From the ‘Rocks’ of Brexit to the Economic Devastation of COVID-19

By Dr. Steven McCabe, Associate Professor, Institute of Design and Economic Acceleration (IDEA) and Senior Fellow, Centre for Brexit Studies, Birmingham City University

In January, as MPs were voting through the Withdrawal Act Bill that would allow the UK to leave the EU, reports were circulating of a health crisis in China. A combination of what appears to have been the Chinese state’s desire to cover up the extent of the emerging crisis combined with flat-footedness by other countries has contributed to the health and economic crises faced by almost every nation.

Coronavirus/COVID-19 (CV-19) is, absolutely understandably, dominating the news agenda in a way that makes fears about the potential worst outcome of Brexit look small in retrospect.

A ‘hard’ Brexit, still not entirely out of the question, would, according to those arguing against such, lead to food and drug shortages as well the likelihood of increased unemployment.

Brexiters scoffed at such arguments claiming them to be part of ongoing ‘project fear’. Once we left the EU, Brexiters asserted, everything would be perfectly fine and we’d wonder what the fuss was all about.

The effects of whatever Brexit eventually occurs may eventually become apparent.

What is abundantly clear is that negotiations concerning the free trade agreement that should have been ongoing were it not for CV-19, have become secondary to dealing with what is fast emerging as an economic crisis that will be, it seems, be as bad, if not worse, than the Global Financial Crisis (GFC).

Former US Secretary of Defence, Donald Rumsfeld, in 2002, when responding to a question concerning evidence of weapons of mass destruction in Iraq, used the words “known unknowns”.

This summarises where we are at in terms of CV-19. It exists but, beyond knowing that it is extremely contagious, and that the mortality rate is at least one percent, there is a great deal of uncertainty.

Given that this is a new strain of virus, we will learn by experience that will, as sadly seems inevitable, result in significant numbers of deaths and put the National Health System, already creaking under the usual strain of winter, under such pressure to cope with those who are severely affected that it can no longer function.

On the basis of the number of infections that has risen very markedly as well as the deaths that are resulting, particularly in London, has confirmed the worst fears of many in government and beyond.

Modelling by Imperial College's COVID-19 Response Team that has been advising the government that without drastic action there could be as many as 250,000 deaths is what drove Boris Johnson to announce measures that, outside of war, would be inconceivable.

As the PM and his government would have known before agreeing to change the strategy of allowing CV-19 infect large numbers so as to achieve 'herd immunity', there were likely to be severe economic consequences.

We knew that the travel industry was already in dire straits as a result of a cliff-edge drop in bookings. Once the current economic crisis is over, we can expect to see the remains of a number of corporate carcasses that were unable to survive.

IATA (International Air Transport Association) has announced that out of a total of 700 airlines worldwide that currently operate commercial scheduled flights, because of "high levels of debt" and "fixed obligations even in the absence of revenue", only 30 will survive beyond a couple of months.

Given that restrictions on travel are likely to persist over the summer, the busy period when profit, slim as it may be, are made, the rate of failure of airlines is highly possible. Similar failure throughout the supply chain dedicated to travel and hospitality is entirely possible with consequences for every person employed that will be individually devastating and collectively catastrophic.

Following Boris Johnson’s entreaty on Monday for people to engage in ‘social distancing’ and to avoid going to pubs and restaurants there is every likelihood that without additional support from government and in the absence of being able to access insurance, a significant number of businesses in hospitality may go out of business.

As well as ensuring even more gaps in high streets that were increasingly being depleted, this will reduce the revenues resulting in lost taxes and, of course, potentially significantly increase unemployment among a sector that contributes more than £120 billion each year to the economy (about 5.5%) and employs over 3.2 million people, as well as creating jobs for a further 2.8 million working in the wider supply chain.

News that casual dining chain Carluccio’s is “days away from large-scale closures” presents a stark picture for high street businesses experiencing a very noticeable decline in ‘footfall’.

Since the GFC, one of the greatest shifts that has occurred has been in the increase in those who do work on an interrupted basis of being employed when it suits the business needs of a company.

