COVID19 – Can Britain Avert the Coming Catastrophe

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*The **Boris Johnson** government have clearly demonstrated they are not the people to run the country in a crisis. Their refusal to partake in an EU procurement programme for desperately needed life-saving medical equipment is a last-gasp expression of their tribalism in a situation which demanded so much more. It shone a light on exactly who they are and they failed us all in our time of need. The reality was that they made the wrong decisions and then lied about it. Now the cover-ups begin.*

And whilst they engage in that, Britain is now facing not just a crisis but a catastrophe in the making.

In June 1976, the British pound reached a record low against the US dollar at 1.24 USD to 1 GBP – today's exchange rate (as at 05/04/20) is 1.23USD to 1 GBP. It has just gone lower than that of a crisis which saw the PM ousted as Britain went with its begging bowl to the IMF for the biggest loan in its history. America wouldn't agree to it unless Britain paid it back within six months and strangled its economy on the way. The loan was finally agreed on better terms but only if heavy cuts to public expenditure took place. On 15th December 1976 – the government announced a massive 20 per cent cut in public spending (source – national archives/ cabinet papers). What followed was a painful fight against inflation that eventually changed everything.

The IMF crisis reinforced a change in policy orientation away from full employment and social welfare towards the focus of controlling inflation and expenditure. Britain was partially shielded by increased oil prices and North Sea oil revenues at the time – something it no longer has (because A- it doesn't have as much oil anymore and B- the price has collapsed now anyway).

The Labour Party began unravelling into camps of social democrats and left-wing supporters, which caused bitter rows inside the party.

Eighteen months later, as the country was feeling the grip of fierce new austerity measures it entered the coldest winter in nearly two decades and the 'winter of discontent' arrived. This was driven by a government who capped public sector pay to control inflation and also set an example to the private sector. Widespread strikes organised by the unions eventually led to the fall of the Labour leader James Callaghan and in 1979, that situation contributed significantly to Margaret Thatcher's victory. She then ushered in a new form of economic policy called neoliberal capitalism (trickle-down economics), the end-game of which we are witnessing right now four decades later.

The reason for telling this widely known story is that Britain faces, in the near future, a worse situation even than that.

Debt defaults

In 1976, the national debt, as a percentage of GDP stood at around 45 per cent. Today it is 87 per cent. Just before the financial crisis in 2008, the national debt had fallen to 38 per cent after ten years of Tony Blair's government. From there, the national debt skyrocketed by £1trillion. This is how much it has cost to save the banks. Half went to save them from their failed gambling operations – the other half was intravenously injected into the economy to save it from recession. The growth that was heralded by George Osborne at the time was to some reasonable extent false because it was funded from debt, not productivity.

The coronavirus crisis, when all said and done, will add at least another £300 billion (quite possibly double that), to the national debt which is already costing the taxpayer nearly a £1billion a week to service the interest charges alone.

Despite the government's effort to cushion the blow to business, there is a wave of collapses on the horizon. Out of a total of 5.8 million small businesses, one million are already facing closure. An astonishing 62 per cent of British Chamber of Commerce members have confirmed they are just twelve weeks from collapse. One million people have already applied for Universal credit having lost their jobs. You can be really conservative here and double it over the next three months – but reality says it'll probably be triple that if the lockdown continues for another month or so. Just that alone will cost the treasury over £2billion a week in job seekers allowance, let alone the other benefits to be claimed when keeping a roof going. In addition, there are 200,000 businessesthat started inside this tax year, who qualify for no government support at all.

The bank of England has reduced interest rates to a historic low. It is now back on its quantitative easing programme. The bond markets have backed off, the exchange rate is a disturbing dicator that investors are on the run.

Today, corporate and household debt is at an all-time high. Higher in fact, than it was just before the financial collapse. In 1976 neither was anything like this. In those days, house prices (and therefore mortgages) were pegged to average earnings, today they are not. In those days, investors raised money through a balance of shareholders and bank equity to acquire or build businesses with moderated debt ratios – today thousands of businesses have restructured debt models that depend entirely on growth and up to the teeth in multi-funded debt obligations. Today, we have a 'pass-the-parcel' model and you're going down if it's you when the recession hits. A wave of defaults is on the brink. Household credit card debt defaults suddenly shot up in 2019 and a crisis was already building in auto debt and unsecured loans.

The music just stopped

If the lockdown continues for another month, by the end of the year, we will be witnessing an economic downturn not seen in Britain before. Some economists have already been punching the numbers and said that in Britain what we're facing is worse than 2008. The range of decline is lockdown dependent but either way, GDP will fall somewhere between 15 per cent and 25 per cent in Q2 alone.

The Centre for Economics and Business Research predicts a staggering 15 per cent crash in GDP in the second quarter. Forecasts already suggest that business investment has already dramatically declined as a result of Brexit and the Covid crisis and it will take more than a decade for business investment to catch up.

One of Britain's most successful entrepreneurs and business managers has predicted Britain is on the brink of a depression to match that of the 1930s. Luke Johnson said – "*If you look at the misery and ill health that caused and the damage to society as a whole there is a serious debate to be had to see if we are relentlessly pursuing the right course of action.*"

In 2008, Britain had the ability to hit the printers and create money. If it did the same today, the national debt would soar to 120 per cent of GDP. Some will tell you that because the Bank of England can do this as we have our own currency, it is no big deal. It is. However, in so doing the government could lose control of inflation, from there, another catastrophic domino effect on top of the one that went first would likely happen.

Following the government's pledge to cover 80 per cent of a worker's pay packet up to £2,500 a month, the BCC said a third of survey respondents planned to furlough between 75 per cent and 100 per cent of their workforce over the following week. But in little more than three months, two-thirds of them say they are facing financial ruin anyway.

Dark choice

There is a nonsense that prevails in Britain – that we are a stoic, take it on the chin, stiff upper lip, keep calm and carry on lot. No, we are not. If people lose their incomes and food goes short in fridges – they will come out (lockdown or not) and take it. The police are already reporting a surge in business burglaries.

There's a stark choice, one between really bad and utterly dreadful.

Luke Johnson continues –

> "I think there is a terrible trade-off the country will have to make at some point in the very near future about the damage to our whole standard of living and whether we are willing to accept the suicides and all the collateral damage of the shutdown, as opposed to protecting the NHS so it can keep people with the virus alive."

There's a truth about this crisis. The government were warned about it. They tested the health service. They read the report of its findings and subsequent warnings – and ignored them all two years ago. They were given early warnings by the Chinese, by the WHO and by other countries over this Covid – and ignored them all. They were given offers of assistance from the EU and ministers turned the other way. The Coronavirus could kill tens of thousands of Britons, and we had only one chance to stop it. The government is not ahead of this crisis and now simply chasing headlines – because of its own actions.

Now, the country will have to make a choice – sacrifice people to save the economy or sacrifice the economy to save people. In both scenarios, people will die needlessly. It is the government who put the country into this position in the first place – because they knew better didn't they? The trouble is – they didn't. After this crisis, there will be unemployment crisis, company collapses, the debt crisis and all of its fallout.

Soon it will become clear in the mortality statistics against how other countries performed in this crisis that Britain executed its plan very badly and the worst of both worlds happened – that people died unnecessarily and damage to the economy was worse than it should have been.

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