



COVID-19

UK Political Analysis

By Tim Hames, Senior Adviser | 1st May 2020



Phase Three. What the past implies about the post-coronavirus social and economic future.

As Boris Johnson put in his address on returning to Downing Street after his recuperation, we are close to the end of the first phase of dealing with the coronavirus crisis and will soon be moving on to phase two. As he also hinted, that second phase might well take much longer than the six to eight weeks which the initial stage of this extraordinary saga has involved. It will probably require a period of transition and the continued application of social distancing in some form until the end of this calendar year and possibly, to some extent, if modest, into mid-2021. Exactly how long it will last and with what degree of social and economic disruption is impossible to anticipate at this stage as at the moment there are too many known unknowns about the disease itself, how business can adapt to it with the least adverse impact and the point at which a mass vaccine might enter the equation.

Phase two will, nevertheless, reach a conclusion and probably within an eighteen-month timetable (perhaps earlier if a mass antibody test becomes available which would make lifting the lockdown a considerably less complicated exercise). It is, therefore, worth ministers, officials and the leadership of the business community starting to think about “phase three”, a post-virus society and economy. What does history suggest that we

might anticipate about this and what “model” works best for it? This edition of the FTI UK Political Analysis will set out five broad assertions for consideration on this.

It will be a combination of continuity and change.

The past indicates that the extent of change tends to be overstated. The words “nothing will ever be the same again” have been deployed frequently over the past few months and doubtless will have a lot more outings in the months to come. They are too sweeping. Even taking the two world wars as the precedents would not lead to that result. There was much about the conduct of life in 1924 that was very similar to that of 1914 and there was much about UK society and its economy in 1949 that would have been familiar to someone who had also been an adult in 1939. Furthermore, those wars lasted far longer than the coronavirus crisis will almost certainly do, they involved far higher totals of fatalities, and the death rate was disproportionately amongst the comparatively young and not, as is true today, the relatively old. The impact of current events should be less severe than those wars.

The reality is that when we reach phase three of this crisis the effect will be extremely sectoral. That will be true even if a vaccine of maximum assistance is discovered. Those parts of the economy that have been hardest hit in the past several weeks will also be the ones that find it tougher to deal with the inevitable aftershocks of this crisis. Yet even here, there is the risk of exaggeration. The demise of the office is being discussed because in many instances (including at FTI) teams have found that operating remotely has not been as difficult as might have been anticipated. This is, though, largely because those teams had acquired the knowledge, skills and the culture required to be effective in a remote setting through their initial engagement with each other in an office setting and with all the social side-effects that an office environment is associated with. A set of strangers, even the same people with the same talents, who had never fused via an office would not have been so efficient. Remote working will remain most appealing for micro-businesses and very specific circumstances.

There will also be some very big winners from phase three as well as very big losers among sectors and companies. Those who have managed to pivot their business model successfully or found an unexpected surge in demand for their product or service are likely to retain a large proportion of that new customer base. Those they have displaced will find it difficult to recapture old markets. This may be especially true for those in the technology space who have secured prominence in this crisis.

The crisis will serve to accelerate political, social and economic trends that emerged before it.

There will clearly be significant political, economic and social change to come in phase three. Not much of it, however, will be utterly original. The past suggests that a crisis such as this one serves to accelerate certain developments that had existed before it rather than create completely new ones. The immediate legacy of World War I in the UK was universal male enfranchisement, a partial move to female suffrage and Irish Home Rule. All of these had been live political questions before the first shots were fired in 1914. They would all surely have come to pass in the 1920s if the Great War had never happened. They occurred faster as a consequence of the conflict. One of the biggest economic and social legacies of that war was a dramatic decline in domestic service as an economic activity. It fell from 36% of all female employment in 1911 to 24% in 1931. Yet it had already moved down from 42% in 1891 to 36% in 1911. Once again, it was the pace, not the fact, of change that altered.

