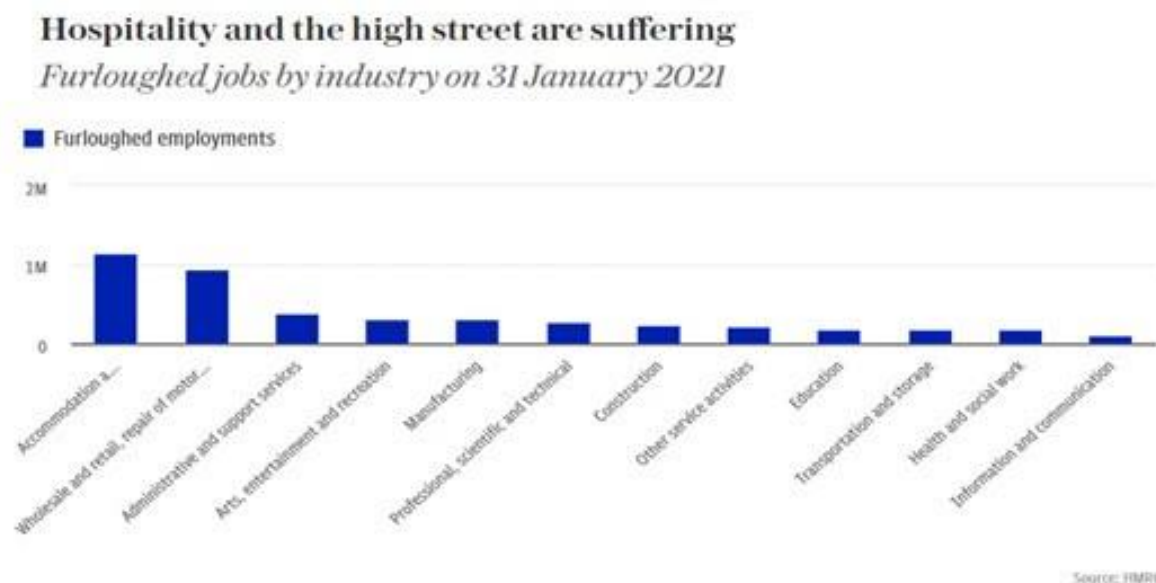


The More Things Change....

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

Greek philosopher, Heraclitus (544-483 BC), believed it wasn't possible to "step into the same river twice." Figuratively, events flow around us, and the future will inevitably be different. All we can do is reflect and, perhaps, do things differently.

There's much discussion about what needs to change as a consequence of the pandemic. Many, especially those in hospitality and retailing, have seen their employment curtailed due to lockdown. Correspondingly, the hit to the UK's economy, because of dependence on services (roughly 80%), has been unduly hit by three lockdowns and restrictions including social-distancing:



