‘Financial Times economists’ survey: people to feel worse-off as inflation and tax rises bite in 2022’

Extracts from the Financial Times, 3rd January 2022.

Ray Barrell, professor of Economics and Finance, Brunel University London:

“The negative structural effects of Brexit are still working through the UK economy, and this is the main reason why UK growth will lag behind other advanced economies in 2022. The OBR suggest that over the medium term the self-harm inflicted by the exit from the EU will reduce productivity by 4 per cent, and we may expect this to reduce growth by around 0.5 per cent in 2022. The UK workforce is likely to grow less rapidly than in the past because inward migration will be much lower.

Many of the southern and eastern European migrants are likely to move to the advanced economies of north and west Europe rather than the UK. Northern and western European growth will be enhanced by migration diversion, the UK growth disadvantaged, perhaps by 0.2 per cent. Poor design of policies toward Covid-19 will not help raise UK growth, nor will the relatively low rates of vaccination in the UK as compared to northern and western European countries, but the effects are hard to quantify.”

Panicos Demetriades, Emeritus Professor of economics & former Governor of the Central Bank of Cyprus, University of Leicester:

“Although the economy is now recovering from the pandemic, there is still considerable uncertainty whether the bounce back will continue unabated or whether new restrictions will be required to contain the spread of the Omicron variant.

However, by itself, the Omicron variant cannot cause any major disparities with other developed economies. What will hold back the UK relative to other developed countries is the real cost of Brexit in the form of increased border costs, labour shortages and their impact on output and trade.

There is also the possibility that the UK’s monetary policy may need to become tighter earlier than in other developed countries, as inflation pressures are likely to be more pronounced in the UK due to the impact of Brexit on labour shortages, trade costs and, more broadly, the supply chain. and we are already seeing early evidence on that with the Bank of England being the first central bank to raise rates.

In 2021, the pandemic helped to disguise and compound the impact of Brexit on trade and labour shortages, however, assuming that Omicron’s impact is shortlived, the adverse effects of Brexit will become clearer.

As the effects of Brexit become clearer more questions will be raised about the current Tory government’s policies, in addition to current corruption scandals and Boris’ arbitrary, if not chaotic, style of government.”

Diane Coyle, Bennett Professor of Public Policy, University of Cambridge:

“Old problems — low investment, low levels of private R&D, inadequate infrastructure, the dysfunctional housing market, policy instability — and new

problems — Brexit headwinds, political uncertainty, loss of skilled migrant labour — mean the UK will lag other comparable economies."

Dhaval Joshi, chief Strategist, BCA Research:

"The UK economy will lag its peers in 2022. The UK economy fell furthest in the first wave of the pandemic, with GDP collapsing by 22 per cent, compared with 12 per cent in Germany, 10 per cent in the US, and 8 per cent in Japan. So, unsurprisingly, in the subsequent rebound, the UK has bounced the strongest. But now that the post-pandemic rebound is mostly complete, the ongoing headwind from Brexit will become the main differentiator of UK growth versus other developed economies."

Barret Kupelian, senior economist, PwC:

"The outlook for most advanced economies seems to be highly uncertain. So, it is difficult to make any predictions with any degree of accuracy. Having said that, there are three reasons that make me worry about the short-term outlook of the UK economy:

First, the looming combination of tax rises coming through at the beginning of the second quarter of next year — namely the NIC hike as well as the freezing of the income tax thresholds.

Second, high inflation, which is likely to persist, given the expected increases in the energy price ceilings that is due to be refreshed in April.

Third, the uncertainty around the latest wave Omicron. Even though we are not fully clear about the epidemiological outlook, personal responsibility has seemingly translated into effective lockdowns of some sectors of the UK economy. The more muddled government messaging remains, the more likely it is that some sectors of the economy will remain in the “deep freeze”. What seems to be more certain though is that we’re likely to start January 2022 shortages in some sectors of the economy due to the rapid rise in the cases of people with Covid-19 who will need to care for others or self-isolate.

