BREXIT AND COVID-19: WHAT LIES AHEAD FOR UK CAPITALISM?

CAN REGIONALISM MITIGATE THE ECONOMIC GOVERNANCE OF BREXIT AND COVID-19 SHOCKS?

Professor Leslie Budd

Department of Public Leadership and Social Enterprise (PuLSE)

Faculty of Business and Law

The Open University Business School, UK.

AACSB ACCREDITED

EQUIS ACCREDITED

ASSOCIATION OF MBAS ACCREDITED

The Open University

BUSINESS SCHOOL

SOME INTRODUCTORY REMARKS

Some remarks on British capitalism and varieties debates;

- Most centralised mode of regulation creating one of most economically and spatially unequal nations in developed world;
- Increasing tension between rentier and industrial strategy/policy activism(March of the Makers') to reorientate British economy;
- "It's not the economy, stupid!": manifold explanation of Brexit;
- Longer term impact of Brexit compounding pandemic on neighbouring regions
- Complex interaction of class, gender and identity due to Brexit to explain regional differences in transmission and treatment for virus;
- Covid 19 as demand and supply shock that exacerbates deprivation and lack of well-being due to austerity following Global Financial Crisis (GFC);
- Macmillan like "Transactions costs dear boy, transactions costs" explanation of impacts and their regional/local distribution;
- Levelling up or levelling down in the face of global challenges but question of decentralised/devolved funding remain;
- Leninist question of "What is to be Done"?

RISE AND FALL OF REGIONAL SHOCK ABSORBERS

- Traditional macroeconomic policy combines policy discretion and automatic stabilisers so effects of external shock should cushion its impacts;
- Sustaining same level of merit/public good provision should act as regional shock absorber;
- So question arises of why there are distinct differences in the regional distribution of the provisions of these goods, especially health?
- “Devolution Dividend” is variable and uncertain given the incoherent and inchoate institutional basis of policy;
- Localised/regionalised hysteresis of legacy effects of post GFC, Brexit; and, Covid 19;
- But is “external shock’ the agency to address socio economic and spatial inequality or will everyone have to migrate to London to increase health and socioeconomic outcomes?

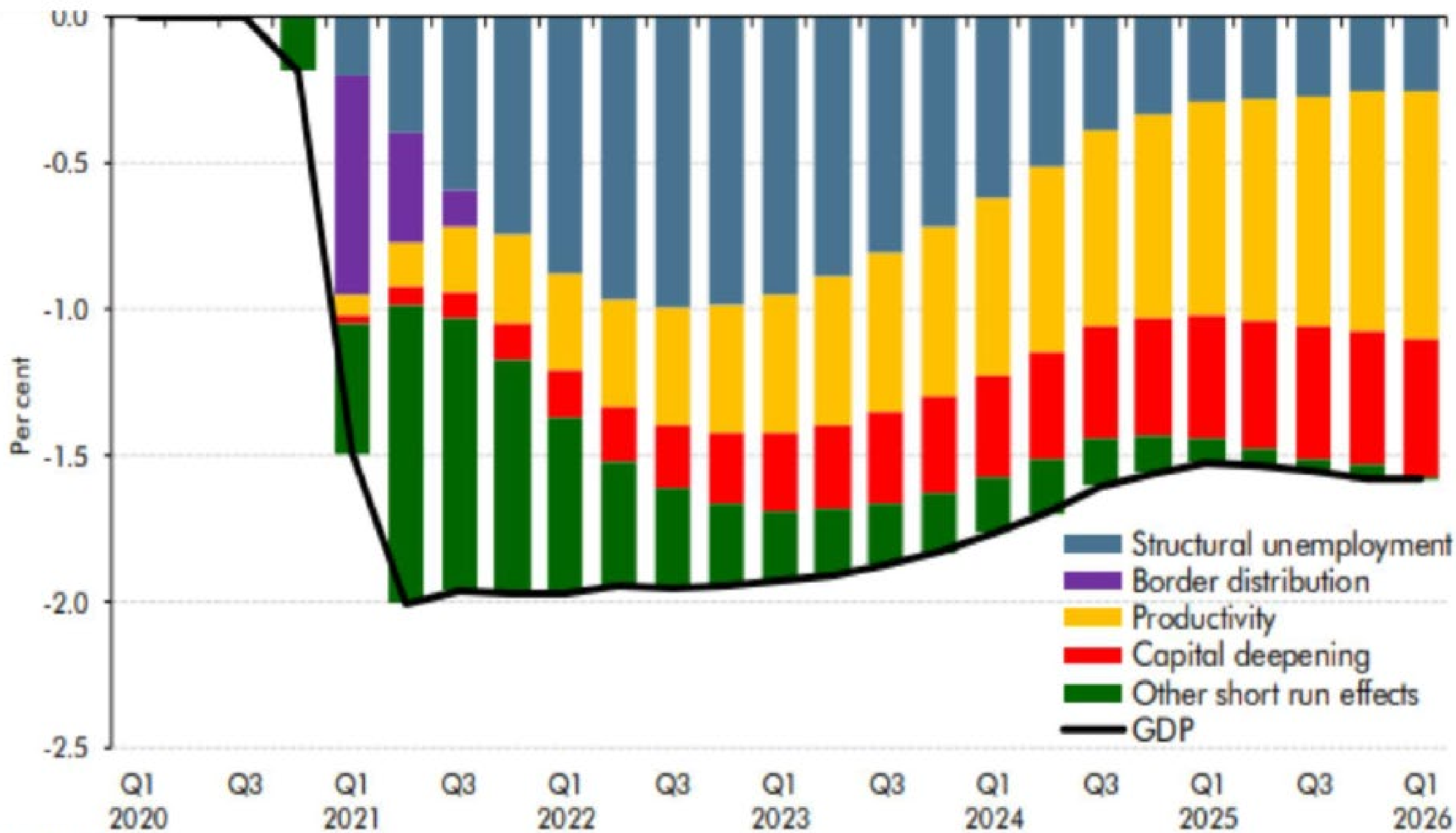
The Open University
BUSINESS SCHOOL

BREXIT AND COVID-19

RISE AND FALL OF REGIONAL SHOCK ABSORBERS

- Complex causes that cross cut socio economic, occupational , identity, age and geographical differences not just ‘left behind places’;
- “Brexit a problem in search of a solution” (Sandhu, 2019) to UK economic
- Labour intensive with increasingly precarious employment contracts;
- Dominance of tradable and non tradable services;
- Low productivity and rates of capital investment;
- Continuation of ‘low wage, low skill’ equilibrium;
- High consumption, low savings rate fuelled by distorted housing market in which economic rents compensate for hysteresis of low wage economy;
- Open economy with offshore based rentier interests tending to support Brexit with industry (mainly foreign owned) and agriculture opposing;
- Export services and high margin manufacturing are twin peaks of British productive success but fracturing of supply changes undermine value added;
- BUT, Paradox of male workers with low formal education dependent on jobs in goods producing sectors which are rely heavily on EU supply chains AND wealthier voters with housing as self insurance.

