TMEJ
THE MANWOODIAN ECONOMIC JOURNAL

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VOLUME I

FOREWORD

I started this journal a few months ago and the original idea was to bring current UK political and economic topics and condense them down for a very short 2-page newsletter as a way to help those in the lower school begin to understand the key issues affecting the world right now.

However, it has now grown into a fully-fledged journal with a multitude of topic areas both domestic and international. Unfortunately, this came with its delays and issues as the writers and editors at TMEJ and I worked together to create a coherent newspaper that not only read well but looked good. Having said that - now that the groundwork is in place - more editions can be released with a shorter turnaround time, so if you like this copy, you can expect another in July!

Before saying anything else, I have to thank the 6 writers - Tom, Katie, Josh, Alex, Sophie and Rhys for taking the time out of their busy schedules to research and write for the journal, as well as a special thanks to Alex for designing the colour schemes and graphics you see on display here.

A lot of work has gone into this first copy, so on behalf of all the writers, I hope you enjoy the first (albeit digital) edition of The Manwoodian Economic Journal.

- Finnbar Burgess, Chief Editor

IN THIS EDITION

In this edition, you can read about; the Russo-Ukrainian war a year on and the effects felt by countries around the world; the UK economy's long COVID; the Rocky-esque revival of the pound; the post-FIFA Qatar and much more. The edition has been split into domestic, international and market sections as well as an interview at the back with Mr King, a business and economics teacher, on his opinions on the current economic climate.

THE DOWNFALL OF THE MINI BUDGET

In September of 2022, Liz Truss, the Prime minister at the time, presented her mini budget for the year, outlining the government's plans for spending and taxation for the foreseeable future. Many aspects of her plan had a significant impact on the economy, with most changes being criticised by economists. In this report, we will take a closer look at the different elements of Truss' mini budget and analyse their effect on the economy at large. One of the key elements of Truss' budget was the reduction of tax rates. She proposed cutting the highest rate of tax from 45% down to 40%, because she and a few others felt that the higher paid individuals...

Figure 1
Kwasi Kwarteng on the first day of his Chancellorship.

that would benefit from the lowered taxes would spend some of the additional disposable income that they would gain in the economy, and therefore it would benefit the economy as the UK may receive positive economic growth. Hence the 45 billion losses in tax revenue would start to circulate around the economy, and therefore would make its way back to the government overtime. Truss saw the plan as having far greater benefits, and so was fully convinced that the plan would work.

However, many economists saw the drawbacks as being greater than the benefits. They argued that the individuals that would be benefiting from the fall in tax percentages are already some of the wealthiest people, and therefore wouldn't necessarily need the extra money to spend around the economy, and therefore whilst Truss was arguing that the money would circulate back around the economy, in reality, the consumers would just have a greater marginal propensity to save (the percentage of a consumer's income that they save). So, the billions of tax revenue loss would only partially return to the government. Consequently, the tax revenue loss would cause a widening of the budget deficit (difference between tax revenue and government spending), which in turn would cause the UK to get into more debt, which causes a financial crisis, as less money is spent towards the public sector, such as education and the NHS, and more goes towards repaying debt, which furthermore hurts not only the economy of the country but also social aspects.

Figure 2
Credit The Telegraph

Only a week later Truss scrapped the tax rate fall due to huge backlash from parliament and the public, yet whilst it was removed, the impacts from just suggesting it had detrimental impacts on the economy. One of the main impacts was the fall in the value of the pound. The main reason for the fall in the value of the pound against the dollar is due to decreased consumer confidence. When Truss unveiled her mini budget investors saw the huge impacts that they would have on the economy, hence fearing a financial crash in the UK. As a result, many large investors sold their pounds and changed them for safer dollars. Consequently, supply rose whilst demand remained/fell, causing a fall in the price. Hence the dollar was able to buy 10 pence more than it previously was, from September through to October.

Continued...

This becomes a huge issue for the UK economy, as when a country's currency value falls, the price of importing goods from other countries becomes more expensive, which furthermore raises inflation, which was already at a high.

In the mid-term, there have been even more impacts. There has been a large rise in the interest rates, which is a policy enacted by the Bank of England to combat high inflation rates. Whilst it can be argued that inflation has risen due to many factors, including the Russia-Ukraine war, Liz Truss' mini budget was a main factor to the raise. One of the impacts of this rise in interest rates was impacts to the housing market. When there are higher levels of interest, the monthly payments for mortgages rise, and this time it was suggested to be around £5100 more per annum. As a result, the UK has seen a reduction in the demand of housing, and subsequently, a fall in the house prices. This fall in house prices has been the harshest since 2012, and the market is poised to worsen further.

Housing markets often foreshadow impacts that are to come within the near future. When there is a fall in house prices, consumers feel the negative wealth effect (when an individual's assets [houses] have fallen in price, they may still have the same amount of money in the bank, yet they feel poorer due to a fall in asset value). Because of this effect, consumers start to decrease the amount of money that they are spending in the economy. Therefore, there would be decreased aggregate demand in an economy which subsequently leads to a fall in the real GDP of the country, and therefore means negative economic growth.

What did the Bank of England do?

Higher levels of inflation cause a rise in the amount that the UK must pay through yields via government bonds. As a result, the government must pay more interest back to the investors holding the bonds. To combat this, the BoE stated that they were going to raise interest rates as much as they needed too, to ensure the country's inflation rate returns to a stable 2%.

These rate hikes in the short term will increase bond yields. This would be beneficial to the BoE, as they recently ended their QE scheme in 2020, meaning they have purchased a lot of bonds. Therefore, offloading the bonds would be easier, although the lower bond price would mean a net loss on the £60bn originally spent on the scheme.

Figure 3
The Bank of England

Some economists suggest the general unrest and instability as a result of the mini budget will weaken the value of the pound further, as weak consumer confidence - especially from international trading partners - reduces the demand for the pound against other currencies, and therefore prices drop. Whereas other economists believed that the pound wouldn't majorly change strength, this is because of the combined effect of interest rate rises and the decreased consumer confidence. They believe that decreased consumer confidence leads to lower demand for the pound. However, some believe that due to hot money flowing into the country (moving money to countries with high interest rates to ensure safe wealth gain) the lost demand will be made up for, and therefore there would be no change in the strength of the pound against other currencies such as the dollar.

To conclude, Liz Truss' mini budget had a significant impact on the UK economy previously and in the future, with most changes being heavily criticised. The decreased taxes were welcomed by high income earners but raised concerns around income inequality and reduced tax revenue. The vast amount of negative impacts caused by the suggestions is why I would say that the mini budget adds to the large list of reasons adding to a decline in economic growth.

Written By:
Josh Paul

THE ECONOMY'S LONG COVID

"The Covid-19 pandemic has had a profound impact on the UK economy, with both short and long-term consequences for businesses and individuals across the country, including immediate impacts on consumer spending, tourism & hospitality and international trade, as well as the long-term effects on employment and GDP growth."

