

# **The digital economy in a time of Covid**

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# 1. A free-market perspective

- The growth of the 'digital economy'
- Case studies during Covid:
  - online retail
  - home working
  - financial services
- Some concerns:
  - implications for jobs
  - loss of tax base
- Conclusions

## 2. The ‘digital economy’

- *“Digital economy refers to an economy that is based on digital computing technologies, although we increasingly perceive this as conducting business through markets based on the internet”*
- *“Increasingly, the digital economy is intertwined with the traditional economy, making a clear delineation harder”*

Source: Wikipedia

### 3. Internet access and use in Great Britain

- In the first two months of 2020, 96% of GB households had internet access (up from 57% in 2006), including 80% of households with at least one adult aged 65+
- 76% of adults used internet banking
- 87% shopped online
- 49% of those aged 25-34 used a virtual assistant smart speaker or app (but only 17% of those aged 65+)



*Source: ONS (some other sources, notably Ofcom, suggest the figures are lower, but the trends are the same)*

## 4. Measuring the output of the digital economy

- It is relatively easy to count things you can see, but harder to measure intangibles – such as quality improvements and time savings
- Review of UK Economic Statistics led by Charlie Bean (2016) suggested that proper recording of digital economy could add  $\frac{1}{3}$ - $\frac{2}{3}$ % to annual GDP growth
- The ONS has recently acknowledged big problems in the measurement of prices and output in the telecoms sector (likely to result in upward revisions to historic GDP data later next year)

## 5. The UK productivity puzzle

- Under-recording of the digital economy may be an important part of the solution to the productivity puzzle

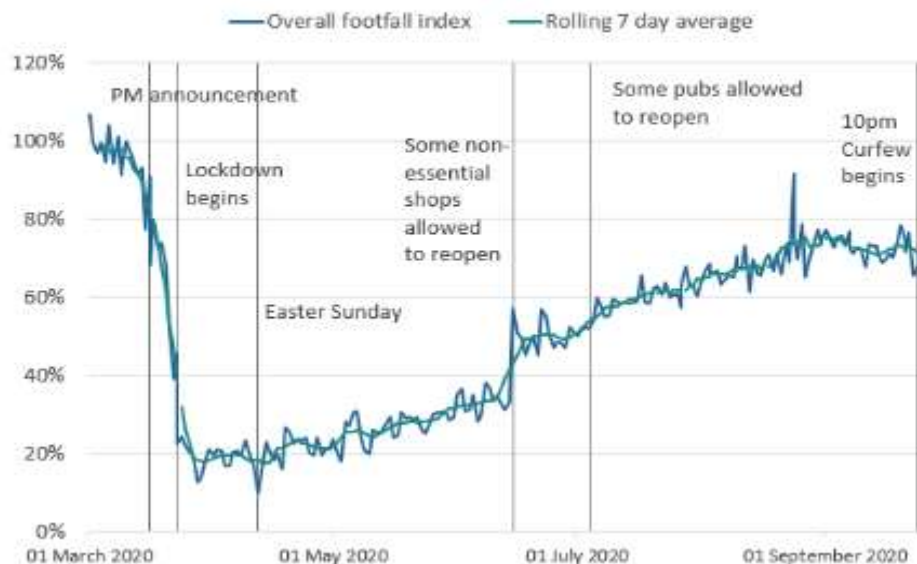
UK Output Per Hour Worked  
(Index where 2007 Q4 = 100)



- Other factors include the legacy of the GFC, cyclical weakness, and low investment

## 6. Case Study #1: Online retail

Volume of footfall, year-on-year percentage change between footfall on the same day, UK, 1 March to 27 September 2020



Source: Springboard and the Department for Business, Energy and Industrial Strategy

- Retail footfall is the number of people entering a shopping area in a given period
- This collapsed after the PM's advice to stay at home - and is yet to recover fully

## 7. Case Study #1: Online retail

Figure 1: Total retail sales recovered from the sharp falls experienced during the coronavirus pandemic