The same was true after World War II, an engagement that was wider in scale but involved fewer deaths in the UK (and a massively different balance between civilian and military casualties) than World War I had done. The immediate legacies were an enhanced role for the government in the management of the economy, the creation of the NHS and the welfare state, and a retreat from Empire symbolised by Indian independence. None of these were total novelties. Keynes's General Theory had been published in 1936, the Labour Party had committed itself to creating a National Health Service if it held a majority in the House of Commons in 1934 and Indian independence was foreshadowed by the Government of India

Act 1935. The war is widely believed to have triggered a major change in sexual mores, but it was the mass availability of new forms of contraception from the 1930s that had been the catalyst for this and not the transportation of US soldiers to the UK.

There are a number of features of phase three life in the UK that seem extremely feasible. The State will become more assertive as an actor even if the proportion of the economy that it controls does not increase drastically. Interest rates will remain far lower for far longer than anyone would have thought in 2010 or in 2015. The State will be concerned about the level of debt that exists, not just in its own accounts but as a component of the economy more broadly. Health care spending will all but certainly rise and be focused on the permanent expansion of intensive care unit facilities which are relatively low in the UK by international standards, a serious liability that put the NHS here under an unusual level of threat of being overwhelmed with catastrophic consequences compared with elsewhere.

As many of those who turned out to be key workers are poorly paid, the national living wage will go up. State backing for science and particularly life sciences will surge, not because they are viewed as a weakness but as a source of strength that we must make more of. Ministers will be interested in what can be done to reinvent mass manufacturing as a sector as the crisis has revealed a degree of exposure in crisis conditions when the manufacturing base is small and skewed to the specialist. That in turn will have an effect on the balance between London and the South East (where the regional economy has little manufacturing and no special desire to acquire it) and the rest of the UK whose decline relative to London and the South East has been largely driven by the loss of manufacturing.

The State will also come to take a much more intense interest in how the insurance market works (ministers will not want to pick up almost the whole of the cost for a sudden crisis twice) and there may well be both more intrusive regulation and an instinct to remove obstacles to new competitors engaged in new technologies challenging incumbents. The interaction between business and leisure travel domestically and internationally and public health will need to be thought anew everywhere. We may find that passports and visas have to be supplemented by new personal health documents.

Of the (lengthy) list set out in the paragraphs above, only two of them (insurance and travel) were not on the agenda before the crisis. In his Budget delivered slightly before the extent of the virus hit had really struck home, the Chancellor and the Government had already committed themselves to an end to austerity, to seek a more interventionist role for itself, to increase NHS spending, to a big rise in the national living wage, to boost state backing for science research and development and to acquire the means to rewrite its own rule book on investment in order to “level up” the UK regions. Economic policy had already begun to be recast in the light of new and much lower estimates of short and medium-term interest rates. The pattern will be one of acceleration of existing trends.

The same is probably true if one looks at aspects of the international economy. There is likely to be pressure across the developed world for shorter and safer supply chains, a partial reconsideration of globalisation and enhanced scepticism about China as a primary player in international society. All of these themes predate coronavirus. They were there in the Brexit vote, the Trump victory in 2016, the plethora of populist political parties and causes throughout continental Europe. They could be seen in the disputes in the UK as to how desirable it was for China to have a central role in nuclear power plant construction, various infrastructure initiatives and in telecommunications. They will be revisited at greater speed and more intensity when we reach phase three of the coronavirus crisis.

The history of what we presently describe as “globalisation” is that (a) it is very long indeed, (b) it has always been contentious and (c) that its progress is not constant but shifts with political factors. The international economy of the 1920s was, in many respects, less globalised than it was in 1914. Here too, change might not be dramatic but if it comes it will be driven by trends before the crisis.

The models for the economic recovery might all turn out to be mistaken.