One of the most immediate impacts of the pandemic on the UK economy was the sharp drop in consumer spending. With people confined to their homes and many businesses shuttered, demand for goods and services plummeted. This had a knock-on effect on businesses, many of which were forced to furlough or lay off staff. The unemployment rate in the UK rose to over 5% by the end of 2020, the highest level in over four years.

The pandemic also had a significant impact on the UK's tourism and hospitality industries. The restrictions on social gatherings and travel hit hotels, restaurants and other businesses hard. Many businesses in these sectors were forced to close, while others struggled to adapt to new restrictions and safety measures. The UK's retail sector was also hit hard, with many high street stores closing their doors for good.

The pandemic also had a significant impact on UK international trade. With many countries imposing their own lockdowns and restrictions on travel, global trade and supply chains were disrupted. Households still had to buy everyday goods & services like food, clothes and energy, but output was significantly diminished - people stuck inside often aren't the most efficient workers - resulting in a large increase in the trade deficit as imports rose and exports fell.

Government Support Measures:

To mitigate the effects of the pandemic on the UK economy, the government introduced a series of measures aimed at supporting businesses and individuals affected by the crisis. These included the Coronavirus Job Retention Scheme, which allowed businesses to furlough staff and receive government support to pay their wages. The government also introduced a series of loan schemes aimed at providing businesses with access to finance to help them weather the crisis. The government's furlough scheme was a lifeline for many businesses, helping to prevent mass redundancies and keeping many companies afloat during the pandemic.

Figure 1
The NHS's grab-a-jab vaccination scheme
Credit POLITICO

Figure 1&2
Empty London, 2020

Long-term impacts:

Despite these measures, the long-term impact of the pandemic on the UK economy remains uncertain. The country faces a potential long-term economic scarring, with many businesses forced to close permanently and many workers facing long-term unemployment, exacerbated by the uncertainness of Brexit. The pandemic has highlighted the need for greater resilience and preparedness in the face of future crises, as well as the importance of quick responses by the government to minimise negative consequences for people and firms.

Employment:

The pandemic has had a significant impact on employment in the UK. While the government's furlough scheme helped to prevent mass redundancies, many businesses have been forced to close permanently, and many workers have been unable to find new employment. The unemployment rate in the UK rose to over 5% by the end of 2020, and although it has reduced since then, there is a significant amount of people underemployed - meaning they are over-trained/skilled for their position.

GDP Growth:

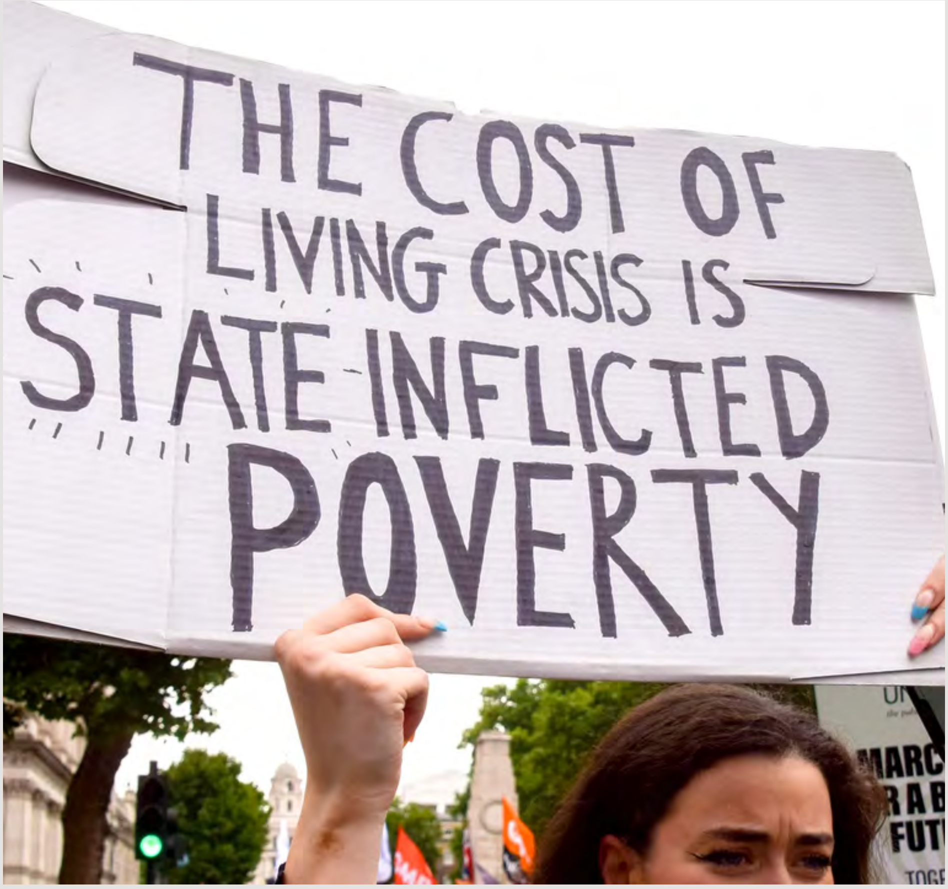
The pandemic has also had a significant impact on GDP growth in the UK. The country's GDP fell by 9.9% in 2020, the largest annual contraction on record. While the economy has shown signs of recovery in 2021, it remains significantly smaller than it was before the pandemic. The British Chambers of Commerce predicts that the UK's GDP will not return to pre-pandemic levels until the final quarter of 2024.

"The UK economy is likely to suffer the worst COVID damage" - OECD, 2020.

Written By:
Thomas Richardson-Jess

THE COST OF LIVING CRISIS

Fig. 1



What is the cost of living crisis and how did it get so bad? It all starts with the pandemic. During COVID, the economy went into negative growth due to a decrease in consumption as consumers were stuck at home. This led to problems within the economy, mainly an increase in inflation currently at 10.05% (the Bank of England has a 2% target, emphasising the issue) as well as unemployment increasing due to the lack of demand within the economy during the pandemic - although employment rates are rising again more recently. With prices increasing whilst incomes remain relatively the same, many are struggling financially causing the worst squeeze in living standards since the 1950s.

Impacts on the Government:

Everyone is affected by the cost of living crisis - especially the government. At the start of the cost of living crisis in late 2021 the government had made several announcements for supporting households during the crisis; many ministers had set out their own visions for the UK economy. One specific member of parliament, Rishi Sunak, had set out their goals in a ten point plan for Great Britain in order to help gain the position of prime minister. The first part of this plan was to rebuild the economy to beat inflation and cut the basic rate of income tax by 20%. In addition, Rishi planned to remove VAT on energy bills, helping reduce the cost of the bills and support families through the winter.