Office for Budget Responsibility (OBR) difference in real GDP to central forecast due to Brexit



Source: OBR

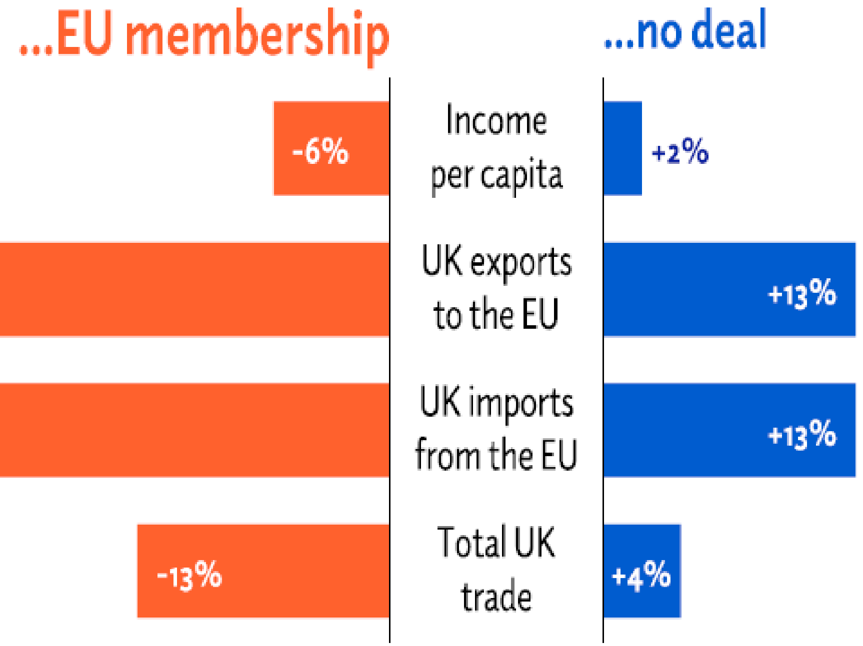
SECTORAL EXPOSURE TO A RUDIMENTARY BREXIT DEAL

(IFS Green Budget 2020)

	GVA share (2017)	UK–EU trade	% of trade with EU	Non-tariff barriers			EU tariffs (%)	Rudimentary deal (%)	No-deal (%)
				Treasury FTA (%TfE)	No-deal (%TfE)	Citi 2020 FTA (%TfE)			
Manufactured goods	9%	£138bn	49%	8%	10%	8%	3%	8%	13%
Agri-food	2%	£17bn	74%	13%	15%	13%	20%	13%	35%
Non-financial services	60%	£265bn	51%	9%	12%	10%	0%	10%	12%
Financial services	7%	£35bn	38%	13%	15%*	13%	0%	13%	15%
Networks	8%	£68bn	49%	5%	9%	7%	1%	7%	10%
Dwellings	14%	-	-	-	-	-	-	-	-
Total			**50%**	**9%**	**10%**	**9%**	**2%**	**9%**	**13%**

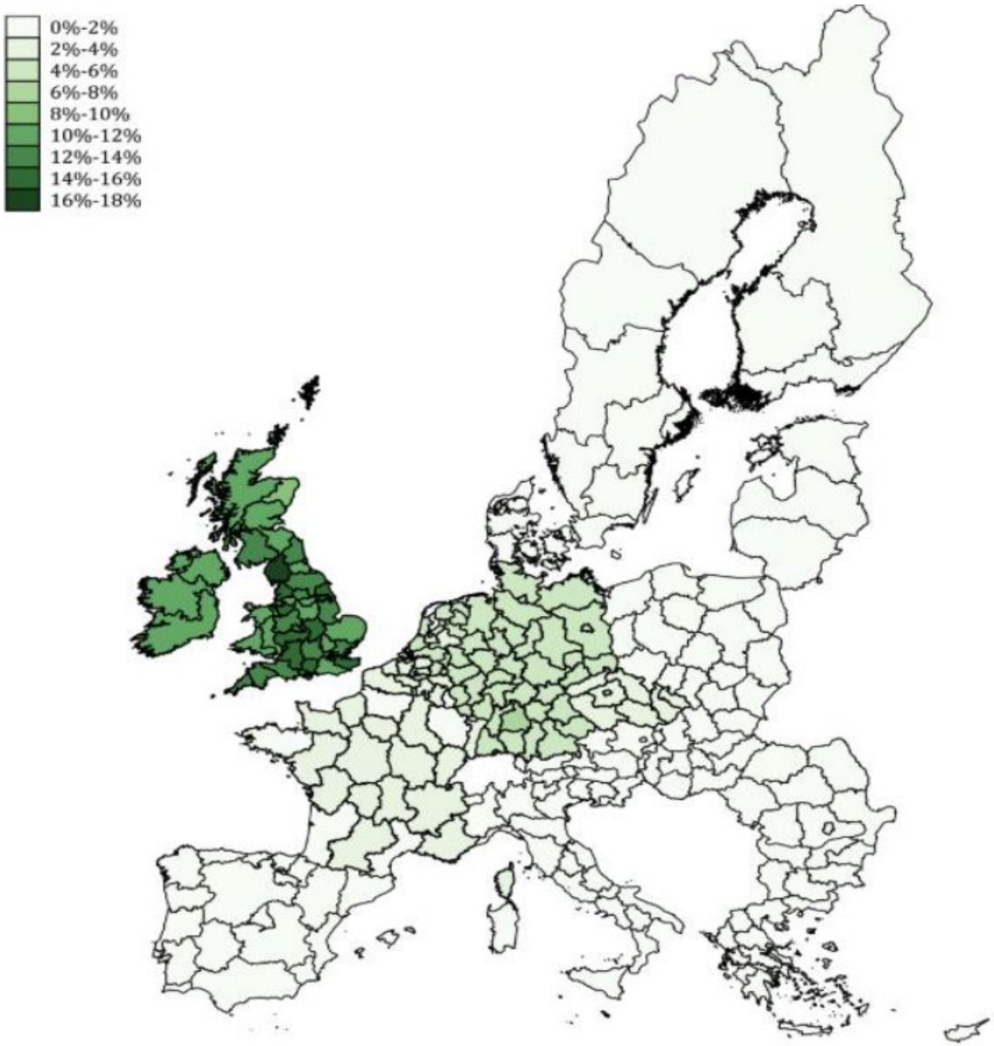
RISE OF THE ENGLISH ‘MILLWALL TENDENCY’