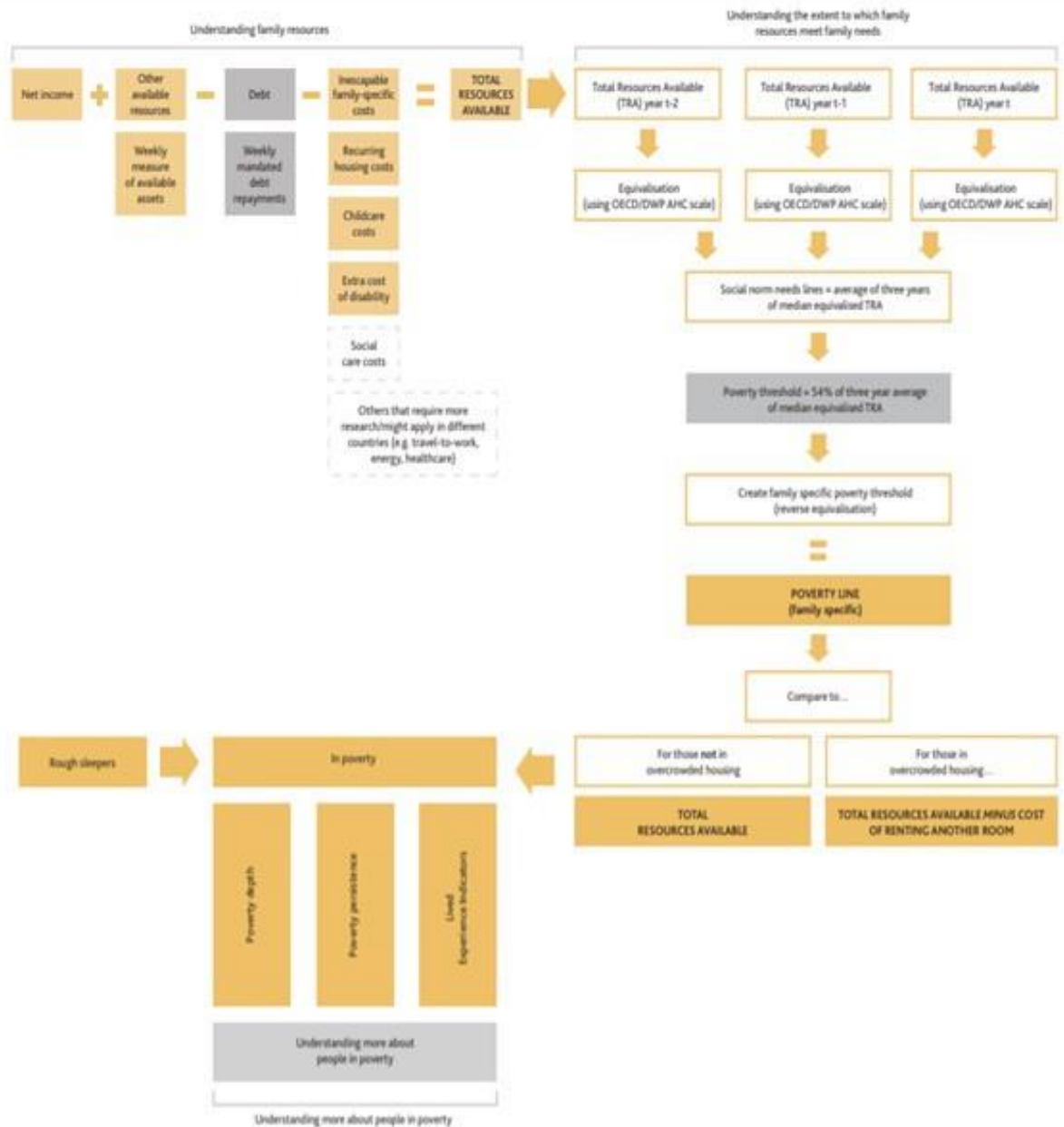
Source: Telegraph

Given success in rolling out the vaccine, there's optimism of rapid economic recovery. As the 'roadmap' set out last week indicated, restarting parts of the economy that've been shut down for many months will enable people to resume employment jobs and, through increased activity and taxes, enable 'bounce-back'.

However, though recovery is unquestionably critical to us all, there's a question of whether simply returning to what existed prior to the pandemic is what we should be aiming for? After all, those who were part of the 'precariat' may feel access to achieve increased prospects was far from straightforward or easy. In many parts of the UK, relative poverty was increasing even before the pandemic.

Though poverty may be considered from a number of perspectives, a comprehensive measure is produced by the [Social Metrics Commission \(SMC\)](#). They view poverty as being the "experience of having insufficient resources to meet needs." However, as the SMC stress, in any measure of poverty resources should not only include what is immediately available, but the 'capabilities' that may be attained through education and their health to affect future prosperity.

What this measure consists of is summarised in the flow chart below which provides the way in which the SMC determine poverty among families:



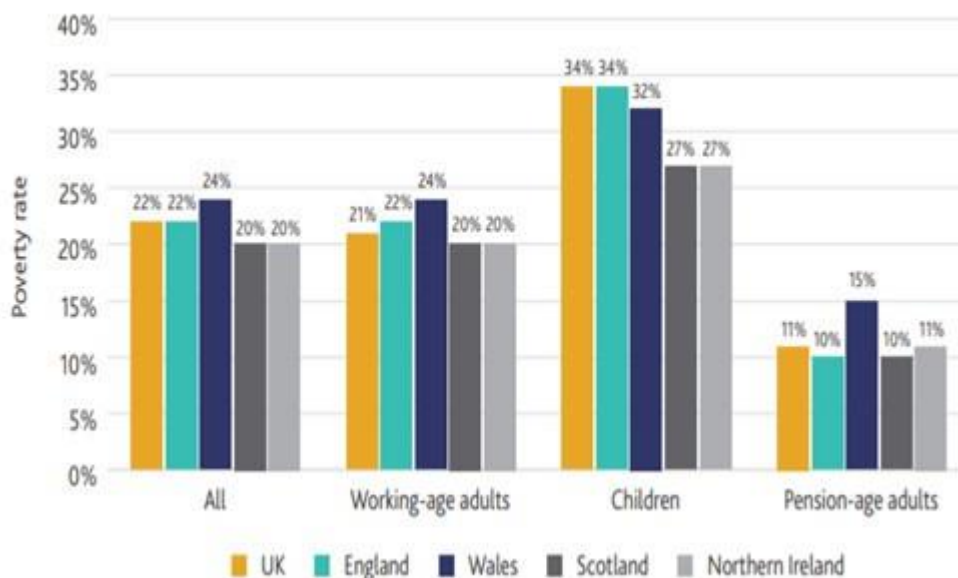
Source: **MEASURING POVERTY 2019, A report of the Social Metrics Commission**

