BREXIT OR WREXIT?

The vaccination success by the Johnson government has improved the government's popularity. It now enjoys a double-digit lead over Labour in opinion polls. This is likely to be the high point. From now on it is likely to be all downhill. As the vaccines allow the economy to re-open the effects of Brexit will be more and more difficult to hide. And they will be ugly.

Review of the March budget.

The Budget is like the patient's health chart hanging on the end of the hospital bed. It is a record of the health of the economy, or at least the medication needed to keep it going. Generally budgets contain two pages. The front page is the one presented to parliament laying out the best bits which tend to be lapped up by the government friendly media. The second page usually contains the less favourable finer details. The photogenic and acrobatic Chancellor received six out of ten for his budget in opinion polls shortly after his parliamentary performance. He also said that he had to be honest with the British people by adding that difficult times lay ahead and that pay back would be needed. Problem was, he did not say how difficult, nor how much it would take to fix government finances.

So, let us help out the Chancellor. In the Table below are the cuts as well as tax rises set out in the budget, some of which were apparent and some which were not, as well as some taking immediate affect and others which will be delayed.

Taxes and cuts

Cuts in spending	£16 billion	1.
Council tax rise	£2.5 billion	2.
Pay freeze (excluding NHS)	£5 billion	3.
Universal Credit £20 cut	£6.4 billion	4.
Threshold tax frozen	£8 billion	5.
Total	**£37.9 billion**	**of which £29.9 billion immediate**

This is not so much levelling up as beveling down. Adjusted for the bottom 80% of society this is a fall in annualized aggregate standards of living of 4% relative to National Income over the next few years. All figures are nominal and not adjusted for inflation. The cuts in spending consists of £12bn previously announced and £4bn in new cuts. Since 2010 benefits and local government budgets have borne the brunt of the cuts. Once again, these cuts will fall most heavily on local government though it will not stop brainless Labour councilors standing for election in May so they can do their duty by setting more damaging balanced budgets as dictated by Westminster.

The role of local government in the well-being of society should not be underestimated. It, rather than central government, is responsible for the services that people depend on and which support them. The list is long - housing, adult services, children's services, schools other than academies, refuse collection, road and pavement maintenance, libraries, community centers and children centers, fire stations, street lighting, planning applications and more. On the other hand central government only provides benefits and health care directly. Little wonder that whole communities have turned against councils blaming them for being responsible for the cuts, and yet and yet, Labour still stands in local elections pretending there is something called local democracy rather than calling for a boycott until councils are properly funded.

In the Guardian Newspaper dated the 10th of March in an article titled: *Swingeing Cuts on Cards as Councils in England Face Funding Crisis*, it is reported that at least 25 councils are on the verge of bankruptcy, and 94% of all councils expect to make further cuts to their spending. The National Audit Office analysis on which the article is based, points out that before the Pandemic, council spending had already fallen by a third (actually forty percent when adjusted for inflation). During the Pandemic extra spending plus loss of income for councils amounted to £9.7 billion, whereas government support only amounted to £9.1 billion. Thus councils bore a further loss of £600 million. Not so much "I will do whatever it takes", as yet again "I will take it away from councils", especially the poorest working-class areas. To add insult to injury the government's £4.4 billion *Levelling Up Fund* veered towards Tory constituencies, with the Government refusing to even release the criteria by which they divided England into three tiers from the least to the most deserving. Seems Tory MP's and Councils have magnetic personalities.

For further information on the budget please visit Michael Robert's site and view his useful article titled UK Budget: coming out of COVID. https://wordpress.com/read/feeds/313842/posts/3212448553

In every budget there are one or two emotional items that stirs the population. The first was the measly 1% pay rise offered to nurses. 83% of the population, when surveyed, felt that a 1% pay rise was insulting given what nurses have gone through during the pandemic. As the government has dug it's heals in over this issue, their uncompromising attitude is bound to lead to the hemorrhaging of support for the Tories. This will accelerate if nurses strike which will be attacked by Johnson while not being supported by the honorable Sir Keir Starmer.

