Written evidence - Dr Stephen Davies (LBC0303)

The longer term impact of the Covid-19 pandemic on the UK's society and economy will be emergent and therefore unpredictable and only apparent once it has become obvious – at which point retrospective inevitability will kick in and we will 'see' that it was bound to happen. That said, the experience of previous pandemics can give us clues or indications as to the kind of effect this latest pandemic will have and there are some instances where the effects are already becoming visible, even if yet only at the level of anecdote and widespread reportage. These are typically areas where a trend or possibility that was already under way or around before the pandemic has been intensified/accelerated or actualised by it. These more apparent impacts and effects can cast light on possible emergent effects because these are often related.

If we think about the impact of previous pandemics, the obvious one and the one that has returned to memory in the last two years, is the great Spanish Flu pandemic of 1918-19. However even more relevant in to ways is the history and impact of the several cholera pandemics that affected the UK along with much of the rest of the world on several occasions in the nineteenth century. These had a major influence on the political and social development of the UK and other European states at the time, indeed we may say that much of the emergence of the modern state was driven by the impact of those epidemics, and the social and political reaction to them. We should also recall the effects of the almost-forgotten Russian Flu pandemic of the 1890s.

<u>Already Apparent Impacts and Effects</u>.

We can already discern a number of impacts that the pandemic has had upon the society and economy of the United Kingdom, and these have already been much discussed.

The most obvious or already apparent is an acceleration of the pre-existing move towards digitalisation of commerce. This can be seen most clearly in retail where there has been a marked growth in online commerce with the associated infrastructure of delivery and collection and a decline of traditional bricks-and-mortar retailing. Eventually this will settle down in a new equilibrium which will involve a new combination of physical premises and online shopping and ordering but in the short terms there will be considerable readjustment in this sector with many jobs disappearing but even more different ones appearing. The major impact will be a decline in the commercial retail use of property in town and city centres in particular. This will pose both challenges and opportunities for public policy but it would be a serious error to emphasise the first rather than the second. The main concern will be the impact of losses in the commercial property sector on the financial system but the best way of avoiding this will be to make the process of adjustment and reallocation of resources as quick as possible. There are obvious alternative uses for the spaces that will become available, from housing to leisure and entertainment, to educational institutions of all kinds.

Retail is the most visible area of change in this way but there are others, notably broadcasting and entertainment, where the pandemic has clearly accelerated or consolidated the move towards streaming services as the primary platforms for content delivery. This can be clearly seen in the figures for subscriptions to services such as Netflix. This will have major long term implications for the entire creative sector and for entertainment in general. One major question here will be the degree to which this rapidly expanding market remains open to new entrants as opposed to being oligopolistic and dominated by a small number of players. This also makes the question of the future of the BBC license fee even more pressing and acute, as it is increasingly hard to either justify or enforce this model in a world where most content is accessed via commercial streaming services on a wide range of devices.

Another area that has attracted much attention already is the patten of work and employment. There has been a massive forced movement to home working over the last year, largely involuntary and brought about by lockdowns and other responses to the pandemic. What is not yet clear is how permanent this shift will be. It would seem from anecdotal and other evidence that many office workers in both the public and private sectors do not want to revert to the pre-pandemic pattern of most time being spent in the office with commutes at either end of the day – what evidence we have suggests that the preferred position for many is some time in a shared workspace at regular intervals but the majority of working time spent at home or close to home – this suggests that one possible outcome is what we may call the 'distributed office'. The Government and some private sector employers are now seeking to compel a return to something closer to the pre-pandemic style of working but all of the evidence we have is that this will face strong resistance from staff. In addition, some private sector employers, particularly in the tech sector, have welcomed these changes and are looking to consolidate them, not least because of the opportunities it implies for reducing fixed costs by saving on office rents as large offices are downsized. This could add to the pressure on the commercial property sector. That said early indications are that demand for office accommodation is actually growing. The probably reflects two things, the reality of many large employers in particular being tied in to long-term leases, and the marked surge in business formation in the last few months which will be increasing demand for business accommodation. We will have a better idea of the implications for commercial property in about 12 to 18 month's time. In the meantime, we can expect a good deal of highly tense negotiations and meetings with HR in many companies as employers and employees try to arrive at a modus vivendi with regard to work patterns.