The debate about the short-term performance of the economy in the UK and universally have largely involved a competing series of letters as indicators. Will it be a “V-shaped” response (a very rapid restoration of economic fortunes after a spectacular decline), or a “U-shaped” reaction (so with a longer period at the bottom before the status quo is resumed), or, as the

most pessimistic camp think, are we doomed to witness a “L-shaped” outcome, close to that seen in the Great Depression? It obviously matters enormously for anyone running a business what the short-term shape of the economy will resemble as they make decisions about employment levels and attempt to calculate what might be the future demand for the products or the services that they intend to offer others.

If phase two is likely to be a staggered lifting of the lockdown and phase three extremely sectoral in its effect with winners as well as losers, then raiding the existing English alphabet in this manner may prove to be a misplaced exercise. If lockdown is mostly lifted (albeit perhaps over months and not in weeks) then the L-shaped scenario does look improbably downbeat. If lockdown cannot be lifted instantly (as it would appear unlikely unless scientific innovation occurs very rapidly) then a V-shaped recovery may well be unduly optimistic. The uneven, unpredictable, character of lifting the lockdown and the very strong sectoral bias of it also makes the U-shaped notion far too smooth.

A better representation of what might be the most plausible pattern would look something like I/ (except with the base of the I and the bottom left of the / directly connected). It involves a more fundamental decline than in a V or a U (essentially that of an L) and a slightly shallower return to pre-crisis output than either V or U (but much better than L). If it turns out that an I/ is actually a sexually obscene symbol in text message discourse (which it may be), I apologise for using it here.

The risk of taking the global financial crisis and its aftermath as the model again this time.

There is the real risk for both government and business of “refighting the last war” in phase three.

The danger for government lies in introducing measures designed to prevent a repeat of the virus that offers a false sense of security and proves difficult to adapt if a future pandemic is different in type from the one that we are experiencing. To illustrate this, conceive that SARS had been far more widespread in 2002-2003. That virus started in China too (Foshan, Guangdong), the authorities both locally and in Beijing were reluctant to acknowledge it and

inform the WHO (it took three months for that to happen). As a result, it spread outside China as well as within it. It had a much higher death rate than we believe will be the case for the coronavirus. It did not explode because fewer Chinese citizens travelled abroad then, it turned out to be quite hard to transmit to others, a victim became infectious a matter of hours before the symptom emerged (not six days as with Covid-19), virtually no one who acquired it was asymptomatic (unlike now) and it really did not like warm weather.

If it had become a pandemic of a similar scale to the one which we are enduring, sweeping public health measures would have been introduced in its wake. The world would have thought that it was well prepared if another such emergency were to be seen. This would have been mistaken. There would have been no reason why the strategy adopted thereafter would have considered social distancing to be important because SARS did not involve a lengthy infection incubation before any symptoms could be detected nor the asymptomatic element. It would have been a Maginot Line.

The risk for business is assuming that the “playbook” for the economy after coronavirus is the global financial crisis and its aftermath. There are many reasons to be sceptical about this. The first is that there are few, if any, examples where recessions and recoveries have been identical. Even those of 1973/1974 and 1980/1981 – which shared an oil price shock as the trigger – proved to be distinct. The fact that businesses responded in the 1980s largely on the basis of what they thought that they had divined from the 1970s made matters worse. It was the wrong form of retrenchment. It led to the paradox, not least in the UK, that although the oil price movement was smaller the second time, the depth of the recession and the length of time before sustainable recovery were more profound.

The second reason to be cautious about deploying 2008/2009 as a blueprint is that the role of the State will be very different this time. The global financial crisis led to a new round of regulation of aspects of the financial sector aimed at preventing another Lehman Brothers form of collapse but otherwise the State spent a decade in retreat, cutting spending to bring its debt back under control. That will not be true this time. Business needs to factor this into its thinking as phase three arrives.

Finally, this is a fundamentally different sort of shock than 2008/2009. Major disruptions of the economy throughout history tend to come as one of two sorts. The first is internal. These include asset price inflation and subsequent implosion, a major change in the supply and cost of a critical commodity or systemic institutional failure. The second category is external. These involve the likes of natural disasters, the outbreak of very sizeable conflicts between countries and revolutions inside one or more nations. The global financial crisis was an unusual example of an internal shock. The pandemic is much more similar to the external category. Assuming that the events that followed an atypical internal economic shock apply to an abnormal external shock is almost certainly an error.

