figure 1.3 illustrates the impact of the lockdown on the flow of income (in green) and expenditure (in red) for a household in the second highest income decile that has not experienced a change in employment status or income. The analysis makes an illustrative assumption that discretionary spending (defined above) falls by two thirds as a result of the lockdown, while 'essential' and 'other' spending stays constant. It shows that, on average, these households will be saving nearly £200 a week extra compared to business as usual.<sup>72</sup>

In contrast, low-income households will face increasingly squeezed household budgets – particularly those that experience a change in employment status. Evidence suggests that those in low-income households are more likely to be furloughed, because the occupations that have been directly affected by social distancing measures, such as hospitality roles, as well as those that are not suited to working from home, tend to be lower paying than average.<sup>73</sup>

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70 Figures are averaged across all working households – average spend on rent for renting households only would be higher, for example. Sources: ONS, 2020. 'Family spending workbook 5: expenditure on housing'. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook5expenditureonhousing>; 'Households by combined economic activity status of household members'. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/workingandworklesshouseholdstableahouseholdsbycombinedeconomicactivitystatusofhouseholdmembers>; 'Employment, unemployment and economic inactivity for people aged 16 and over and aged from 16 to 64 (not seasonally adjusted)'. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/nsaemploymentunemploymentandeconomicinactivityforpeopleaged16andoverandagedfrom16to64a02>

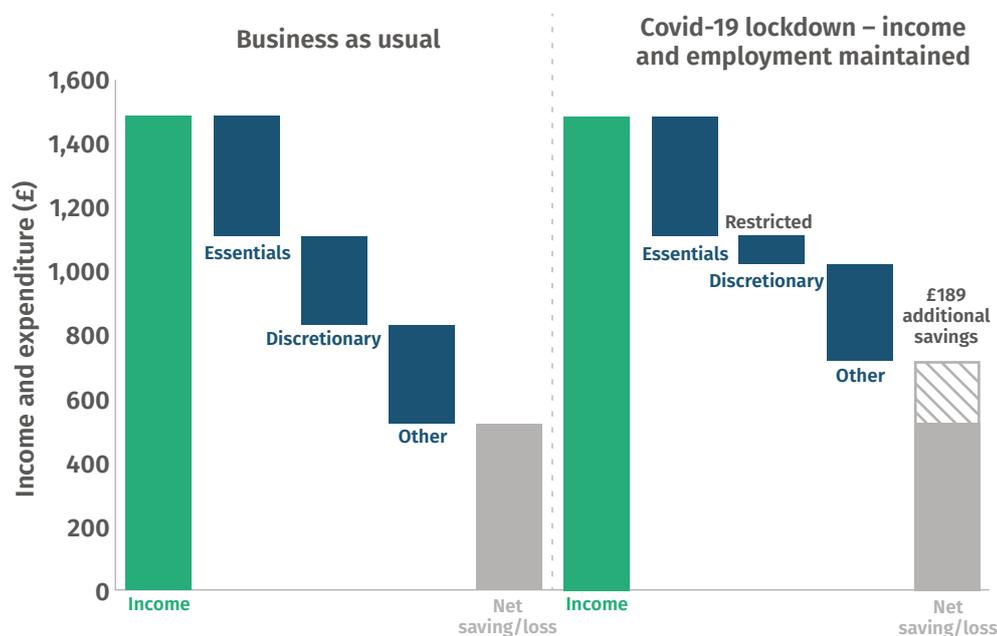
71 See: <https://www.bbc.co.uk/news/uk-politics-52536210>

72 It can be argued that there is a 'cost' to households of not being able to spend money on things they would normally like to pay for. Spending in restaurants may be 'non-essential', but people spend money there because they value it. But in purely cash terms, it is clear that many higher income households will emerge from this crisis better off.

73 Hughes, R. et al. 2020. 'Doing more of what it takes: Next steps in the economic response to coronavirus.' Resolution Foundation. <https://www.resolutionfoundation.org/app/uploads/2020/04/Doing-more-of-what-it-takes.pdf>

**FIGURE 1.3: MANY HIGH-INCOME HOUSEHOLDS ARE SAVING MORE UNDER LOCKDOWN DUE TO FALLS IN DISCRETIONARY SPENDING**

Average weekly income (green) and expenditure (red) for households in the ninth income decile



Source: Authors' calculations using the ONS Living Costs and Food Survey (2019)<sup>74</sup>

Note: 'Business as usual' shows actual figures for 2019. 'Covid-19 lockdown – no furlough' assumes that discretionary spending falls by two thirds, while 'essential' and 'other' spending stays constant.

Essential spending includes groceries, utility bills, mortgage costs (including repayments), council tax and rent. Discretionary spending includes transport, holidays, leisure and eating out. Other spending includes clothing, shoes and household goods. Income does not include withdrawal of savings, loans, hire purchase agreements, credit card transactions and proceeds from the sale of assets.

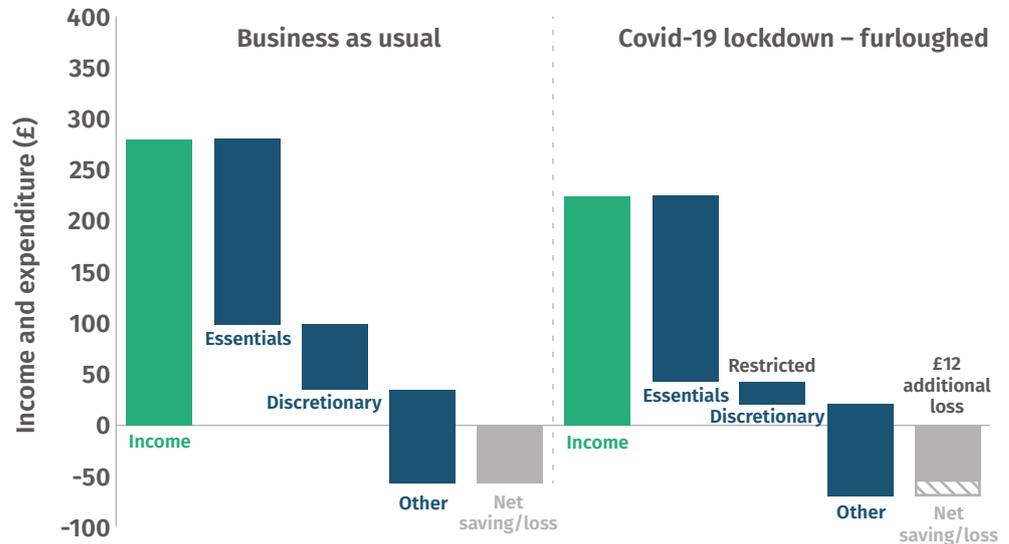
Figure 1.4 illustrates the impact of the lockdown on the flow of income (in green) and expenditure (in red) for a household in the second lowest income decile that has been placed on the Job Retention Scheme, and has as a result experienced a 20 per cent fall in income. Again, the analysis assumes that discretionary spending falls by two thirds as a result of the lockdown, while 'essential' and 'other' spending stays constant.

On average, households in this group were already spending more than their incomes ('income' does not include loans, hire purchase agreements, credit card transactions, withdrawal of savings and proceeds from the sale of assets). But it is clear that, in many cases, the lockdown will only make this precarious position even worse.