Another concern for the government was funding education during the crisis. Many rumours were spread for schools to return in September 2022 with only three days a week due to the high cost of energy bills. However, the government had warned schools not to send students home to save on energy bills that winter. Due to the inflation in the economy, school budgets were set to rise 7% per pupil this year. Despite the rise in concern about the increasing cost of schools, the Department of Education stated: five days of school a week is "vital for children's education, development and wellbeing".

As of March 2023, the government has released a new budget to try and tackle the UK's productivity issues hoping to increase economic growth and halve inflation; the Chancellor, Jeremy Hunt, described this budget as the "budget for growth". Within the Chancellor's speech announcing this budget he focused on four areas: enterprise – supporting businesses, employment – increasing the labour force, education – providing people with skills, and finally growth in the UK economy. The chancellor plans on providing this through many policies, one being an extension to the childcare benefits allowing families with three to four year olds to receive 30 hours free childcare a week hoping to push more adults back into the labour force, making the country more productive. Another policy includes the government maintaining the current 5p fuel duty cut that will not be increased with inflation - however this policy is costing the government £5 billion to maintain. Furthermore, the government has guaranteed that energy prices remain the same until the end of June 2023. This has led to the OBR (the Office for Budget Responsibility) to forecast the consumer price index to drop to 2.9% by the end of 2023 from the current 10.9% rise it saw from 2022-2023.

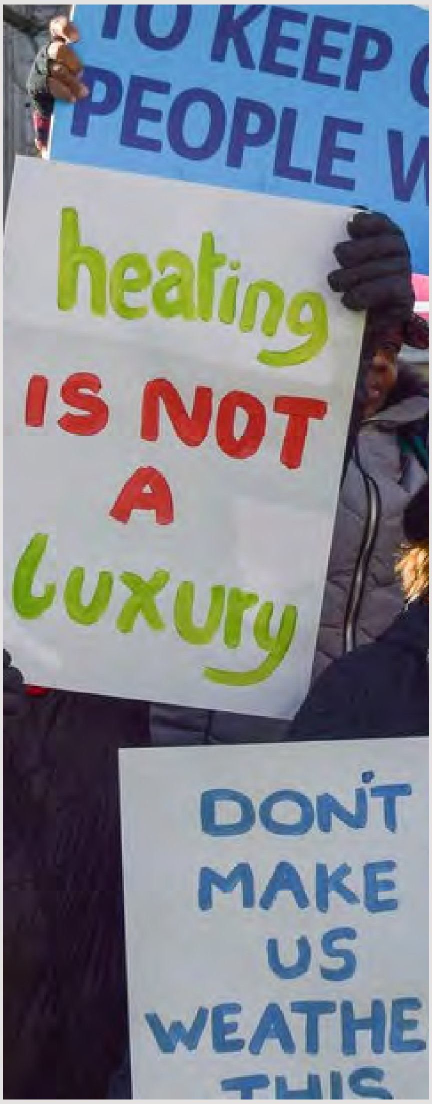
Figure 1 A protestor marching against the cost of living crisis in London

Overall, the government is desperately looking for a solution to the inflation as they face many issues within the public sector and the potential threat of an increase in poverty, trying to offer their support to the public through the crisis while playing a balancing act with the budget.

Impacts on Firms

Many companies are struggling to counteract the cost of living crisis - they are trying to reduce costs for customers whilst maintaining high profits. As inflation increases so do prices leading consumers to have less disposable income - causing a spiral effect for demand and profitability in the private sector. For small firms this will have a massive effect, potentially causing them to let go of staff and being liquidated. In addition, luxury brands could struggle as their product is price elastic (meaning their demand is dependent on the price) therefore causing a significant decrease in demand followed by a rapid decrease in profits. Furthermore, the government is raising the corporate tax rate as of the Spring Budget 2023, where profits over £250,000 now pay 25% tax and profits over £50,000 pay 19% tax; this will create a tighter squeeze for firms to remain profitable in these difficult financial periods. However, from April 2023 and for the next three years, firms will be able to deduct 100% of all plant and machinery investment when calculating taxable profits. This is to encourage investment increasing aggregate (total) demand whilst also helping businesses to remain profitable.

One company that surprisingly stands out for providing their customers with the most support is Asda. Asda is a popular supermarket across the UK, known for their cheap prices and deals. They invested over £73 million last year in an attempt to tackle the cost of living crisis. As for customers, Asda have launched a range of their own brand called 'just essentials' creating affordable essentials to help combat the cost of living crisis and help ease financial struggles for families. The famous supermarket has also price locked...



many essentials until the end of the year to help families. For example, Asda's grain rice (500g) used to be £1 but has since dropped down to 75p. To further help, Asda has launched 'Asda rewards' which is a loyalty programme where you are rewarded with Asda pounds which you can spend in store to help reduce the cost of groceries. As well as this, they are supporting their employees too. Asda used to give a 10% discount card to all employees after 8 weeks of starting the job however they have changed the scheme so that employees will receive their discount as soon as they start their work. Finally, Asda plans to invest £2 million in local grassroots movements (community investment) with a focus on those most affected by the cost of living crisis. The co-owner of Asda, Mohsin Issa says how they "are committed to doing everything we can to support our customers, colleagues and communities in these exceptionally tough times".

Impacts on Workers

The cost of living crisis is predicted to most impact low income families as taxes, petrol and essentials increase. As we saw energy prices increase an additional £60 a month in late 2022 leading families to...

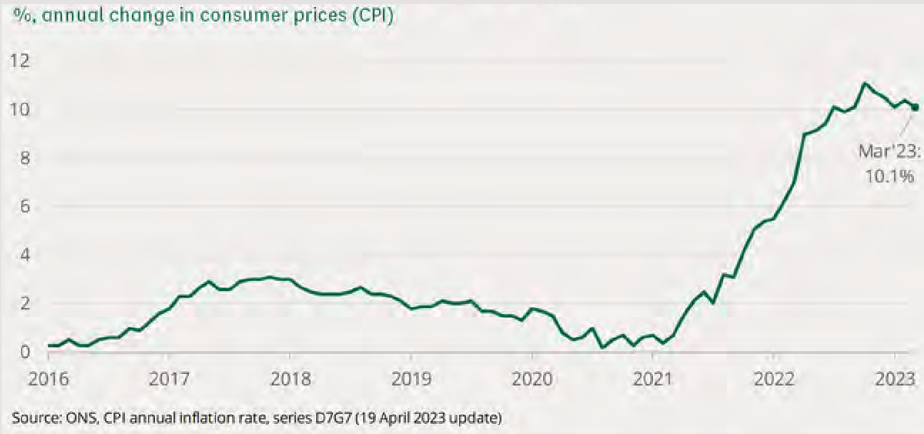


Figure 1 *Inflation rate in the UK - measured by CPI.*

worry as we headed into winter. Furthermore, food prices have increased by 6% and it is estimated that the average annual grocery bills will increase by £380; inevitably causing an increase in families that will struggle and increasing the number of families which rely on food banks and greater reliance on debt for regular spending. Many people are struggling to financially support themselves and some families mention “buying a property is much further away”, and have been forced to delay plans to buy homes, cars etc. So what is the government doing to help families? The government initially advised working longer hours, using value brands and learning to cook on a budget.