- 3% decline in GDP since 2016 Referendum with projected 5% to 7% to 2030;
- Financial services trade surplus from UK of $81.6bn (2019) but $1.6trn of international assets shifted overseas since 2016;
- 4.9 % decline in GDP with current levels of immigration and 6,7% in case of no net immigration to 2035. Comparison of Brexit deal after 10 years (2030)
- The economic impact of the Brexit deal after 10 years, compared to..



- “Everyone hates us and we don’t care”, ‘Take back control’; ‘F**ck Busines’

REGIONAL IMPACT OF BREXIT



Based upon World Input Output Tables:

- Not only UK regions;
- Northern regions of Belgium, France, Netherlands;
- Impact dissipates as move further South.

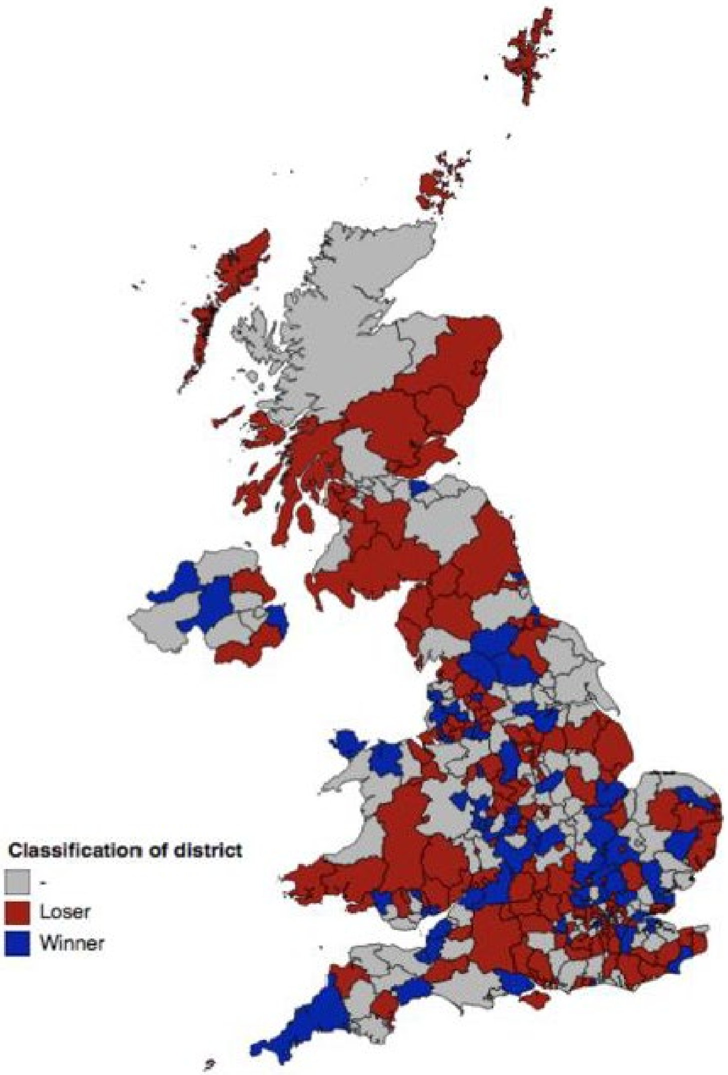
EU exit analysis - Cross Whitehall briefing (2018) Regional GDP impacts to 2028 (%)

	London	SW	Yorks/ Humb	SE	EE	EM	Scot	Wales	NW	NI	WM	NE
EEA	<-1	-1	-1.5	-1.5	-1.5	-1.5	-2.5	-1.5	-2.5	-2.5	-2.5	-3.5
FTA	-5	-2	-4.5	-5	-5	-5	-6	-5	-8	-8	-8	-11
WTO	-8	-5	-7	-7	-8	-8	-9	-9	-12	-12	-12	-16