All three of the factors I mention above mean that it is consumer spending that will be hit the most which is the biggest driver of growth in the economy. Britain’s competitors, particularly those in the EU, have less to worry about tax rises. In fact, the next-generation EU investment programme, coupled with the suspension of the fiscal rules for 2022 means that the fiscal authorities in the EU and Eurozone will continue to maintain an accommodative fiscal stance which should help and support growth.

Finally, the Brexit question mark still remains for the UK. On the first day of 2022, full customs controls, which were postponed a few times in the past, will be enforced. We still don’t know how rigorous the implementation of these rules will be but they will nonetheless be an additional burden to doing business.”

Andrew Mountford, professor, Royal Holloway, University of London:

“I expect the UK recovery will continue to be slower than most other developed economies that have managed the pandemic more successfully. Comparing GDP growth is problematic due to methodological issues and so

employment levels are a better guide and these do provide evidence of a relatively slow UK recovery, eg

https://voxeu.org/article/economic-impact-coronavirus-uk-businesses , https://www.oecd.org/employment-outlook , https://commonslibrary.parliament.uk/research-briefings/sn02784/

One aspect of the past year that has surprised me has been the lack of a rise in unemployment following the end of the furlough. Overall employment levels are still lower than pre-crisis levels, (by about half a million in November), but this is manifested in a drop in labour force participation and a tight labour market for those participating see:

https://www.employment-studies.co.uk/resource/labour-market-statistics-november-2021"

Ann Pettifor, director, Policy Research in Macroeconomics (PRIME):

"UK trade performance on imports and exports have been among the worst of all OECD economies, with Brexit exacerbating the pandemic. This significant fall in total trade (compared to 2018) is an outcome, or consequence, of weak economic activity at home. Flat business investment is an ongoing key constraint. That is why we expect the UK will perform (in GDP terms) below the level of advanced economies in 2022. Annual GDP is likely to rise by around 3.5-4 per cent (well below HMT's 'comparison of independent forecasts' which range up to 8.1 per cent). UK GDP fell further in 2020 than almost all other

OECD countries and ‘rose’ a bit faster in consequence in 2021, partly due to technical reasons in ONS calculations of public sector ‘production’. We consider this ‘catch-up’ has now ended. Tax rises and ‘new austerity’ measures will constrain economic activity further.”

Andrew Simms, co-director, and research associate, New Weather Institute, and Sussex University, Centre for Global Political Economy:

“The UK is likely to lag behind other developed economies in things that matter — such as meeting climate targets and reversing inequality (or ‘levelling-up’) — because while the government is fond of making impressive-sounding promises, it appears allergic to developing and implementing the policies needed to make them happen.

The task of re-engineering the economy to operate within climate targets, reviewed only weeks ago at the critical Glasgow Climate Summit, has huge implications and opportunities across all sectors. Yet, as the chief executive of the official advisory body, the Climate Change Committee (CCC), said at the time, “The government is nowhere near achieving current targets.” The reason this matters so much is that, apart from being needed to preserve the ecological conditions in which the economy and society can function, it is now a binding macroeconomic frame with a target of cutting emissions 78 per cent by 2035.

But, as the CCC note, on the current lack of progress, the UK will be adding to a target busting temperature rise of 2.7C by the century’s end. More worryingly the CCC say that this can ‘in theory’ be brought down to just under 2C — but still well short of the 1.5C needed. For a rough handle on what this means in

practice, for people in the richest 10 per cent globally, emissions need to drop to one-tenth of what they are set to be in 2030. Conveniently, a rule of thumb is that the carbon footprint of taking a train is one-tenth that of flying. Emissions reductions are needed for the UK of something like 12 per cent year on year.

But a quick look at recent government policy crumbles any confidence of a strong link between targets and action. In Rishi Sunak's Budget, he famously failed to mention climate at all. Beer was referred to more than the critical threat to humanity. Instead of encouraging a shift from aviation to train travel, he halved air passenger duty on domestic flights — the most easily replaced by train travel. The long-lived freeze on vehicle fuel duty was maintained, alongside spending to expand the road network that dwarfs public investment in low carbon transport alternatives. These are all things that extend and lock-in the UK's addiction to a polluting, high-carbon economy.

