

Regional Rebuilding, the impact of COVID-19 and Brexit

By Professor Alex de Ruyter, Director, Centre for Brexit Studies, Birmingham City University

Professor Alex de Ruyter spoke about this in a YouTube Live recorded earlier today. [Watch the full clip here.](#)

As lock-down measures to combat the Covid-19 pandemic take effect, the UK economy has largely ground to a halt. We have seen half-a-million individuals apply for Universal Credit, whilst the Government has enacted wage guarantees to the employed and self-employed alike to prevent total collapse.

Even so, preliminary estimates suggest that 1-2 million jobs could be lost, despite the Chancellor's measures^[1] whilst YouGov polling data suggests a further 4 million individuals are "very worried" about losing their jobs and missing bill payments.^[2] Schools, pubs, restaurants, cinemas and gyms have closed, and social distance measures prohibit public gatherings.

As such, output has fallen, with the composite Purchasing Managers' output index going down to 37.1 in March, from 53.0 in February. Within this, output for services has fallen even further, from 53.2 to 35.7 – its lowest ever level.^[3] Production in the automotive sector is predicted by the SMMT to fall by 200,000 to below 1.1 million due to plant shutdowns triggered by Covid-19.^[4]

The Government has sought to emphasise the temporary nature of the support measures that it has put in place. However, it remains unclear as to how long lock-down measures will be needed to buy time for the NHS to cope with the pandemic.

Experts suggest three months to six months, but even this is uncertain, with much depending on the success of containment measures and build-up of immunity in the population. It is conceivable that repeat lock-down measures will be needed over the next year or two should there be further pandemic outbreaks.

As my colleague David Hearne has written elsewhere on these pages^[5], public health issues and basic human kindness and decency warrant that all efforts be made to minimise any loss of life from Covid-19.

Yet containing Coronavirus has come with a huge cost, not least in terms of applying a wrecking ball to the economy, compromising the education and well-being of our children and saddling future generations with a mountain of debt (with the Institute for Fiscal Studies thinking that government borrowing in the next financial year is likely to exceed £175 billion, or over 8% of national income).^[6]

On this, Nick Cohen, writing in last Sunday's *Observer*, makes the observation that:

“What about the millions fearing or experiencing unemployment? The people trapped in flats that are now prisons? The women trapped with abusive partners? The shopkeepers and business owners who know government subsidies will not save them from rent demands? The young, whose education and employment chances are being jeopardised for a virus whose death rate could be 10 times higher than average for the over-80s? All will soon find their voice.”^[7]

One can only hope that there will be a satisfactory situation whereby the vulnerable can be protected and yet for the economy to restart, so as to preserve jobs and livelihoods – and lives. In practice this really only reiterates the need to conduct mass testing to quarantine those with the virus.

For all the old issues that haunted us prior to the Covid-19 outbreak will return to haunt us again (indeed they never went away) – be it Brexit, or climate change, or job losses due to automation, or rampant inequality.

On Brexit, Rafael Behr, writing in today's *Guardian* reminds us that *“this might not feel like the moment to go on about Brexit, but Brexit goes on whether we are feeling it or not.”*^[8] Indeed, the UK Government insists that the current transition period due to end at the end of this year will continue to apply, despite the disruption triggered by Covid-19 and that negotiations have effectively frozen.

What is truly remarkable here is that given the suspended animation of the rest of the UK economy, and that all efforts are focussing on combatting the virus, the Government is determined that ‘business as usual’ should continue to apply in this one area.

As such, it should go without saying here that the only sensible course of action on Brexit negotiations (assuming that the UK Government genuinely wants a trade agreement with the EU) would be to agree to extend the transition period (say for 1 year), in order to avert no agreement being reached. Otherwise, given the havoc wreaked by Covid-19, many businesses will simply not be in a position to have to contend with a de facto “no deal” outcome at the end of this year.

This brings me to a comparison between mitigating the impacts of a hard Brexit and the current pandemic. This is not to suggest any kind of equivalence between the two, let alone moral equivalence. Far from it, the one (Brexit) being something the UK has embarked upon by choice; the other (Coronavirus) an exogenous shock entailing a human and economic catastrophe a vast order of magnitude larger than the first.

For me, what a comparison does illustrate, though, is the *fragility* of our economic model, with its predilection for just-in-time (global) supply chains in everything from food to autos and pharmaceuticals (and its labour market corollary of the “gig economy” with workers on-demand). Both Brexit and Covid-19 have the potential to entail significant disruption to supply chains (as Jaguar Land Rover found in trying to import parts from China at the height of the pandemic there).

Going forward then, similar issues arise in terms of maintaining production and nurturing our national strategic (business) assets. One is the need to shore up domestic production in the form of reducing reliance on overseas suppliers, if possible – often referred to as “re-shoring” or proximity-based manufacturing. The other is to ensure that our skills base is fit to transition to the “Green Economy” and thereby tackle the problem of climate change.

In doing a supply chain and Brexit exposure analysis of the transport manufacturing sectors in the Midlands late last year, it struck us that many of the policy prescriptions we recommended have even more salience now. We argued at the time for wage subsidies to support

downtime, loan/guarantees to businesses and tax relief to help ensure business viability.[9]

We also argued for increased spending on regional infrastructure to upgrade our rail and road networks – particularly the important A14 corridor to Felixstowe and the A34 corridor to Southampton, used by many of our Midlands exporters. Other measures included funding to support supply chain diversification, a drive to establish a gigawatt battery factory plant and an emphasis on skills retention and upgrading.

The current situation has really driven home the need to ensure that these sorts of policies are prioritised to foster resilience in response to crises. And this takes us back to revisiting the role of the state in supporting individual and societal welfare, as we have argued for example in promoting a basic income to replace the current inadequate benefits system.[10]

For the neoliberal ideology that has underpinned government policies of austerity and hollowing out the state over the past ten years is now well and truly bankrupt. It is up to all of us to ensure that we don't see a return to "business as usual" when this crisis passes. It is up to all of us to push for a kinder, greener and more inclusive economy and society.

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[1] <https://www.telegraph.co.uk/business/2020/03/21/million-people-uk-could-lose-job-due-coronavirus-outbreak-despite/>

[2] <https://yougov.co.uk/topics/economy/survey-results/daily/2020/03/18/02aca/3>

[3] <https://tradingeconomics.com/united-kingdom/manufacturing-pmi>

[4] <https://centreforbrexitstudiesblog.wordpress.com/2020/03/31/auto-industry-hit-from-coronavirus-could-be-even-bigger-than-latest-forecast/>

[5] <https://centreforbexitstudiesblog.wordpress.com/2020/03/25/day-5-in-the-big-brother-house/>

[6] https://www.ifs.org.uk/publications/14771?mod=article_inline

[7] <https://www.theguardian.com/commentisfree/2020/mar/28/we-must-take-drastic-action-but-lets-not-turn-into-a-nation-of-little-tyrants>

[8] <https://www.theguardian.com/commentisfree/2020/apr/01/coronavirus-crisis-brexit-brexiters>

[9] <https://bcuassets.blob.core.windows.net/docs/centre-for-brexit-studies-supply-chain-mapping-exercise-findings-and-results-132248711958081123.pdf>

[10] <https://centreforbexitstudiesblog.wordpress.com/2020/03/27/a-universal-basic-income-and-affordability/>