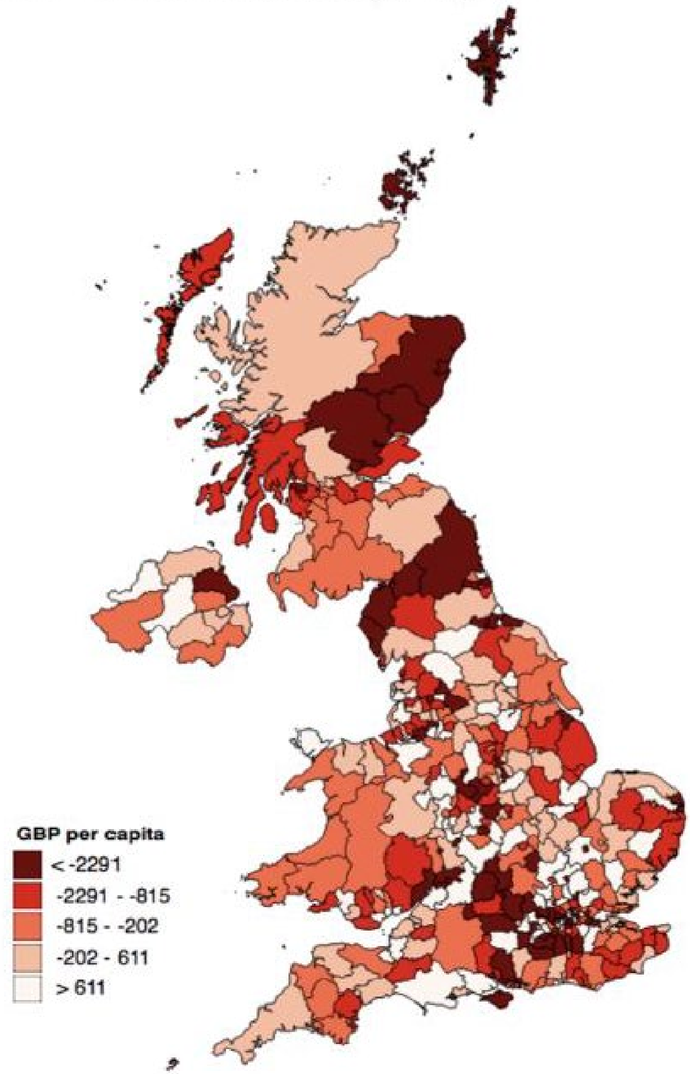
BREXIT AND COVID-19

LOCALISED WINNERS AND LOSERS AND COST PER CAPITA

Panel A: Brexit-vote winners & losers

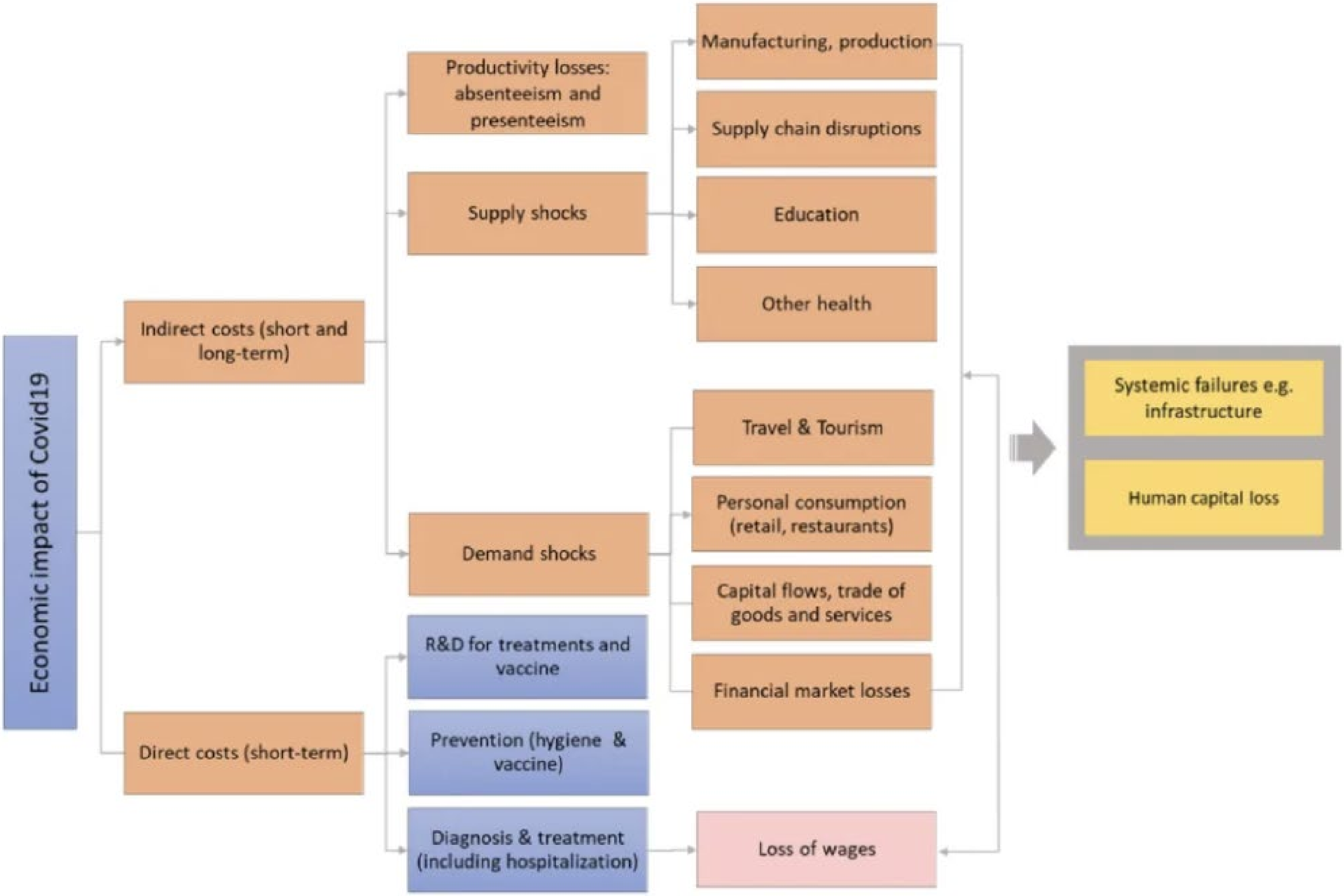


Panel B: Brexit-vote cost per capita



COVID-19

