

New Statesman

Can global governments escape a prolonged recession?

Stephen Bush

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Can the UK escape from what may be the deepest recession in history – and the first self-made one in modern times?

One of the striking features of the outbreak of the novel coronavirus is that it triggered near-unanimity among economists about how to tackle it. Economists as varied as the Cato Institute's Ryan Bourne, and Frances Coppola, a former member of John McDonnell's council of economic advisers, agreed on what needed to happen to support businesses and individuals through the lockdown.

But now that unanimity is beginning to fracture: not over what should be done to weather the recession, but over whether the economy can in fact rebound.

The consensus at the start was that, with the right economic policies in place, the economy could, as Bourne put it: “play out like a bad agricultural season, or an extended ‘Christmas week’ – with a Nike-tick recovery, or a V-shaped rebound”. But now some economists fear that the economic consequences of Covid-19 won't be a V-shape, with a deep, deep recession caused by the measures to slow the spread of infection, but an L-shape: a deep and profound crash and a long-term fall in growth. The divide isn't between left and right – it's simply that some economists are more pessimistic about the long-run effects of what's happened.

The economic indicators are scary – and to make matters worse, most governments around the world are having to tweak their business support plans to make them more generous and implement them more swiftly.

I'm strongly inclined to agree with the optimists. As Larry Sanders argues, there is no reason why the global economy can't perform a similar trick to that experienced by seasonal economies the world over – in his words, to perform like “the Cape Cod economy”. In the UK, much of the coastal economy goes through a similar process every year – with very little economic activity outside of the holiday season. Of course, living in a tourist hotspot in early March can often be a miserable experience – but that is the consequence of conscious choices by governments, not an inevitable fact of life. Just as a less painful return to peak economic conditions is possible in coastal economies, so too is a swift and less painful return to normality after the lockdown ends.

I think that policymakers are likely to benefit from a one-off increase in demand. Provided they can keep most people in work through income protection and rent holidays for businesses, there is a lot of pent-up demand for, to name just a few currently lost pleasures: trips to the cinema, holidays to outside the end of your front door, restaurants and pubs.

In the short term, the unemployment statistic that governments should be particularly concerned with isn't the overall number of unemployment benefit claimants – it's the number of people claiming unemployed benefits who could be employed in industries struggling to meet increased demand. Here in London, key workers are still having to pack into crammed Tubes and buses, while delivery services cannot meet demand – yet people with clean driving licences are furloughed or unemployed.

Instead of worrying about exiting from lockdown, the government should be more preoccupied with exiting from the furlough scheme: not every part of the knowledge- and services-based economy that could be operating from home currently is, and some of those who are furloughed could be allocated work elsewhere. A level of income protection will be necessary throughout the crisis, but demand for the furlough scheme ought, all things being equal, to be nearing its peak.

I think that to an extent Team L-Shape's pessimism is being driven by the fact we're all stuck inside for longer than is healthy and are becoming more miserable. What would have even a week ago been correctly identified as holes to be patched in an economic package assembled in a little over a week are now considered fundamental problems that can't be fixed, because we aren't getting enough sunshine.

I have two concerns here. The first is that I see no reason why policy wonks and economists working for the government are going to be any less inclined to despair about the problem than those scrutinising it. One priority for government – and one reason why it ought to proceed as if we will be living like this for a long time – is working out how it can maintain social distancing while maximising the happiness and therefore productivity of its own policy people. Could that be achieved by helping officials and special advisers move out of places that have no outside living space, or where they are having to work in cramped conditions, to elsewhere?

The second is that the more pessimistic people who analyse the government are, the less likely it is that it will be pressured or indeed helped to make the right choices. There are real reasons for concern – not least that there has been insufficient global support for countries of the global South during their lockdowns, that eurozone countries have thus far failed to reach consensus on how to tackle the problem, and that US politics looks likely to be riddled by dysfunction even if Donald Trump is defeated, and that the American economy is the heart of the global economy. But the reasons to fear a patchy or non-existent recovery are primarily political, not economic. The right policy choices, now and in the future, can avoid an L-shaped course.