One reason to expect that this particular conflict will go more in the direction of labour than employers is another already apparent effect of the pandemic which is a shift in the pattern of employment and a movement in the balance of power between capital and labour in favour of the latter. This can be seen in the widespread evidence of tightening in the labour market – this is often ascribed to Brexit and in some sectors that is obviously a contributory factor but it cannot be the primary one since similar tightening can be observed in other countries where, clearly, that is not an issue. Whether this tightening reflects a long-lasting shift remains to be seen but the strength and persistence of the phenomenon suggests that it does. One reason for this is the way in which the pandemic has accelerated another already existing trend, which is the movement towards self-employment and the flexible employment relations of the 'gig economy'. This is often seen as working to the disadvantage of workers but from another point of view it actually weakens the power of employers because of the way it enables workers to exercise more choice over what kind of work they do and under what conditions. A key question will be that of how workers in this more flexible labour market can organise (so as to advocate shared interests but also to pool risks and costs and to reduce transactions costs). If they are able to do so (and modern technology makes this much easier) there will be a marked shift in the balance of power, as long as the economy continues to recover and grow.

The final much discussed and already apparent effect, which again looks set to become long-lasting, is a change in residential patterns and the distribution of population. There has been a significant movement from major metropolitan areas, above all London, to rural and semi-rural areas. This clearly fits in with the changes in working patterns even if much of the movement is by people who are retired or on the verge of retirement. One reason why this is likely to be a trend rather than an episode is that in addition to those groups there has also been a clear movement by another demographic, younger married couples with children. This shift has been partly obscured by the 'noise' created by the Chancellor's Stamp Duty holiday but is still clear from the evidence of things such as relative prices. This has important implications for the pattern of life and economic activity both within large built-up areas and in the country as a whole. In the first case we can expect to see a relocation of both residence and much commercial activity from urban centres to peripheral nodes (which may lead to tension over planning decision) while in the larger scene we can expect to see a clear shift away from London and the South East more generally to more rural areas and the North – it is very likely that as one commentator has argued we have passed 'Peak London', though not perhaps 'Peak Manchester, Leeds or Newcastle'.

Less Obvious and Apparent Long-Term Impacts and Effects.

The visible impacts suggest other possible long-term effects. Many of these are at the level of attitudes and preferences and have yet to manifest themselves in behaviour and concrete choices so what follows is speculative. Here the evidence of history is instructive. In the nineteenth century major epidemics led to a change in attitude and outlook towards things such as the built environment and modes of living which produced a marked contrast with the way these had been in the eighteenth century and the first two decades of the nineteenth. We may expect something like this to happen now, although in many ways the changes we can expect (and in some cases already see the first signs of) are mirror images of the ones we can retrospectively see then. It is important to emphasise that analytically we are speaking here of decisions and changes at the margin as this is how major shifts and changes of any kind always take place.

One important possible shift in attitude and consequent choices is a different valuation of mobility. We may well have seen peak mobility, in terms of the amount of travel and the number of journeys that people undertake as a regular matter. The experience of lockdown seems to have led to a reassessment of the value of travel and mobility with many people much less willing to, for example, undertake long commutes or trips for work related reasons. This may seem

paradoxical given that inability to travel was a much-resented consequence of lockdowns as it prevented things such as family visits and holidays but the other side of that was the realisation of how much time was spent previously on what we may call involuntary travel of various kinds. In other words, for many people there was a re-evaluation of the costs and benefits of much travel. At the margin this means less mobility as people make fewer trips than they did before. In addition to less commuting there is also a reduction in things such as shopping trips due to the shift to online shopping.
This is connected to another likely long-term impact of the pandemic, which is its persistent impact on holidays, tourism, and long-distance travel. The reported attitudinal impacts with regard to these are contrasting. On one side many people have missed things like foreign holidays and come to value them even more highly than before, which suggests a large amount of pent-up demand that will find release once controls on international travel are relaxed. The reverse of this however is that others have made a revaluation of the value of foreign trips in the opposite direction with a rise in the value given to domestic holidays and a downgrading of foreign ones, given the cost and inconvenience of air travel. This is likely to become more pronounced because of persistent controls of some kinds on travel which will add to the subjective cost of air travel. The major impact however is likely to be in longer distance commercial travel where many firms have realised that they had been paying an unnecessary cost in terms of business air travel. We can expect a permanent fall in travel of this kind and this will have important implications for long-haul scheduled airlines, given the centrality of business passengers to their profits and business model. The same will be true for parts of sectors such as hotels and hospitality that cater mainly for business travellers.