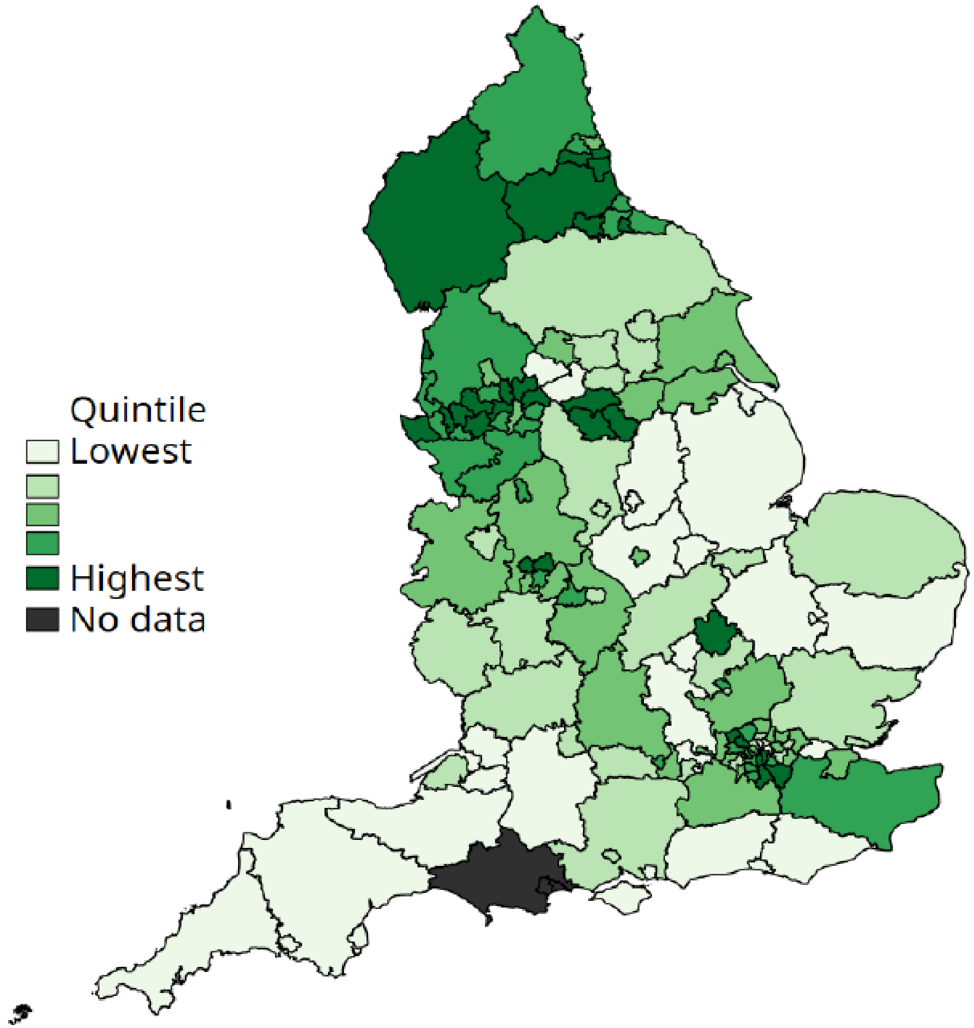
Unlike GFC, COVID-19 is both a Demand <u>and</u> Supply shock



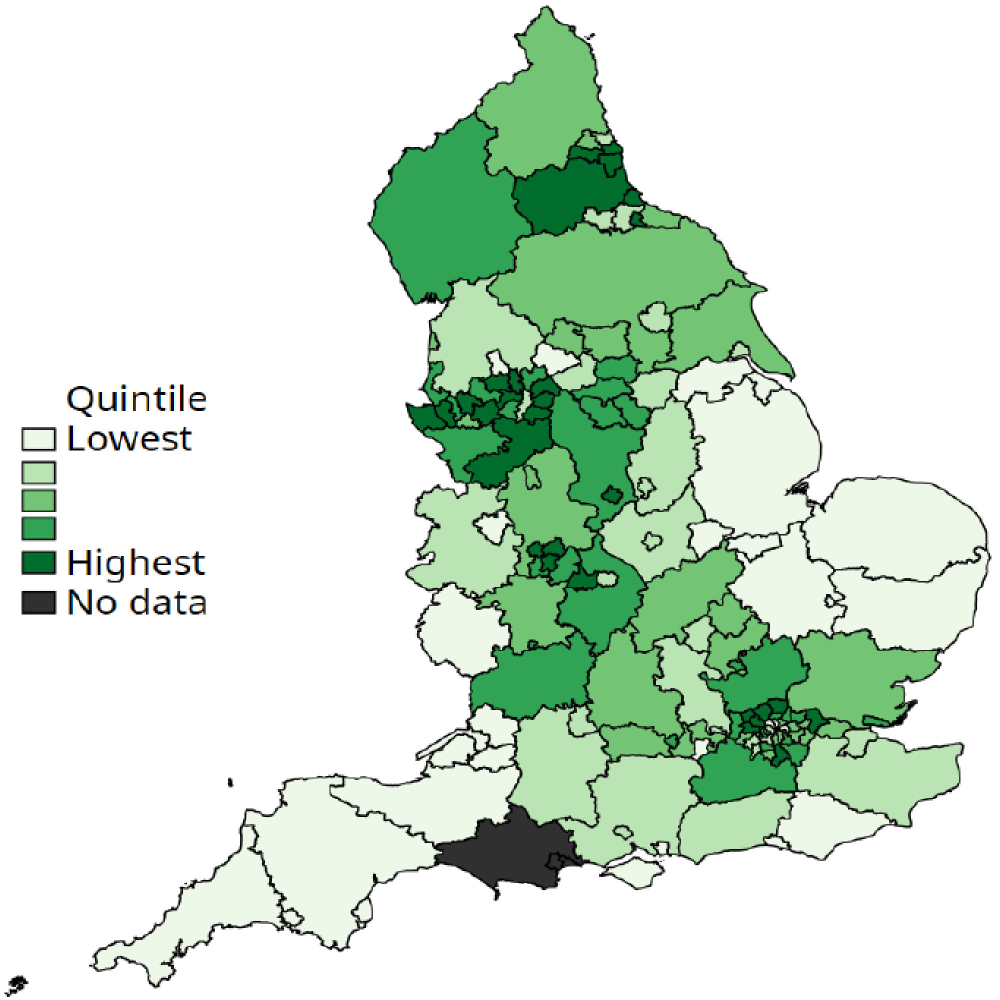
COVID-19

The Open University
BUSINESS SCHOOL

Distribution of COVID-19 infections per 10,000 in England (as of 7 June 2020)