The second is clawing back the £20 increase in Universal Credit this October which will roll back the value of benefits by 25 years. This is particularly cruel given the continuing rise of food inflation and the rising cost of heating. The pandemic has highlighted the issue of inequality and poverty and this will not go away. 56% of the population when polled, said the pandemic had made them more aware of inequality and poverty. Once we enter the post-pandemic era, and government largesse is replaced by austerity, attitudes towards the government will harden. It seems the government may be aware of this, because they are preparing to tighten the laws governing protest and assembly.

The likely outcome of all these cuts and attacks on workers is a wave of strike action this summer. By then fear will have given way to anger. And for the first time it should be possible to link the struggles of the employed with the unemployed because the £20 cut does not only apply to those out of work but those in work as well, who happen to be the majority of the 6.5 million claimants. Our slogan should be: NO PAY FREEZES, NO CUTS TO BENEFITS.

The Irish Border Fiasco and other border issues.

Johnson has been using the pandemic as a smokescreen to obscure how damaging Brexit has been to the UK economy. Now that this smokescreen is about to dissipate, he is seeking to pick a fight with the EU to deflect blame. Replacing Gove with Frost was always going to create frosty relations with the EU. EU diplomats complain he takes them for granted and treats them like idiots. The EU is being set up to take the blame for the fault lines appearing in the UK economy most of which was predicted in advance of the signing the Withdrawal Agreement, but which Johnson and his team rudely dismissed.

Having out dribbled the EU over vaccines the EU was forced on the defensive with some bureaucrat invoking Article 16 of the Northern Irish Protocol at the end of January. Despite this being activated for only three hours, this panicked response allowed the Brexiteers to draw first blood and claim the moral high ground. But again this is likely to be their one and only victory. By the end of April the EU will have secured sufficient supplies of vaccines including J&Js and Sputnik V to overcome any lags. In addition it will be clearer by then that the UK had hoarded vaccines produced here, failing to share any. Asserting sovereignty seems to have taken the form of monopolizing vaccines.

Having out dribbled the EU on vaccines, the UK has now tripped over its own two feet. Seems Johnson managed, as only Johnson can, to mislabel most of the ingredients that went into his "oven ready deal" Brexit deal. So much so, that the Six Counties risks becoming detached economically from England. In response, Britain has now unilaterally eased customs arrangements between Britain and the Six Counties. "*Northern Ireland Secretary Brandon Lewis said that the government was taking 'temporary technical steps' to postpone the introduction of Export Health Certificates on agri-food goods heading into Northern Ireland from Great Britain until 1 October at the earliest. It is doing the same for a grace period covering parcels heading to the province from Great Britain. Both grace periods, agreed by the UK and EU last year, were due to expire on 1 April. Maros Sefcovic, who co-chairs the UK-EU Joint Committee with Frost, said the move was a "violation" of the Northern Ireland Protocol as it wasn't agreed with the European Commission. The EU is currently considering what legal action to take against the government."* https://www.politicshome.com/news/article/brexit-northern-ireland-style-approach-to-delaying-checks-on-eu-imports This time it is unlikely that these measures will be rescinded.

In the Six Counties itself, the Peace Deal is being stressed. Unionist paramilitaries are beginning to get itchy trigger fingers. It is not only the issue of empty shelves in Belfast and Derry supermarkets, but also the threat posed to any symbol of a border appearing between the Six Counties and the mainland. Nonetheless, these maneuvers cannot prevent Ireland uniting itself over the longer term as it is likely that in four years' time, when the Six Counties are scheduled to vote on whether to extend the Treaty, they will vote to extend it. In the period leading up to the vote and immediately thereafter, it cannot be ruled out that Irish troops will be patrolling the streets in Derry and Belfast suppressing unionist disruption of the vote and suppressing unionist dissent afterwards.

