

# OECD warns of deep recession in Britain and Europe due to pandemic

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20 June 2020

The Organisation for Economic Cooperation and Development's (OECD) latest Economic Outlook outlined the catastrophic scenarios facing the world economy due to the COVID-19 pandemic. No "return to normal," in the words of OECD chief economist Laurence Boone, could be envisaged. Rather, the world should prepare for "dire and long-lasting consequences for people, firms and governments."

The pandemic has accelerated a "great fragmentation" of the world economy, with trade restrictions, closed borders, and diverging economies. Boone continued, "Everywhere, the lockdown has also exacerbated inequality across workers, with those able to telework generally highly qualified, while the least qualified and youth are often on the front line, unable to work or laid off, with the effects further compounded by unequal access to social protection."

In response, Boone, a former adviser to the one-time Socialist Party president of France, François Hollande, insisted that governments cannot prop up private sector wages indefinitely and called for drastic relocation of capital and labour "from impaired sectors and businesses...to expanding ones."

"Fast restructuring processes" should be encouraged, with "no stigma for entrepreneurs." In other words, capital should be allowed to drastically reorganise economic life in its own interests, imposing vastly increased exploitation, with only the most minimal social protection for workers—with "no stigma" attached to their brutal offensive.

The OECD report applied its general analysis to the challenges facing its 33 member states. Among the world's wealthiest countries, its assessment of the situation in Britain, France, Italy and Spain, the European countries hit worst by the pandemic, was particularly bleak.

British GDP is anticipated to fall between 11.5 and 14

percent over 2020, depending on whether a second wave of COVID-19 infection emerges (in reality, of course the first wave is still ongoing). Unemployment, already rapidly escalating, is likely to rise above 10 percent by the end of the year and remain there over 2021.

The report explains that the service-based UK economy was particularly badly impacted, with "trade, tourism, real estate and hospitality" sectors devastated by lockdown measures belatedly imposed on March 23. Business and consumer confidence was at an all-time low in April when 856,000 new claims for unemployment benefit were registered (2.5 percent of the workforce).

By the end of May, 8.4 million workers (25 percent of workers) were on furlough. Unemployment support was temporarily increased from, on average, 56 to 63 percent of net previous income. The OECD noted that British payments were nevertheless "below levels in other advanced European economies."

By contrast, the government made £330 billion available to employers via the Covid Corporate Financing Facility, cut interest rates to 0.1 percent, and increased its bond purchasing programme by £200 billion. A "Ways and Means" facility allowed spending without turning to the capital markets and reduced capital requirements on the banks.

The OECD's predictions already appear out of date, and over-optimistic. Figures speculating a 11.5 percent collapse in UK GDP assumed the lockdown was eased from May 13, leading to some revival in the third quarter of the year. In fact, despite the reckless drive of the Johnson government to end lockdown, public hostility and ongoing high rates of infection have continued to delay lockdown exit. Moreover, the sociopathic, profit-driven incompetence of the British government's response, combined with the premature ending of lockdown, guarantees a second wave of infection and thousands more deaths.

The OECD also points to “considerable uncertainty about how prolonged restrictions on activity or lower than expected demand would affect financial stability.” Banks might not lend to capital-starved small businesses, leading to yet higher unemployment. A “larger-than-expected fall in house prices” might erode banks’ capacity and willingness to lend.

A further factor is Brexit. The OECD warned that “failure to conclude a trade deal with the European Union...would have a strongly negative impact effect on trade and jobs.”

The EU and the British government remain mired in protracted negotiations and posturing over whether an agreement can be reached by the end of 2020. Both sides are effectively threatening a “no deal” Brexit, which would further wreck commerce on both sides of the Channel. This is something that elements around the Johnson government, and its transatlantic ally Donald Trump, see as a money-making and geo-political opportunity.

The OECD appraisal of prospects across Europe is little brighter. In France, GDP is expected to fall by 11.4 percent this year, 14.1 percent in the event of a second wave. Unemployment is expected to rapidly reach between 12.4 and 13.7 percent by the end of this year. Economic activity fell by 33 percent this April, in comparison with a “normal” April with “construction, tourism, retail and accommodation” particularly badly impacted.

Italy is expected to lose around 14 percent of GDP this year under the second-wave scenario with tourism and industry shut down to the end of April. Fifty-two thousand small and medium-sized businesses dominate tourism and many of these are imperiled. The government has temporarily prevented redundancies, but these measures expire in August. “Widespread dismissals are projected in the double-hit case,” with unemployment expected to reach 11.9 percent.

In Spain, GDP is anticipated to fall by 14.4 percent this year, with tourism and accommodation again badly hit. International tourism fell 64 percent in March and disappeared entirely in April. Spain’s already high unemployment figures are anticipated to reach 21.9 percent by the end of this year, should the second wave emerge.

Across the eurozone, despite widespread variations in infection rates and COVID-19 deaths, the situation is no better. The OECD warns of a GDP contraction of 11.5 percent in 2020 and unemployment reaching 12 percent

by the end of the year, despite numerous short-time working and employment support schemes. Many countries report output losses of 25 to 30 percent, with tourism, travel, car making and construction particularly affected.

The OECD warns of “deeper-than-expected scarring effects of the pandemic [which] would weaken employment and investment for longer, threatening productive potential and social cohesion.”

Non-performing loans will impact banks’ capacity to offer credit, while there are “acute market concerns about public debt sustainability.”

The OECD was set up as the Organisation for European Economic Cooperation in 1948 to administer the US-led Marshall Plan to rebuild capitalism in post-World War Two Europe. Referencing social cohesion is its warning that mass unemployment, a collapse in investment—with banks and entire national governments facing collapse and bankruptcy—will provoke an eruption of the class struggle.

The OECD’s solution, under all circumstances, is to propose measures to force workers, en masse, from collapsing and collapsed areas of the economy, to be exploited in more viable and emerging sectors.

The OECD also calls repeatedly, and forlornly, for global cooperation between the rival capitalist governments. But this is 2020, not 1948. The days when the US government and its allies could orchestrate a revival of capitalism in Europe and worldwide are long gone.

Rather, the pandemic and capitalism’s disastrous, divided, and murderous response to it mark a new stage in the disintegration of the EU amid escalating inter-imperialist antagonisms and a collapse of the global economy. To confront the pandemic and the social misery being imposed by the ruling elite, a new global power, the politically unified working class, must impose its own socialist solution through the establishment of workers’ governments in Europe and worldwide.



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