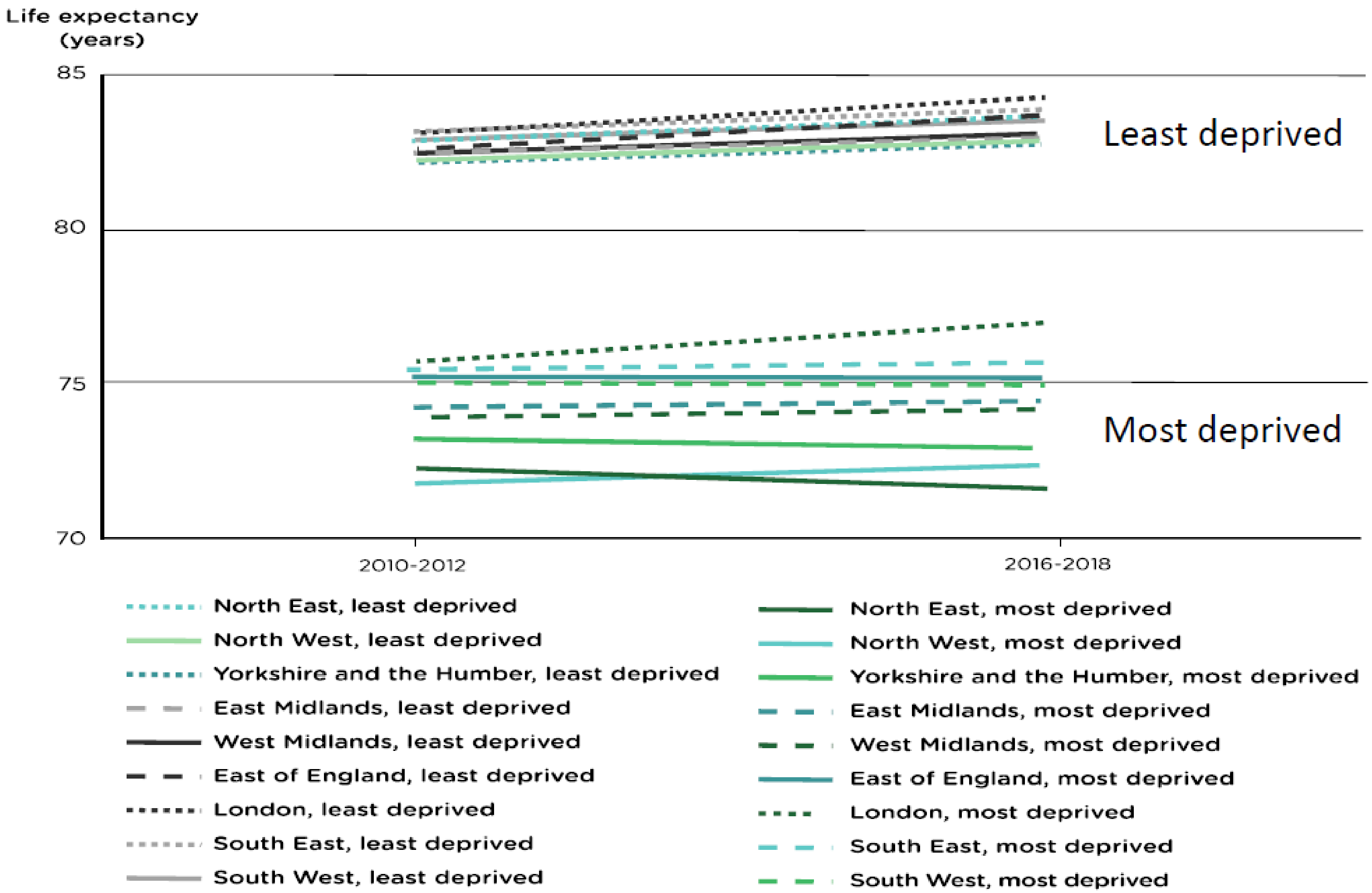


Distribution of COVID-19 deaths per 10,000 in England (as of 29 May 2020)