In its most recent report, in July 2019, SMC having carried out research carried out, presenting a number of findings:-

- 14.3 million people in the UK live in poverty; 8.3 million working-age adult, 4.6 million children and 1.3 million of pension-age
- The current rate of poverty is 22% which is “only slightly lower than the 24% seen in 2000/01 (the first available year of results using the Commission’s approach”

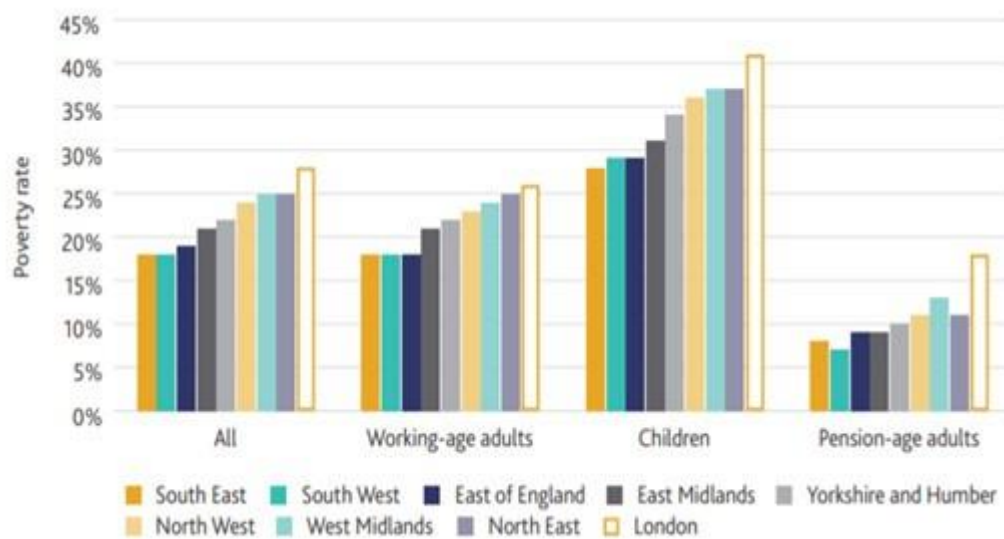
- Almost 49% of those in poverty, 7 million people, are in persistent poverty, meaning they've been in poverty for at least two of the previous three years
- Nearly half (48%) of people in poverty, 6.8 million people, live in a family where someone is disabled
- Working-age people in poverty are increasingly likely to be in working families
- The poverty rate for people living in families where all adults work full time is just 10%, compared to 58% where all adults work part time and 70% in workless families
- Poverty rates vary depending on the ethnicity of the household; being more prevalent among families with “Black or Asian heads” than those that are white (46%, 37% and 19% respectively) though, it is stressed, “76% of those in poverty live in families with a head of household who is White”

As would be expected, poverty is largely dependent on the place you live. SMC's data demonstrates variation of poverty among families within the UK. Whilst the UK average for poverty is 22%, in Wales the figure is higher (24%) but lower in Northern Ireland and Scotland (both 20%). The table below shows the differences among the UK countries as well as showing the spread among working-age adults, children and pensioners:



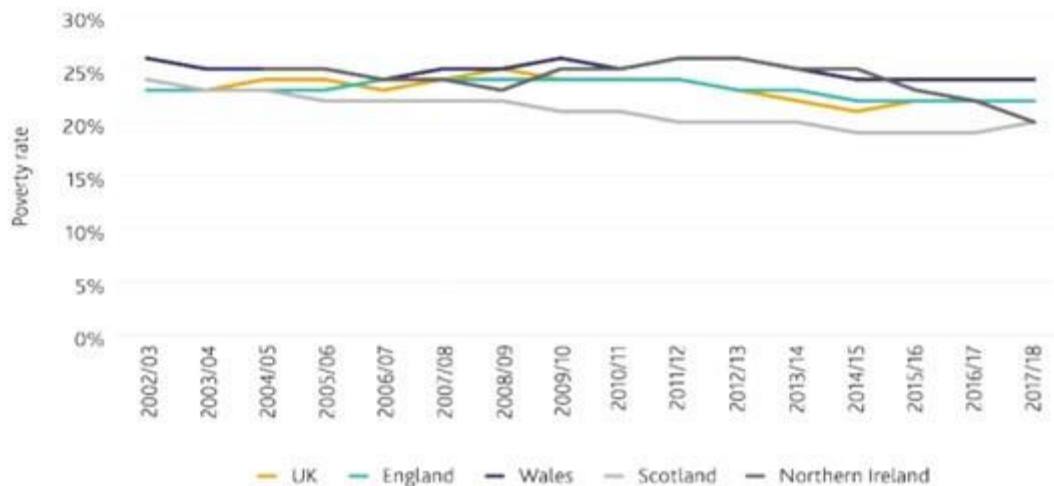
Source: MEASURING POVERTY 2019, A report of the Social Metrics Commission

There's variation within English region. According to SMC there is what appears to be a broad division between those regions in the north and those in the south. However, as the following diagram showing poverty in the English regions clearly indicates, London has a particular problem, especially for children and pensioners:



Source: MEASURING POVERTY 2019, A report of the Social Metrics Commission

Such data is familiar to those who consider such matters, including governments elected on manifestos promising to address long-standing inequality of wealth and opportunity. Though, of course, the current government may eventually be judged against their commitment to 'level up' the different regions of the country, what is interesting to note is how the SMC measure of poverty has varied in the four nations of the UK since 2000 when Tony Blair was in the early years of his first administration:



Source: Family Resources Survey and HBAI dataset (1998/99 - 2017/18), SMC analysis.

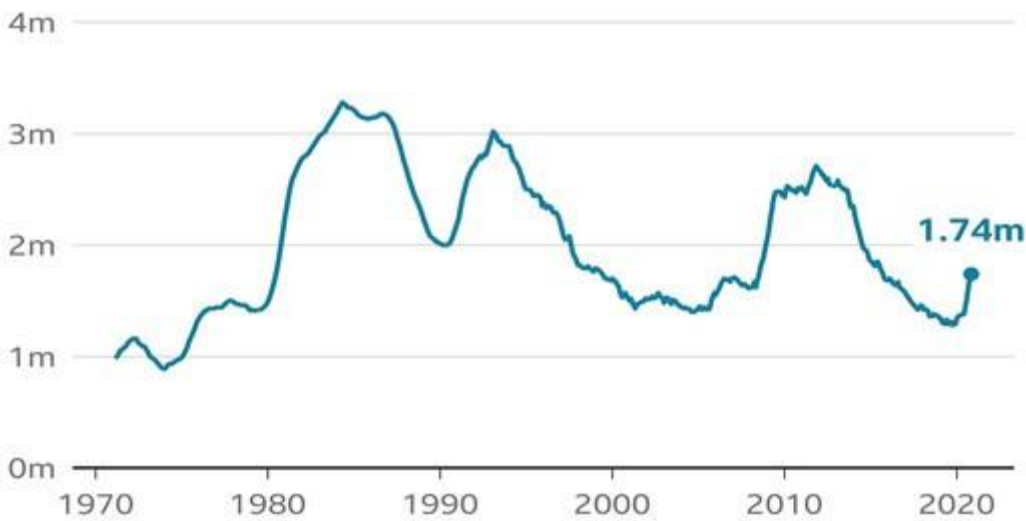
Each of the four nations have experienced alterations in poverty as a result of investment under Labour and the impact of the financial crisis of 2008. Scotland, however, though undergoing a general decline in poverty until 2015.16, has seen a recent increase. Notably, there's been a dramatic fall in poverty in Northern Ireland from 26% in 2012/13 to 20% in 2017/18.

Therein lies the problem faced by increasingly svelte and media-savvy Chancellor, Rishi Sunak. Speculation about Sunak's credentials as a future leader of the Conservative Party and potential Prime Minister have been heightened by announcements made in [Wednesday's budget](#).