Compare this to the move in France to ban short-haul, internal flights where a train journey alternative exists or Paris's plan for major car reduction that includes the removal of 70,000 car parking spaces. Or, the case of Oslo in Norway going substantially car-free.

The UK also needs to guard against a rush of 'greenwash' and false solutions. Already there is far too much reliance on carbon offsetting, when a study for the European Commission showed that 85 per cent of the offset projects fail to reduce emissions, and only 2 per cent with a high likelihood of reducing emissions.

The CCC highlight a £50 billion annual investment gap up to 2030 for the UK to be on course to meet its targets. In the United States, although many were disappointed, President Biden's Infrastructure Bill allocated over $100 billion

towards public transport and rail — with job creation a major part of the rationale. If comparison with the US feels unfair, the UK government could do worse than look at South Korea's green new deal investing over $60 billion to lower emissions and create 650,000 jobs by 2025.

By contrast, the UK Chancellor allocated £4.8bn to a levelling-up fund to cover the remainder of this parliament — which even when added to the modest sums for green spending, to use the language of budget commentary still looks like very small beer. It is also a missed opportunity to achieve multiple goals at once through investment in a green new deal that could target much-needed home energy efficiency and renewable retrofits and green transport infrastructure. If the government is remotely serious about levelling up, it's worth remembering that post-unification, the levelling up process in Germany took around took €2tn over 25 years.

The terms of current economic commentary seem chronically disengaged from the real world of pandemic shocks, corrosive social inequality and the epochal challenge of the climate emergency. The old obsessions of growth, productivity and inflation remain entrenched. But the urgent and inescapable economic tasks are reversing the destabilising dynamic of rising inequality and doing so while re-engineering business, finance, our lifestyles and livelihoods to avoid climate and ecological breakdown. On one level this is being increasingly acknowledged by policymakers and financial institutions, but there is still a scant sign that in the UK we are overcoming the inertia of an economy that seems to function as an engine of inequality and ecological degradation."

Nick Bosanquet, Professor of Health Policy Imperial College:

“The UK is already 15 per cent below OECD high performers for real income and productivity. The gap will worsen over 2022 and beyond.

65 per cent . . . owner-occupiers in stable jobs..... will still feel secure, neither worse nor better: but there will be severe problems for 35 per cent of households living in a rented property and faced with rising living costs---for food, energy, transport. The Tax data for the furlough period showed that higher earners continued to pay more tax while tax payments for lower incomes fell. The UK is already one of the most unequal developed economies — the poorest 20 per cent had 6.7 per cent of total income: . . . this share will decline further bringing about social tensions and intergenerational differences with further declines in income and owner-occupation for children in low income households.

Jonathan Portes, Professor of Economics and Public Policy at King's College:

“It’s notable that despite a profusion of media reports about wages rises over the summer, real wages are still lower than a year ago and have been falling, not rising, in recent rates, as inflation has taken off. This won’t reverse immediately, although things may improve as inflation recedes. To be fair to the Government, boosting wages and productivity in a sustainable manner was never going to be either easy or quick.

Unfortunately, the Government seems to be keen on quick, politically attractive fixes. Focusing on a few areas and seeking to create ‘good manufacturing jobs’ — even if it is in the industries of the future, such as renewables — is only going to be at most a small part of the answer for a small

number of places. Meanwhile, reducing immigration will in itself do little or nothing to boost pay and productivity and may indeed make things worse.

Indeed, a liberal and flexible migration policy — for a small open economy like the UK, highly dependent on high-productivity service sectors — is likely to be an essential ingredient in any credible strategy to boost productivity.

A high wage high productivity economy will require both national and local policies addressed at both people and places, and that don't pit poor people in London and the cities against deprived areas in the north and Midlands. This means investment in connectivity — physical and digital — that allows skilled workers to have productive, well-paid jobs wherever they live; investment in people, that narrows the divide in skills and productivity between those who go to university and those who don't; and a new model of the labour market and welfare system that instead of forcing people to take any job — no matter how insecure or precarious — shares risks between employers, workers and the state so as to expand choice and opportunity."

