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CORPORATE RESEARCH FORUM

2020 MEETING  
RETROSPECTIVE

# WHAT IS HAPPENING TO THE ECONOMY?

WITH ROGER BOOTLE

5 MAY 2020, VIRTUAL



# WHAT IS HAPPENING TO THE ECONOMY?

## WITH ROGER BOOTLE

On 5<sup>th</sup> May 2020, PARC and CRF members gathered for **What Is Happening to the Economy?**, a Zoom Interactive Event. Economist, Chairman of Capital Economics, and *Telegraph* columnist **Roger Bootle** led us in discussion of the current and potential future impact of COVID-19 on the economy.

Roger discussed:

- the epidemiological possibilities for the future of the virus
- the immediate economic outlook
- the government’s alternatives for dealing with higher debt
- and the potential long-term social and economic effects of the virus.

While Roger’s findings are emerging in a fast-changing context and are speculative based on current evidence, they do provide an expert’s view on the likely trajectory of social and economic consequences of the virus.



WATCH A FULL RECORDING OF THE EVENT HERE

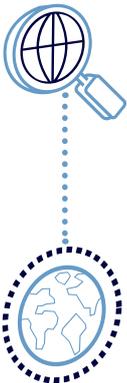


# WHAT IS HAPPENING TO THE ECONOMY?

## KEY TAKEAWAYS

There are several ways COVID-19 might evolve, in terms of vaccine development, naturally dying out, and public fear of the virus. The most likely scenario is that the virus dies out but, with or without a vaccine, fears of something similar happening again linger on.

**A VERY RAPID RECOVERY IS UNLIKELY, EVEN CONSIDERING A RELEASE OF PENT-UP CONSUMER DEMAND, NOR CAN WE RELY ON DATA FROM CHINA TO GUIDE EXPECTATIONS ABOUT THE SHAPE OF THE RECOVERY. MOST LIKELY, WE CAN EXPECT A RECOVERY PHASE OF ABOUT THREE YEARS, FOLLOWED BY SOMETHING LIKE A 'RETURN TO NORMAL'.**



Tolerance is the preferred way for the government to handle its debt, because you can grow your way out of enormous levels of such debt, if you have sustained economic growth. This is the historical experience (e.g. World War II) that we should try to emulate.

*Hospitality is likely to be the last part of the economy to return to normal, with spending on the backfoot for some time. We are likely to see more use of online shopping, and perhaps more spending on home improvements as people spend more time in their home environments. We will likely see a mood of caution among consumers, and thus increased saving.*

The crisis's implications for the political economy include greater spending on the NHS, a bigger state, and perhaps greater anti-capitalist sentiment among the public. The public may want higher taxes, especially on the wealthy, and may have less tolerance for high executive pay and dividends.

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Equally, there are many scenarios for how the economy may evolve post-virus, including a permanent economic loss and sustained growth that is lower than might have been otherwise expected, a permanent economic loss and return to expected growth, a burst of post-virus growth that makes up for lost GDP, or post-virus growth that makes up for lost GDP and exceeds what might otherwise have been expected of growth. The most probable scenario is a permanent economic loss, followed by a return to expected levels of growth.

There are four ways that the government can deal with the debt it has incurred during the crisis – tolerance, austerity, default, and inflation. What method the government chooses will have a huge impact on businesses.

We can expect some changes in the post-virus work environment, including more remote working (though not an abandoning of offices altogether), less business travel as companies take the opportunity to economise, and greater use of robots and AI. Some of these trends were already underway – the virus is just speeding them up.

GLOBALISATION WAS ALREADY ON A BIT OF A RETREAT PRE-VIRUS; THIS CRISIS WILL PROBABLY ACCELERATE THAT TREND. FOR EXAMPLE, WE CAN EXPECT A MOVE TOWARD RESHORING AS CONCERNS ABOUT SECURITY OF SUPPLY OUTWEIGH THOSE ABOUT PRICE.

The crisis will impact the shape of Brexit. The virus makes negotiations more difficult and the deadline tighter. While the economic downturn caused by the virus apparently argues for a delay, this is unnecessary. A delay would be dangerous for many reasons – lack of control over regulations and state aid, continued contributions to the EU budget, and the risk of the euro collapsing (with the UK having to help pay for this). We can probably expect to leave as scheduled at the end of the transition period.



## AUDIENCE Q&A

**Q** Some suggest that the impact of a 'V-shaped' loss could be \$8 trillion over two years – akin to the output of China. Do you have any thoughts on the impact of that scale of global loss?

**A** We'll just be permanently poorer as a result. Much of the lost consumption will never come back. But there are some reasons for optimism. There has been virtually no destruction of physical or human capital (it's not the most productive people who are dying, for the most part). There is a loss of organisational capital, when companies go bust, so recovery won't happen overnight. But this is different from war, nuclear destruction, or natural disasters. The losses come from the lockdown, and thus we should be able to cope with them. Indeed, we already are coping.