Since introducing the Spring Budget 2023 the government has offered more support to those struggling. As previously mentioned the government is implementing a reduction in fuel duty and energy prices, as well as free childcare to those applicable to help reduce rising costs for families. Furthermore, in attempts to attract workers, the government has introduced apprenticeships for those over 50 called returnerships to refine existing skills programmes to make them more accessible for the older generation. Finally, the amount that can be saved tax free in private pensions will increase allowing workers to have more savings when hitting retirement.

Written By:
Katie James

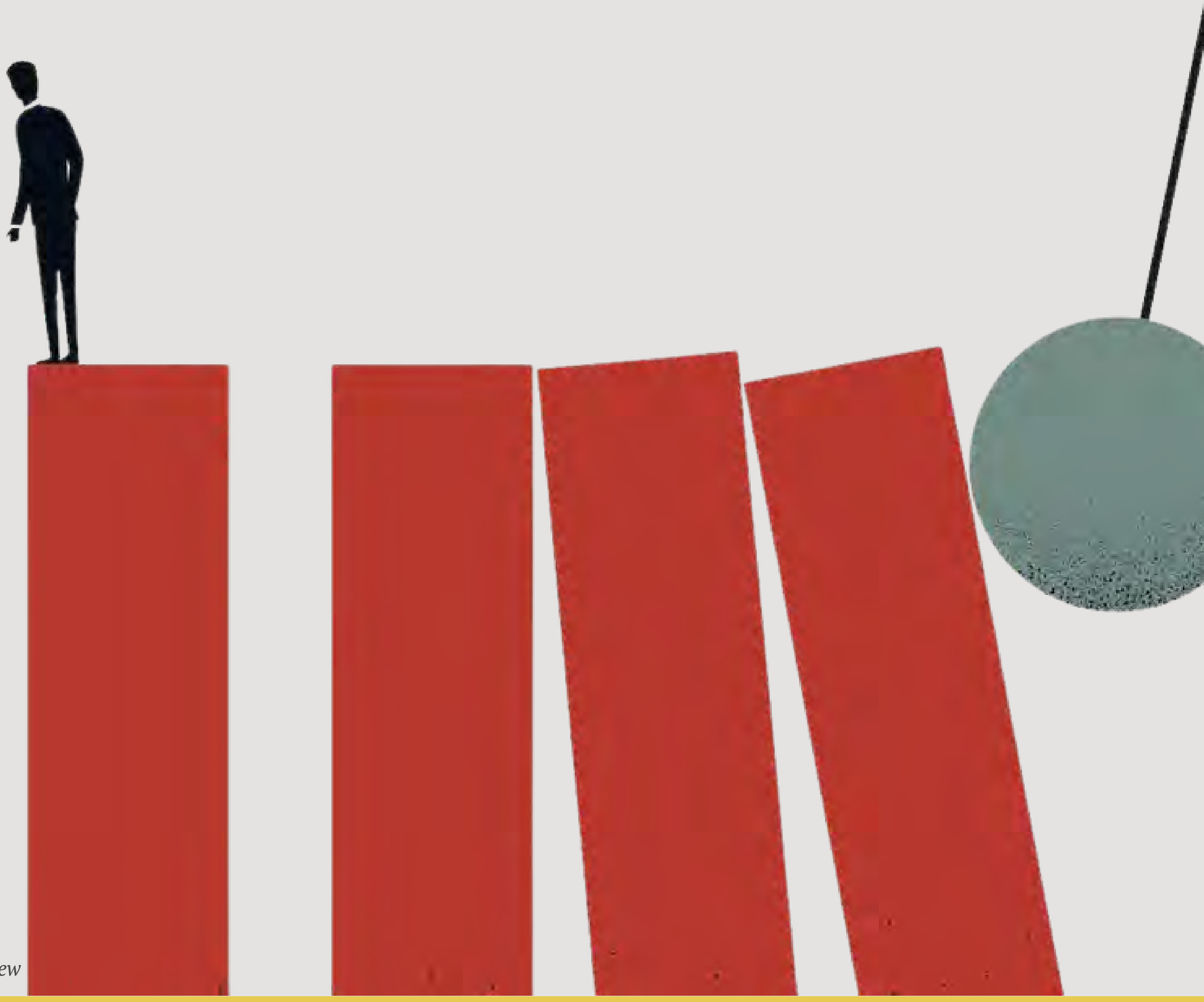


Figure 1 *Credit Creative Review*

RUSSIA UKRAINE ITS EFFECTS ON EUROPE

Figure 1

A Ukrainian soldier stands near pieces of a Russian tank Tuesday in the Kharkiv region

Supply chains under strain:

Prior to the invasion, companies in the UK, the US, and China were reporting some easing in supply chain constraints, although they were still rising in Europe. The recent actions are likely to reverse some of these reported gains. Russia and Ukraine produce a significant share of basic metals such as nickel, aluminium, and palladium. Delays in the gathering of these could hit mainline industrial production and harm supply chains that use these metals such as aerospace and electronics. Other disruptions are likely due to a shortage of components imported from the region, especially in sectors such as automotive manufacturing. Several German car manufacturers have already been forced to cut production due to the shortage of wiring systems supplied by Ukraine.

Continued...

Inflation:

The heavy rates of inflation we are experiencing in the UK and the cost of living crisis can be partly blamed on the Russia-Ukraine war. It added heavily to the inflationary pressures building up in the Eurozone area caused by the pandemic and pushed up consumer prices, especially for energy and food. Headline inflation increased from 0.3% in 2020 to 2.6% in 2021 and then to 8.4% in 2022. Energy and food inflation accounted for more than two-thirds of these record-high levels. Prices for food products such as wheat and oilseeds, which were heavily imported from Ukraine and Russia before the war, recorded inflation rates far above average food inflation. For example, sunflower oil was over 47% more expensive for those living in the Eurozone in January 2023 than one year previously.

Written By: Rhys Farmery

Slower economic growth:

The most exposed country to negative issues arising from the war could be Lithuania, whose exports to Russia make up 6 percent of its GDP. Analysis by the Kiel Institute found that Lithuania could see a reduction in GDP of around 2.5% in the long run as a result of trade restrictions with Russia. Even larger European economies of Germany, Italy, and France have a much smaller percentage of their GDP relying on exports to Russia are seeing slower growth, with exports to Russia accounting for between 1 and 2 percent of their total exports, and the long-term impact from trade restrictions on their economies was estimated as a reduction of around 0.4% to 0.16% in GDP. Higher inflation will reduce demand heavily, with people not being able to afford goods and services they would have previously been financially sound enough to do so (e.g. the current cost of living crisis in the UK) which can furthermore reduce a country's GDP as consumption is going to decrease also.

