

**NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL  
RESEARCH:  
PRESS CONFERENCE  
Monday 2nd November 2020  
Opening remarks by the Director**

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our November 2020 *Review*. We are living through some grim and difficult times in facing a Covid pandemic that is poorly understood and not yet under control. And to which the main economic instrument of response has been the deployment of lockdowns with varying degrees of stringency. The policy objective, as we have said since the early part of this year, must be to smooth the spread of the virus, limit the probability of overloading health and social care services and offset as much of the economic impact as sound monetary and fiscal policies will allow.

The world economy suffered profound negative demand and supply shocks in the second quarter of this year. And while there has been some recovery in the third quarter, the US and the Euro Area are unlikely to return to their pre-Covid levels of output until the middle of 2022 and 2023, respectively. In the UK we can anticipate an extraordinary year-on-year fall in output of more than 10%. These shocks have exposed and tested weak policy frameworks. And as an intensely open economy this country has been severely examined. But from the relationship between Whitehall and the metropolitan mayors, as well as with the devolved nations to the vacillation in budgetary planning at HM Treasury and the inability to develop a robust test, trace and tracking mechanism we have been found out.

The impact of any lockdown has a direct effect on current economic behaviour but also induces expectations of future restrictions. And to the extent that commuting patterns and demand for hospitality, recreation and the arts may shift to new practices for some time to come or even permanently, the pandemic is not only leading to a contraction in activity but sends a signal to reallocate resources, mostly from the private to the public sectors. If successful this will reduce the long run consequences in

terms of health and the economy, as there is no long run trade-off between the two. But the need to build the public sector in this manner, for example, confidence in public health capacity will ultimately require taxes to be raised.

But not yet. The pandemic shock is exogenous, outside our normal system, and dictates decisive fiscal action to provide insurance for households and firms. Though it should not be undertaken in a haphazard time limited manner and, as far as possible, the support should be state contingent. So that for as long and whenever as we impose lockdowns, those planning ahead should be able to condition on some fiscal support. Naturally in the short run these will tend to raise levels of private and public indebtedness. But given the low costs of funding public debt and its maturity structure, it is more important to work on the fiscal framework than on the immediate development of new sources of revenue. And while the pandemic particularly affects service industries that rely heavily on social interactions, we have another event looming that will affect many of the others, Brexit. The joint shock is a grave concern.

As well as the underlying impact on the big numbers, some at the bottom of the distribution are increasingly suggestive of troubled times. Destitution and poverty seem set to rise. And the lockdowns seem likely to scar the progress of many of the younger generation, with losses in schooling and the ability to build up job-related skills in early career. The decline in measured firm dynamism will also need attention, as will the extent to which indebtedness will crimp future human and physical capital investment. A sustained emphasis on building skills and the digital economy to meet regional imbalances over the long term will help but vacillation will not. The Covid quandary is really how to achieve these long standing goals of economic development at a time of national economic crisis without undermining the credibility of the monetary-financial settlement.

JAGJIT S. CHADHA  
2ND NOVEMBER 2020