Sunak's is primarily concerned with the next few months in supporting the economy in its transition from a third lockdown to the return anticipated normality everyone craves following vaccination. That four million people still receive 'furlough money' will foremost in his mind. Ensuring the vast majority of these people return to work in companies which survive is essential to avoid unemployment spiking rapidly from the national average of 5.1% (1.74 million) it currently stands at.

UK historical unemployment

Economically active people aged over 16 who are unemployed

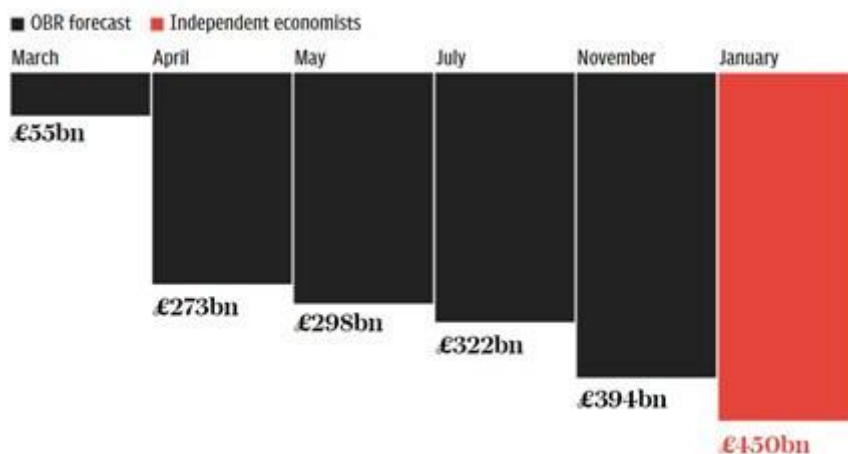


Source: Office for National Statistics. Margin of error: $\pm 0.4\%$

BBC

Unemployment, which so utterly blights prospects and contributes to poverty, though having increased during the worst economic crisis for over a century, could have been far worse. Thankfully, we've not, yet, witnessed rates of joblessness experienced in the 80s, 90s and following the financial crisis of 2008. This is because of phenomenal amount of money dedicated by Sunak over the last twelve months to supporting workers, businesses and the economy:

Rising estimates of the UK Government deficit for the current fiscal year



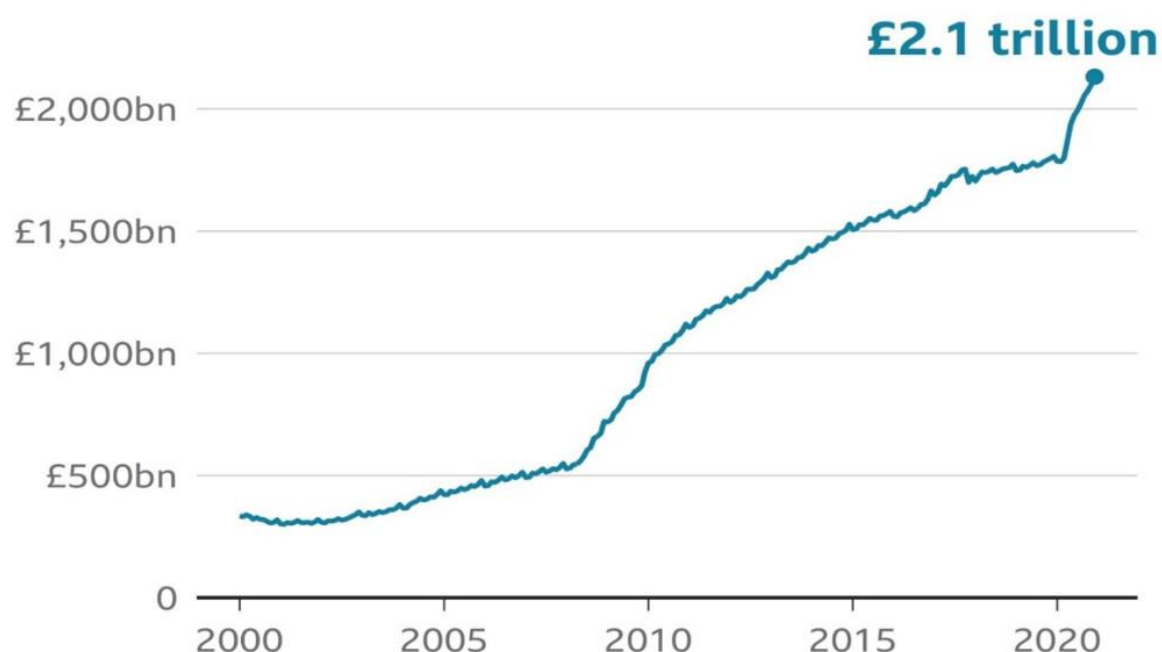
SOURCE: OBR

Source: *Telegraph*

Though, there is difference as how great the government debt will be – writing in Tuesday’s *Telegraph Economic Intelligence*, World Economy Editor, Ambrose Evans-Pritchard, suggests that the total cost of the pandemic may be as high as £600 billion – provides stark demonstration of the herculean task facing Sunak in dealing with accumulated public debt for the UK, £2.1 trillion, the highest since 1963.

UK public sector net debt

Excluding public sector banks



Source: Office for National Statistics



The sort of debt incurred by the UK due to the pandemic, huge as it is, has at least occurred at a time of extremely low interest rates. Pointedly, as many economic commentators stress, this may not continue. Prevailing circumstances, particularly [President Biden’s \\$1.9 trillion Covid-19 relief package](#) and the general pick up in economies across the world is likely to result in increased demand for vital commodities. This will increase inflation which, in turn, could cause interest rates to rise.

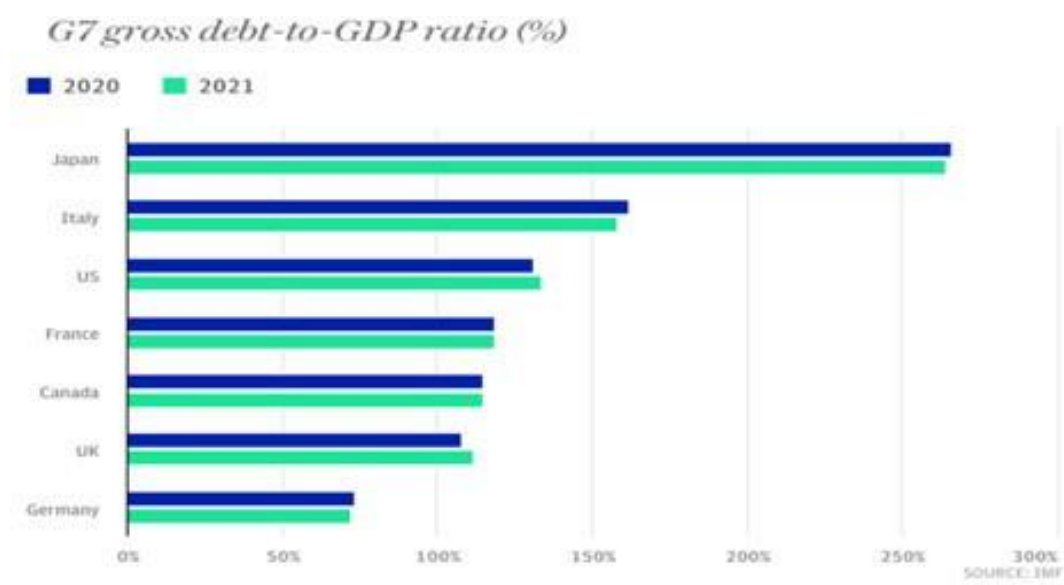
Any increase in international interest rates will inevitably make servicing the UK’s debt more expensive. Jeremy Warner, also writing in Tuesday’s [Telegraph Economic Intelligence](#) makes precisely this argument when he explains, “a mere one percentage point rise in short term rates, and yields on conventional gilt rates and index linked

gilts, would add £27.8bn to debt servicing costs, or slightly more than 1pc of GDP”.

However, whatever the short-term imperatives, Rishi Sunak knows that sustaining the UK economy through investment and employment is absolutely essential to paying off the debt. Combined with future tax increases announced on Wednesday, only long-term economic recovery, similar to that which occurred in the 1960s, will enable the debt to be reduced.

As hardly needs pointing out, the world the UK deals with in 2021 is very different to that some 60 years ago. Then it was still regarded as a major manufacturing nation and, following post-war austerity, was heavily investing in creating a country able to avail of new opportunities and markets.