Repairs to Ukraine:

Obviously, Ukraine has seen the largest impact from the war. 30%-50% of Ukraine's power grid has been destroyed by missile strikes with the total amount of damage estimated to add to $113bn. Water sources have also been destroyed, leaving up to 16 million people without access to clean water which has put immense strain on the country's healthcare system - of which 9% of the healthcare institutions were damaged or destroyed. The Eurozone has put together around €50bn, which has consisted of €630m in humanitarian aid, €12bn in military aid, €8bn in grants and loans and €30bn in macro-financial assistance - which is given to countries experiencing a balance of payments crisis, and is used to finance government expenses like pensions, salaries, education and restoring infrastructure.

To conclude, the ongoing war in Ukraine has had significant economic impacts on the country and its people. The conflict has resulted in a severe decline in GDP, destruction of infrastructure, and damage to vital industries such as agriculture and manufacturing. Additionally, the displacement of people and disruption of supply chains have added to the economic obstacles faced by Ukrainians. While international aid has attempted to mitigate the effects of the conflict, the long-term economic consequences remain uncertain.

POST FOOTBALL QATAR

In 2022, Qatar became the first Arab country to host the FIFA World Cup. It hosted a total of 32 teams from all around the world, for a chance to win the greatest achievement in football.

It was one of the biggest tournaments in the world in 2022 and one of the biggest World Cups in the history of football. Due to the massive popularity of the sport, Qatar made a lot of money from this - from tourism to broadcasting & advertisement - but how did all of this affect Qatar's economy?

For the Qatar World Cup, there were a total of 7 new stadiums built and one renovated to accompany the teams - Qatar spent a total of $6.5 billion on these stadiums. Not only that but it also built accommodation and transport for the millions of fans that came to watch the games. $15.5 billion has been invested into the expansion of the Hamad International Airport as well as $36 billion being invested into the Doha Metro and over 150 new hotels have been built including The Pearl Complex which cost $15 billion to build. The Pearl is a man-made, artificial island with a total area of approximately 4 square kilometres; it is home to restaurants, hotels and many other experiences and activities for tourists to enjoy. Overall, Qatar spent a total of $220 billion on the World Cup, making it the most expensive World Cup ever.

However, there has been much criticism of the high costs that Qatar has spent on the World Cup. Media organisations have picked up on the human rights violations that have happened to the many workers that built the infrastructure in Doha. Many of the migrant workers from Sri Lanka, Nepal, Bangladesh, Pakistan and India have experienced poor working conditions, long hours, unsanitary living conditions and theft of wages and underpaid work - not to mention the approximately 7000 workers that have died since 2010 while working on the substructure for 2022 World Cup. On average, reports found that 12 workers have died a week ever since the city of Doha found out they were hosting the cup in 2010. However, the total death toll may be higher than the reported amount since there were also workers from the Philippines and Kenya that may have died as well but due to there being no government reports we can not include any deaths in the death toll. Many of these deaths have been covered up by the Qatari government, saying that many of the deaths have been caused by heart attacks or heart failure.

Furthermore, the increase in broadcasting, especially the News, has highlighted the discriminatory issues that occur in Qatar. For example, the LGTBQ+ community in Qatar is constantly faced with discrimination, harassment and sometimes violence. Nevertheless, the Qatar government does not support the LGBTQ+ no matter the treatment they get from the public, and they have even been known to jail same-sex couples or people who identify as homosexual for partaking in homosexual acts for up to 7 years. Also, Qatar is known for its discriminatory behaviour towards women as well, with the country being known for having very misogynist views. Some of the laws that they have include; women have to have permission from a male guardian before they get married; women cannot have sex outside of marriage; they have to abide by a strict dress code; the women's belongings do not belong to her but to her male guardian and many more - however many of these laws against women are founded on religious grounds. In the run-up to the Qatar world cup, these reports became very highlighted in the news and people began to protest against the World Cup going ahead there. Further outcries were the result of the footballer David Beckham, who was paid $180 million over 10 years to promote Qatar, even though he has been known to be an ally of the LGTBQ+ and appeared on the cover of the gay magazine Attitude. The comedian Joe Lycett warned Beckham that he should back out of his deal with Qatar otherwise he would 'shred' £10,000 as a protest to Beckham supporting Qatar and quoted, 'They want to kill me'.

Lycett did then post himself 'shredding' the £10,000 which received 3 million views on social media.

However, even though there were many complaints against the Qatar World Cup going ahead and many people protested by not attending or not watching, Qatar received more than 1.4 million spectators, with billions more watching from their homes, with the final between Argentina and France reaching a record breaking high of 1.5 billion viewers. Tourism is believed to have brought in $4 billion for the Qatari economy, which is a huge benefit for their economy, especially after the COVID pandemic. It left Qatar with a hole in its tourism industry - from approximately 2.2 million tourists in 2019 to roughly half a million tourists in 2020 and an 8% fall in revenue. This was a challenge for their economy as Qatar relies very heavily on tourism for its economic growth. To accompany the many tourists that went and spectated the World Cup, the infrastructure has increased throughout the city of Doha, with industries like hotels increasing by 89%. Furthermore, consumption increased in 2022 with retail sales reaching $18.5 billion - a rise of 36%. Qatar, also, received income for the advertisement of businesses - sponsors paid a total of $1.72 billion for Qatar to advertise their firms during the event.

For the final of the World Cup, Qatar paid the winning team a total of $42 million, and $209 million was paid to all the other teams around the world - so not only has the Qatar economy benefited but Argentina's economy has in fact grown - at least short term - with GDP increasing to 10.4% after a fall in 2020 to 9.9% with high consumption of luxuries like alcohol increasing for parties and celebrations for the winning of the world cup and government spending increasing in Buenos Aires to welcome the arrival and a parade for the winning team.

