Rishi Sunak needs to take a stake in the survival of UK businesses

George Dibb *explains why even with current government support schemes companies are facing a cashflow black hole of £90 billion. He argues that the government must take a bold step in a new direction and use the power of the state's balance sheet to protect businesses, jobs, and invest in the long-term success of the economy.*

COVID-19 has massively affected the cashflow of businesses, putting scores of firms who in normal times would be profit-making at risk of collapse. Despite this impending crisis, the government is doggedly continuing with its current approach of supporting firms to take on ever-more debt and recently announced a further extension to its business loans schemes. But is this sustainable or does it risk kicking the can down the road? The Chancellor needs to seriously consider a new approach using public cash injections to take a stake in the survival of UK businesses at risk.

The latest figures from the Bank of England show that this year, UK companies have recorded a net negative cashflow of £180 billion. As companies dip into the red, they will be reaching into cash reserves to make it through this period, but the same data shows that total reserves across the UK total just £90 billion, so even with current government support schemes companies are still facing a cashflow black hole of £90 billion.

The government's current approach has been to support firms in taking on more debt through government-backed schemes such as the Coronavirus Business Interruption Loan Scheme and Bounce Bank Loans. For many firms, this will have been enough, but now we are seeing firms hitting up against the maximum borrowing limit these schemes offer and are still not being able to bridge the cashflow gap.

Furthermore, any further extension of these schemes risks pushing firms further into unsustainable debt that could seriously harm their ability to bounce back and recover from this crisis once the economy rallies. Up to mid-November, 1.5 million firms have taken on £66.4 billion of debt through government-backed schemes, with likely many more billions of pounds being made available through conventional lending as well.

With large and small businesses across the country facing the potential of bankruptcy, and many associated jobs at risk, the stakes could not be greater. We have already seen two high-profile collapses in the retail sector with Debenhams and Arcadia putting 25,000 jobs at risk. The government will need to step in anyway to support unemployed workers, but a more efficient use of finance is to get the right support to firms now to avert this crisis. One option they need to seriously consider is urgent public equity bailouts – this is what we propose in a joint report from the IPPR and Common Wealth think tanks. By using public money to take ownership stakes in firms large and small, the government can provide a rapid cash injection whilst not saddling the firms with further debt.

Despite what some commentators would have you believe, this approach does not represent some sort of mass nationalisation, nor is it anything out of the ordinary in developed economies. The UK is in fact an international outlier in not offering equity support for firms. This is a missed opportunity. Germany has launched a €100 billion public equity fund for this exact purpose and Italy is following in suit. The Chancellor has already taken cautious steps towards this, such as the bailout of Celsa Steel and loans that convert to equity offered through the UK Future Fund. So why stop there? Now is no time for caution.

At the end of 2020, the UK will lose access to the European Investment Bank (EIB) which currently supports infrastructure and wider economic investment, particularly for small businesses which it supports with an equity fund. To date the EIB has invested a total of €53 billion in the UK since the last financial crisis. The new UK Infrastructure Bank announced by Rishi Sunak at the spending review is set to replace *some* of the functions of the EIB, including equity finance, but its mandate appears likely to be unnecessarily constrained to purely infrastructure projects, rather than supporting jobs and productivity investments across the wider economy. This is a massive missed opportunity.

In the short-term, a public equity cash injection will support firms and fill the cashflow-gap as an alternative to the current debt-based approach. But what about the long-term? Again, across Europe and other developed nations, equity finance is used as a core plank of industrial policy. As the UK economy shifts towards recovery, these schemes can provide wider support, aligned to the aspirations of a government's industrial strategy, to support growth and productivity, and, ultimately, a return on the initial investment.

In our proposals, the government could end up owning small stakes in many firms – far too many to effectively manage in alignment with a strategy. One solution to this would be to establish, in time, a Citizens Wealth Fund that could take ultimate ownership of these stakes and operate them as a generally neutral investor, aligned to broader government priorities. This would be an arms-length body to avoid political mismanagement, but with clear and transparent remit that would place conditions on such investments.

The government has a choice – continue along the current path of piling ever-more unsustainable debt on companies; or take a bold step in a new direction and use the power of the state's balance sheet to protect businesses, jobs and invest in the long-term success of the UK economy.

About the Author

George Dibb is head of the IPPR Centre for Economic Justice. His new paper 'Taking a Stake' is available to download here.

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