Additionally, the UK government has eased all checks on EU imports and delayed their planned implementation. "*The first checks on EU goods coming into the UK will begin in October, six months after they were originally planned to be introduced, and then will be phased in until March 2022. Gove, the Chancellor of the Duchy of Lancaster, announced the move amid warnings of disruption to food supplies this summer if the checks were introduced in the next few months as initially planned. The government's original plan was to phase in new checks on EU goods two dates in the coming months: April 1st and July 1st."*https://www.politicshome.com/news/article/government-delays-eu-import-checks-amid-warnings-of-food-shortages

It seems the government had little choice. As Andrew Opie from the British Retail Consortium said: "*most border control posts were little more than a hole in the ground*". Surely a case of too many consultants and not enough navvies. Barely a quarter of the 50,000 customs officials needed are in post. The same people who organised Track and Trace must have organised this fiasco.

On the other side of the sea, the better prepared and more determined EU has not reciprocated. They have imposed checks in accordance with the terms of the Agreement. Thus, the measures adopted by the

UK government will hurt the UK more than the EU. And then there is the ongoing saga of the unresolved negotiations over financial services.

On a final note, the discord in Scotland has to be addressed. There we have witnessed an overzealous government prosecuting a leading politician who "doth protest too much". This has allowed the English gutter press to daub Scotland a "banana republic" underserving of independence. This affair will blow over. What will determine the independence vote will be the economic prospects for the UK and particularly how they will be dimmed by Brexit. In short, the pending dislocation of the British economy and the consequential rise in austerity will intensify the conditions that originally drove the Independence movement. If anyone doubts this perspective, just look at the trade data below. Only now are we beginning to see through the lies of the Brexiteers, to stand open mouthed before their childish incompetence.

January's awful trade figures.

This article was held back until the ONS released Trade Statistics on the 11 & 12th of March. External trade measured by exports is significant. In 2019 (before the pandemic) exports measured by UK GDP amounted to 16.8%. Of this 16.8%, 43% or 7.7% of GDP was taken up by exports to the EU. Despite the fall in the proportion of trade with the EU, it still remains by far the biggest trading partner. (Since 1999 trade with the EU has declined from 54% to 43% in terms of exports and from 57% to 52% in terms of imports.) Thus nearly half of trade is still with the EU. https://commonslibrary.parliament.uk/research-briefings/cbp-7851/

The crisis brewing in post-Brexit trade with the EU was first raised by the British Road Haulage Association whose surveys of transport companies showed that trade had fallen by 68% in January. Additionally the UK Food and Drink Federation reported a 45% fall in exports to the EU. The Cabinet Office run by Gove retorted that the fall was actually only 5%. This earned Gove and his Office an official reprimand by the National Statistical Authority for falsifying their data instead of an expected OBE for services to the Leavers.

The figures provided by the British Haulage Association began to be borne out as EU countries started to release their own national statistics. *"Compared with the same month last year, exports to the United Kingdom dropped by 29.0% to 4.3 billion euros in January 2021. This confirmed the provisional calculation of 2 March 2021, which showed a 30% decline (see* ***press release no. 096****). German imports from the United Kingdom were down 56.2% to 1.6 billion euros."* *https://www.destatis.de/EN/Home/_node.html*

Trade with Italy plunged even more. The February release providing provisional figures showed imports from the UK falling by 70.3% and exports falling by 38.3%, compared to the average of -17.8% and -19.0% https://www.istat.it/it/files//2021/02/Foreign-trade-with-non-eu-countries_January2021.pdf

Trade with France was less severely disrupted with UK exports falling by 20% and imports by 13% https://www.ft.com/content/5b8028a7-edaf-4488-8e96-3761ba8b015f

These falls were confirmed by the Office for National Statistics in its Friday data release. Here are the relevant points. I have included trade with the rest of the world to show this fall was peculiar to the EU, which means most of it was due to the new border controls and not to the effects of the pandemic. "*Exports of goods, excluding non-monetary gold and other precious metals, fell by £5.3 billion (19.3%) in January 2021, because of a £5.6 billion (40.7%) fall in exports to the EU. Imports of goods, excluding non-*

monetary gold and other precious metals, fell by £8.9 billion (21.6%) in January 2021, driven by a £6.6 billion (28.8%) fall in imports from the EU. In both current price and chained volume measures, the January 2021 monthly fall in goods imports and exports are the largest monthly falls since records began in January 1997." Total imports of goods from non-EU countries, excluding non-monetary gold and other precious metals, fell by £2.4 billion (12.7%) in January 2021 while exports increased by £0.2 billion (1.7%). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/january2021