Alfie Stirling, Director of Research and Chief Economist at the New Economics Foundation:

"A year is too soon to make much progress on underlying productivity, and much too soon to be able to reliably measure it. Much of the data on productivity will continue to be clouded by statistical artefact and noise for some time, due to the knock-on effects of the pandemic.

There will be more clarity around living standards. The recovery in nominal wages is likely to face further headwinds this year — either due to future

waves of infection and a lack of economic support, or premature monetary tightening, or both — and this will be eroded still further in real terms by continued high inflation. On average, people are likely to feel little progress, if not a squeeze, in real terms pay during much of next year.

But such averages will also continue to mask continued divergence and inequality in living standards over the next 12 months. Higher inflation will bite hardest for those on lower incomes who spend more and save less, and especially those that spend a higher proportion of their incomes on fuel and energy. Meanwhile, policy changes such as national insurance rises, which take effect in April, will hit earnings from work far harder than income from capital.

NEF modelling has shown that over the past two years — Dec 2019 to Dec 2021 — the poorest half of UK households are £110 per year worse off on average, while the richest 5 per cent are more than £3,300 better off. On the present trajectory, it is unlikely that this pattern will have been reversed in a years' time, and more likely it will have been made worse."

David Cobham, Professor of Economics, Herriott-Watt University:

"The Conservative party remains intellectually (as opposed to politically) wedded to the theories used to justify austerity, which is why it is incapable of articulating a levelling up project. On the other hand, the Labour party is still finding it difficult to develop a coherent economic strategy that is both in line with modern economic understanding and significantly pro-poor and anti-inequality. So there is an absence of the political leadership which would be necessary for the UK to overcome the problems it faces, from the last few decades of distorted development, from the changes in the world economy

and of course from Brexit."

Andrew Mountford, Professor of Economics, Royal Holloway University London:

"Corruption is a real danger for the long run productivity and prosperity of the UK economy. One of the most influential academic economic research agendas in recent years has been that of Acemoglu and Robinson on 'extractive' versus 'inclusive' institutions, (summarised in their book "Why Nations Fail"). They argue that the contrasting levels of productivity and wealth between countries stems from the difference in institutional quality. They illustrate their argument by comparing the paths to success of the richest people in Mexico and the USA (p39). The richest man in Mexico, they allege, became ultra wealthy through government regulated monopolies and political contacts, whereas the success of some of the wealthiest people in the USA stems from technological innovation. One doesn't have to uncritically accept all aspects of their thesis to be persuaded of the very harmful long run effects for an economy if success becomes ever more determined by personal contacts and access to lucrative public contracts rather than productive and innovative activity, or in Acemoglu and Robinson's terminology, if institutions become extractive rather than inclusive. Inclusive institutions are those which protect the public interest, nurture talent and allow effort to be rewarded. Examples include legal institutions and law enforcement that protect property rights, educational and training institutions, financial regulations that enforce financial fair play and tax authorities that ensure large companies pay the same tax as small local companies. These institutions are a vital public good and they require adequate investment.

The natural way to fund vital public investment which underpins the wealth of the entire economy, is by a tax on the wealth of the entire economy. In the UK this would be most practically achieved by taxing the value of land. Land cannot be moved to evade taxation and its price depends as much on the ability of people to pay for it, i.e on the health of the economy, local planning policy and regional investment, as in the actions of the landowner. The ONS estimates the value of land and assets-over-land to be significantly more than £5 Trillion compared to a GDP of a little more than £2 Trillion. Thus a 1% tax would be worth circa 2.5% of GDP and so could back substantial spending each year. This would allow for a positive annual public investment flow backed by additions to the stock of public owned assets which can be realised later."

Andrew Smith, Economic Adviser, Industry Forum:

"The government is repeating the same mistake as the past decade — targeting the budget deficit when it should be using fiscal policy to support growth. It will have the same results — depressing growth and making it more difficult to cut the deficit. Bonkers."

Source: https://www.ft.com/content/001d12df-4420-4cf2-8198-0cbe3532f6bd