

# Gordon Brown | One in seven UK firms is now at risk of failure. It's time to offer them hope

*Two and a half million jobs are at risk this spring as business support programmes come to an end. **Gordon Brown** says an urgent package of measures is needed to avert catastrophe.*

Governments cannot afford to be behind the curve – especially in a crisis. They have to be at least two steps ahead. But today the fate of thousands of small businesses hangs in the balance; millions face an uncertain future after March when the furlough is to end; youth unemployment is already at record levels – all concerns that a forward-looking government should be dealing with today.

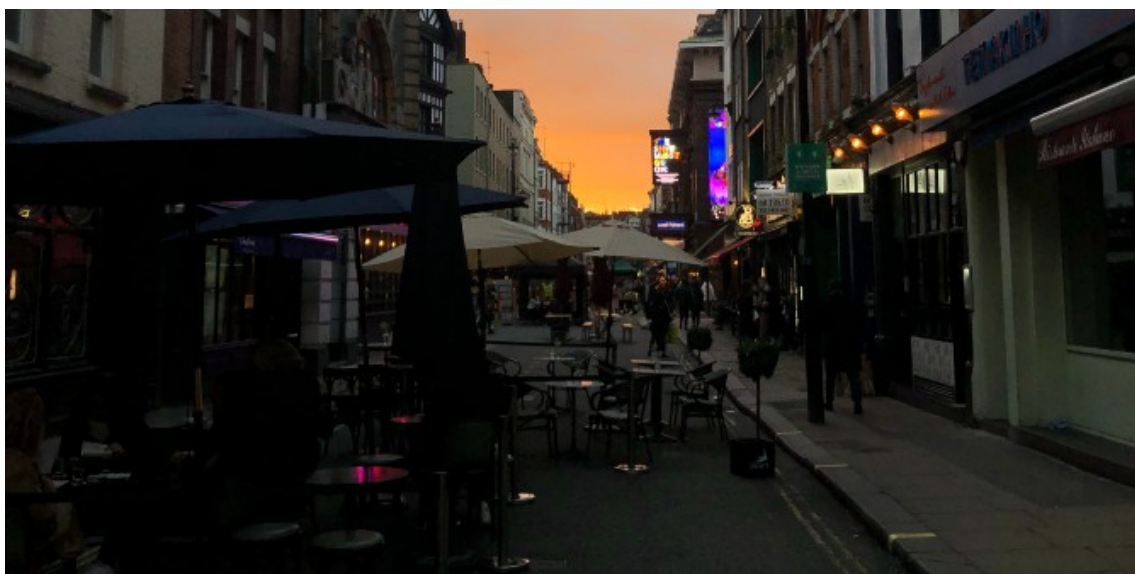
This meticulously researched pamphlet for the Alliance for Full Employment, [A major wave of UK business closures by April 2021? The scale of the problem and what can be done](#), by John Van Reenen and Peter Lambert highlights the scale of the crisis facing small business and the urgent need for a plan for long-term recovery. It shows that the liquidity crisis of 2020 will soon become the solvency crisis of 2021. And yet, for all its welcome focus on help through loans and the financing of the furlough, the government has said little – and done little – to offer struggling businesses the prospect of long-term survival.

The report based on the most recent survey data from the Office for National Statistics (ONS) suggests that unless remedial action is agreed, businesses are on a cliff-edge and about to face a major collapse. The authors say that more than one in seven UK businesses – almost 15% – are at risk of failure in the next few months.

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The scale of the problem is such that the ‘at-risk’ group comprises 390,000 registered businesses or 906,000 of all businesses – an alarming set of figures in themselves. And when we examine the fallout for employment, we see the true measure of the crisis. The registered businesses the report shows are at risk employ 1.9m people, and when we include all businesses 2.5m jobs are affected.

The crisis is so extensive that between 8% and 9% of total employment in businesses is in the “at risk” category. Not surprisingly, the figures show that micro enterprises with fewer than ten employees are particularly vulnerable to closure.



Soho, December 2020. Photo: [Russell Davies](#) via a [CC BY NC 2.0 licence](#)

The authors demonstrate there is a need for urgent action. They fear a major wave of bankruptcies for UK firms looms as many current business support programmes expire at the end of March and April. This report is thus a clarion call for action in the budget of 3 March, 2021.

Britain is not alone in facing these challenges, and all over the world governments are examining what can be done to save their small business sector from a wave of closures and redundancies. A few days ago a report from the G30 – a group of former central bank governors and finance ministers – set out the global scale of the crisis for small businesses and itemised measures that all advanced and emerging market economies should be planning to take.

The authors include Mario Draghi, former head of the European Central Bank, and Raghuram Rajan, former head of the Bank of India and economics head of the IMF, and they focus on what they call “growing corporate solvency challenges.” They point out that we now have to deal not only with the immediate fallout from the pandemic but with the structural changes in the economy that COVID has forced to the top of the agenda.

And they call for a comprehensive approach far beyond what the UK government has so far contemplated or delivered, proposing an across the board mobilisation of resources in “measures, mechanisms, tools, and markets to promote financial restructuring with policy makers administering additional support where necessary.” The key to their plan, they say, is “to identify and support firms that will be viable in the post pandemic recovery”.

‘The problem is worse than it appears on the surface,’ writes Draghi, in language relevant to the UK. ‘Massive liquidity support and the sheer confusion caused by the unprecedented nature of this crisis are masking the full extent of the problem.

‘We have a cliff edge of insolvencies especially of small and medium size enterprises coming in many sectors and jurisdictions as support programmes run off and existing net worth is eaten up by losses.’

The measures they recommend are wide ranging and are discussed in the report. The fear is that as loans run out and have to be repaid, viable innovative firms cannot afford to make the investments in new technology, new equipment and staff training that they need to compete in a fast changing economy. These measures include equity injections – the government taking equity in place of loans to help vibrant businesses facing cash shortfalls invest in the future.

Other measures could include quasi equity support; bankruptcy adjustment in bankruptcy rules; and pandemic insurance – but such measures have to be part of a comprehensive growth strategy in the form of a UK wide business recovery plan.

It is time to offer new hope to what will otherwise be dying firms.

Our authors have looked at proposals made by respected organisations across the UK. One set of proposals has come from Stephen Welton, head of the Business Growth Fund, for a private public partnership designed to support innovative firms in need of investment. He has proposed a £15bn facility – with government funding matched by private sector funding – to prevent what he called ‘a totally unsustainable debt mountain,’ and ‘a devastating economic crash worse than the last financial crisis’.

His fund builds on the Coronavirus Business Interruption Loans and the Bounce Back scheme. £7.5bn would come from banks, pensions funds, insurance companies, sovereign wealth funds with a matching fund from government. The CBI, the Chambers of Commerce and regional leaders have all proposed new finance facilities especially for innovative technology-based firms. All proposals need to be examined in detail, but as the authors show, the time for decision is now.

If we are to save good small businesses that are innovative and forward-looking but which, without help with their investment plans, are in danger of going under, the Budget must bring forward measures. It is time to offer new hope to what will otherwise be dying firms.

*This post represents the views of the author and not those of the COVID-19 blog, nor LSE. It is an extract from [A major wave of UK business closures by April 2021? The scale of the problem and what can be done](#), by John Van Reenen and Peter Lambert published by the Centre for Economic Performance at the LSE.*