

THE NEWSTEAD ECONOMIST



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Introducing... THE NEWSTEAD ECONOMIST

We are delighted to announce the return of The Newstead Economist that we will release every two months!! We have put together some recommendations from books to movies as well as the main showstoppers; the articles.

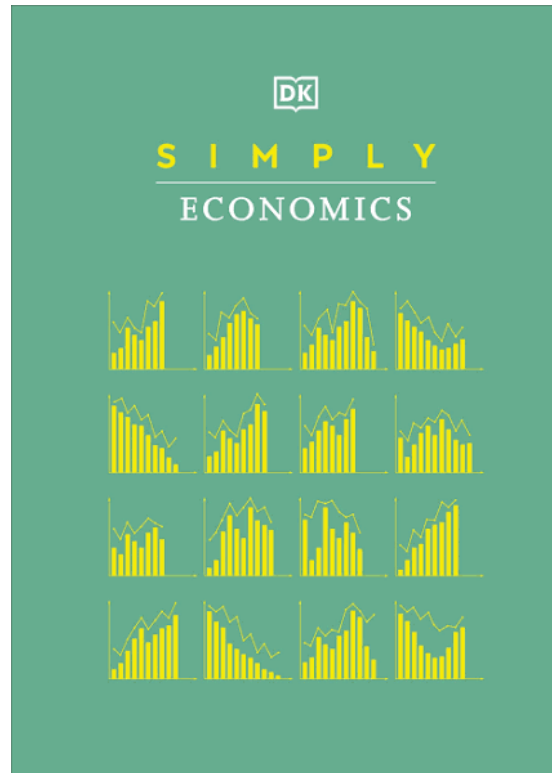
We would like to give a big thank you to all those who have written an article for the first edition of the Newstead economist and we hope to see more entries in the future!

Without further ado, here is our lineup for the November/December edition!

- Book and Movie Recommendation
- What policies should we adopt to address global economic problems? By Alex de Graaf Yr13
- Economics in pictures - Gbemi Banjo Yr12
- Is infinite economic growth sustainable? By Toni Adesanya Yr9

OUR PICKS OF THE MONTH

We think that our choices will give you a great introduction to the world of economics!



What policies should we adopt to address global economic problems?

The pandemic and the ongoing global geopolitical tensions have led to high inflation, a recession, and an energy crisis, the likes of which the UK has not felt for 50 years. These issues have caused the deceleration of the world's economic development. The policies argued are the support of the use of tightened monetary policy to combat rising consumer prices. Secondly, the introduction of a long-term policy primarily focused on green energy solutions would nationalise production and invest towards the creation and development of environmental technologies. This will allow for a competitive market to be maintained to continuously promote higher quality and lower cost energy.

One method incorporated by the current UK government is the prioritisation of economic growth – specifically the use of expansionary fiscal policy. This has involved the repeal of the EU 2014 Bankers Bonus cap initially introduced to limit risk-taking impulses, which was a significant factor leading to the 2008 financial crisis, and the reduction of the top rate of income tax by 5%. The Government argues that this will stimulate growth through the attraction of talent into London, whilst also increasing investment to a country dubbed “Stagnation Nation” by the Economy 2030 Inquiry. Although the aims may be honourable the substantial risk of further inflation due to even higher consumption rates may lead to a negligible overall change in real terms growth. Not to mention due to the lack of empirical evidence, economic forecasts, and the short time frame in which the budget was unveiled there has been a very extreme reaction in global markets. Hence, the policies I would initially focus upon are those of low and stable inflation rates, thus supporting the Bank of England in the use of contractionary monetary policy. Although one may argue this will significantly reduce investment, over the past 15 years the UK has had very low interest rates. Yet, relative to the G7, we have had a severe lack of investment and productivity as shown through an approximately 2% growth in non-dwelling investment compared to well over 6% for all other G7 members since the Brexit referendum in 2016. Businesses predominantly choose whether to invest based on the likelihood of a significant yield; if inflation and macroeconomic stability is not first addressed then in real terms the probability of a sufficient gain is less and less likely. For that reason, the policies that must first be adopted are those of monetary and political stability before considering the widespread use of expansionary policy.