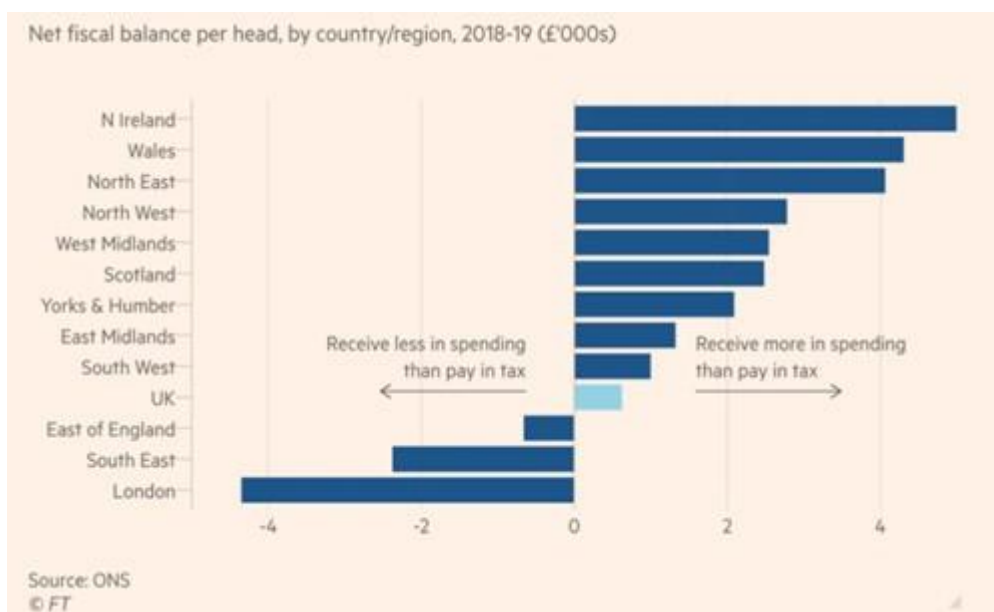
Such is the delicate path Sunak must tread. Continue to invest in Invest in the recovery but, as he is being exhorted to do by a range of politicians and economic analysts, be honest about the pain we’ll all suffer in the future. Evans-Pritchard in his piece in the *Telegraph Economic Intelligence*, ‘Rishi Sunak should ignore flat-earth Tory obscurantists and go for growth’ makes clear his views. Using IMF data, he points out, that only Germany has a lower debt-to-GDP ratio among the G& nations:



Source: *Telegraph*

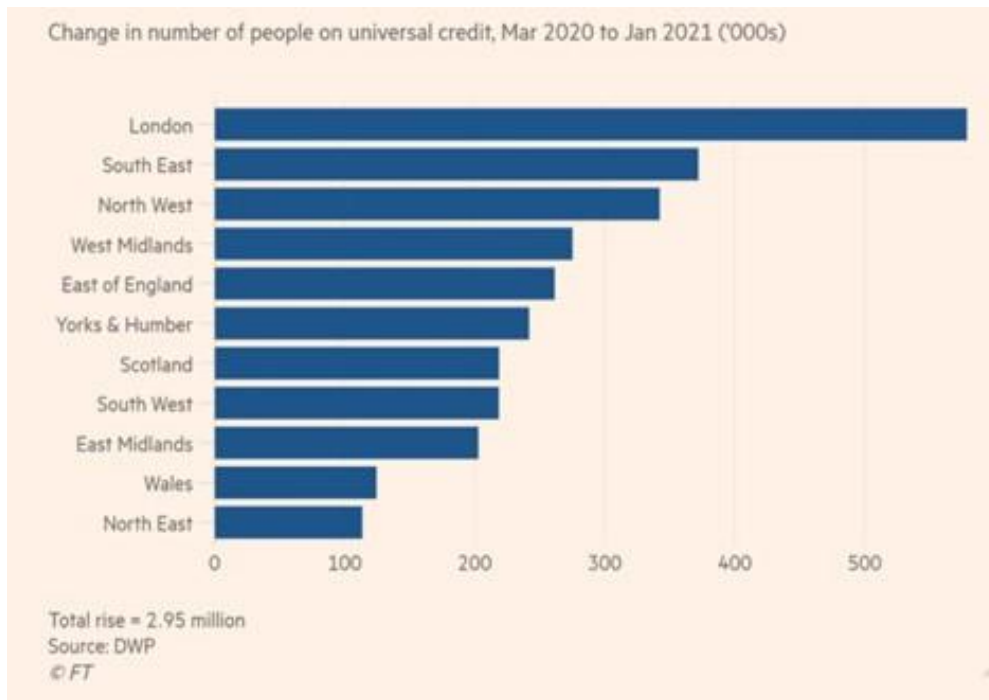
As Evans-Pritchard stresses, 'levelling up' should be maintained in a way that avoids "pork barrel spending or promiscuous statism that crowds out the free market and ultimately smothers the economy". His conclusion, that Sunak should "blend Keynes and Adam Smith, with a dash of Schumpeterian tough love" might suggest the task is easy. His advice, that Sunak should not succumb to "primitive fallacies and economic obscurantism" and that success require "magic and a lot of good luck" indicates otherwise.

