

What to do?...

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Covid-19 and Brexit present twin economic challenges for us to navigate. However, they are not the first and nor will they be the last difficulties that we collectively face. In this blog, I present some discussion of how we might optimally face this situation.

To take the most urgent and severe matter at hand, Covid-19 threatens immediate economic devastation. Poorly executed, Brexit could present significant challenges in the immediate term, but in general the impacts will be felt over a longer time period^[1].

Frustratingly, given the siren calls from many to return to a pre-virus existence, the economic management of the pandemic is less challenging than what follows. For now, the government is able to borrow at interest rates of near-zero, inflation is low and shows no sign of rising significantly.

As a result, we are in the fortunate position (not open to all countries) of being able to significantly cushion the immediate economic blow from Covid-19. How we best do that is open for debate, but the means are there to do so if we wish to continue support well into 2021.

Three rules of thumb should guide our actions here. Firstly, we need to make sure that rates of transmission are low and stay low. This is certainly not the case in England, France or Spain at present. However, without this, social consumption will remain depressed as people (rationally) seek to reduce the risks to themselves and those around them.

Secondly, we need to ensure that guidelines are predictable and consistent. We know that uncertainty is poison to business. Who would invest, take on new graduates or train staff when they have no idea whether you'll be able to sell your product next week, never mind next year?

The third thing we need to do is ensure that viable (and productive) businesses and workers are protected temporarily. How we do that will and must evolve over time as the outlook becomes clearer. We know that behaviours (whether of consumers or businesses) have changed due to the pandemic. There will be permanent structural (economic) change as a result of the pandemic, but now is not the time to evaluate what that might be.

Some jobs will never come back but many will and the damage from simply allowing companies to go to the wall *en masse* (and the scarring that would result from the attendant unemployment) is simply too great to contemplate.

The second phase will be much harder, not least because it will be a challenge to identify when it begins. If highly effective treatments or vaccines are developed in the near future then the passing of the pandemic will be obvious. This "war" won't be over by Christmas, but it isn't unreasonable to hope for a decisive breakthrough by mid-2021.

History, however, suggests caution. This might be a long, uphill battle. At that point, the return to any kind of "normality" will be very gradual. We don't even know what sustainable distancing looks like over a 5 year timescale nor about immunity. Whatever happens, however, our response to the pandemic appears to have dramatically accelerated pre-existing trends.

In spite of protestations that we need to "get back to the office", I suspect this has changed for good. That doesn't mean the office is dead: shared space is both necessary and desirable. It might, however, mean that rather than working in the office from 9 'til 5 every day, we work remotely for 2 or 3 days per week and change our hours to avoid the rush hour commute.

If adopted wholesale, such work patterns will mean a permanent change to our city centres. Demand for hot beverages “to go” and (expensive!) pre-packaged lunches might never recover. That sector might be the “mining industry” of the 2020s. That will be painful and require longer-term support for those affected. We need to begin thinking about this economic transition and how best to support all involved.

In contrast, there is no reason to believe that demand for restaurants and travel won't bounce back once the risks have reduced. Temporary support will allow a return to normal in these sectors. Manufacturing and construction output will similarly increase.

What of Brexit in all this? Whatever one's opinions, we are where we are. It is my belief that, given the challenges to business continuity across a wide array of sectors across Europe (both in the UK and EU) the new relationship should deliver a degree of continuity and predictability.

Frustratingly, most media coverage has been depressingly partisan, either eulogising the concept and its proponents (some of the fawning would not look out of place in a 1930s edition of *Pravda*) or seeing it as the root of all ills and failing to see the political necessity of delivering.

There is a clear political necessity to deliver here, but we must be cognisant of the present environment in which livelihoods are being upended and opportunities curtailed (particularly for the young). As such, more than anything else, we should maximise continuity (particularly for vulnerable sectors in manufacturing and certain business services) wherever possible. More than anything else, certainty and predictability are required.

There is a “landing zone” in which both sides would be better off than under a WTO scenario. Given the likelihood of Scotland seceding from the UK and increasing support for independence, there is a clear political imperative pushing Westminster towards an agreement. At the same time, there is a political desire to be seen to deliver “a real Brexit”.

On the European side, there are also strong reasons why an agreement should be desirable. A sudden break would be deleterious for both sides and a mutually beneficial arrangement would ideally minimise (or eliminate) tariffs and quotas whilst maintaining common standards as far as possible.

I also think that we should remain open to the possibility that an initial agreement might be followed by further ones down the line. The political environment might have changed dramatically in 5 or 10 years' time. It is my hope that the heat and anger engendered by the subject will subside and instead we can cooperate in coming to a mutually beneficial outcome over time.

[\[1\]](#) *All credible academic analysis suggests that it is likely to lead to longer-term erosion in overall economic growth.*