Dealing with the energy crisis has been of much debate in recent times and ongoing geopolitical tensions have led to large shortages of goods exported from Russia. The implications have been felt globally, though each country has felt the reverberations to different extents. Those who rely heavily on the import of energy rather than domestic production have in most case been gravely affected including the UK. One approach advocated for is the deregulation and opening of the industry. This would theoretically usher in inward and domestic investment leading to higher production efficiency and lower consumer prices. However, the underlying problem that remains visibly is the lack of competition present in an oligopolistic market, which the energy industry is one of. This causes allocative inefficiencies due to the consumer having few options in a market which is price inelastic, meaning short and long-term energy prices will not be brought down effectively. In consequence those who struggle most in the UK will be at the whim of energy prices, further accelerating the use of food banks as low-income households must make a choice between food or warmth. A plausible solution to this would be the implementation of a nationalised energy industry whereby universal access to low-cost energy is made paramount and pleasing shareholders is no longer the goal. Good use of a national energy industry is demonstrated by France, who next year will raise their energy price cap by 15% while the UK's energy cap will increase approximately 80% by October. Nationalisation would allow for the construction of nuclear energy plants to reconfigure the dependence upon imports. Besides this, green energy solutions should be heavily invested in through the outsourcing of invention to private technology firms. They would be subsidised and offered certain government contracts because of producing the means in which energy can be used sustainably. This will instil good competition into the market, which is not possible in the privatised energy industry due to the enormous barriers to entry. Of course, we must realise that this is not a short-term resolution to the present energy crisis.

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Hence the government should adopt a gradually increasing maximum price caps like the income tax brackets to make sure good living standards are delivered quickly to all. Along with continuing the focus upon insulating homes and the use of smart meters so energy efficiency is optimal. How will the government pay for these policies? First the repeal of the recent reduction in the top rate of income tax. Although the cut has its place in future agendas to stimulate more growth, macroeconomic stability must take precedence to prevent future expansion becoming negligible. Secondly, an additional VAT on luxury goods would generate more tax revenue whilst only hitting those who are not in the lower to mid band brackets of income. To summarise, the energy industry is unique in the fact that a competitive market cannot be easily obtained because of the hurdles of entry. Consequently, a nationalised energy program allows for the power of prices to transfer back to the UK.

The policies we should adopt to address the global economic problems are in support of the BoFes tightening of monetary policy to stabilise prices and global markets. Next, we must support the least wealthy through banded energy price caps. Following this, the creation of a nationalised energy industry focused upon environmentally friendly production to allow for long term low consumer prices and domestic productivity. Through said policies the UK will be able to best overcome the worlds global economic problems

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economic events in pictures



Is infinite economic growth sustainable?

By Toni Adesanya

Whether it's History or Geography, one of the first things drummed into your head about economics is that economic growth is good. Desirable. Necessary, even, in order to have a well-developed country. Economic growth means a rise in a country's GDP, a metric widely used to determine the quality of life and happiness of citizens within countries. In recent years, there's been debate over how accurate GDP is to determine the quality of life, but one can't ignore that there is a direct correlation between economic growth and positive aspects of people's lives. So, how is this economic growth generated? Essentially, three things go into the economy. There's capital- money. There's labour, the time and effort people put into creating products. Pretty simple so far, right? But the last thing is resources. Resources are raw materials; the product before being processed. You'll see why resources are so crucial later on.

What comes out of the economy, then? Value. In the form of goods, services, products, sacrifices, whatever you want to call it. We then buy goods and pay for services, which puts capital back into the economy to pay for all that labour and those resources, and the growth cycle starts again. These products are marketed and gain value- not only due to the materials used to produce them but because we believe they have value. An example is that of money itself. Money is just paper, which isn't innately valuable, but the denomination we see on a note and the fact we accept it has some intangible value makes money so important. There are a few ways to raise value- you either make **more** things or invent **new** things. And here we circle back to resources.

Most resources are taken from the Earth or made using things taken from the Earth, consuming time and energy- in essence, labour. As the economy has grown exponentially and the human population on Earth has exploded, we require more and more materials yearly to sustain the global economy. Fortunately, humans have developed increasingly efficient ways of extracting materials, meaning that we simultaneously have increasingly efficient ways of deriving value from the world around us. The pinch is that we increase efficiency through new technology. Some economists believe that because of this increased efficiency, the infinite growth of the global economy seems inevitable, and they don't think that's such a bad thing. The capital generated from selling goods can pay more people a higher amount of money, causing a reduction in poverty levels. It also means the government has more money to invest in the public sector for services like education, healthcare and public infrastructure.

However, others aren't so optimistic. If we live on a finite planet with finite resources available, won't they eventually run out? It would be a valid concern- if we lived a couple hundred years in the future. We aren't in imminent danger of *running out* of raw (non) metals and natural gas. We've used up all their easily accessible supplies though, meaning we now have to drill deeper and excavate further to get to those precious resources. All at the expense of the natural world, causing a loss of biodiversity and worsening pollution. By the way, environmental damage isn't the only problem here. Even if more people receive more money, this will likely be proportional to their initial income.

Let's play a fun little game called "Guess the income average!"