<sup>74</sup> ONS, 2020. 'All data related to Family spending in the UK: April 2018 to March 2019'. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/april2018tomarch2019/relateddata>; 'Income by gross income decile group, UK, financial year ending 2019'. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/11663incomebygrossincomedecilegroupukfinancialyearending2019>

**FIGURE 1.4: LOW INCOME HOUSEHOLDS THAT HAVE BEEN PLACED ON FURLOUGH ARE SEEING HOUSEHOLD BUDGETS SQUEEZED**

Average weekly income (green) and expenditure (red) for households in the second income decile



Source: Authors' calculations using the ONS Living Costs and Food Survey (2019)<sup>75</sup>

Note: 'Business as usual' shows actual figures for 2019. 'Covid-19 lockdown – no furlough' assumes that income falls by 20 per cent (although in practice this may vary due to other income sources and the interaction with the tax and benefit system), discretionary spending falls by two thirds, and 'essential' and 'other' spending stays constant. Essential spending includes groceries, utility bills, mortgage costs (including repayments), council tax and rent. Discretionary spending includes transport, holidays, leisure and eating out. Other spending includes clothing, shoes and household goods. Income does not include withdrawal of savings, loans, hire purchase agreements, credit card transactions and proceeds from the sale of assets.

The above examples have been chosen to illustrate how the lockdown can affect household budgets in dramatically different ways. But in practice, the impact will vary widely across the income distribution depending on spending habits and employment status. Crucially, both examples relate to households that are lucky enough to be in work or furloughed. But for the rapidly growing number of households who are becoming reliant on universal credit, the position is significantly worse.

### 1.3 CONCLUSIONS: THE PROTECTION OF RENTIER INCOME

When we put all of this together, a common picture begins to emerge. While there will no doubt be instances where wealthy asset-owners lose out, a significant proportion are likely to come out of the crisis relatively unscathed. In particular, there has been almost complete financial protection for 'rentier' income: that is, income arising from the ownership of assets that are scarce or monopolised, over and above that required to bring the asset into productive use (see box). While economists may disagree about some of the details within this definition, most can agree that the UK economy today is characterised by high levels of rent extraction. Based on the analysis above, it also seems relatively uncontroversial to say that the crisis measures to date do nothing to

<sup>75</sup> ONS, 2020. 'All data related to Family spending in the UK: April 2018 to March 2019'. <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/april2018tomarch2019/relateddata>

reduce the scope for rent extraction, and in some cases may even enhance it. Meanwhile, high income households who are continuing to earn as normal may well see their cash balances enhanced as their spending falls. Groups who fall into both of these categories, such as landlords with multiple properties, are likely to be among the biggest winners of the crisis.

#### WHAT DO WE MEAN BY 'ECONOMIC RENT'?<sup>76</sup>

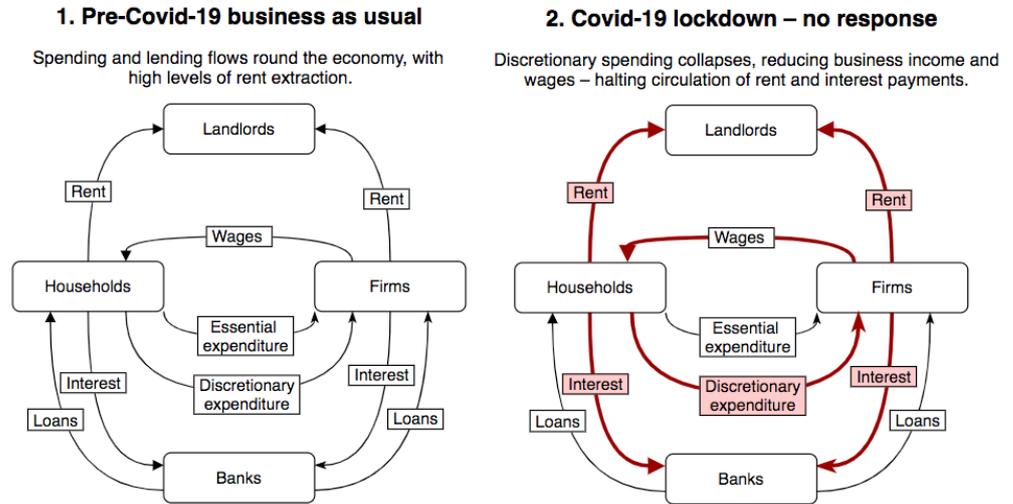
In common parlance, 'rent' refers to a payment made by one party to another for the temporary use of something – for example, a flat, a car or a machine tool. In economics, however, rent (or 'economic rent') has a related but different meaning. It generally refers to any benefit that is derived from exclusive possession of a scarce or exclusive factor of production, in excess of the cost of bringing that factor into production. In practice economic rents enable certain actors in the economy to extract wealth that was created by others or gifted by nature. Those that extract such rents are often referred to as 'rentiers' (from the French) or the 'rentier class'.

The classical economists originally focussed on the role of land as a factor of production and the means by which economic rent could be extracted from the economy. But economic rent equally applies to other factors of production that are provided by nature or by government decree. For example, energy companies that are given an exclusive licence to extract oil in a defined area, or utility companies on whom people rely for access to essential resources like energy and water, are able to extract economic rent. Patents also provide access to economic rents since they provide individuals or organisations with a monopoly over the production of goods or services. Economic rent is also a feature of the financial sector. Banks are underwritten by the state – via deposit insurance – which gives their liabilities (bank deposits) the equivalent status to money issued by governments or central banks. Profits banks generate from the charging of interest on their loans or other financial activities are often considered to be economic rent, particularly where the loan itself does not contribute to productive economic activity (for example a loan to a financial corporation to make a bet on a currency or buy existing financial assets).

In order to illustrate this further, it is worth considering what would happen if the government did not introduce any measures to support businesses and households. Figure 1.5 presents a simplified representation of the flow of spending and lending around the economy during normal times, and the effect of the Covid-19 lockdown without any government response. It shows that the collapse in discretionary spending triggered by the lockdown would reduce business income in sectors affected by social distancing, which in turn would lead to layoffs and a dramatic fall in wage income. Landlords would soon find that many of their residential and commercial tenants could not afford to pay their rent, and banks would likely experience large-scale loan defaults.

76 Definition modified from J. Ryan-Collins, T. Lloyd, and L. Macfarlane, 2017. Rethinking the Economics of Land and Housing, London: Zed Books

**FIGURE 1.5: WITHOUT A RESPONSE FROM GOVERNMENT, THE LOCKDOWN WOULD INTERRUPT THE FLOW OF INCOME TO BANKS AND LANDLORDS**



Source: Authors' own analysis

Note: Diagram 1 represents a simplified illustration of the flow of spending and lending around the economy during normal times. Diagram 2 illustrates what would happen to these flows if the lockdown were introduced without policies to support household and business incomes. Red lines represent flows that would be interrupted by the lockdown.

In order to stop this from happening, the government has stepped in and replaced (some) lost household income with furlough grants, and lost business income with guaranteed loans (although much of this money has yet to reach its intended recipients). Figure 1.6 shows the effect of these responses on the circulation of spending and lending in the economy. Although money initially flows to businesses and households (diagram 3), because there has been little substantive relief provided on rent and debt payments, a significant proportion of the money will end up flowing to banks and landlords (diagram 4).

Many households will still see substantial drops in their income, while businesses that receive money will incur a liability requiring them to pay it back at some point in the future with interest.

