

Budget 2020: a bold response to coronavirus, but more must be done if it becomes widespread in the UK



While the 2020 Budget offers an overall adequate response to the challenges currently posed by coronavirus, there are three issues that need to be addressed further, especially as the outbreak becomes more widespread, writes [Thomas Sampson](#).

In what ended up being the coronavirus budget, the Chancellor showed he recognised the magnitude of the challenge – announcing a £30 billion fiscal stimulus this year with targeted support for workers and small businesses that face the biggest economic risk from coronavirus. More may be needed as the epidemic unfolds, but the budget was a step in the right direction.

For a new Chancellor, his first budget (and it always has been a man) is an opportunity to set out a vision for fiscal policy. When Rishi Sunak was appointed four weeks ago, this was no doubt his intention. There was talk of levelling up, rewriting fiscal rules, loosening the purse strings. But then the goal posts moved. Coronavirus is likely to cause a sharp, albeit temporary, slowdown of economic activity in the UK and around the world. As a result, the focus of the budget shifted to dealing with coronavirus. Everything else is of secondary importance.

The plan to increase public investment and support for R&D is overdue. However, the feasibility and desirability of the tax and spending changes pledged by Mr. Sunak will have to be revisited once the full economic consequences of coronavirus are apparent. Even Brexit takes a backseat for now – although coronavirus provides another reason to extend the transition period beyond the end of this year.

There are three aspects of coronavirus that the budget needed to address. First, and most important, additional resources for the NHS. The Chancellor announced the NHS will get whatever extra resources it needs. This is welcome, now the government needs to follow through on its pledge and reverse a decade of underinvestment in the health service.

Second, from a macroeconomic perspective coronavirus is both a supply shock and a demand shock. Shut downs and financial market distress will not only cause temporary reductions in output, but also lead to cash flow problems that could result in bankruptcy for otherwise healthy businesses. At the same time, consumer demand for services such as travel and restaurants will decline and many workers without a guaranteed income will struggle to meet their expenses. The most exposed businesses and workers need support until the crisis passes.

The Bank of England moved first, cutting interest rates by half a percentage point and introducing new support for bank lending, particularly to small and medium-sized firms. On top of this, the Chancellor announced a £30 billion fiscal stimulus this year including measures that extend eligibility for statutory sick pay, make it easier for gig economy workers to access benefits and provide support to small businesses through rate reductions, deferred tax payments, cash grants and targeted lending. This is a substantial stimulus, although only around £7 billion of the total is targeted towards the workers and business likely to be hit hardest by coronavirus.

Third, it is too soon to know how large the economic slowdown will be or how long it will last. The Office for Budget Responsibility's forecasts are already out of date, leaving the Chancellor with little guidance over how large a response is needed. In these circumstances, the best advice is probably to go big, while maintaining the flexibility to adjust policy as more information becomes available. The Chancellor has adopted a bold response, but he must be ready to do more if coronavirus becomes widespread in the UK.

Overall, I would give the budget's response to coronavirus a B+, although my students would probably say that I am a harsh marker.

About the Author



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