

# You ain't seen nothing yet!

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Economic shocks are not new; they occur with frightening regularity. Unfortunately for planners, the origins and particular circumstances of an economic crisis makes them as unpredictable and their effects difficult to deal with. All that governments can usually do is to react with whatever weapons available. Better times will come, it's just a matter of how long this takes. There is also the challenge of, as much as possible, ameliorating the long-term damage that any crisis will engender.

Many commentators assert that the neo-liberalism of the 1980s under Thatcher in the UK and President Ronald Reagan in the US was a reaction to the economic blight experienced in the early 1970s. The Global Financial Crisis of 2008 led to austerity in the UK and Brexit. In the US it led to Trump and increasing isolationism.

When the history of the current decade is written in, say, five or ten years to allow considered reflection, analysts will undauntedly focus on the Covid-19 crisis of 2020. Questions are already being asked about the country's preparedness for a virus that had first been identified in Wuhan in China in early January. Following what appeared to be some initial reticence – some argue obfuscation – by the Chinese government, of the impact of a form of coronavirus, clear warnings were given about its contagiousness and, more pointedly, how to deal with it by the imposition of 'lockdown'.

Depending on what the actual rate of mortality due to Covid-19 turns out to be in various countries, there will be considerable analysis of the effectiveness of requiring citizens to cut down their interaction with others outside of immediate family to slow down the rate of infection.

On the basis of current data, China's use of what were derided as draconian measures, effectively put its people under a form of house arrest, seem to have worked. In a country with a population of 1.41

billion, the fact that China has experienced only, at the time of writing, 3,341 deaths out of the 82,249 identified as having been infected with Covid-19 would seem to nothing short of miraculous.

Though China has suffered severe economic consequences resulting from measures to deal with Covid-19, its announcement of relaxation of lockdown and that industry and commerce is returning to normal seems to provide demonstration that what may be considered oppressive by some has payback. Many argued, with considerable justification it must be stated, that using measures implemented by China would prove extremely difficult – some suggested impossible – in liberal democracies such as the UK.

So, just after three months since we first heard reports of a strange virus affecting the citizens of Wuhan, a city though not as well-known as, for example, Beijing but with a population of over 11 million making it China's ninth most populous city, the UK has suffered over 12,000 deaths due to Covid-19.

This figure is for hospital deaths only and excludes care homes. According to a report in the [Daily Mail](#), what is described as the 'hidden epidemic' of Covid-19 in care homes may have potentially resulted in an additional 4,000 deaths.

Though the UK was, it seems from documents available showing advice given by scientific experts to the government as to how to deal with Covid-19, reluctant to impose lockdown measures, predicted rates of death in the hundreds of thousands, as well as the NHS being overwhelmed by those displaying serious effects from infection, altered its stance. We're now in the fourth week of a shutdown that, even in times of war, is unprecedented.

What is becoming abundantly clear is that whatever the eventual death toll that Covid-19 inflicts on the UK – Prof Jeremy Farrar, director of the Wellcome Trust and a pandemics expert on the Scientific Advisory Group for Emergencies (Sage), believes that we are "likely to be certainly one of the worst, if not the worst affected country in Europe" – there's going to be a phenomenal economic cost.

On Tuesday the OBR (Office for Budget Responsibility) predicted in a report 'OBR coronavirus reference scenario', should lockdown

continue for another two months, the UK's economy, measured by GDP, would decrease by a whopping 35% in the current quarter of April to June. As well as this unemployment would increase by 2 million by the end beginning of July to reach 10%, a figure not seen since the early 1980s when Thatcher was PM.

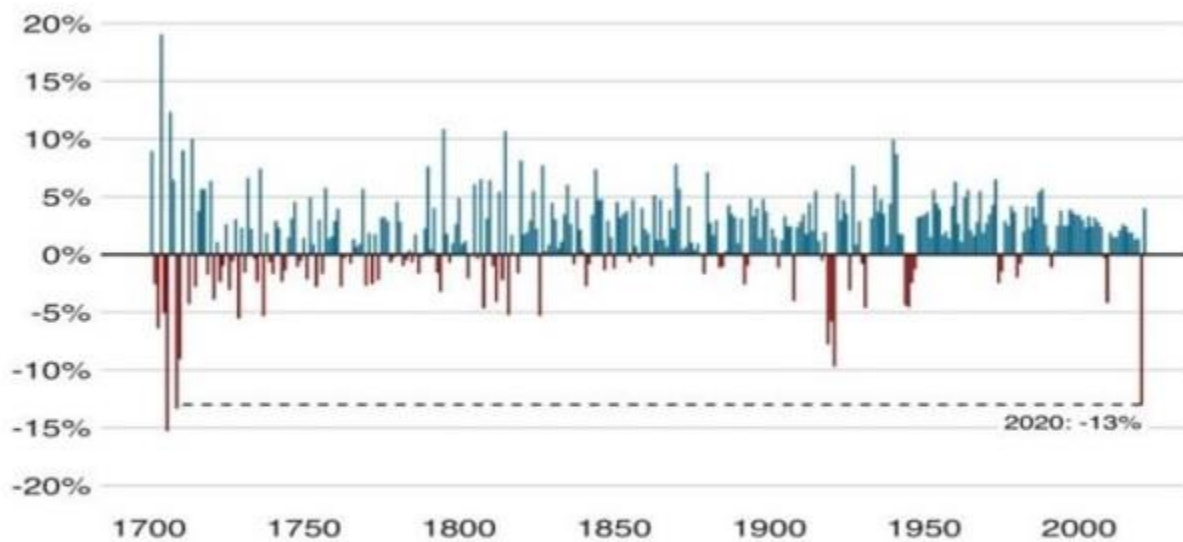
The range of measures introduced by Chancellor Rishi Sunak to assist businesses, those who've been made unemployed and those 'furloughed' for the duration of the crisis, will increase public sector net borrowing by £218 billion in 2020-21 to reach a total of £273 billion (14% of GDP). This is would be the largest single-year deficit since the second world war.