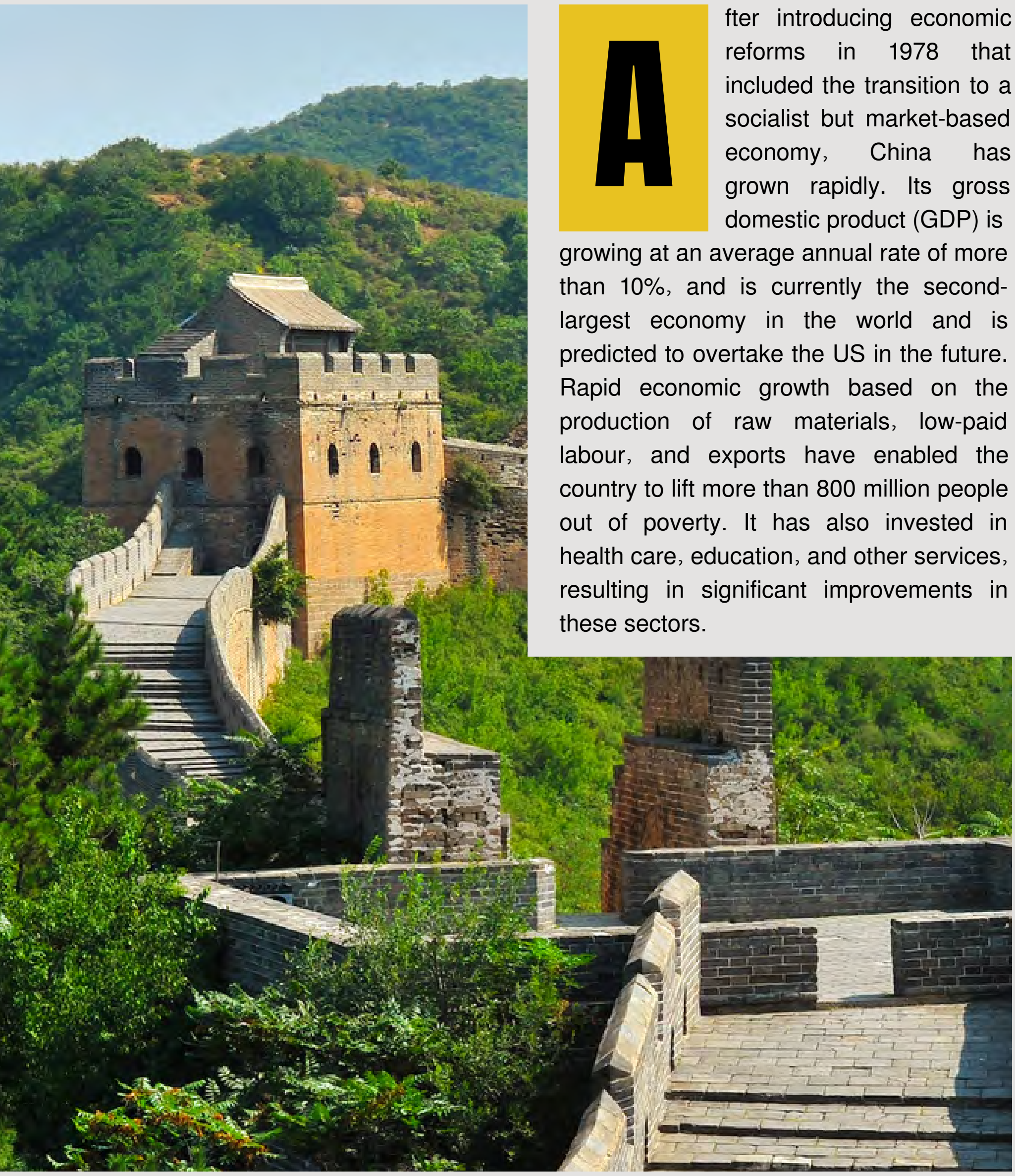
To summarise, the World Cup gave Qatar a total of $7.5 billion in revenue. The country's Gross Domestic Product (GDP) was recorded in 2022 to be $258 billion; GDP has increased by $78.3 billion from 2021. Not only has GDP increased but the GDP per capita has increased as well with it increasing from $66,838.36 in 2021 to approximately $90,000. This may mean that the Qatar World Cup has brought a higher consumption of goods and services throughout the country, especially in Doha.

To add to the pile of wins for Qatar, the population has also increased as people have identified the cost-of-living is lower than many first-world countries - including the US by 20.2% and the UK, where London is 25% more expensive to live in compared to Doha - and there is the... added benefit of no taxation and free healthcare for Qatari citizens. The population in Qatar has increased by 0.26% from 2021; a jump from 2.688 million to 2.695 million people. As a result, employment has risen; it was recorded that only 0.1% of people were unemployed in 2022.

Qatar did benefit from significant economic growth, at least short term, from the 2022 World Cup as it has boosted factors like employment, GDP, living standards, etc. putting Qatar in an economically strong position compared to other countries not only in the Arabian Peninsula but around the world.

Written By:
Sophie Kingsland

CHINA'S SUCCESS



After introducing economic reforms in 1978 that included the transition to a socialist but market-based economy, China has grown rapidly. Its gross domestic product (GDP) is growing at an average annual rate of more than 10%, and is currently the second-largest economy in the world and is predicted to overtake the US in the future. Rapid economic growth based on the production of raw materials, low-paid labour, and exports have enabled the country to lift more than 800 million people out of poverty. It has also invested in health care, education, and other services, resulting in significant improvements in these sectors.

However, after three decades of exponential economic growth, China's expansion is now slowing, recording a decline in GDP growth from 10.61% in 2010 to 2.2% in 2020, primarily due to the impact of COVID-19, before reaching 8.1% growth in 2021.

The Chinese government owns important firms that dominate their industry, including the three biggest energy firms: PetroChina, Sinopec and the CNOOC. This gives China much more control over its economy and can stimulate investment in order to recover when it is not performing as well as it should be. They can control the usage of resources and promote innovation as and when they need to, giving them many more options to try and kickstart the economy rather than the conventional monetary policies which are often used in the UK. Although many economists argue that state-owned firms slow economic growth due to the inefficiencies that often arise within them, it has not seemed to be much of an issue for China.

However, the engine of China's economy is its exporting industry. China has connected itself to the rest of the world through its global supply chains. Due to the large population of 1.4 billion people, China's labour force is the biggest on the planet. This makes China an attractive place...

Not only does this help increase China's economic growth but Shenzhen employs around 5 million people alone, helping China reduce its unemployment rate and lift its population out of poverty.

However, this extreme rate of growth looks very unlikely to be able to sustain itself into the future. China relies heavily on its large-scale labour force however China will eventually move into an ageing population where the supply of labour will decline and the number of people needing care as they get older will also increase, putting pressure on healthcare in the future. Another concern is China's ever-growing debt caused by constant investment into infrastructure and the state-owned enterprises taking on large amounts of debt to fund expansion, largely seen in the construction industry. This debt is looking unlikely to be dealt with easily as further investment is going to be needed in the healthcare industry to handle the inevitable ageing population. Finally, China's growth is looking to be unsustainable due to its environmental costs. It is the world leader in coal usage, which means China needs to find other means of energy production to power the masses of factories which are essential for China's exports. To move towards more renewable energy sources again comes at a large cost which will further fuel China's crippling debt.

Written By:
Rhys Farmery

CURRENCY OF THE YEAR?

The British pound has seen a dramatic turnaround in recent months, bouncing back from a record low last Autumn to become the best- inflation on the rise.