The overall effect is that many households and businesses – and particularly those that were already struggling financially or lacked a financial buffer – are likely to experience significant financial hardship. Many will emerge from the crisis with significant additional private debts to pay back, whether this be in the form of bank loans, additional interest on mortgages or personal debt, rent arrears or utility bill debt. They will still bear many of the costs of the lockdown – it is just that some of those costs are being deferred, usually with interest.

The flipside of this is that the income streams for rentiers – rents and interest – are being protected. Banks and other lenders who offer payment holidays are not sacrificing any income in the long term, since they will recover the missed payments with interest. The Coronavirus Business Interruption Loan Scheme substantially protects banks against losses on crisis loans (although of course they remain vulnerable to losses on loans extended before the crisis). Meanwhile, banks continue to capture the full upside of these loans without limitation on interest rates. Landlords are not being asked to share any of the burden of the economic downturn, which will fall entirely on their tenants, as

rent payments will not be reduced in the long term and may not even be paused in the short term. Utility companies are being given wide discretion over whether to offer reductions in bill or debt repayments to energy customers.

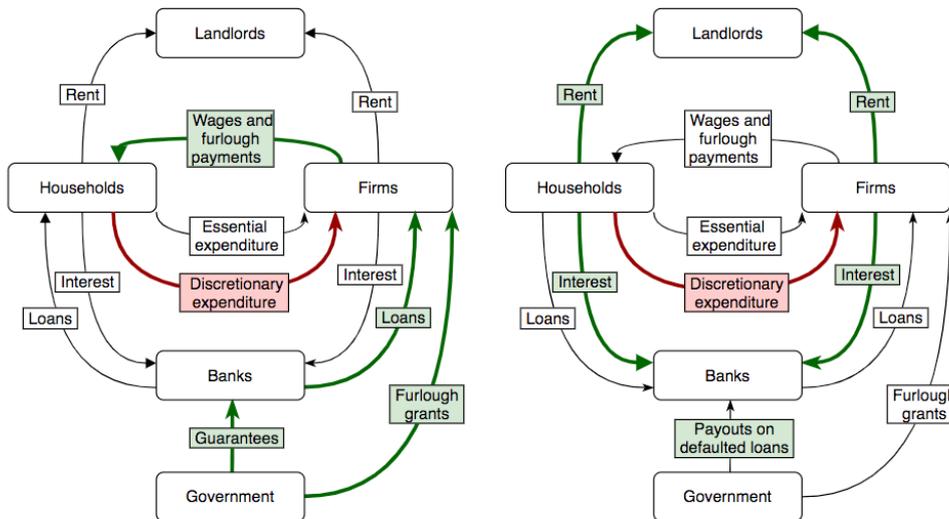
**FIGURE 1.6: THE GOVERNMENT’S RESPONSE PACKAGE PROVIDES GRANTS AND LOANS TO HOUSEHOLDS AND BUSINESSES, BUT IT ALSO PROTECTS THE INCOME STREAMS OF LANDLORDS AND BANKS**

**3. Government response – initial impact**

Government replaces lost household income with furlough grants and lost business income with loan guarantees, but does not provide relief on rent and debt payments.

**4. Government response – second impact**

The circulation of rent and interest payments is restored. Many households and businesses are left with squeezed incomes and more debt. High income households are left with high cash savings.



Source: Authors’ own analysis

Note: Diagrams 3 and 4 illustrate the impact of the government’s response measures on the flow of spending and lending in the economy. Green lines represent flows that have been supported by the government’s policy response. Red lines represent flows that remain interrupted by the lockdown.

As well as plunging many of the most financially vulnerable into ongoing hardship, this will almost certainly act as a drag on economic recovery more generally. As a recent policy paper from the MMU Future Economies Institute concluded: “continuing to tacitly support a rentier economy while insecurity proliferates is a recipe for deepening the deleterious nature of the long-term consequences of the pandemic”.<sup>77</sup>

Meanwhile, as noted at the beginning of this paper, the costs of the various government interventions are, for the time being, being largely underwritten by the state in the form of increased public borrowing, state guarantees and central bank financing (via more quantitative easing and use of the ‘Ways and Means’ overdraft account at the Bank of England). While this should be sufficient to meet the immediate funding needs, how the economic cost of these measures is shared across society over the long-term ultimately depends on political choices. If this expansion of public debt is used to justify a new era of austerity – as is already being suggested by some on the right, including Sajid Javid and George Osborne – it is once again likely that the costs will ultimately fall most heavily on those least able to bear them. To the extent that public spending is

77 Berry, C. et al. April 2020. ‘The Covidist Manifesto: Assessing the UK state’s emergency enlargement.’ MMU Future Economies Research and Policy Paper #9. <https://www2.mmu.ac.uk/media/mmuacuk/content/documents/business-school/future-economies/covidist-manifesto-FINAL-PDF.pdf>

funded from taxation, it is also worth noting that our current tax system taxes income more heavily than wealth.

In some ways, these findings are hardly surprising. Most of the government's crisis response measures amount to pumping more money through a highly unequal economic system without changing the power dynamics within that system. It is therefore perhaps inevitable that most of this money will ultimately end up in the hands of the rich and powerful who already benefit most handsomely from our economic settlement.

These inequalities between the working poor and the asset-owning wealthy are likely to be exacerbated by second-round or long-term effects of the crisis. Some might point to the current plunge in stock prices and stuttering property markets as evidence that asset-owners will indeed share the pain. But this is only true for those who need to cash-in their assets in the short term – for instance, pensioners nearing retirement or homeowners who need to sell. By contrast, those with excess liquidity will be able to buy assets at historically cheap prices and reap large rewards when they rebound in value. An 18 March newsletter ahead of the Alternative Investment Management summit declared that “the situation with the current market is creating some of the best investment opportunities of our decade”, including in “distressed and special situations” and “recovery and stimulus packages”.<sup>78</sup> But these windfall profits will not be confined to hedge fund managers and speculators. They may also extend to company executives currently receiving share packages under Long-Term Incentive Plans (LTIPs) which will pay out in 2023.<sup>79</sup> The potential gains could dwarf any temporary salary cuts implemented during the crisis. It is also possible that landlords who have been relatively well insulated from the effects of the crisis will take advantage of the stalled housing market to buy up additional properties – in the process pushing house prices back up, and further compounding inequalities between property-owners and private renters.

In addition, the difficulties faced by small businesses are likely to lead to market consolidation in the medium term – whether directly, as distressed businesses are bought out by larger competitors or by various forms of predatory capital, or indirectly, as the surviving players absorb their market share. In turn, this will exacerbate the monopolistic and oligopolistic tendencies of UK markets and the ability of powerful players to extract rent. We saw this dynamic play out after the 2008 financial crisis, which left the UK banking system even less competitive and more concentrated than it was before.<sup>80</sup>

In summary, without a drastic change of approach, the crisis is likely to significantly exacerbate existing structural inequalities – insulating creditors and asset-owners from the worst effects of the pandemic while driving many of the most financially vulnerable deeper into debt. This brewing social and economic catastrophe demands a fresh response.

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78 Private Eye, No 1519 (3-23 April 2020), ‘Short shrift’, p10.