The OBR stress that their predictions are based on assumptions. Crucially they suggest that the very steep drop will be followed by an equally rapid recovery in the third and fourth quarters. Nevertheless, according to the OBR, for the whole of 2020, the UK's GDP would have dropped by 13%. Coincidentally, the International Monetary Fund were less pessimistic in predicting that the UK's economy would shrink by half the OBR's figure of 13%.

6.5% would still be worse than that damaging 6% drop experienced during the Global Financial Crisis of 2008.

In an era when a one percent change in GDP to be pretty dramatic, a drop of over a third is utterly jaw-dropping. A graphic developed by the BBC provides a useful way of seeing economic data you have demonstrating that it's over three hundred years (1709) since a decrease in annual GDP of as much as the 13% predicted by the OBR has occurred.

## Historical UK GDP



Source: IMF, ONS, Bank of England

Worryingly, even though the OBR optimistically predict a speedy recovery to the economy in terms of GDP, its calculations are that unemployment will lag behind and that it will take until 2023 to reduce get back to 4% which is what they predicted to accompany the March budget.

In recommending treatment any doctor is cognisant that the treatment should be consistent with what is going to improve the patient's condition. Inevitably in some cases, such as terminal cancer, some cannot be saved whatever treatment is available and the most sensitive and caring option is palliative care to make their final days as comfortable as possible before death.

However, as we've increasingly discovered, some treatments using especially innovative drugs, are extremely expensive. Their cost is viewed as being economically prohibitive when budgets are stretched.

Though some, including, it's rumoured, some in the cabinet, are questioning the continued economic cost of lockdown, there is no belief that a decision to end it should be taken simply to save money. This would be crass and insensitive to the families of those who have and very sadly, will continue to die over the coming weeks and months.

Indeed, as the OBR stressed in its report, the measures implemented by the government were necessary to ensure that the economy did not suffer a more prolonged slowdown. Critically, it asserts, the additional spending incurred by the Treasury in providing support to businesses and individuals was essential to limit long-term economic damage:

“The government’s policy response will have substantial direct budgetary costs, but the measures should help limit the long-term damage to the economy and public finances – the costs of inaction would certainly have been higher.”

Former Chancellor George Osborne, no stranger to dealing with the impact of economic crisis, though accepting the OBR’s predictions of the effect that measures to deal with Covid-19 are having on the UK economy are based on good logic, they are nonetheless “shocking” and “staggering”. Osborne provides his own a disturbing prediction of what the future may hold for those who have lost their livelihoods due to Covid-19:

*“.....the real tragedy here is a massive increase in unemployment not all of which comes back. In other words, many people don’t simply get their job back later this year under this scenario and it’s just a reminder that the effects of this virus will be with us long after we’ve hopefully found a cure.”*

We’re seeing extremely worrying indications of the impact that unemployment is having. the [Financial Times](#) carried a recent report that lockdown caused by Covid-19 is already causing three million to go hungry in UK.

In a country as wealthy as the UK, that’s simply disgraceful and resonant with the sort of wretchedness experienced over century ago.

As occurred in previous shocks to the economy, there will be a return to ‘normality’. However, people will be chastened. There will be repercussions as a result of the huge debt left by Covid-19 leaving a fiscal burden for years meaning tax increases, a possible return to austerity and a ‘drag’ on growth worse than experienced after the 2008 crisis.

Previous recessions demonstrate that recovery will come but, unfortunately, not to all and not in a way that is equitable or consistent with the desire to 'level-up' as espoused by the government.

Times are tough and likely to get much tougher.

I hope that I'm wrong but there's a danger that we ain't seen nothing yet, the title of a hit single by Bachman Turner Overdrive in late 1974 when the world was suffering crippling economic chaos due to a sudden hike in oil prices from \$17 a barrel in 1973 to \$61.

**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, ISBN-13: 978-1845497644)**