Given that a good proportion of those employed in hospitality are part of the so called ‘precariat’/’gig economy’, and whose income is highly variable, any serious dip in this sector will have huge ramifications.

Unemployment, which was expected to go up as a consequence of the economic chaos caused by the credit crisis, surprisingly did not rise. Significantly, though, on Tuesday, unemployment rose by 63,000 in the three months to January, the largest jump since late 2011.

That CV-19 has proved the death-knell of ailing high street brand Laura Ashley which has more than 150 British stores and employs 2,700 people will not come as a shock. That it did on the same day as Dixons Carphone announced that it is to close its 531 stores with the loss of 2,900 jobs only adds to the sense of impending disaster in retailing that is going to occur in other sectors.

Many businesses will find the going tough over the coming months and we can expect to hear further announcements of large companies going bust.

Sadly, the demise of small businesses, which constitute the majority of British firms, occurs beneath the radar of press interest but collectively will show up in future data emphasising the economic woes of the nation.

Chancellor Rishi Sunak has announced “unprecedented” financial support of a guarantee of £330 billion of loans, equivalent to 15% of UK GDP, as well as business tax breaks and cash grants worth £25,000 to businesses. Whether this, coming only six days after his budget statement when £20 billion was already pledged is sufficient to provide urgent support through the current economic crisis remains to be seen.

As chief economist at IHS Markit, Nariman Behravesh, believes, “It’s too late” to avoid recession and any measures now are simply to “limit the pain.”

Critics of what Sunak has offered suggest some businesses will only avail of the package if they’re confident that the crisis is reasonably temporary and better times lie ahead. Because they are loans so, long-term, will have to be repaid. It is suggested that many businesses may decide continuing isn’t worth the pain and close anyway.

If that’s the case Sunak’s interventions will be of limited effect.

The GFC demonstrated that intervention using huge amounts of money was essential in keeping the economy from going into shock by banks running out of money. This resulted in a temporary spike in debt that was used as a stick to beat the supposed profligacy of the Labour government led by Gordon Brown and his chancellor Alistair Darling.

Not achieving a majority in the 2010 election led to the end of Labour rule and the imposition by the Conservative/Lib Dem coalition of austerity that, arguably, created disillusion and anger resulting in the vote to leave the EU.

Given the current economic crisis that shows no sign of abating, any belief that most people’s prospects were going to radically change now looks overly-optimistic.

Chancellor Sunak will be supported in the need to intervene more directly in supporting businesses if it keeps the economy suffering calamitous decline. According to analysts Capital Economics the current crisis could result in UK GDP (gross domestic product) declining by 15% in the April-June quarter.

Though it’s blind faith at this stage, it must sincerely be hoped that the eventual outcome of the current economic crisis caused by a virus, unknown to the majority of the world less than three months ago, is not as catastrophic as some suggest it might be.

It’s salutary to remember that this crisis is one involving life and death and that, according to UK chief scientific adviser Sir Patrick Vallance, under the current government strategy to deal with CV-19, a “good outcome” may be fewer than 20,000 deaths.

The speed with which events are unfolding suggests that every government is relatively powerless to do anything but respond as best they can with whatever financial ‘weapons’ available.

In the UK a temporary and, potentially, extremely painful but temporary recession could become a much longer problem resulting in depression with all of the attendant social and economic impact for those whose livelihoods have been wiped out.

In such a scenario, unemployment would rise rapidly with the knock-on impact of people defaulting on mortgages, loans, rent as well as a multitude of other financial problems. The impact on the UK economy would be the risk of potential long-term damage so utterly appalling that anything we feared as a result of a ‘hard’ Brexit would look like ‘chickenfeed’.

Collectively, let’s hope British businesses largely avoid the fate of being sucked into the vortex of decline caused by CV-19.

Dr. Steven McCabe is co-editor of *Brexit and Northern Ireland, Bordering on Confusion* (published by Bite-Sized Books, ISBN-13:978-1694447807) and contributor to *Boris, Brexit and the Media* edited by Mair, Clark, Fowler, Snoddy and Tait (published by Abramis Academic Publishing)