The pound's sharp decline last year came after former Prime Minister Liz Truss unveiled plans to boost borrowing while slashing taxes, sparking fears of a recession in the United Kingdom. The International Monetary Fund predicted that the UK economy would contract by 0.6% this year, while all other advanced economies would grow, if only slightly. There was a lot of pessimism being priced into the pound, according to currency strategist Francesco Pesole at ING.

Both currencies have been aided by the greenback's sharp drop from highs reached last September as recession fears have percolated in the United States. A lack of clarity around the Federal Reserve's next steps has also restrained the dollar in recent weeks. Investor speculation has increased that the Fed could pause or stop rate hikes due to concerns about the economy following the failure of Silicon Valley Bank last month.

Despite the pound's recent rally, there are still risks ahead. Pesole cautioned that currency fluctuations are often overdone when markets are choppy, as they are now. In a volatile market environment, moves are exacerbated. Jordan Rochester, a currency strategist at Nomura...

Fig. 1

thinks the pound could rise to $1.30 this year and potentially higher, but he still sees risks given the uncertainty surrounding the Bank of England's plans and how rate rises will feed back through the country's economy.

Indeed, the Bank of England's plans will be key in determining the pound's future trajectory. The central bank has been maintaining aggressive interest rate hikes despite concerns about the health of the global banking sector. Rising rates can boost the domestic currency because they help attract foreign investors searching for higher returns. Inflation in the United Kingdom has also jumped to an annual rate of 10.4% in February, underscoring the need for the Bank of England to maintain its tough approach.

The UK currency has been boosted by indications that the country's economy is holding up better than expected. Activity is now thought to have expanded 0.1% in the final three months of last year, up from a previous estimate of no growth at all. Gross domestic product growth in January has been estimated at 0.3% after dropping 0.5% in December. This resilience is bolstering expectations that the Bank of England will maintain aggressive interest rate hikes despite concerns about the health of the global banking sector. ...

Figure 1
Time Magazine -
Currency of the year (satire)

"Is there a lesson in all this? As ever, it might just be that markets and economic growth are difficult to predict"

While the UK's economic outlook appears to be improving, there are still some potential risks on the horizon. The ongoing uncertainty surrounding Brexit negotiations and trade relations with the European Union could have a significant impact on the country's economy and the value of the pound. In addition, the Bank of England's monetary policy decisions and the global economic climate will continue to play a role in shaping the pound's future trajectory.

Overall, the recent rally in the pound is a welcome development for the UK economy, which has been facing significant headwinds in recent years. However, the country must remain vigilant and adaptive to the changing economic climate, as well as maintaining its important position on the global stage.

Written by:
Alex Hirst

SILICON VALLEY BUST

It ain't what you don't know that gets you in trouble. It's what you know for sure that just ain't so.' Mark Twain's infamous quote rang true for SVB's collapse as it did in 2007 - and to an extent the recent failure of Credit Suisse, a Swiss investment bank. But don't be so sure that we are going to experience another rerun of 'The Big Short' - yet. The S&P 500 is up 8.9% (May 23) since the failure of the bank and current moods are high. However, what does this mean for the average person in the US or UK and where did this instability in the banking sector start?

To answer these questions we have to go back to the Obama administration in 2010. Then President Obama signed the Dodd-Frank Act, a reform that would subject nearly all banks to stricter regulation as an attempt to reduce poor business practices and overly-risky lending that caused the 2008 recession. However, some of these reforms were rolled back by the Trump Administration in 2018 - for smaller banks with assets of $250bn or less. This crucially included Silicon Valley Bank and these looser rules allowed SVB to partake in riskier business practices. The bank experienced a huge wave of deposits during the 2020 pandemic - to the tune of a total of $189bn: triple that of before COVID. They put this money into what seemed to be safe assets, long-term US treasury bonds and government-backed mortgages.

However, early into 2022, the Federal... Reserve, responsible for dictating US monetary policy, raised interest rates to reduce inflation in the economy. This caused those bonds to fall greatly in value - the bonds that were really bought with depositors' money. Very quickly, SVB began to lose money on these assets, specifically $17bn. Although they weren't in trouble yet as long as depositors didn't withdraw too much of their savings However, customers were already scared as most of SVB's accounts contained more than what was insured by the government if the bank went under. Combining this with announcements by Silicon Valley stating they were selling their undervalued assets to maintain a cash supply began to make depositors lose their confidence. The stock fell significantly as a result and customers were not happy. What started as a small trickle in withdrawals grew exponentially to become a run on the bank. The spiralling situation caused the stock to fall further and by 10 March, Silicon Valley Bank ran out of cash. The US gov. seized the bank later that day. To avoid runs on other banks, the FDIC (Federal Deposit Insurance Corporation, which is the government entity responsible for the management of these situations) announced that all depositors would be paid back in full, using an insurance fund that all banks pay into - so don't pull out your pitchforks just yet as this is different from a 2008 bailout. Nevertheless, a New York bank also went under - as well as Credit Suisse being bought out by UBS a few weeks later.

Ok - maybe that was a bit of an information overload - but what does it mean for everyone other than bankers? Well, SVB specialised in start-ups in the tech and life-sciences industries, so the accounts that were affected were business clients. Although the affair was and still is very destabilising for Silicon Valley - SVB held accounts with nearly 50% of venture capital start ups in the US - for most people there won't be a whole lot changing in terms of their relation to the bank. President Biden is currently with Congress to roll back the changes that the Trump Administration made back in 2018, tightening the rules for the banks again to try and stop another bankruptcy from happening in the future. Over on the other side of the Atlantic, HSBC bought the UK division of Silicon Valley Bank for a grand total of £1, hoping to extract some equity from SVB's carcass.

So, a happy ending - depositors got back the money they were owed and the crisis was contained Well, not for all. Credit Suisse, a Swiss investment bank went under during the commotion.

They were already weak at the time; their stock had been falling consistently since early 2021 and they were overleveraged (had too many loans), especially on tech stocks - that were impacted by SVB. Their portfolio plummeted and investors decided Credit Suisse didn't have much of a future, so they pulled their money. UBS, another Swiss investment firm, scooped up Credit Suisse for $3.2bn and they are in the process of gutting the dead bank.

One major reason why the fall of SVB didn't domino into the next financial crash was probably the speedy reaction of the US government - they promised to return all of the depositors' money from SVB and Signature Bank (another bank that failed during the crisis) meaning depositors had no reason to pull their money out of other banks. It meant the crisis was contained - investors saw that another recession was unlikely and 'bought the dip' in financial services stocks, influencing the wider market. This is why we are seeing rises in both the US and UK markets so quickly after the crisis.