Indeed, as Chris Giles, in his article, 'UK Budget: the long road to levelling up' for the [Financial Times](#) contends, the pandemic has made the task of creating greater prosperity and opportunity in traditionally poorer regions even more of a challenge. Poverty and inequality require vastly increased public spending in such regions. However, as ONS data presented by Giles indicates, even before Covid there was considerable redistribution from London and the South East of England to all other regions:



Source: *Financial Times*

Spending even more will add to any sense of impending threat of increased interest rates felt by Sunak and his team. Moreover, as the pandemic has proven, though its health impact may have been disproportionately experienced by the elderly, poor and BAME community, its economic consequences has been especially severe in London:



Source: *Financial Times*

Such is the complexity of the conundrum facing Sunak who's got to fix the current problem whilst developing solutions to long-standing issues that have confounded many before him. Every region needs more investment. But where will the additional money come from? The dilemma is that vastly increased spending comes without any guarantee of success.

Tom Forth, head of data at Open Data Institute Leeds is quoted by Giles and stresses that quick fixes are not possible and, besides, it may be decades before success (or failure) becomes apparent. Rishi Sunak, regardless of how his career progresses, will possibly be long gone.

Change leading to improvement in the prospects of the poorest in this country is more urgent than ever. Creating change is as difficult as it's ever been; probably more so given the state of the UK's finances. Accordingly, Rishi Sunak may be tempted to believe that getting back to where we were immediately before the pandemic would represent a positive outcome, certainly in the short-term.

Unfortunately, even this aspiration could be optimistic.

The trouble is, at best, this would align with French critic, journalist, and novelist Jean-Baptiste Alphonse Karr's 1849 quote, *Plus ça change, plus c'est la même chose*, "the more things change the more thing stay the same".

And what of the millions led to believe their future was going to get better?

Failure to deliver on promises made at elections, regardless how outlandish or ambitious, may, as Boris Johnson and his ministers surely know, lead to being punished the next time you ask people to vote for you.

Dr. Steven McCabe is co-editor of *Brexit and Northern Ireland, Bordering on Confusion* (published by Bite-Sized Books, ISBN-13:978-1694447807) and *English Regions After Brexit: Examining Potential Change through Devolved Power* (published by Bite-Sized Books, ISBN-13: 979-8666953099). He has contributed chapters to a number of texts in the last year (in 2020 unless otherwise stated): *Brexit Negotiations after Article 50: Assessing Process, Progress and Impact* (published in 2019 by Emerald Publishing, ISBN: 978-1787697683); *The Wolves in the Forest: Tackling Inequality in the 21st Century* edited by Hindley and Hishman (published in 2019 by Social Liberal Forum); *Boris, Brexit and the Media* edited by Mair, Clark, Fowler, Snoddy and Tait (published by Abramis Academic Publishing, ISBN-13: 978-1845497644); *The Virus and the Media: How British Journalists Covered the Pandemic*, edited by Mair (published by Bite-Sized Books, ISBN-13: 979-8643725824); *The Pandemic, Where Did We Go Wrong?* edited by Mair (published by Bite-Sized Books, ISBN-13: 979-8665858326); *BBC, A Winter of Discontent?* edited by Mair (published by Bite-Sized Books ISBN-13: 979-8694863117) and *The Pandemic, Where are We Still Going Wrong?* edited by Mair, (published by Bite-Sized Books ISBN-13: 979-8563726338). His latest chapter, 'Does Vaccination offer Johnson a Way out of the Pandemic?' is published in *Pandemic, A Year of Mistakes?* Edited by Mair to be published by Bite-Sized Books (ISBN-13: 979-8702357799).

His latest co-edited book, *Exploring the Green Economy, Issues, Challenges and Benefits*, will be published in early summer.