79 Jolly, J. 27 April 2020. ‘Firms receiving coronavirus support told to cut executive pay.’ Guardian. <https://www.theguardian.com/business/2020/apr/27/firms-receiving-coronavirus-help-told-to-cut-executive-pay>

80 Ryan-Collins, J., Berry, C. & Greenham, T. 2014. ‘Financial System Resilience Index.’ New Economics Foundation.

## 2. POLICY SOLUTIONS

There are several possible policy approaches to redress the imbalances of wealth and power which are being widened by the crisis. If we accept that rentier income is being largely protected through the crisis, and that much of this protection is being achieved (directly or indirectly) via state support, we could think of this as an implicit bailout and attach conditions or expectations in return. Or we might argue that this protection is more fundamentally problematic and should be corrected: whether by reducing flows of income to rentiers, or by clawing some of it back, for example through the tax system. Steps in this direction have been suggested by various stakeholders in recent weeks, although they have not been situated within the kind of systemic analysis we have just set out. In the long run, however, all these measures are in one way or another simply trying to correct the chronic imbalances of wealth and power that arise from the highly concentrated control of assets. To sustainably solve these problems, we need to consider more fundamental structural changes to reduce the power of rentiers and democratise ownership.

In the rest of this paper, we take each of these approaches in turn and explore some of the policy solutions they might imply. We look at how they might apply to each of the areas we have looked at so far: the relationship between small businesses and banks; between tenants and landlords; between workers and shareholder-owned companies. In each case, there is a distinction to be made between the design of short-term emergency measures to shore up the finances of households and businesses through the crisis; and long-term measures that we might take as we emerge from the crisis to redress its effects and reorganise our economy for the better.

We would caution against the assumption that getting help to those who need it quickly is incompatible with taking on entrenched structures and powerful interests. On the contrary, as we have seen, landlords and commercial banks are signally failing to channel support effectively to tenants and small businesses, and the urgent need to protect these groups goes hand in hand with the need to stand up to rentier power. There is significant scope to refine and improve emergency measures in the short term. Nonetheless, in designing emergency measures, there clearly can be a trade-off between speed and simplicity on the one hand, and addressing deep-seated economic imbalances on the other hand. But if compromises are made on this basis, they should be recognised as such – strengthening the case for stronger measures later to redress the resulting inequalities, and for a new social contract that recognises the risks assumed by the state and its citizens.

### 2.1 CONDITIONALITY FOR ‘IMPLICIT BAILOUTS’

Existing debates on rebalancing the response to the crisis have often focussed on attaching conditions to explicit corporate bailouts. Here, the prospect of state support for already wealthy and powerful actors is clear and direct, and there is widespread popular support for the idea that such support either should not be offered or should come with strong conditions attached. However, the ‘implicit bailout’ for rentier interests represented by the rest of the crisis response is much

less well understood. There is thus little debate about whether these implicit bailouts are justified or what *quid pro quos* should be demanded in return.

One possible approach is to extend the idea of conditionality to these implicit bailouts. For instance, stronger conditions could be attached to the Job Retention Scheme. It has been widely noted that the use of the furlough scheme is not conditional on avoiding layoffs. Conditions could also be introduced to prevent government money from indirectly subsidising asset-owners – such as a ban on dividends and share buybacks, reductions in executive pay, profit caps or maximum pay ratios. Many of these conditions have already been floated for companies in receipt of explicit bailouts. The Investment Association has also urged listed companies taking furlough support to reconsider executive pay-outs (although, unsurprisingly, it does not extend this to dividends).<sup>81</sup> Going further, companies beyond a certain level of profitability could be required to supplement the state's contribution and top up staff pay to 100 per cent.

Of course, the danger with this approach is that it could disincentivise companies from taking up the furlough scheme in the first place, unintentionally hurting the workers it is designed to help. Trade unions are at present concerned that not enough workers are being furloughed, and unemployment continues to rise – so extreme caution would be needed in pursuing any measures that risked exacerbating this problem. A possible alternative approach would be to impose broader conditions at an economy-wide level to ensure a more equitable sharing of the economic burden during the crisis – such as a requirement on companies to prioritise the wages of their staff, starting with the lowest paid, before rewarding shareholders and executives or engaging in share buybacks – or an outright ban on dividends and share buybacks for the duration of the crisis.

In the longer term, more widespread recognition of the support these actors have received could become the basis for renewing their social licence to operate. Business representatives such as the London Chamber of Commerce are already suggesting this in relation to banks, pointing to the significant state subsidies they are currently receiving and their failure to translate these into fulfilment of their social obligations.<sup>82</sup> Measures could include more stringent regulation to ensure the social and environmental quality of their lending, or to ensure borrowers are treated fairly. Landlords could be subject to stronger requirements to keep their properties in a liveable condition and not to leave properties empty.

## 2.2 REDUCING INCOME FLOWS TO RENTIER INTERESTS

Such *quid pro quos* are all very well, but should rentier income be protected in the first place? As we discussed earlier, rather than simply underwriting household incomes to enable the continued payment of rent, debt and bills, the government could reduce the burden of household expenditure by requiring the suspension or waiving of rent, debt and bills. This would effectively transfer some of the burden of the crisis from the state and/or low-paid workers onto landlords, banks and utility companies.

In the short term, such measures could include a freeze on rents and mortgage repayments, as has been suggested by the New Economics Foundation and various

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81 Jolly, J. 27 April 2020. 'Firms receiving coronavirus help told to cut executive pay.' Guardian. <https://www.theguardian.com/business/2020/apr/27/firms-receiving-coronavirus-help-told-to-cut-executive-pay>

82 London Chamber of Commerce and Industry, 2020. "It's all down to the banks now" - LCCI CEO' <https://www.londonchamber.co.uk/news/press-releases/it-s-all-down-to-the-banks-now-lcci-ceo/>

renters' rights groups (such as Acorn and London Renters' Union).<sup>83</sup> Unlike a rent suspension, a rent freeze would waive part or all of rent payments entirely, without the accrual of rent arrears. Our analysis suggests that most landlords would be able to weather this; for smaller landlords who genuinely rely on rental income, targeted, post hoc income support could be provided. While current government schemes support the incomes of struggling households to enable continued flows of rent, this approach would suspend flows of rent and then support the incomes of struggling landlords.

A mortgage freeze, unlike mortgage holidays, would suspend both repayment of the principal and accrual of interest. The term of the mortgage could then be extended by the period of the freeze (say three months), so that the lender recovers the principal but without additional interest. A similar approach has been suggested in relation to personal debt by civil society groups such as the Jubilee Debt Campaign. They have called for the FCA's approach to payday loans – whereby no interest accrues during a payment holiday – to be extended to other types of unsecured personal debt, so that lenders cannot recoup additional interest payments from struggling borrowers.<sup>84</sup> As with landlords, it is possible that some post hoc state support might need to be provided to lenders to prevent liquidity or solvency problems.

In all these cases, there is a question over whether such freezes should be imposed as a blanket measure, or – as with the current measures – a 'right to request' specifically targeted at those in financial difficulty. Targeted measures risk excluding those who may not be aware of their rights or have the resources to complete an eligibility process, particularly given the wide power imbalances we have noted between the actors involved. In the case of rent especially, they may also risk creating a two-tier system whereby landlords refuse to continue renting to financially vulnerable tenants (as many now do with housing benefit claimants). On the other hand, the economic implications of blanket measures are clearly considerable since they will provide relief to many who do not need it and have higher potential for unintended consequences.

Similarly, in relation to current bank lending, steps could be taken to clamp down on rent extraction via the financial system. There is a particularly strong case for reforming the CBILS to limit or set the interest rate that banks can charge on the government-backed portion of SME loans, as the Swiss scheme does. Now that the government is guaranteeing 100 per cent of loans to the smallest businesses, it seems particularly clear that banks who are bearing no downside risk should be limited more strictly in the extent to which they can capture the upside of this lending. One could also put in this category the idea of bans on dividends or share buybacks, either for companies using the furlough scheme or for the corporate sector more broadly. Although a different response to a different problem, this also seeks to prevent state support for the economy 'leaking out' into indirect subsidies for excessive rewards to the owners of financial assets.