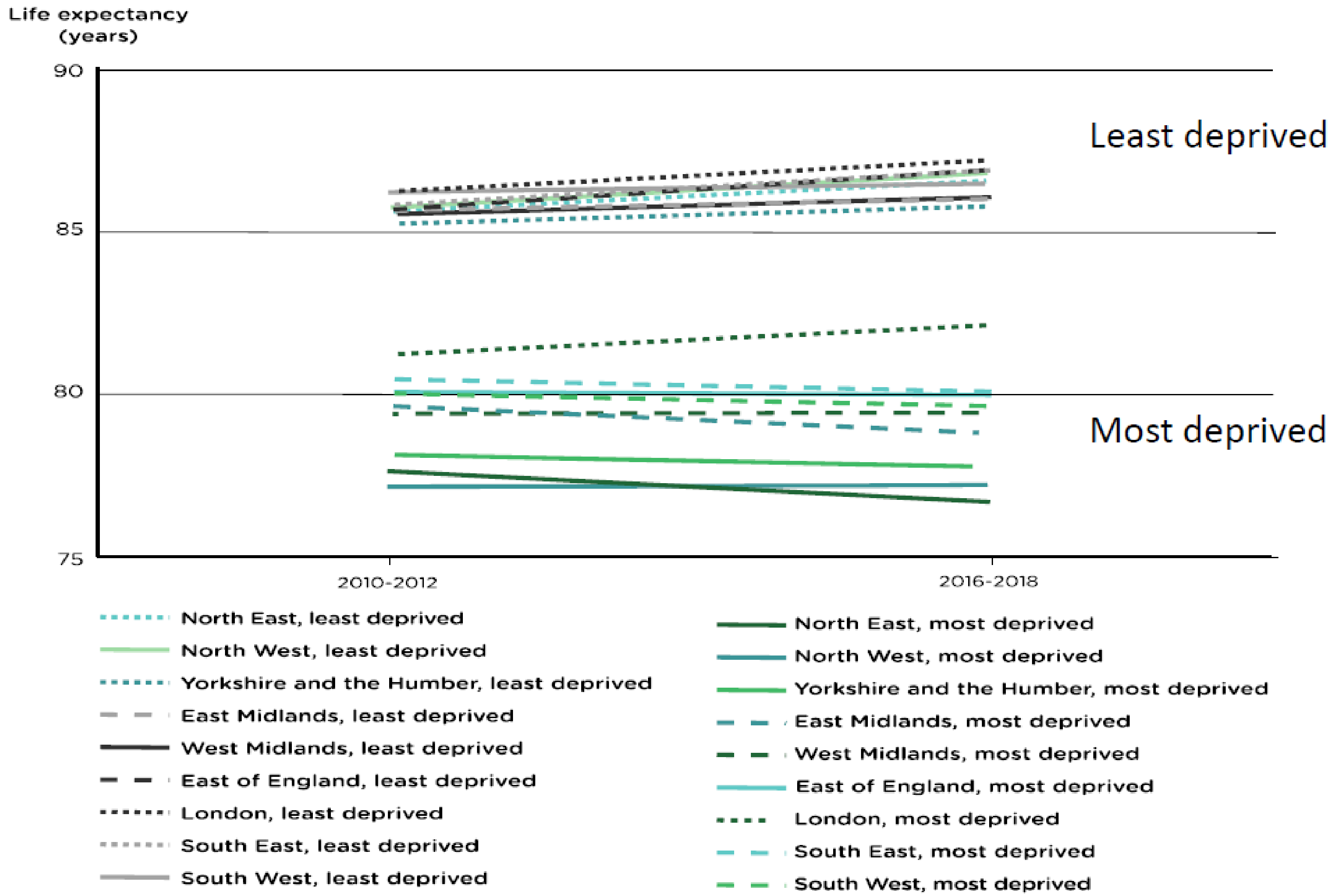
HEALTH OUTCOMES

(Regional life expectancy: males)



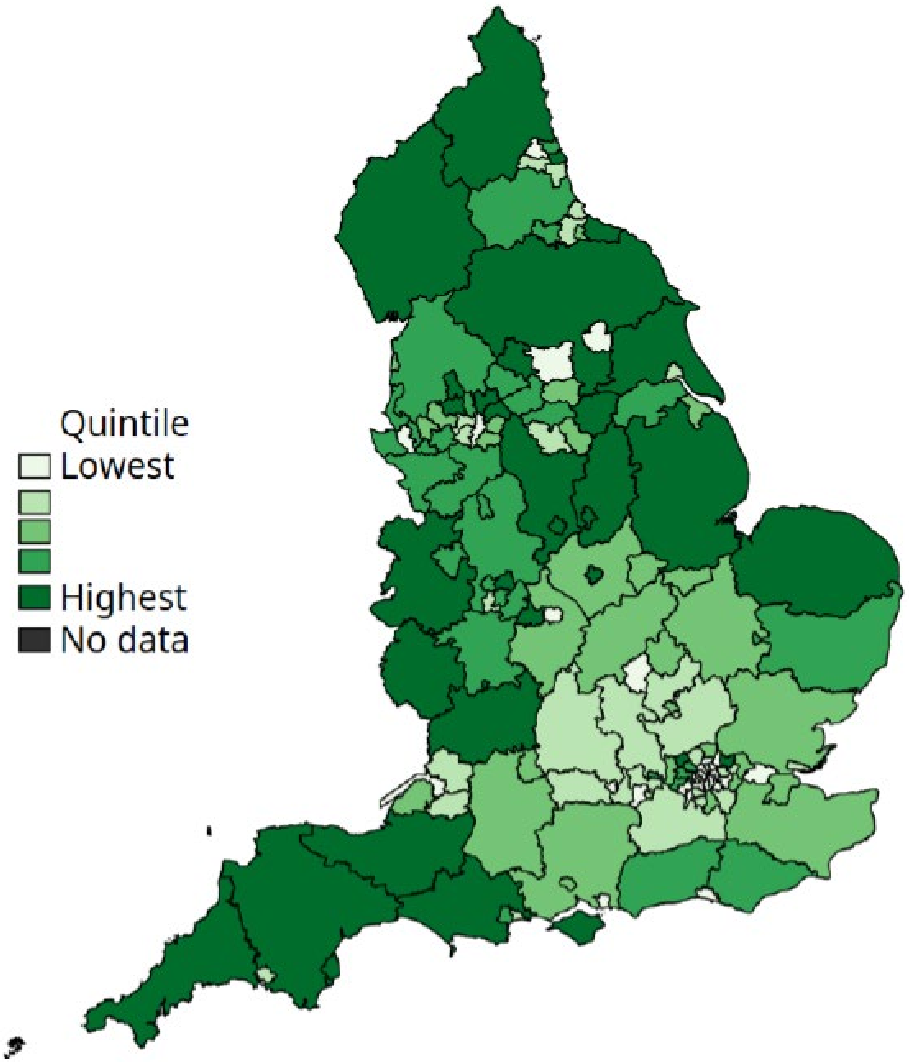
BREXIT AND COVID-19
HEALTH OUTCOMES

(Regional life expectancy: females)