**Q** With a quarter of UK workers now on the government's payroll – what do you envisage the unemployment rate will look like in the short / medium / long-term?

**A** It is difficult to say how high it's going to get. The pattern of unemployment will follow the economic recovery pattern. It's difficult to predict. Sectors that are hard-hit (such as hospitality) will be a problem over the long-term, exacerbated by the government's minimum wage commitments and evolving technology (AI, robots). If we move toward preferring robotic to human contact in the future, this obviously has very negative implications for long-term unemployment.

**Q** The point made around spending restrictions being more palatable than tax rises makes sense in terms of protecting economic growth. What is your view on whether that course of action will, however, be politically acceptable given the so-called recent 'end of austerity'?

**A** People are going to have to face economic reality. The best option is to try to grow out of it – keep interest rates low, engage in some financial repression, and rein in government spending (in terms of new spending rather than further cuts). What else can the government do, assuming they find this politically unpalatable? Tax rises, perhaps. But this is the wrong thing to do. Really, the government has very limited options.

**Q** Do you think the UK government will review the proposed increases in minimum wage?

**A** They certainly ought to. It's a difficult issue. In the post-virus environment, it will be very difficult for many industries to meet these commitments. But there will be political costs to changing course.

**Q** What is your prognosis for the United States and its relationship with China?

**A** The relationship between China and the West was under threat and subject to change pre-virus. The assumption from the 1970s on was that China would move toward a Western political-economic model as it grew. But this has not proven to be the case. Rather, China has grown more authoritarian under Xi Jinping. So the West was already faced with a choice – to tolerate China's authoritarianism for economic reasons, or to see China as a real enemy. The United States seems to be opting for the latter.

**Q** What do you think the UK relationship will be with China in the future, considering the reliance on it today?

**A** Britain, naively, wanted it both ways – in terms of good relationships with both the United States and China. The UK will probably have to reset and go with the United States on this, though we should also try to take the edge off President Trump's approach. But the UK is unlikely to be alone among countries in this recalibration of its relationship with China.

**Q** In reference to China – is it realistic to assume we can bring manufacturing back to the UK?

**A** Not completely, no. There were hopes that something like this would be happening anyway. For example, think of the auto industry. The model was just-in-time, highly distributed supply chains. But the vulnerability of this model was not appreciated. Now and post-virus, it is. So we are likely to bring some manufacturing home, and this tendency is likely to be seen across a whole series of activities. But remember that manufacturing is still only responsible for about 9% of today's economy, so its overall impact is likely to be limited.



## SPEAKER



### ROGER BOOTLE

**Founder & Chairman, Capital Economics**

One of the City of London's best-known economists, Roger Bootle is the founder and chairman of Capital Economics. He is also an Honorary Fellow of the Institute of Actuaries and a Specialist Adviser to the House of Commons Treasury Committee. Roger is a regular columnist for *The Daily Telegraph*. In 2012 he was named Economics Commentator of the year. He has also written several books, including his widely acclaimed latest book, *The Trouble with Europe*, which examines how the EU needs to be reformed and what could take its place if it fails to change. It follows *The Trouble with Markets*, *Money for Nothing* and the prophetic *The Death of Inflation*, published in 1996. In July 2012 Roger and a team from Capital Economics won the Wolfson Prize.

✉ EMAIL

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SESSION  
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## FURTHER READING

Bootle, Roger. 2019. **The AI Economy**. London: Nicholas Brealey Publishing.

Brainerd, Elizabeth and Mark Siegler. 2020. **The Economic Effects of the 1918 Influenza Epidemic**. *Centre for Economic Policy Research*. <https://econpapers.repec.org/paper/cprceprdp/3791.htm>

Diamond, Jared. 1998. **Guns, Germs and Steel**. New York, NY: Vintage.

Jorda, Oscar, Singh, Sanjay R., and Alan M. Taylor. 2020. **Longer-Run Economic Consequences of Pandemics**. *Federal Reserve Bank of San Francisco – Working Paper Series*. <https://www.frbsf.org/economic-research/files/wp2020-09.pdf>