The changes we can already observe in things like attitudes to and choices about patterns of work are indicative of more profound shifts in sentiment that the pandemic has crystallised. In simple terms we may say that many people have realised fully how they do not like or welcome the kind of work they have been doing or the way it is organised. This is one of the reasons for tightening in some parts of the labour market as people leave jobs they do not like or refuse to continue doing them unless the compensation is increased. At a basic level for many people there has been a shift in what economists, misleadingly, call the work to leisure trade-off. This term is misleading because for the majority the trade-off is not between paid work and leisure but between paid work and other kinds of productive activity. The indications are that for many people, at the margin there is now a higher valuation placed upon the other kinds of activity as compared to the value of the money income gained from work. Obviously, for many the pressures of things such as housing and food costs mean that the income gained from paid work will still be valued more highly but for the large part of the population where that is not the case there will be movement in the direction of looking for different kinds of work or reducing the share of time dedicated to paid work. If this does become established, we will see a slow but sustained decline in labour market participation, in the employment rate. This should not come as a surprise since the level of employment is now at a record, and almost certainly unsustainable, high. The most likely driving force for a transformation of this kind is a reduction in women’s employment levels (it is the sustained rise in their participation since the 1970s that has driven the secular rise in employment) which would reflect a shift to the other kinds of work alluded to earlier, because of a change in the relative valuation of them in cases where this is feasible.

The pandemic has had a major and largely negative effect on family life and in particular the experience of young children. It is this that almost certainly lies behind the attitudinal and behavioural shifts that I anticipate and identify in the previous two paragraphs. Many familial relationships have not survived the stress of the lockdowns and restrictions but the more profound response seems to have been a revaluation of the importance of connections and stable relationships. This again would be a strengthening of a pre-existing trend in this regard among the young (the under 30s in this case). Some expect there to be a persistent impact on the outlooks and attitudes of those who have experienced the pandemic as young children but it is impossible to guess what form that will take if it does happen. What we can be more confident about is the kind of impact it will have on adults, particularly parents, who will have come out of this with a stronger appreciation for the value of familial and other personal ties.

One area where the has been speculation about possible long-term effects is that of education, particularly Higher Education. This is something I have written about myself nearly a year ago and the points I made then remain valid in my view. (See https://iea.org.uk/films/how-covid-burst-the-university-bubble/). The current model of university funding has been put under tremendous strain by the pandemic, not least through the absence of overseas students and other factors, such as the policy of the Chinese Government, mean this is unlikely to be fully reversed. At the same time the response of universities to the pandemic has been to move much of their teaching online and a number of institutions such as Manchester have moved to make this permanent, at least for the lecture format of teaching. This is not necessarily undesirable as it allows more focus on the other modes of teaching such as the seminar, lab work, and tutorials but it will mean even more hostility to tuition fees (on the ground that the students are now getting less for the same amount of money). More fundamentally, it reveals a division between most students, and staff over what the purpose and nature of Higher education is or should be. My strong opinion is that the pandemic has brought to a head something that had been building up for some time, which is a crisis in the nature and purpose of university education given its now dominant purpose (for most students and parents) of acting as a certification process that controls access to high-status and high paid employment. The pandemic has not only increased the already severe financial pressure on higher education institutions but has also intensified the growing sentiment of many that it is not a worthwhile investment of time and money for many (given what the commonly perceived point of the exercise is).

At the same time the pandemic has led to a significant change in the way education delivery is understood at both higher and secondary level. Once again this has a contradictory or paradoxical quality. On one side, there is a renewed appreciation of the value and importance of face-to-face contact but on the other a new awareness of how remote learning and on-line delivery can make education more widely available at lower cost. The outcome will be that over the next decade people will look to change the practice of education so as to preserve the new insights gained from the experience of the lockdowns while keeping the valuable aspects of personal contact. The outcome, barring obstruction by regulators, will be a spate of educational innovation, not least in both delivery and educational institutional organisation. This is another instance of a process that would otherwise have taken much longer being accelerated by the stress of the pandemic.