The best “invented precedent” would be a super-sized version of September 11th, 2001.

What would be the best “invented precedent” or “imagined example” that might inform business? Try this one. Suppose that in September 2001, al Qaeda had enjoyed a much larger budget, a deeper pool of committed and competent followers willing to sacrifice their lives to commit a mass murder and had decided on a slightly different strategy. Assume that, unlike what actually occurred in 2001, they had struck a range of targets in the US (the Twin Towers, the Los Angeles Subway, Wrigley Field baseball stadium in Chicago and the Aventura Mall in Florida and, furthermore, that they had done exactly the same in a large number of developed countries in Europe, the Middle East, Asia, Latin America and Australia in a more or less simultaneous series of assaults of the form set out above.

What would have been the phase one, two and three social and economic impacts? The real attack on September 11 was shocking enough but in the end it was contained by the fact that it was only in the United States, it soon emerged that it was a one-off and not the first wave of many such strikes, travel was able to resume reasonably swiftly, the global economy wobbled but did not slump into an outright recession everywhere and it proved easier to invade Afghanistan than had been expected.

That would not have been the case in the super-sized September 11th scenario. Governments all over the developed world might well have shut down their economies and their societies while they attempted to assess what had happened and whether a repetition was likely

("lockdown"). Even if they had not, many people would have been very reluctant to venture out to tall buildings, to fly on aeroplanes, to attend sporting events or visit shopping centres. They would have stayed at home for a period of time ("self-isolation"). Government restrictions and individual security concerns would have meant that much more intrusive, time-consuming and expensive searching of people and bags took place in anywhere remotely public (a process akin to "social distancing"). Certain sections of people would have been sealed off for their own good, or to prevent harm to others ("quarantine").

The State would also want to know a lot more about its citizens and wish to identify those who were already radicalised (the "infected") and who might be radicalised against it without overt signs of it (the "asymptomatic"). This would include smarter new forms of surveillance (a version of "tracing, tracking and testing"). Even if after some 12-18 months this enhanced version of al-Qaeda had been essentially liquidated (the equivalent of a "vaccine"), so that pre-2001 life could be restored, public policy would still be shaped by the fear that al-Qaeda might be able to come back in a new form or that a different collection of extremists motivated by a separate cause might attempt to emulate it.

At a social level, many more people would have wanted to work from home than previously. There would have been movement out of the cities to places which were seen as safer. The then fledgling e-commerce industry would have received a massive boost. There would have been several winners such as defence contractors, security specialists and start-ups at the forefront of some technologies. There would have been others in the property, travel and leisure sectors in a much worse position.

If one substitutes public health concerns for national security considerations throughout, then the super-sized September 11th scenario may be the best basis for thinking about what a phase three society and economy might look like, what would return to the previously ordinary in short order and where change would be most disruptive and with the longest-term implications. The "standard" September 11 that happened was, after all, dramatic, leading to a reversal of the post-Vietnam US syndrome (only to be restored again after the trials of occupation in Iraq), the removal of defence spending cuts made after the end of the Cold War and the creation (under a Republican President) of a Department for Homeland

Security of a size and scope that would have been unimaginable and unwanted in August 2001. A bigger version of September 11th would have amplified such trends and seen them spread across the developed world. This, with public health measures as the centrepiece, is what business needs to envisage as it aspires to make plans for the economy and society to come.

Tim Hames

Senior Adviser

Strategic Communications

Tim.Hames@FTIConsulting.com



About FTI

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.

For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

The views expressed in this article are those of the author(s) and not necessarily the views of FTI Consulting, its management, its subsidiaries, its affiliates, or its other professionals.

©2020 FTI Consulting, Inc. All rights reserved. www.fticonsulting.com