Fig. 1

It's important to realise however this was a close call, and if the FDIC had been slow to react, it's very possible runs on other banks would have ensued. There's always a lesson to be learned from these situations, and this time it's a reminder of the inherent risk that comes with the entire banking system. All it takes for the financial machine to come crashing down is one loose gear - and we don't always learn from our mistakes!

Written By:
Finnbar Burgess

Fig. 2

Figure 1
One of SVB's Offices

Figure 2
The SVB logo outside of their headquarters

THE ECONOMY ACCORDING TO

Mr J. King, Teacher of Business and Economics

The 'Economy According To..' is a recurring section of TMEJ where we go and interview members of staff at Sir Roger Manwoods to find their views on whats going on in the world, right now. Through a Q&A, we collate our interviewees answers into an opinionated view of the country and the world at large.

For the first edition of The Manwoodian Economic Journal, who better knows about economics than an economics and business teacher? We spoke to Mr King, a teacher with a background in the Theme Park industry on his current opinions of the state of the UK and global economy.

On a scale of 1-10, how confident are you with the current UK government and why?

"I'd say a 6. The reason being that Rishi Sunak has brought a lot of stability to the country after Liz Truss, but my concern would be; 1, we've seen Silicon Valley going [bust], so we know the banking system isn't up to scratch; 2, we have another general election upcoming and looking at the polls we can see that Labour would have a good chance of getting in - which would be for the first time in decades now. There is no disrespect to Labour here, but that would automatically cause the markets to go into turmoil, because Labour have a very different stance to the Conservatives on market issues, on top of the fact that there will be a new government, again."

Do you think the industrial action that is taking place currently is going to benefit the economy?

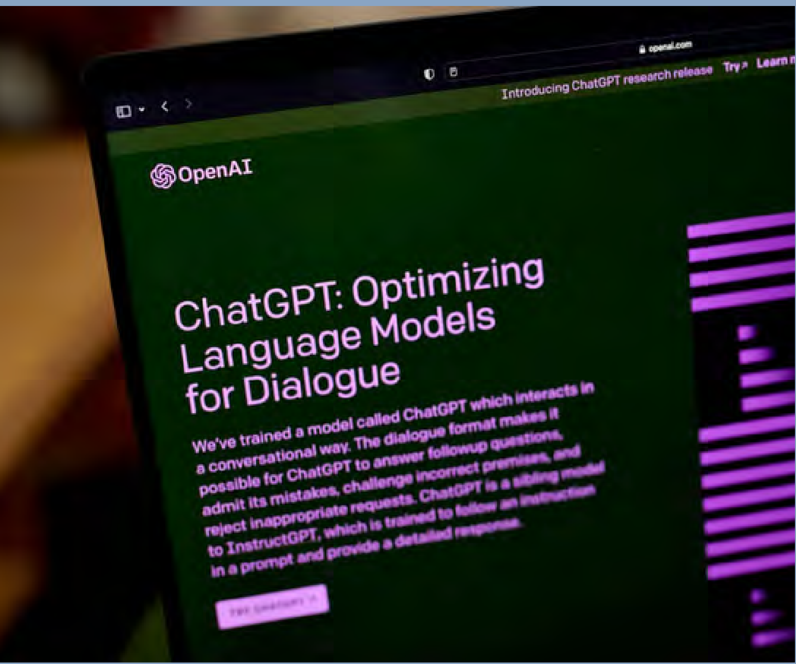
I would say - as someone who isn't too keen on industrial action - actually yes. The reason being though, in comparison to the rest of Europe, and America, our wages have stagnated significantly. I think that right now, yes it is the right thing to do, but can I say for certain it won't cause knock on effects like pushing up prices? No - but I do feel we are falling well behind our European counterparts in terms of wages and compensation. I think industrial action is serving its purpose and for the first time in a while, the government has no option but to listen to what the unions are saying. I am quite impressed by what the unions have achieved, especially in teaching - the Scottish teaching union have done well in regards to pay rises. But I do realise what this means for a lot of people, e.g. inflation and even higher prices."

Do you think the UK is too concerned with global affairs, e.g. the war in Ukraine, when there are domestic issues we could be focusing on?

When you've decided on your cover story, come up with a list of topics for your feature articles. This can range from interviews, product reviews, human interest pieces, and even lists. Think about what your audience would be interested in and get writing! Again, choose engaging photos and graphics to accompany your words, as these also help catch your audience's eye.

Should the government adopt long or short term policies to improve the country's situation?

"IDefinitely long term. I know 'Maggie' Thatcher is one of the most divisive characters in UK politics, she did look at the long term rather than the short term. The option was between protecting the miners and their local communities and future growth prospects and she chose the latter. The problem is, taking the long term option results in significant pain in the short run, especially on the working and lower-middle classes and often governments have chosen the 'easier route' of kicking the bucket down the road and creating policies that maximise their polling and confidence at the detriment of long term economic health. And going back to 'Maggie', she said 'There's no such thing as public [free] money', which I think is very true. Who pays for it? It's us, and our children.



In the new budget, inflation was predicted to fall to 2.9% or 5% by the Office for Budget Responsibility and the B.ofE. respectively. How realistic do you think these figures are?

I think, first of all, the headline figures are totally inaccurate in comparison to what we are actually experiencing - which is probably a lot more than 10% inflation. Even going with the official statistics, we've got a long way to go. Unlike a lot of Europe, we seem to be very susceptible to external markets, like oil and gas. The Eurozone alone has seen inflation fall to 6% already, whereas we've had an increase in inflation to around 11%. Is it as simple as putting maximum prices on fuel & gas or is it going to cause us even more issues long term? Do there need to be more regulations in general, yes definitely, but often it's difficult to implement them in a productive way. Although markets do sometimes have to be given space to do their thing, at what point does the government step in and say to stop raising prices?

Since the turn of the millennium, do you think the quality of life in the UK has risen or fallen?

No, and it goes back to what I've said earlier about salaries and inflation, we have seen an increasing disparity between price rises on goods and services, house prices, etc. and real wages. By de facto, I have to say that people aren't as happy as they were in the 80s and 90s. Things are better from a technological and societal point of view, but from a financial perspective, we are worse off. Even myself, with pay increases, I am worse off now than I was a few years ago, along with a fixed energy deal I have - which means for a lot of people it's even worse. It's the same with everybody - we can't afford what we once could.

How do you think advancements in technology e.g. AI - will affect the average person in the future?

It will massively impact people. Take AI - ChatGPT - for example, it's already having an impact on the labour market and that impact will only grow in the future. I think the people who will end up surviving the shift will be those who understand AI and other technologies the best, the fastest. Overall, I think ChatGPT and its successors will have a positive impact on society but there will be people who will be left behind - especially in the at risk sectors such as customer service & IT. There will be jobs lost, but the question is what will we do to mitigate it?

And that rounds it up for our interview with Mr King. I'd like to thank him for taking the time out of his busy schedule to answer our questions and give his views on the economy of today.