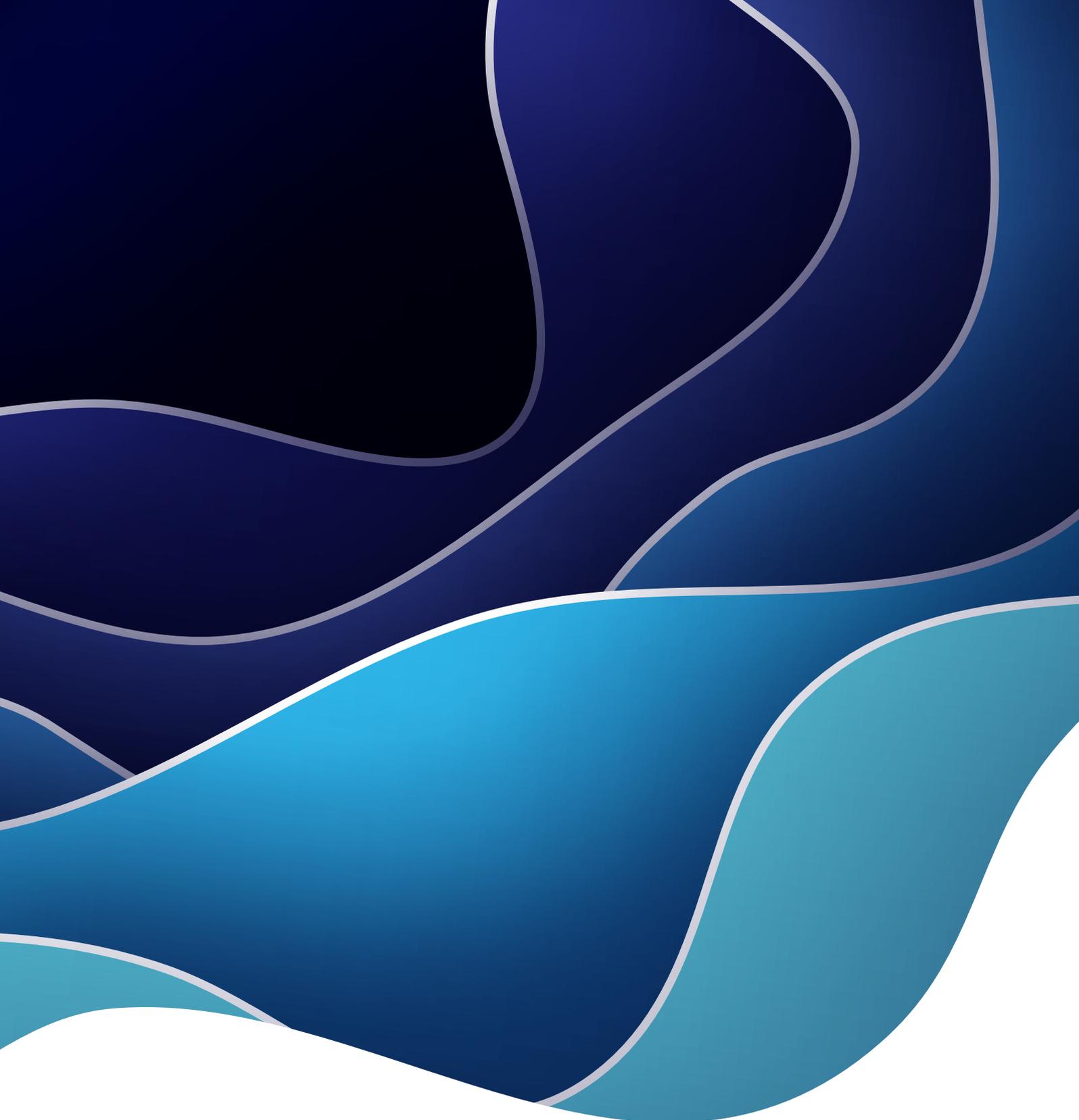
Kolbert, Elizabeth. 2020. **Pandemics and the Shape of Human History**. <https://www.newyorker.com/magazine/2020/04/06/pandemics-and-the-shape-of-human-history>

Mukherjee, Andy. 2020. **Black Death Makes Us Think About Interest Rates**. <https://www.bloomberg.com/opinion/articles/2020-03-29/economic-life-after-covid-19-lessons-from-the-black-death?sref=hHHz8eP1>

Spinney, Laura. 2017. **Pale Rider: The Spanish Flu of 1918 and How It Changed the World**. London: Vintage.

## UPCOMING EVENTS

crf	<b>Employee Engagement Through The Crisis</b>	Live-stream	<b>Wed. 13 May, 12.00 – 13.00</b>	
parc	<b>The Geopolitical Outlook – How Is It Changing?</b>	Live-stream	<b>Tue. 19 May, 12.00 – 13.00</b>	
crf	<b>Let's Get (Beyond) Physical: Crafting A Multidimensional Approach To Employee Wellbeing</b>	Live-stream	<b>Wed. 27 May, 11.30 – 12.30</b>	
crf	<b>Developing Adaptive Leadership For Times Of Crisis And Beyond</b>	Live-stream	<b>Thur. 4 June, 12.00 – 13.00</b>	
parc	<b>Coronavirus And Reward: How Much Has Changed?</b>	Live-stream	<b>Tue. 2 June, 12.00 – 13.00</b>	
crf	<b>Building And Maintaining Resilience</b>	Live-stream	<b>Wed. 10 June, 12.00 – 13.00</b>	
parc	<b>Grow The Pie: How Great Companies Deliver Both Purpose And Profit</b>	Live-stream	<b>Wed. 17 June, 12.00 – 13.00</b>	
crf	<b>Leading For Recovery And Renewal</b>	Live-stream	<b>Thur. 25 June, 12.00 – 13.00</b>	
crf	<b>HRBPs: Their Role In Reset And Thrive</b>	Live-stream	<b>Wed. 1 July, 12.00 – 13.00</b>	



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