

Death, Taxes and.....a Hard Brexit

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As has long been feared, the pandemic we're experiencing is taking its inevitable toll in terms of infections and deaths that, at the time of writing across the globe stand at, respectively, over 800,000 and just under 39,000. If these figures were a reliable estimate, we would have cause to be seriously concerned as it would indicate a mortality rate of just under 5%.

Those with sufficient knowledge counter that whilst it's impossible to make accurate predictions at present – especially on the basis of data being so variable and in the absence of consistent testing across populations for Covid-19 – the mortality rate is believed to be closer to 1%.

Statistics count for nothing to the families and loved ones of those affected. Nevertheless, when this crisis eventually ends, a mortality rate of 1% may be considered a good outcome. Bad as this rate of death may be, it should provide a warning of viruses that could be a whole lot worse.

Consultation of the history of epidemics is salutary. It reminds us that infectious diseases have caused rates of death far in excess of 1% believed to result from Covid-19.

'Black Death', which occurred between 1331–1353, is estimated to have killed up to 60% of Europe's population. Ebola which has occurred recently, particularly in parts of Africa, has an average mortality of 50%. The Nipah virus, caused by exposure to specific types of fruit bats, may result in up to 75% risk of death.

Whatever the eventual consequences of Covid-19 in terms of the proportion of the world's population who die, particularly on certain age groups and those with pre-existing medical conditions, there can be no argument that it has had a devastating impact on economies around the world.

Though economic data from China is showing a rate of recovery that gives cause for optimism, we should be aware that this is from an extremely low base. Besides, there are many who remain sceptical that the data provided by the Chinese government is suspect. Many don't believe we've been told the whole story as to the exact number of many deaths in China due to Covid-19. Some claim that its rapid return to normality risks a new upsurge in infection.

Nonetheless, what China has experienced economically in the last couple of months is where the rest of the world is currently heading. The urgent need to slow the spread of infection by the use of confinement of people in their homes as well as imposition of 'social distancing' is causing a shock to economic systems and trade.

Countries across the globe are seeing rapid spikes in unemployment coupled with severe downturns in economic activity. The risk of economic catastrophe rivalling that experienced during the Great American Depression of the 1930s is considered possible.

A recent study from the Federal Reserve Bank of St. Louis suggests that unemployment in the US could soar to 32%. A previous study by this bank indicated that nearly 67 million Americans work in occupations that are at high risk of layoffs due to social distancing measures. As a consequence, it has been calculated by the Federal Reserve Bank of St. Louis, some 47 million Americans could be subject to layoffs in the second quarter. If this figure is added to the number laid off in February, there would be almost 53 million unemployed in America.

This is truly dreadful and the reason that the American Senate agreed to dedicate over \$2 trillion in an attempt to keep its economy from nosediving into a depression that would be a calamity for all concerned.

The situation here in the UK is not a great deal better.

The good news story that has been a constantly rising rate in employment in the decade since the 2008 Global Financial Crisis (GFC) has been reversed at alarming speed.

Japan's investment bank Nomura is predicting that, despite financial measures announced recently by chancellor Rishi Sunak to try and incentivise businesses to maintain their employees rather than making them redundant, the unemployment rate for the April-June quarter will hit of 8% and rise to 8.5% in the following quarter.

According to Nomura, this would represent an additional 1.4 million people unemployed giving a total of 2.75 million. Independent think-tank the Resolution Foundation, which focuses on the improvement of living standards of those on low to middle incomes agree that the economic effects of Covid-19 are already "dramatic" and that data indicates "unemployment looks to be rising faster than at any point during 2008/09."

Similar to America and every other developed country, eye-watering amounts of money is being dedicated by chancellor Sunak in order to keep money circulating in the economy to keep as many businesses going as possible 'ticking over'. The hope is that the current crisis will be reasonably temporary – a matter of months rather than years – and a return to normality can be achieved rapidly.

Nonetheless, many analysts stress that however long the current economic crisis persists, its impact will be utterly profound.

Nomura, for example, claim that the effect of the pandemic will result in an economic hit "multiple times that of the global financial crisis" Nomura have predicted that the UK's GDP will fall by 13.5% for the April-June quarter. This is only marginally better than a predicted drop of 15% made by the Centre for Economics and Business Research (CEBR).

What we have to hope for is that the spending announced by Sunak in the last couple of weeks is sufficient to keep the British economy in a form of intensive care that saves it from suffering a crash that could be, potentially, as bad if not worse than the GFC.

The trouble is, the duration of this crisis is uncertain. Though China is claiming, less than three months after first admitting it had a problem, it is getting back to normal, it seems that that we could still be experiencing the negative effects of restrictions on movement and social distancing that is having such a devastating impact on the

economy through almost total closures of retailing, industry and commerce well into the summer. Maybe even into the autumn.

What this will mean is that total figure for public spending resulting from Sunak's announcements will keep ratcheting up. Paul Johnson from the Institute for Fiscal Studies (IFS) contends that the deficit for the coming fiscal year, 2020-21 will be at least £175 billion. Should the crisis last more than three months, this figure will increase relentlessly.

This means that once the crisis is over, we will be left with a debt that which is almost certainly going to be higher than the £158 billion that was created by the GFC. The question that is already being asked is how the debt can be reduced? Many speculate that taxes will have to be increased regardless of how spectacular any economic recovery after Covid-19 is.

After the GFC, the election in 2010 replaced the Labour government led by Gordon Brown with a Conservative/LibDem coalition dedicated to reducing debt. This led to austerity and consequences for society in general, but most especially those most disadvantaged. Many assert that austerity is what led to many who benefitted from EU spending to believe that voting to leave was in their interest.

Departure from the EU is, of course, unfinished business in that the negotiation of a free trade deal is yet to be completed. It's perfectly possible that the current crisis may mean that the deadline for completing this trade deal, 31st December, will pass without any significant developments. We'll leave the EU with the hardest Brexits possible; precisely what Brexiters always wanted.

As such, there is a danger that, as the adage goes, having have experienced the first of the two certainties of life, increased death due to Covid-19, we will collectively suffer the second, taxes, significantly higher than currently in order to pay off debt that, caused by the current pandemic, will be made worse by the economic hit of a hard Brexit.

Though it's perhaps premature to speculate that, compared to other viruses, we may have been lucky, the economic impact is likely to be absolutely awful.

It is to be sincerely hoped that Boris Johnson and his government rethink what is critical.

The immediate priority is in dealing with the current crisis.

Long-term they should dedicate themselves to ensuring we have more resilience to cope with any future shocks to the UK's economic system.

In the interim, they should be cognisant that being wedded to an ideology that considers isolation from our nearest trading neighbours is preferable to doing deals with far away nations, will make a very bad economic situation infinitely worse.

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)