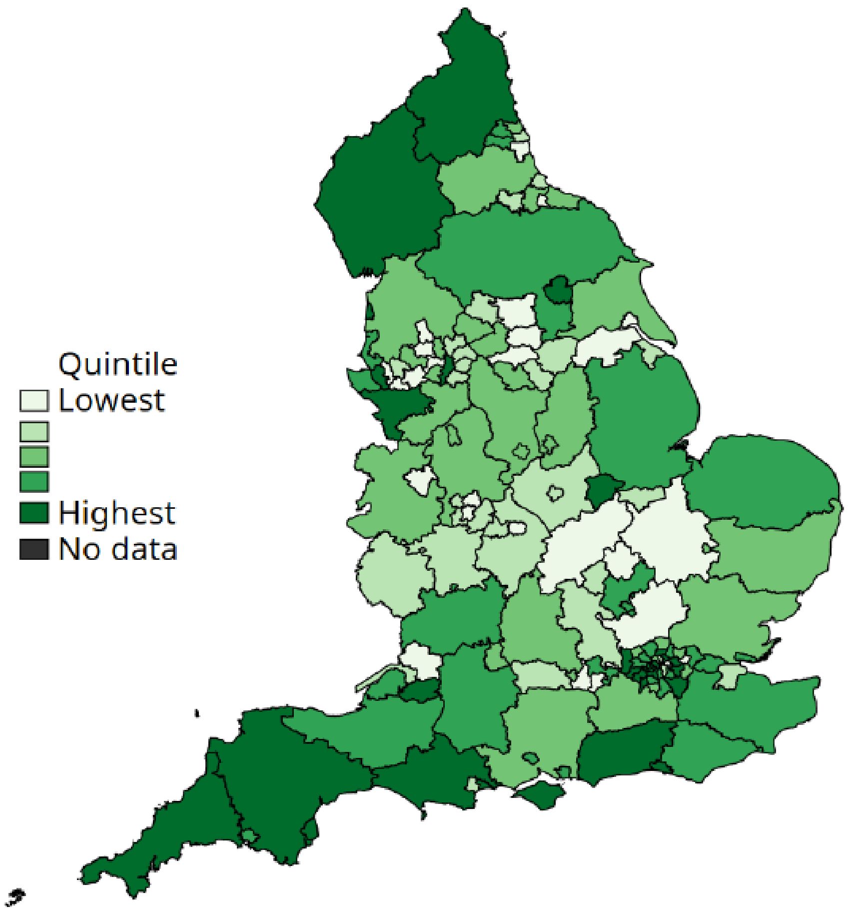
GEOGRAPHICAL VARIATION IN VULNERABILITY

Health

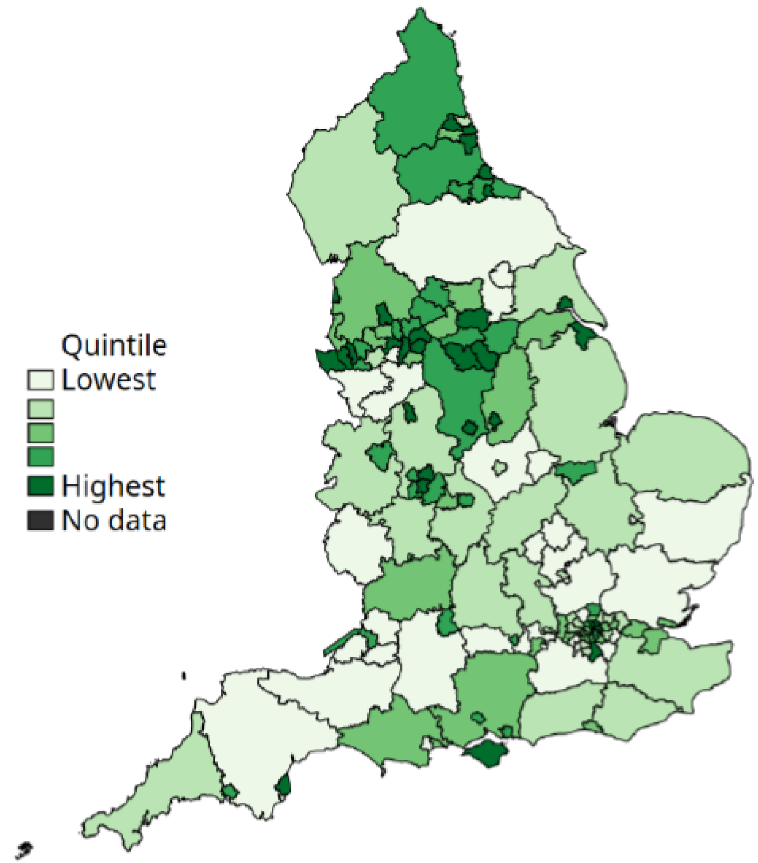


GEOGRAPHICAL VARIATION IN VULNERABILITY

Workers and families



Workers



Families

SECTORAL AND REGIONAL IMPACTS: BREXIT AND COVID-19

	Sectors	Regions
Brexit	Manufacture of automotive, transport equipment, chemicals and chemical products and textiles, and services such as finance and communications	London, the North East, Wales, the South East and the West Midlands
Covid - 19	Hospitality, tourism, transport and arts and entertainment	Tourism dependent coastal communities and hospitality dependent cities such as Manchester, Liverpool, Glasgow and large parts of London

- North West, London, South East and the West Midlands may experience a 'double whammy' of the economic impact of Brexit and Covid 19 mainly automotive, retail; wholesale and associated busines and financial services

- GDP loss of 4.5 5.0% to 2024 from mainly Covid 19 compounding post Referendum 3% loss to GDP to 2020;

THE DILEMMA OF LEVELLING UP OR DOWN: THE PROMISE OF POST-COVID DEVOLUTION?

- Material basis of ‘left behind places’ with tendency to treat places with some or all of these characteristics as homogeneous in response to shocks like Covid 19;
- Yet, capacities and capabilities of these places do differ because sectoral make up, market accessibility and current and potential infrastructure and inward investment as basis of of deprivation, lower well being and health outcomes;
- Devolution has also been manifested in initiatives that could be said to be variants of the contract state City Deals, Combined Authorities, Local Enterprise Partnerships;
- Environment of limited devolved fiscal powers and incomplete and sometimes non-existent institutional governance, runs into the paradox of decentralisation potentially reinforcing re centralisation, that Covid 19 has exposed;
- The dilemmas of devolution exposed by the Covid 19 also appear to reinforce economic and territorial imbalances in the UK;
- If Brexit is also not to reinforce the paradoxically potential depressing effects of devolution, a “a change is going to come” (to quote the Sam Cooke song) will have to be the central narrative for a changing UK.

CONCLUDING ON THE POLITICAL ECONOMY OF A POST-COVID/BREXIT UK

- The perverse incentives and unintended consequences for cross border transactions from EU Withdrawal Act and Northern Ireland Protocol;
- Rapid increase in transactions costs for a number of sectors and regions increasing market volatility and disruption exacerbated by pandemic;
- Trajectory of Break Up of Britain with prospect of independent Scotland and GB NI Irish Sea border creating prospect of united Ireland;
- Irony of Conservative and Unionist Party overseeing end of Union and shifting support away from industry to rentier interests;
- Although, opportunity for a modernising political strategy of re industrialising, devolved/decentralised institutions to manage and fund restructuring of most unbalanced developed economy NB:Labour Party)
- BUT, rising public and private debt during pandemic creates perverse opportunities to exploit state socialising costs and risks of capital and again pursue ideology of austerity;
- With no Union, whither UK Capitalism and its failing economic model?

THANK YOU

AACSB ACCREDITED

EQUIS ACCREDITED

ASSOCIATION OF MBAS ACCREDITED

The Open University

BUSINESS SCHOOL