Volume sales, seasonally adjusted, Great Britain, August 2013 to August

2020

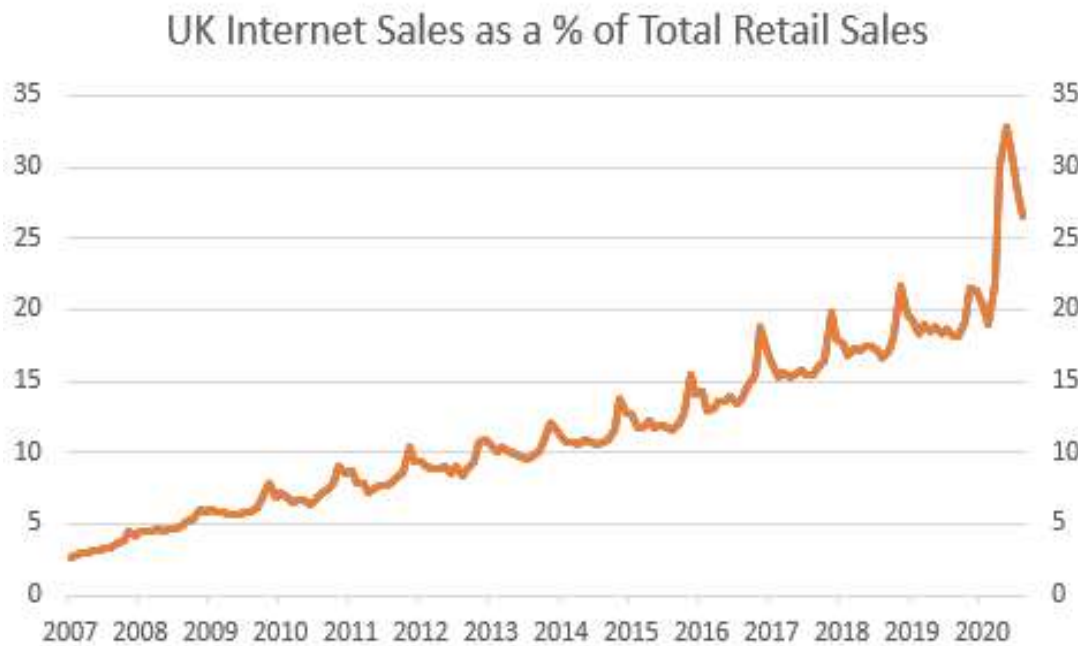


Source: Office for National Statistics

- Despite this, retail sales are already back above pre-Covid levels
- (Bank of England data suggest overall consumer spending has recovered too)



## 8. Case Study #1: Online retail



Source: Office for National Statistics

- This partly reflects a higher average spend per trip
- But it is mainly due to the surge in online spending
- This has accelerated a long-term trend

## 9. Case Study #1: Online retail

- Two-thirds of the businesses that trade on eBay also have a physical premise

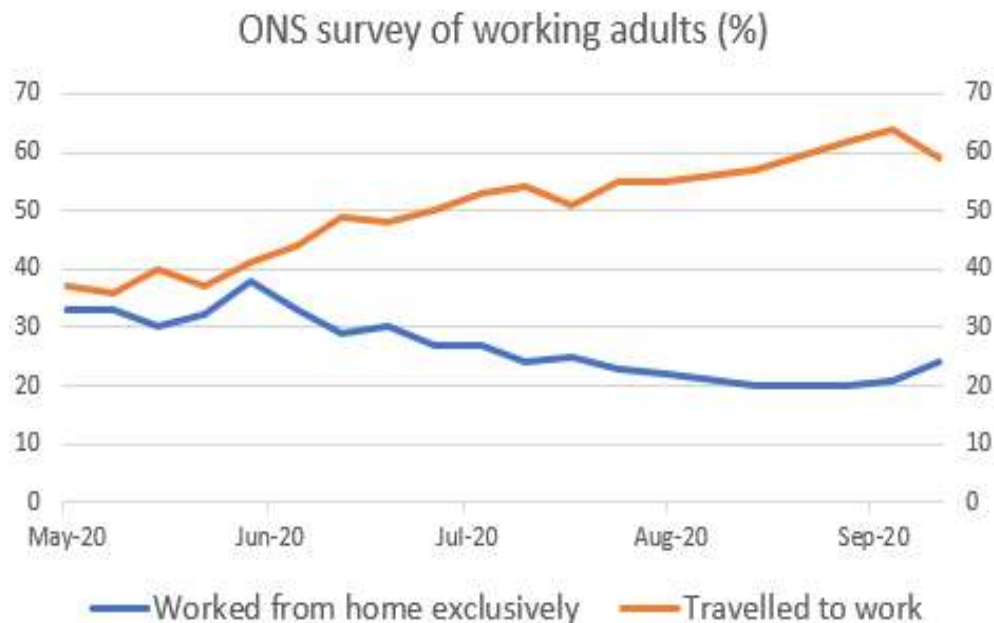


- John Lewis is aiming to become a 60% online retailer, from 40% before Covid



- There are also lots of businesses that started online and then opened shops, and plenty of shops that have recently come online to help themselves to survive the pandemic

## 10. Case Study #2: Home-working



Source: Office for National Statistics

- In May and June, almost as many people worked at home as travelled to work (the rest were mainly on furlough)
- In most cases, this was only possible because of new technology

## **11. Case Study #2: Home working**

- Home-workers can miss out on social and professional interactions, including training
- Businesses that service offices and office workers will suffer (from food outlets to dry cleaners)
- However, many people can be at least as productive working from home – e.g. in financial services
- It would be daft to say people should commute two hours every day just to buy an over-priced sandwich
- There is an optimal mix of home and office working – and firms and staff are best placed to decide this

## 12. Case Study #3: Financial services

- Sectoral impact of the lockdown has been very uneven
- Financial services have been one of the least affected, partly due to stable demand, partly because technology (and home-working) allowed uninterrupted supply

