

Call it a Big Bazooka (Just don't call it Socialism): Re-thinking the Role of the State in the Age of Coronavirus and Brexit

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News by the Chancellor of the Exchequer, Rishi Sunak, on Tuesday that the UK Government will provide an assistance package to business, including over £330 billion of loans and loan guarantees, the scrapping of business rates for one year for sectors such as retail and hospitality, cash grants of up to £25,000 for SMEs and a three-month mortgage “holiday” for home-owners was a real volte-face for the Government.

Indeed, as my colleague Steve McCabe elucidated yesterday, this represented a significant departure from the previous Conservative orthodoxy of minimising (and seeking to further reduce) the role of Government in managing and shaping the economy. At over 15% of GDP these measures really do constitute a “Big Bazooka” in trying to shore up businesses and households that will be hard-hit by the spreading Covid19 contagion.

However, as has been pointed out by a number of commentators, loans/guarantees are just that and companies might decide to retrench staff and cut back rather than contemplate taking borrowed money. As Nils Pratley, writing in the Guardian notes, “[s]ome employers may decide it’s better for them to shed staff or shut up shop, the behaviour Sunak is trying to discourage. The threat of mass redundancies looks large, with effects that could last years.”

To this must be added concerns around the impact on individuals forced to take time off work due to illness. Whilst the Government has put forward extending Statutory Sick Pay (SSP) provisions, the amount of money paid, some £90 per week, represents an insufficient compensation for workers with heavy financial commitments such as a mortgage (i.e., a clear majority of the UK workforce).

For those individuals working in the so-called “gig economy” (or otherwise denoted as those who are self-employed or working in highly precarious employment such as zero-hours contracts), estimated to comprise about one-fifth of the workforce, loss of work would entail loss of income and non-employee status would preclude SSP. Efforts so far have proved problematic in considering extending sick pay provisions to such workers.

It is perhaps this conundrum that led to the Government prevaricating on closing down schools to combat Coronavirus, which was only announced yesterday by Secretary of State for Education, Gavin Williamson. Arguments abounded around releasing children into the general population (when the balance of medical evidence suggested that they were least likely to be affected by Covid19 but could still transmit the virus to other, more susceptible groups) and also that of compromising the obvious educational value of being at school.

However, to me the simple fact is that having deliberately presided over the creation of an economy built on the backs of the working poor over the past 10 years (consider the record use of food banks in the UK at a time of 4% unemployment; the lowest since 1975), the Government now finds that requiring such individuals to forego work to look after their children would put an intolerable strain on the UK economy – and yet done it they have, ostensibly on the premise of teacher illness rates....

With this in mind, Institute for Public Policy Research suggested that about one-third of mothers in working families (33 per cent) in the UK earned at least half of household earnings, whilst just over half of maternal breadwinners were in couple households (56 per cent) and 44 per cent are single parents.

Hence, it would not be too far-fetched to say that given the sizeable proportion of two parent households with both parents working – and households with just one parent (and servicing a mortgage), closure of schools could cause the whole UK economic model to implode in the absence of a comprehensive welfare state.

And that the burden of this would fall disproportionately on working women (who also still provide the bulk of carer duties in their households), with single mothers being particularly vulnerable.

News that the impact of Coronavirus could mean a 15% drop in GDP in the coming months, nonetheless has not stopped the Government from sticking to its Brexit timetable (though how this could be achieved now is anyone's guess, unless ending at the end of this year with no economic agreement in place is the objective). Suffice to say, Covid19 has not caused disruption to food supply chains (shortages are the result of panic buying at the retail end), but a hard Brexit certainly will trigger problems with the availability of fresh fruit and vegetables amongst other items.

Medium to longer term, the challenges of automation and climate change will only add to the disruption facing us. Some writers predict that in 10 to 20 years, half of current jobs will be threatened by computer algorithms and that 40% of today's top 500 companies will have disappeared in ten years or so. Others suggest that algorithms "could substitute for approximately 140 million full-time knowledge workers world-wide".

So to me, a transformation of the way we organise our economy and society is now absolutely vital.

First, the Government needs to move away from ad-hoc sticking-plaster welfare measures such as SSP and embrace paying the population (working-age and pensioners) a Contingent Basic Income – and that carers be recognised as in effect providing waged work.