If such measures are not taken in the short term, and the flow of rents continues unrestricted during the crisis, steps could still be taken to restrict these flows as we emerge from the crisis. These could be retrospective: for instance, the write-off of rent arrears accrued during the crisis, or of accrued interest on personal and mortgage debt. There could also be more general write-offs of household debt as part of an effort to 'reset' the economy after the crisis – a measure that

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83 See for example Beswick, J. et al. 2020. 'Suspending rents: How to protect renters from eviction during Covid-19.' New Economics Foundation. <https://neweconomics.org/2020/05/suspending-rents>

84 See: <https://jubileedebt.org.uk/press-release/call-for-freeze-on-personal-debt-payments-in-response-to-covid-19>

has been floated for some years by economists such as Steve Keen<sup>85</sup> and Johnna Montgomerie<sup>86</sup> and civil society groups such as the Centre for Responsible Credit.<sup>87</sup> Such proposals have been justified since the financial crisis based on the benefits banks have enjoyed from government and central bank interventions (including direct bailouts, low-cost funding and quantitative easing), and the economic dangers of widespread over-indebtedness. On both counts, the coronavirus crisis will turbo-charge these issues. In a context where debtors have borne significant economic pain while flows of income to creditors have been protected or even enhanced, the case for a rebalancing becomes stronger. Similar dynamics are already playing out on an international scale: calls are growing for a write-off of sovereign debt for countries in the global south, many of whom face a very direct trade-off between maintaining payments to creditors (which ballooned with the rising value of the dollar)<sup>88</sup> and resourcing their healthcare systems to respond to the pandemic.<sup>89</sup>

Steps could also be taken to reduce the flow of rents going forward, such as rent controls in the private rented sector, or interest rate caps for personal debt. These different approaches are not mutually exclusive, and can even be mutually supportive: for example, a short-term rent freeze might need to be accompanied by long-term rent controls to prevent landlords from simply hiking rents when the crisis is over to recoup some of their losses. However, the case for forward-looking or corrective measures after the crisis will be stronger to the degree that short-term measures are not taken during the crisis, since the inequalities to be corrected will be even starker.

Particularly in the case of banks, there are of course questions about how much of a hit these actors are able to take without running into liquidity or solvency problems, which could cause wider systemic repercussions. The Prudential Regulation Authority (PRA) has stressed that banks are now much better capitalised than at the time of the 2008 financial crisis and should be in a position to weather the downturn.<sup>90</sup> But some analysts we spoke to argued that the current crisis could be significantly worse than the baseline scenario used in recent stress tests. This will be especially true if the crisis becomes protracted and the economy does not ‘bounce back’ quickly. Of course, as we have noted, over-indebtedness itself is a key reason this may not happen. This is therefore not a reason to shy away from the idea of limiting rent extraction by lenders - but it does mean that any such measures would need to be carefully calibrated to avoid unintended consequences. As noted above, if it is concluded that banks are not resilient enough to bear any additional pain, then existing government loan guarantees amount to implicit bank bailouts and should be treated as such.

A final way of reducing future income flows to rentier interests is through so-called ‘financial repression’. Historically one of the most effective ways of reducing the burden of public and private debts has been to keep interest

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85 See for example Steve Keen, 7 April 2020, ‘Coronavirus: Inflation or Deflation? Why we need a modern debt jubilee now.’ <https://www.patreon.com/posts/coronavirus-or-35742527>

86 Johnna Montgomerie, 2019, ‘Should we abolish household debts?’ Polity Press.

87 See: <https://jubileedebt.org.uk/wp/wp-content/uploads/2018/03/The-Case-For-A-Household-Debt-Jubilee.pdf>

88 Tooze, A. 14 April 2020. ‘The long read: How coronavirus almost brought down the global financial system.’ Guardian. <https://www.theguardian.com/business/2020/apr/14/how-coronavirus-almost-brought-down-the-global-financial-system>

89 Elliott, L. 12 April 2020. ‘Pressure grows for developing world debt relief over coronavirus.’ Guardian. <https://www.theguardian.com/business/2020/apr/12/pressure-grows-for-developing-world-debt-relief-over-coronavirus>

90 PRA, 31 March 2020. ‘PRA Statement on deposit takers’ approach to dividend payments, share buybacks and cash bonuses.’ <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-statement-on-deposit-takers-approach-to-dividend-payments-share-buybacks-and-cash-bonuses>

rates below the rate of inflation, which redistributes wealth from creditors to debtors by reducing the real value of debts.<sup>91</sup> As the historian Adam Tooze recently noted: “Inflation matters because it acts as a tax on debts that are owed in money that is progressively losing its value. Price stability, the objective of monetary policy since the 1970s, no doubt has benefits for everyone, but most of all the creditor class.”<sup>92</sup>

There is therefore a question as to whether the Bank of England’s consumer price inflation target should be increased above 2 per cent after the crisis to help erode the overall burden of indebtedness in the economy, while also taking steps to keep asset prices under control. Successfully raising inflation would likely take time and is not without risks. In particular, if the price of essential items is allowed to rise too quickly, this can hit low income households the hardest. Moreover, the policy would need to be sustained over many years to have the desired effect, therefore it should not be viewed as an alternative to other more immediate measures.

### 2.3 CLAWING BACK INCOME FROM RENTIER INTERESTS

Another approach is to claw back money after the fact from those who have done comparatively well out of the crisis. Unlike rent or mortgage freezes, this approach would not directly provide immediate relief for those struggling to pay rent or bills, though it could be used to fund emergency relief support. However, it has the advantage of more precisely targeting those who have actually seen their wealth protected or enhanced. Doing this can also help ensure that the long-term cost of the government’s interventions are borne by those who are best able to shoulder them, and not shifted onto those who can afford it least via another round of austerity.

The obvious way to do this is through the tax system – either via one-off taxes on ‘windfall’ gains during the crisis, or more permanent reforms to the tax system. While there may be little appetite for raising taxes in the thick of an economic crisis, as we emerge from the lockdown calls may grow for a rethinking of the tax system to ensure a more equitable sharing of the load.