Another area of public policy where can expect the pandemic to have a significant impact over the longer term is in the area of welfare policy and (for obvious reasons) health policy. History is very suggestive here, as nineteenth century smallpox epidemics and the reaction to them played a major part in the development of a truly national health policy (initially through the creation of a national vaccination service) and the repeated cholera pandemics led not only to developments in public health policy but also important innovations in Poor Law practice, particularly in the urban Unions. There was also an impact on civil society provision in these areas as the major epidemics gave a stronger impetus to the development of medical insurance and more extensive provision of welfare services, by friendly societies. It was also one of the important forces behind the rise of systematic and organised charitable work in the shape of the Charity Organisation Society and its provincial counterparts. What the present pandemic has done is to highlight the weaknesses of the present system, which have not been successfully addressed by the introduction of Universal Credit, and it has made the problems of that part of the system even more obvious and will do so even more as the Treasury looks to reverse the emergency measures taken. The pandemic has opened up the political space for a major debate on the nature and purpose of the existing welfare system and around possible alternatives to it and we can expect there to be a vocal debate in the next few years. What that will result in is unpredictable but it is vanishingly unlikely that the existing system will survive this experience and the next few years unchanged. (See https://iea.org.uk/films/why-our-current-welfare-system-wont-survive-covid-19/).

A final area of public policy where a long-term shift precipitated by the pandemic will become clear soon is monetary policy. The crisis has led governments in many countries to effectively adopt the policy recommendations of Modern Monetary Theory. No central bank or finance ministry is prepared to openly admit this but the reality of it is clear to most observers and the temptation for politicians to openly advocate the continuation of these emergency policies once conditions return to something like normal will be irresistible. What we do not know is how a switch to so-called functional finance would work out and in particular we do not know if it will as many fear lead to a period of inflation or stagflation. It may be that the risk of inflation is overstated and functional finance will become the new orthodoxy for states with their own money or it may be that it does have that result, in which case the question of what to do about the enormous quantities of money and debt created since the later 1990s will become pressing. In either case however it is not likely that the monetary order we have had since 1971 will survive much longer so we can say that the pandemic, coming after the financial crisis of 2008 has triggered the ending of the second monetary system that the world has had since the Second World War.

Speculative Big-Picture Impacts and Consequences for British politics and Society.

The evidence of history and early intimations suggest there will be three (similar observations can be made about other countries).

Firstly, a rediscovery of the importance of state or government action when dealing with large inevitably collective challenges (in this case due to the importance of externalities and collective action problems) and of the importance of state competence and capacity. One of the most striking features of the pandemic has been the importance of government competence and capacity as compared to ideology and even policy – it appears that the key question is not what policy was followed but whether it was done well while there is no correlation between the ideology of governments and their performance. This goes along with a rediscovery of the importance of collective action. The two are not the same since collective action is not always or even most often government action. One of the striking features of the pandemic has been the importance of spontaneous and localised community action – this again is an intensification of a trend that was apparent before the virus appeared on the scene. Much of this is firmly and explicitly non-political or even in some sense anti-political. On historical precent we may predict that over the next few decades there will be a reconstruction of many of the institutions of the state and governance, just as there was after the nineteenth century pandemics (as well as other events such as the Crimean War). The precise form this takes will be determined by political contestation but I am personally confident that the British state will look very different in terms of its institutional structure in thirty years' time and the pandemic will be seen retrospectively as the inspiration or trigger for much of this. The contrast will be with the period since 1964 when despite much shuffling and rearranging and renaming the basic structure of the state has remained stable.

Secondly, a paradoxical psychological and cultural response on the part of many people. We can observe this after all previous pandemics or indeed major epidemics. One response to become much more serious minded and focussed with a greater emphasis at both a personal and collective level on discipline and rule following. The other and opposite response is a move to focus on hedonism and the short-term or immediate. We can see both of these in many countries in the aftermath of the Spanish Flu pandemic and the Great War and also in the years before that conflict, as a response to the Russian Flu pandemic of the 1890s. The two things, which often coexist in the same person, find expression in modes of living and behaviour and in culture and artistic expression. There is no reason to think that this pandemic will be any different.

Thirdly, the sudden (or apparently sudden) rediscovery of the importance of tradition and stability and a corresponding downplaying of the importance and value of novelty. This can take a number of forms, depending on local conditions. One, which we can see early intimations of, is a revival of religious feeling and belief. Another is a more self-aware assertion of the importance of continuity and tradition. This is often seen as being conservative or even Conservative or as being conventionally right wing but historically that is not the case to put it mildly. This shift in sensibility is what lies behind or finds expression through the changes of behaviour that are described earlier. The arguments will tend to be over what form this kind of changed sensibility will take.

The pandemic has undoubtedly had other major effects or will catalyse shifts in other areas, notably geopolitics and the international trading system. This will take the form of an accelerated retreat from peak globalisation and a significant shortening of many supply chains and decomplexification of many production and distribution systems. The latter in particular will be very important for the UK economy but as it is a global phenomenon rather than one that can be looked at from a simply British perspective, I have excluded it here.

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