Output of selected service sub-sectors (Index where Feb. 2020 = 100)						
	Feb	Mar	Apr	May	Jun	Jul
Public Admin and Defence	100	100	100.2	100.4	100.5	100.6
Retail	100	90.1	65.2	73.8	93.7	100.3
<b>Finance and insurance</b>	<b>100</b>	<b>99.8</b>	<b>94.8</b>	<b>96.2</b>	<b>97.3</b>	<b>98.6</b>
IT	100	98.8	86.6	85.2	90.9	93.5
Transport	100	87.1	61.2	64.8	75.7	82.3
Education	100	79.2	58	60.7	64.5	78.1
Health & social work	100	87.7	68.9	69.6	71.2	74.3
Arts & entertainment	100	87	52.2	47.2	59.8	68.7
Hospitality	100	68.4	9.3	9.9	16.6	39.9
Source: ONS						



### 13. Case Study #3: Financial services

- Card payments accounted for more than half of all retail spending for the first time in 2019 (*Source: UK Finance*)
- The pandemic has accelerates this trend – and probably more so in the UK than most European countries (*Source: Accenture*)
- This is also both good (safer, more convenient, less crime) and, for some, potentially bad (makes life harder even for the unbanked)

## 14. Case Study #3: Financial services

- Global Financial Centres Index (GFCI) – a composite measure of competitiveness indicators

Centre	GFCI 28		GFCI 27		Change in	
	Rank	Rating	Rank	Rating	Rank	Rating
New York	1	770	1	769	0	▲ 1
London	2	766	2	742	0	▲ 24
Shanghai	3	748	4	740	▲ 1	▲ 8
Tokyo	4	747	3	741	▼ 1	▲ 6
Hong Kong	5	743	6	737	▲ 1	▲ 6
Singapore	6	742	5	738	▼ 1	▲ 4
Beijing	7	741	7	734	0	▲ 7
San Francisco	8	738	8	732	0	▲ 6
Shenzhen	9	732	11	722	▲ 2	▲ 10
Zurich	10	724	14	719	▲ 4	▲ 5
Los Angeles	11	720	10	723	▼ 1	▼ 3
Luxembourg	12	719	18	715	▲ 6	▲ 4
Edinburgh	13	718	17	716	▲ 4	▲ 2
Geneva	14	717	9	729	▼ 5	▼ 12
Boston	15	716	25	708	▲ 10	▲ 8
Frankfurt	16	715	13	720	▼ 3	▼ 5
Dubai	17	714	12	721	▼ 5	▼ 7
Paris	18	713	15	718	▼ 3	▼ 5
Washington DC	19	712	24	709	▲ 5	▲ 3
Chicago	20	711	16	717	▼ 4	▼ 6



## 15. The impact on jobs



- Blockbuster was a high street video rental store whose business model became obsolete
- The government of the day might have tried to prevent this, e.g. with an additional tax on the downloading of entertainment via the internet
- But Blockbuster was a casualty of technological progress and changing consumer preferences
- The free market soon found other uses for the properties that it occupied – and other jobs for the people it employed



## 16. The impact on jobs - automation

- We've been here many times before (e.g. 19<sup>th</sup> century Luddites who destroyed textile machinery)
- Every time, the market economy has created new and better jobs to replace those that are lost, and living standards have continue to rise
- Jobs will evolve as technology replaces simple and repetitive tasks ('augmenting', not 'substituting')
- Robots may technically be able to do many roles, but that's doesn't make it economically viable
- People still want to be served by people

## 17. The impact on jobs - ZHCs

- Many jobs (not just in the digital economy) are now based on 'zero-hours contracts', which do not guarantee a set number of hours of work
- In practice, people on ZHCs work an average of about 24 hours per week (similar to 'normal' part-time jobs) – and value the flexibility (especially students and older workers)
- People can have more than one ZHC, and have essentially the same employment rights
- This flexibility has of ZHCs has been all the more important during the pandemic

## 18. Loss of tax base?

**Amazon pays only £293m in UK tax despite racking up sales of £14bn**

Business

Amazon under pressure after paying just £293 million in UK tax despite Jeff Bezos being the world's richest man



**Amazon pays just 2.1% tax**

## 19. Why does Amazon pay so little tax?

- The tax generated by Amazon's activities is much higher if you include taxes paid by customers (e.g. VAT) and employees (e.g. income tax and NICs).
- The £253 million covers taxes paid by the company, including employer NICs and business rates.
- Corporation Tax is only a small part of this. But CT is paid on profits, not turnover. Amazon's margins are very low.
- Amazon also benefits from tax breaks – especially on capex and R&D – that the gov't itself has promoted

## 20. The case against corporation tax

- Companies are only legal entities and cannot bear the economic burden of taxes themselves
- Instead, the cost falls on shareholders (who may or may not be relatively wealthy), on customers (as higher prices and lower quality and choice), on employees (lower wages and fewer jobs), and on the wider economy (reduced investment and R&D)
- Capital is also more mobile than labour, so higher *rates* of corporation tax are less likely to generate higher *revenues* (“Laffer curve”)

## 21. Conclusions

- The economic and social benefits of the digital economy have probably been under-estimated for many years
- The digital economy has also helped to mitigate the impact of Covid, including via online shopping, home working, and enhancing labour market flexibility
- Fears about the impacts on jobs or the tax base are overdone – but important to acknowledge the risks that some (the poor and/or the elderly) may be left behind