Various voices have begun to suggest an emergency wealth tax – potentially on a multilateral basis - to ensure that those who can afford to do so make a contribution to the costs of tackling the crisis. Notwithstanding the ‘emergency’ framing, this is a measure that could be just as effective if implemented later, as we emerge from the crisis. Of course, designing new taxes takes time, and wealth taxes implemented at national level always run the risk of stimulating new forms of avoidance. Commentators such as Richard Murphy have suggested that steps in this direction could be taken by reforming existing taxes – for instance, abolishing higher rate tax relief on pension savings, taxing capital gains at the same rate as income, or reducing the capital gains tax allowance. IPPR analysis finds that equalising the taxation of capital gains and dividends with the taxation of income could raise an additional £27 billion per year,<sup>93</sup> while Murphy suggests that if increases in wealth were taxed at the same rate as income, this could generate revenues in the region of £174 billion per year.<sup>94</sup>

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91 Reinhart, CM. and Sbrancia, M.B., 2015. ‘The Liquidation of Government Debt’. International Monetary Fund. <https://www.imf.org/external/pubs/ft/wp/2015/wp1507.pdf>

92 Tooze, A. 14 April 2020. ‘The long read: How coronavirus almost brought down the global financial system.’ Guardian. <https://www.theguardian.com/business/2020/apr/14/how-coronavirus-almost-brought-down-the-global-financial-system>

93 See: <https://www.ippr.org/research/publications/just-tax>; <https://www.ippr.org/research/publications/reforming-the-taxation-of-dividends>

94 See: <https://www.theguardian.com/politics/2020/apr/22/wealth-tax-rise-could-raise-174bn-tackle-covid-19-expert-says>

Another approach, floated in the US context by economists Emmanuel Saez and Gabriel Zucman, is an excess profits tax. They note that there is precedent for imposing such measures in times of crisis: in 1918, all profits above an 8 per cent rate of return on capital were deemed ‘abnormal’ and taxed at progressive rates of up to 80 per cent. Similar taxes were applied during the second world war and the Korean war. The authors note: “These taxes all had one goal – making sure that no one could benefit outrageously from a situation in which the masses suffered”.<sup>95</sup> Such taxes are particularly relevant to corporations in sectors less affected by the shutdown, such as supermarkets or online delivery services. These ‘windfall taxes’ may thus offer a way of correcting extractive behaviour by companies such as Tesco (see section 1.1), without imposing up-front restrictions on state support to business. This is certainly the approach suggested by the authors, who are wary of the dangers of limiting or caveating crisis interventions ex ante.

Other measures that have been proposed include restoring the rate of corporation tax, which has been cut from 28 per cent in 2010 to 19 per cent today;<sup>96</sup> and increasing the top rate of income tax or reducing the personal savings allowance, reflecting the fact that high earners are likely to emerge from the crisis with their bank balances enhanced rather than diminished. More targeted taxes could also be considered focussing on particular forms of rent – an obvious example being the long-debated land value tax (LVT).<sup>97</sup>

## 2.4 STRUCTURAL REFORMS TO REDUCE RENTIER POWER

However, all of these measures – conditionality, limiting income flows, and clawing back taxes – share the same limitations. They are all essentially damage limitation measures which seek to mitigate structural imbalances of economic power through tax and regulatory interventions. They may succeed in redirecting some flows of income around the economic system, but the system itself remains substantially intact. Put another way, if we define rents as excess income extracted from control of scarce or monopolised assets, these measures do not change the ownership and control of those assets. They therefore do not address the root causes of rentier power.

By pushing against the grain of our economic system, they are always vulnerable to being undone or circumvented by these interests - if they can be implemented in the first place. After all, it is no coincidence that none of the measures we propose have been countenanced by the UK government to date. The sheer economic and political clout of the interests involved makes such moves politically very difficult. In the long run, therefore, if we want to build a post-crisis economic settlement which permanently redresses these growing imbalances of wealth and power, we need to envision structural reforms to reduce rentier power. What might this look like? One key lever is to democratise asset ownership. This could be done on an individual basis, although strong protections would be needed to prevent the assets in question from being freely traded on the open market and re-concentrating in the hands of the wealthy, as happened with housing under the Right to Buy. Another approach is to create democratic institutions that can steward assets on behalf of an entire community or citizenry.

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95 Saez, E. & Zucman, G. 30 March 2020. ‘Jobs aren’t being destroyed this fast elsewhere. Why is that?’ New York Times. <https://www.nytimes.com/2020/03/30/opinion/coronavirus-economy-saez-zucman.html?acti on=click&module=Opinion&pgtype=Homepage>

96 Palmer, R. 26 April 2020. ‘The coronavirus crisis should be a catalyst to start taxing companies and rich people properly.’ Independent. <https://www.independent.co.uk/news/business/comment/coronavirus-tax-avoidance-richard-branson-virgin-atlantic-bailout-a9485206.html>

97 See for example Murphy, L. 2018. ‘The Invisible Land: The hidden force driving the UK’s unequal economy and broken housing market.’ IPPR Commission on Economic Justice Discussion Paper. <https://www.ippr.org/research/publications/the-invisible-land>

## A public banking ecosystem

When it comes to banking, there are strong and well-rehearsed arguments that this vital public infrastructure should not be solely in the hands of profit-oriented commercial banks. Indeed, the UK is an international outlier in structuring its banking system this way, having largely destroyed other banking models in the wave of demutualisations from the 1980s onwards. Evidence shows that co-operative banks and public savings banks play a crucial role in other advanced economies, offering better terms to borrowers and savers alike, contributing to more regionally balanced economic development, and supporting small businesses through good times and bad.<sup>98</sup> Recent policy work commissioned for the Labour Party has proposed bringing the UK into line with international best practice by cultivating a new ecosystem of public and co-operative banks, underpinned by a National Investment Bank to help catalyse productive, sustainable lending, and a Post Bank to provide affordable retail banking services in every community.<sup>99</sup>

So how might these ideas apply in the context of the coronavirus response, particularly with respect to small businesses? The experience of the CBILS to date underlines the shortcomings of the UK's top-heavy banking system, exposing the many ways in which it is simply not designed to facilitate the flow of affordable credit to SMEs. This accentuates the case for long-term action to rebalance the system and nurture a diversity of ownership models. A recent report for the Institute for Government suggested that "coronavirus may be exposing a gap in the UK government's ability to invest quickly into corporate Britain, not necessarily mediated by banks or other financial institutions, but directly", and that managing a prolonged crisis may require this gap to be plugged by "a new institution with a new remit", such as a State Reconstruction Bank.<sup>100</sup> Of course, there remains a question over whether bank loans are the right mechanism to support small businesses through the crisis, or whether support should be tilted more towards direct government grants. Either way, there is a need to build up the state's own capacity rather than relying on commercial banks to channel money into the productive economy.

Assuming that bank lending continues to play a role, one obvious lever to scrutinise is the role of RBS. RBS remains 62.4 per cent owned by the taxpayer after being bailed out in 2008 at a cost of £45 billion. Reports suggest that it is responsible for around one-third of all loans being made under the CBILS,<sup>101</sup> and was the only one of the big five banks not to resist the Bank of England's calls for dividend cancellation.<sup>102</sup> This strongly suggests that it is acting as a de facto national business bank by virtue of the government's stake, notwithstanding claims that this stake is managed independently via an arms-length body (which have always been questionable).<sup>103</sup> The government has always maintained

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98 See for example Prieg, L. & Greenham, T. 2013. 'Stakeholder banks: Benefits of banking diversity'. NEF. Greenham, T. et al. 2015. 'Reforming RBS: Local banking for the public good.' NEF.

99 Macfarlane, L. & Berry, C. 2019. 'A New Public Banking Ecosystem'. Report to the Labour Party commissioned by the Communication Workers' Union and The Democracy Collaborative.