In doing this, the cost of living needs to be adequately factored in, so why not set it at least at the current adult National Living Wage (approx. £16,000 p.a.)? Low-paid workers and carers with domestic duties would thus get a decent income independent of their employment status (especially important for gig workers); and any private waged earnings they receive would be offset against this by HMRC.

Second, such monies could also be conditional on workers undertaking regular training when they have spells of unemployment and/or underemployment. This would have the dual beneficial effect of boosting productivity; and equipping workers with key skills needed to transition our economy away from fossil-fuel dependence to that of greening the economy – vital in the fight against climate change.

Third, a proper place-based industrial strategy that recognises and supports the importance of particular economic sectors as national strategic assets; as for example the automotive sector in the West Midlands. Such a strategy would use direct financial support to offset supply chain disruptions brought about by Coronavirus – or Brexit – and keep vital firms like Jaguar Land Rover afloat, and committed to the UK.

Finally, real devolution in England that puts power and resources back into the hands of the local communities that are best-placed to determine their needs. Combined Authorities seem the best placed to coordinate devolution at a city-regional level. However there is also scope for local authorities and NGOs here too – and we must be mindful that any monies lost from EU funded infrastructure and social programmes for these organisations must be replaced by a genuine “Shared Prosperity Fund”.

I have described elsewhere about the likely necessity of underwriting key industry players in this fashion; e.g., in underwriting JLR for the cost of a hard Brexit which they estimate in excess of £1.2 billion . Related to this would be upgrading regional rail and trunk road routes, to speed up transport journeys and offset new customs /trade barriers.

Compared to the monies now being bandied about by the Government, such expenditures would seem trivial and the Government should bite the bullet here and provide direct guarantees to industry, rather than just offering loans and loan guarantees. Indeed, news that the Government may yet consider direct wage subsidies to business – to the tune of an extra £40 billion per month adding to the budget deficit – which would sum to about half of the total UK wage bill, to offset the cost of Covid19 to businesses , must be seen in this context...

So, having let the dirigisme, interventionist genie out of the bottle in order to do “whatever it takes” to combat the Covid19 pandemic (and other disruptive influences), the neoliberal market-led approach to running the UK economy now well and truly appears to be a busted flush.

Indeed, if recent events have taught us anything, only the State has the power to marshal resources and direct their use to the levels

needed to combat the major disruptions triggered by the likes of Coronavirus or climate change. As such, going forward, we can expect to see the UK Government take a permanent more prominent role in running the economy.

Call it an endless succession of Big Bazookas if you like – just don't call it Socialism...

[1] <https://www.theguardian.com/politics/2020/mar/17/chancellors-330bn-coronavirus-package-is-big-but-not-big-enough>

[2] Jiehao Cai, Jing Xu, Daojiong Lin, zhi Yang, Lei Xu, Zhenghai Qu, Yuehua Zhang, Hua Zhang, Ran Jia, pengcheng Liu, Xiangshi Wang, Yanling Ge, Aimei Xia, He Tian, Hailing Chang, Chuning Wang, Jingjing Li, Jianshe Wang, Mei Zeng (2020) 'A Case Series of children with 2019 novel coronavirus infection: clinical and epidemiological features', *Clinical Infectious Diseases*. DOI: 10.1093/cid/ciaa198

[3] <https://www.ippr.org/publications/whos-breadwinning-in-europe>

[4] See Helbing, D., Frey, B., Gigerenzer, G., Hafen, E., Hagner, M., Hofstetter, Y., van den Hoven, J., Zicari, R. and Zwitter, A. (2017), 'Will Democracy Survive Big Data and Artificial Intelligence?' Accessed on June 4th 2018

at https://www.bsfrey.ch/articles/D_283_2017.pdf

[5] See Frey, C. and Osborne, M. (2013), 'The future of employment: how susceptible are jobs to computerisation'. Oxford Martin Programme on the Impacts of Future Technology. Accessed on July 27th 2018

at http://enliza.es/SECCIONES_1/1_EL%20FUTURO%20DEL%20TRABAJO/RECURSOS/The_Future_of_Employment_OMS_Working_Paper.pdf

[6] <https://www.birminghammail.co.uk/news/midlands-news/jaguar-land-rover-boss-tells-15138786>

[7] <https://www.theguardian.com/politics/2020/mar/17/chancellors-330bn-coronavirus-package-is-big-but-not-big-enough>