Who do you think will have more money:

- Someone who earns £50 an hour with a 10% monthly increase

OR

- Someone who earns £500 an hour with the same monthly increase

If you said the second person, you're correct!

While there'll be a general increase in income, the gulf between the rich and poor will only continue to widen. Even if the poor are getting richer, the rich are also getting richer. By a lot more- likely leading to more classism and economic and social inequality than we already have. And here I was, thinking things couldn't get worse. At the minute, there are two forerunning solutions to the conundrum of infinite economic growth. It isn't even a false dichotomy- this is what I found. The first party would have that the ingenuity of humanity will find a way to design better tech to solve the social and environmental impacts of an infinite economy. After all, haven't we invented things like biodegradable plastics and recycling?

However, as we've previously explored, natural and physical limits to how efficient systems can become do exist. Some kinds of tech, like plane engines and photovoltaic cells, are already approaching that point. In addition, this new tech would require yet more materials; it's essentially a chicken-and-egg problem. The second solution is to -rather drastically- complete an economic overhaul, shifting our focus from a growth-focused to a post-growth economy. One where we're more focused on public sector development and accessibility issues and optimising sustainability to create a more balanced society. People would be less reliant on their jobs for income and have more money due to a lack of excessive spending on products. As a result, we could scale back the production of less necessary items, reducing our consumption of raw materials.

However, this sort of change would carry several ethical and political implications. Scaling back production of those items would put many people out of a job that they might still need. Besides, who would decide what items were less necessary? It reminds me of a line from a song- 'Donc deleguer au delegue// qui deleguera au delegue?' (It's Humain a l'eau by Stromae, by the way). How would arguments over this issue eventually be settled? And to be honest, this whole new economy is starting to sound like a socialist system, which is fair play unless it degenerates into an impure form of Communism. From there, we all know how that goes...

So, if neither of these options seems to yield desirable results, my answer to my initial question is that no, infinite economic growth is not sustainable on any level. Now, though, I think we must ask new questions. Is the cost of ceaseless economic growth equal to the benefits we're poised to gain? Is it greater? And what can we do to prevent its effect on life as we know it?



The impacts of disease on the economy

Gbemisola Banjo

With the recent events of Covid 19 and a society that is getting unhealthier; it is essential to think about the effects health has on our society and the economy as a whole.

The links between the health of a country and its economic condition can be examined in different ways. For example, we can look at the decline in GDP or the behaviour of a population after an epidemic. The more obvious yet tragic consequences of diseases include loss of life.

The negative impacts on the healthcare system mean that it is not equipped to deal with or research other diseases that are affecting the country. In the UK, disease impacts the NHS as it must pay for hospitalisation and medication. Generally, a larger and healthier workforce aids economic strength, so the loss of productivity due to disease is significant. There is an interesting link between health and economic conditions as they impact each other. This means a country's health affects economic conditions and individual economic conditions also impact health. For example, research shows that poverty and poor education are linked to ill health. 1 Several pieces of research have concluded that there are short-term links between disease, trade and economic growth 2 which further suggests that governments should focus on providing high-quality healthcare as the health of a country is linked to its economic growth.

After Covid 19, the UK has not fully recovered. The extent to which the impacts of Covid 19 have been felt has varied depending on socio-economic positions, location and other factors. During pandemics, there are economic trade-offs like people not being able to work due to prioritisation of the infectious disease.

There have been many impacts due to Covid, like less travel which cost the aviation industry \$168 billion in economic losses in 2020 3 . More people have been using technology to order products online or to work from home. Due to the pandemic, there has been educational disruption, like the changes in GCSE and A level exams. Covid 19 will definitely have longer term impacts on communities, mental health and the economy.

There is increased pressure on the Government due to higher levels of debt. During 2020-21 the Government increased borrowing to £323 billion 4 to fund Covid response which is the greatest increase in government borrowing in over 50 years 5 . Unemployment and lowered economic activity have put further pressure on the Government 6 .

If we look to the past, the Black Death of 1347-52 shows us how pandemics change economies. The high death toll meant there was a loss of labour and skills. However, there were positive changes like better wages for workers due to the scarcity of labour at the time. The city attracted workers from the countryside to provide much needed labour. Although we can learn from past infectious diseases, we can not expect that the same impacts of the Black Death will apply to Covid 19.

Different sectors need to work together to build a healthier society as ill health impacts everyone. Technology has become more useful in various areas of the economy and it can help improve response to disease. Technology helped the response to the Ebola Virus which had painful symptoms and a mortality rate of up to 90% 7 . Technology was vital in responding efficiently to the spread of the virus through vaccination, disease monitoring and data processing. The Ebola outbreak has shown how technology can improve global health 8 .

Prevention is better than cure so it is important to make health a part of economic decision making

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