In comparison, exports to the EU in January 2020 totalled £13.57 billion and imports £19.43 billion. In terms of adjusted GDP, the fall in exports to the EU amounted to 2.8% (or 2.6% rest of the world). As these trade flows consist of a significant proportion of intermediate sales, i.e., they are part of supply chains ready to be worked up further, the hit to GDP is even greater despite the inventory builds prior to January 1st. Thus, it is difficult to reconcile these trade flow reductions and their multiplier effects with a mere 2.9% fall in GDP for January, also announced by the ONS on Friday. We are currently living in a twilight statistical world. The inflation figures released in the US this week being another example of the nonsense, but market friendly, figures rolled out.

One wonders if Gove will now apologise for the biggest porky since 1997, but this is unlikely as he has long since drowned all his scruples in the North Sea. However, we should not read too much into one month's figures. A clearer picture will emerge with February's data. That said, the data for January was far worse than the government predicted.

Estimating the total hit to the economy from Brexit and the Pandemic.

The Office for Budget Responsibility provided forecasts to accompany the Budget. We will take this in two parts, first the projection regarding the impact on government finances. "*As the economy reopens and emergency fiscal support is withdrawn, government borrowing is forecast to fall from a peacetime high of £355 billion (16.9 per cent of GDP) in 2020-21 to £234 billion (10.3 per cent of GDP) in 2021-22 (still higher than the 2009-10 peak at the height of the financial crisis)."* To this should be added the additional unplanned borrowing in March of £11.7 billion which fell in the previous financial year. Thus the total expected borrowing requirement rises to £600 billion over the two financial years. That is a figure approaching 30% of annual GDP. https://obr.uk/overview-of-the-march-2021-economic-and-fiscal-outlook/

Having fallen by 9.9% in 2020, GDP is expected to rise by only 4% in 2021. Thus the fall in GDP will be in the region of 6% over the two years. When this is added to the 30% rise in government debt, the total economic damage done by the pandemic over the two years being considered approaches 36% or $750 billion. The combined effect of the loss to GDP and the add to public debt is the best metric to work out the total economic losses. Government debt has rocketed because of the financial support given to firms and workers. There is thus a reciprocal relation between debt and GDP. Without this financial support GDP losses would have been far greater. In addition, this government debt mortgages the future, because some or all of it will have to be repaid causing future losses to taxpayers, though in differing proportions. Thus the 36% represents current and future losses.

Conclusion.

Over the longer term, the OBR expects Brexit to bleed the economy by 4% and the Pandemic by 3%. These are almost unsustainable losses, and they will give rise to centrifugal forces that could dismember the

United Kingdom which was once glued together by Empire despite nationalist sentiments within it. The UK has not only suffered the biggest losses of all the major economies its economic outlook is also the worst.

Taking a global view, total financial support following the passing of Biden's $1.9 billion package, is going to end up closer to $30 billion rather than $25 billion. This contrasts to the $10 trillion rise in share prices during 2020. https://www.cnbc.com/2019/12/24/global-stock-markets-gained-17-trillion-in-value-in-2019.html https://www.cnbc.com/2020/11/12/global-stock-market-value-rises-to-a-record-95-trillion-this-week-on-vaccine-hope.html Over two years this $30 trillion represents a loss amounting to 35% of current Dollar Global GDP. In contrast, $30 billion would have paid for 5 years of global health spending, or 60 years of renewable energy at current rates, or even 15 years of military spending. And all of this has occurred because the greedy neo-liberals were more concerned with cost cutting and screwing their societies, than with managing the future. If proof was ever needed that capitalism is a menace to its people and the planet, this is it. Capitalism has mutated from being progressive in its earlier years to being antiquated, redundant, and reactionary. It no longer has a historical role.

Brian Green 12th March 2021.