100 Wilkes, G. 2020. 'Bailout for business after coronavirus.' Institute for Government. <https://www.instituteforgovernment.org.uk/sites/default/files/publications/bailout-business-after-coronavirus-for-press.pdf>

101 Makortoff, K. 1 May 2020. 'RBS profits halve as bank takes £800m coronavirus hit.' Guardian. <https://www.theguardian.com/business/2020/may/01/rbs-royal-bank-scotland-profits-bank-coronavirus>

102 Daily Mail, 3 April 2020. 'The dividend battle: Four out of five of the UK's biggest banks fought to maintain payouts as the Bank of England pushed for a cut.' <https://www.thisismoney.co.uk/money/markets/article-8185703/Four-UKs-five-biggest-banks-fought-maintain-dividends-against-wishes-Bank-England.html>

103 See for example House of Commons and House of Lords. (.) 'Changing banking for good: Report of the Parliamentary Commission on Banking Standards'. Available at: <https://www.parliament.uk/documents/banking-commission/Banking-fnal-report-volume-i.pdf>

its intention to reprivatise the bank, but at current share prices the sale of its remaining stake would incur a loss of over £30 billion.<sup>104</sup>

There is a strong case for saying that the bank's role in the crisis response should be formalised, with the government accepting the inevitable – that the bank will remain in public ownership for the foreseeable future – and treating this as an invaluable asset rather than a regrettable necessity. In addition to the bank's potential to act as a positive lever of public policy, there are also more negative reasons to do this. RBS has repeatedly been the subject of scandals over its treatment of small businesses, most notably through the notorious Global Restructuring Group. It would be unacceptable for crisis loans provided under the CBILS to lead to similar mistreatment of borrowers in the future, and a more interventionist approach to the public stake could help to avoid this.

Going further, perhaps it is time to revive proposals for the bank to be entirely bought out by the government and transformed into a truly public bank with a mandate to serve the public interest.<sup>105</sup> The 2019 report to the Labour Party considered this approach and concluded it was likely to be too costly. However, since then, the share price has almost halved (at time of writing, it was trading at around 111p, having hit lows of 105p in April). At these prices, the cost of buying out the remaining share could be less than £5 billion – a drop in the ocean of the government's crisis spending. Buying out the bank completely would allow the government to change its ownership structure, removing the imperative to prioritise shareholder interests and enabling it to act more like fully public banks in other countries – focussing on serving the public interest rather than on rent extraction.

In addition, there is a strong case for transforming the British Business Bank (BBB) into a fully-fledged national investment bank with the ability to borrow and invest at scale, as was recommended in the 2019 report to the Labour Party.<sup>106</sup> Many commentators, including IPPR, have supported the establishment of a national investment bank in recent years. The case for doing so has only been reinforced by the UK's departure from the European Investment Bank. The BBB already houses significant expertise on the SME sector, and is also responsible for central government's investments in venture capital. However, to date it has faced several constraints which have prevented it from playing a major role in the UK economy. Notably, the BBB's mandate, which is focussed on fixing market failures in the supply of finance for smaller business, is narrower in scope than most other successful public investment banks elsewhere in the world which tend to have broader and more strategic mandates covering areas like infrastructure and innovation as well as business lending.<sup>107</sup> Moreover, the BBB is not actually a bank, but more akin to a fund. It is not able to leverage its own balance sheet, meaning that its operations are limited by the fixed amount of resources it receives from the government.<sup>108</sup>

A repurposed and scaled-up BBB could therefore be a powerful tool to help steer the economic recovery from the crisis and help tackle challenges such as climate change, as similar institutions are already doing in countries such as Germany and China.

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104 See calculations on p52, Macfarlane & Berry 2019, op cit

105 See for example NEF, Reforming RBS, op cit

106 Macfarlane, L. & Berry, C. 2019. 'A New Public Banking Ecosystem'. Report to the Labour Party commissioned by the Communication Workers' Union and The Democracy Collaborative.

107 Macfarlane, L. and Mazzucato, M. 2018. State investment banks and patient finance: An international comparison. UCL Institute for Innovation and Public Purpose. Working Paper Series (IIPP WP 2018-01). Retrieved from: <https://www.ucl.ac.uk/bartlett/public-purpose/wp2018-01>

108 Mazzucato, M. Macfarlane, L., 2017. Patient strategic finance: opportunities for state investment banks in the UK. UCL Institute for Innovation and Public Purpose, Working Paper Series (IIPP WP 2017-05). Available at: <https://www.ucl.ac.uk/bartlett/public-purpose/wp2017-05>

## Democratising housing and land

Perhaps the most significant source of rent extraction in the UK economy in recent years has been land and housing. In recent decades land ownership has become increasingly lucrative, as successive governments have sought to encourage people onto the property ladder. Taxes on land and property were removed, subsidies for homeownership were introduced, and the mortgage credit market was liberalised. Rent controls were abolished, and the private rental market was deregulated.<sup>109</sup> Today tenant protection in England is weaker than almost anywhere else in Europe.

This has been good news for property owners: since 1995, skyrocketing house prices have increased the value of the UK's housing stock by over £5 trillion – accounting for three-quarters of all household wealth accumulated over the same period.<sup>110</sup> But it has been disastrous for the growing numbers of people stuck in the private rental market, who have seen the proportion of their income spent on rent rise from around 10 per cent in 1980 to 36 per cent today – among the highest in Europe.<sup>111</sup> The wealth amassed through the UK's housing market has mostly been gained at the expense of current and future generations who do not own property, who will see more of their incomes eaten up by higher rents or larger mortgage payments if they do manage to buy a home

What can be done to tackle this? In the short-term, steps can be introduced to increase the bargaining power of tenants relative to landlords, such as capping rent increases, outlawing 'no fault' section 21 evictions with immediate effect, permanently increasing eviction notice periods, and supporting tenants unions. Steps can also be taken to prevent house prices from increasing further in order to allow wages to catch up and the house-price-to-income ratio to gradually fall, as recommended in the 'Land for the Many' report delivered to the Labour Party.<sup>112</sup>

In the long-term, however, there is a strong case for introducing structural reforms that seek to minimise rent extraction from land ownership. While the tax system provides one tool for doing this, as described above, another approach is to scale up non-market forms of housing and land ownership. As well as addressing the problems of rent extraction, collective forms of housing provision can be an effective way to align housing more closely with social needs.

A variety of non-market models are available, including public ownership, municipal ownership, cooperative ownership and community ownership, such as community land trusts (CLTs). The UK has a proud history of providing affordable council housing which could be revived on a large scale, while Scotland is already experiencing a surge in community ownership. Meanwhile, Germany, Switzerland, Austria and Singapore all have significant public and cooperative housing sectors that offer models to learn from. To varying degrees, these models all ensure that economic rents from land ownership are socialised rather than extracted by private owners.

## Democratising the private sector: alternatives to predatory capital

Finally, steps should be taken to avoid the crisis creating a more concentrated business landscape, with wealth and power consolidating in the hands of extractive corporate business models. As The Democracy Collaborative<sup>113</sup>,

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109 J. Ryan-Collins, T. Lloyd, and L. Macfarlane, 2017. *Rethinking the Economics of Land and Housing*, London: Zed Books

110 Office for National Statistics. (2018). *The UK national balance sheet estimates: 2018*.

111 A. Corlett and L. Judge, 2017. *Home Affront*. London: Resolution Foundation, 30.

112 Monbiot, G., et al. (2019) 'Land for the Many'. A report to the Labour Party. [https://labour.org.uk/wp-content/uploads/2019/06/12081\\_19-Land-for-the-Many.pdf](https://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf)

113 Guinan, J. and McKinley, S. 2020. 'Owning the Future: After COVID-19, a new era of community wealth building'. Democracy Collaborative. <https://democracycollaborative.org/learn/publication/owning-future-after-covid-19-new-era-community-wealth-building>

Common Wealth<sup>114</sup> and the International Monetary Fund<sup>115</sup> have floated in recent weeks, one short-term option would be to establish state holding companies that would purchase distressed but otherwise viable small and medium sized businesses that request support, safely mothballing them until the point when they can be re-launched as part of the economic recovery. This would protect SMEs from being purchased by larger competitors and forms of predatory capital, and prevent an undesirable concentration of market power. As Common Wealth suggest, these companies could be re-floated under worker ownership or other diverse ownership structures, therefore enhancing the diversity of the business landscape and reducing the scope for rent extraction. An alternative to establishing new state holding companies would be to assign this role to a scaled up British Business Bank, as proposed in the previous section.

The government could also establish a social wealth fund to purchase a broad range of assets to be held on behalf of the population as a whole, as has been suggested by Eric Lonergan and Mark Blyth in a paper for IPPR, among others.<sup>116</sup> This would help to “challenge inequalities of resource and control in the economy, transform private wealth into equally shared public wealth, and ensure that returns to capital are more equally shared across society”.<sup>117</sup> A social wealth fund could also be an important instrument to improve corporate governance and ensure that companies meet ambitious environmental and social goals, particularly for companies such as airlines and fossil fuel companies that must undergo significant transformation if we are to meet our climate commitments.

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114 Lawrence, M., Buller, A., Baines, J and Hager, S. 2020. ‘Commoning the Company’. Common Wealth. [https://uploads-ssl.webflow.com/5e2191f00f868d778b89ff85/5e98856284fcbe6ad28bb58\\_CW\\_Commoning%20the%20Company.pdf](https://uploads-ssl.webflow.com/5e2191f00f868d778b89ff85/5e98856284fcbe6ad28bb58_CW_Commoning%20the%20Company.pdf)

115 IMF blog, 2020. ‘Economic policies for the Covid-19 war’. <https://blogs.imf.org/2020/04/01/economic-policies-for-the-covid-19-war/>

116 Eric Lonergan and Mark Blyth (2020) ‘Beyond Bailouts’, IPPR [https://www.ippr.org/files/2020-03/1585237065\\_beyond-bailouts-march2020.pdf](https://www.ippr.org/files/2020-03/1585237065_beyond-bailouts-march2020.pdf)

117 Lawrence, M., Buller, A., Baines, J and Hager, S. 2020. ‘Commoning the Company’. Common Wealth. [https://uploads-ssl.webflow.com/5e2191f00f868d778b89ff85/5e98856284fcbe6ad28bb58\\_CW\\_Commoning%20the%20Company.pdf](https://uploads-ssl.webflow.com/5e2191f00f868d778b89ff85/5e98856284fcbe6ad28bb58_CW_Commoning%20the%20Company.pdf)

### 3.

## CONCLUSION

At first sight, it might look as though the effects of the government's crisis interventions will be progressive, since they are underwriting the costs of low-income households and small businesses who would otherwise become insolvent. But a closer look reveals that the picture is more complicated. The costs being underwritten are, ultimately, in large part payments to rentiers of various kinds: rent, bills and debt repayments. Our analysis suggests that nearly half of the money paid out in furlough grants will subsidise these expenditures. Without this government support, many of these obligations would be forfeited. In a very real sense, therefore, these government interventions are an implicit bailout protecting the income streams of landlords, banks and utility firms. The government has so far resisted calls for even a partial freeze of rents, debts or utility bills – in effect accepting that the burden of the shutdown should be borne entirely by the state and households rather than shared with rentiers.

Meanwhile, on the other side of the ledger, the immediate recipients of this support are still being asked to shoulder significant economic risks and to bear the brunt of the economic costs of the downturn. Small businesses taking out emergency loans bear the full risk of default: the government guarantee is a subsidy for lenders, not borrowers. Despite the furlough scheme, workers still bear a significant risk of becoming unemployed and having to fall back on an inadequate benefits system. Even if they are furloughed, many will see a significant drop in their income, which for those on low pay could be enough to push household finances into the red. Relief on mortgages, bills and rent payments is limited to deferrals, meaning that many households will emerge from the crisis with additional debt burdens to service just when they can least afford it.

Finally, there is an unresolved question over who will ultimately bear the cost of government spending during the crisis. As a country with its own central bank that can borrow in its own currency, the UK has significant capacity to sustain these costs through borrowing and central bank interventions. But if they are used to justify a new round of austerity, history suggests that those on the lowest incomes will pay the biggest price. Alternatively, the direct recipients of government support may be retrospectively asked to contribute via higher taxes (as Rishi Sunak hinted might be the case for the self-employed). Seeing government interventions as an implicit bailout for rentiers puts these issues in a different light – perhaps pointing towards measures such as taxes on wealth and rentier income in exchange for the support these actors have received, or debt write downs to rebalance the costs of the crisis between creditors and debtors.

Ultimately, however, these issues did not arise with the crisis: they are symptoms of deep structural problems with the UK economy which long predate the pandemic. If we are to chart a path out of the crisis and towards a better economic settlement, we must confront these imbalances of wealth and power with structural solutions: enhancing public and community ownership of vital infrastructure like housing and finance, strengthening the rights of private renters and consumers, and acting to prevent an even greater concentration of monopoly power in the wake of crisis-induced business failures. If none of these measures are taken, the UK's economic recovery is likely to be slow and painful, and to leave our society even more unequal and unstable than it was before.

# APPENDIX

## OVERVIEW OF POLICY RESPONSES TO TACKLE RENTIER POWER

Affected group	Rentier interest	Type of policy option				Structural reforms to reduce rentier power
		Reducing income flows to rentiers	Clawback of income from rentiers	Quid pro quos for implicit/explicit state support for rentiers		
Businesses	Landlords	<b>Short term:</b> Rent freeze <b>Long term:</b> Rent controls	Land value tax; wealth taxes	-	-	
	Banks	<b>Short term:</b> -Caps on interest rates for CBILS loans Direct government grants or loans to replace lending via commercial banks <b>Long term:</b> -Interest rate caps -Debt writedowns / write-offs	Extend ban on dividends and senior bonus payouts Extend and increase the bank levy	Enhanced regulation, eg credit guidance, to ensure banks lend in line with public interest	<b>Short term:</b> -Make RBS role as de facto national business bank explicit -Buy out remaining shares in RBS and begin transition to fully public bank <b>Long term:</b> -New public/cooperative banking ecosystem -State holding company to acquire distressed SMEs	
Households	Mortgage holders	<b>Short term:</b> mortgage freeze (without interest accrual) <b>Long term:</b> debt write-downs/write-offs	Extend ban on dividends and senior bonus payouts Extend and increase the bank levy	Enhanced regulation, eg credit guidance, to ensure banks lend in line with public interest	Boost public and community ownership of housing and land	
	Renters	<b>Short term:</b> rent freeze <b>Long term:</b> rent controls	Land value tax; wealth taxes	Strengthen requirements on upkeep of properties, limitations on empty homes, etc	Enhance renters' rights, eg bring forward ban on section 21 evictions Boost public and community ownership of land and housing	
Households	Personal debt holders	<b>Short term:</b> personal debt freeze (without interest accrual) <b>Long term:</b> interest rate caps, debt writedowns / write-offs	-	-	-	
	Workers (furlough scheme)	<b>Short term:</b> profit caps, ban on dividends and bonuses, obligation to prioritise wage bill starting with lowest paid	<b>Short term:</b> Excess profits tax <b>Long term:</b> Capital gains tax reform	Maximum pay ratios, workers on boards, clampdown on tax avoidance, etc	<b>Corporate governance reform:</b> move away from shareholder primacy <b>Social wealth fund:</b> buy up cheap assets to acquire public stake in companies	

Source: Authors' analysis

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