



# The world of government in 2021

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Coronavirus has upended established politics and economics – and toppled some politicians. Governments need to bridge the divisions the crisis has created within countries and within international alliances as they try to plot a route to recovery and seize the opportunities emerging from the upheaval.

It has been a year that no one would have predicted – apart from epidemiologists who have long expected that a pandemic would grip the world at some point. Still, as reports of successes in vaccines begin to stack up, it is possible to see some of the themes that will shape the coming year in government.

## **1. US and China relations will remain tense**

China will not yield much to a Biden presidency. It will see no reason why it should. In the view of Chinese leaders, the country has managed the pandemic far better than democracies – no matter that they criticise China's secrecy for the initial failure to report and contain the virus. Its economy is recovering fast while debt and job losses are rising in its Western rivals. Meanwhile, most of the recent tariffs imposed by President Donald Trump remain (on two thirds of imports from China to the US) and

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whichever party controls congress, it is unlikely to want to lift those, such is the fear of China's rise on Capitol Hill. We can expect to hear a lot of triumphalism from Beijing in the centenary year of the founding of China's Communist Party.

But trade is only one aspect of the way the virus has exacerbated the rivalry between the two superpowers. The year of the virus has left the world even more divided between the two of them, in technology, the space race and vaccines themselves, as well as in values. However emollient President-elect Joe Biden sounds compared to his predecessor, the rivalry will continue. Other governments, trading blocs (as the European Union has noticed, in moving quickly to court Biden) and companies will find it hard to play both sides. Liberal democracies will have to defend their values in the face of China's scepticism (even derision), adding even more significance to the EU's looming showdown with Hungary and Poland over the rule of law.

## **2. Digital: no going back**

Coronavirus has changed the world, accelerating the [take-up of digital services](#) by people, businesses, governments and the public services they run. What might have taken decades has taken months. The implications for patterns of working are only just becoming clear. People may move out of cities, high-speed internet permitting (and governments will be scrabbling to ensure its supply). Offices will have to recast open spaces to support hybrid meetings with people both on site and at home. Many retailers will move entirely online, out of the high street. Business premises may become liabilities not assets (with implications for business rates). Cities will reshape themselves, and transport and other services need to follow.

But again, coronavirus has created a starkly split economy – between those who can work from home and those who cannot. Quarantine and self-isolation rules exposed this cruelly, threatening those who had to turn up for work with loss of income. Meanwhile, the question that governments faced before the pandemic hangs over them now: are the giant tech companies, the winners from the crisis, too big to regulate – or even tax? The year will show whether the sputtering international efforts on this front stand any chance or whether the social dependence on these behemoths is now too great.

## **3. Big government is back – and so is talk about tax**

'Spend now and tax later' is likely to be the flavour of many government budgets, a variation on the old 'tax and spend' notion – although there will certainly be a lot of talk about tax rises. That certainly goes for the budget that Rishi Sunak will deliver in the spring. People clearly want more public services (in the UK, the crisis has exposed strains in social care and the NHS itself). [Education has been badly disrupted](#) by the virus and pupils need remedial help.

Government wants more regulation of some standards. That will be expensive – and so will the demands of ageing populations, evident even before the pandemic. The US is likely to be on the same path although for different reasons; the election of Joe Biden as the next president will bring more spending.

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But there will also be nervousness about either selective spending cuts or big tax rises that might choke off recovery. Rises in 'smaller' taxes are a certainty but finance ministers may well deliver the bad news that bigger ones are coming while delaying that moment just a while. There has been a shift in economic thinking about whether fiscal prudence is necessary over the 10 years or so since the financial crisis. The International Monetary Fund (IMF) is encouraging governments to keep borrowing and investing, hardly its traditional stance, while even in conservative political parties there is more tolerance for this view. The political appeal of the 'spend now, tax later' approach is obvious.

#### **4. Build, build, build (whether or not it is better)**

An era of persistent low interest rates will be a temptation that governments will not even try to resist. We should expect lots more spending announcements. There is a danger these seem indiscriminate – or motivated by where they will buy the most votes. [In the UK](#), housing, broadband and education should have an easier case than many projects. Expensive railways to connect people to a capital from where people are moving out, less so. The IMF in its *Fiscal Monitor* has called on rich nations to boost public investment.

#### **5. A good year for watchdogs**

This splurge of spending on services and building will need scrutiny. Governments may want more regulation – although not of their own activity. The UK will take back many regulatory powers from the EU and will need to set up those regulators in 2021. All the same, the public will be best served where parliaments and independent watchdogs pore over the contracts that are written and ask where the money has gone. In the UK, the National Audit Office has already produced two searing reports into coronavirus spending, criticising contracts and cronyism.

Internationally, unsurprisingly, watchdogs are having a tougher time. The World Health Organisation has come in for criticism during the coronavirus crisis for its lack of probing into the early spread of the virus in China. At the same time, people are becoming more alert to the powers that governments have grabbed to manage the pandemic – and the personal data that governments have collected. Concern about lack of scrutiny will grow.

#### **6. Scientific and technical skills to the fore**

Science has provided the optimism in the past year with a theatre of innovation that has led in just months to successful vaccine trials. Data and statistics have been in the forefront of governments' attempts to build public trust – too much so, some argue. All the same, the incentive to cultivate more of these skills is obvious – in government and more widely, in the population. Governments will have a difficult task, however, in working out how to retrain people from sectors that will shrink in the post-Covid world to the new digital one as job losses rise.

Employers will have to invest in digital training and equipment for workers who have shown they can work remotely. Governments will have to be careful not to pour public

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money into everything that appears to unlock the new digital world. At the same time, governments need to recognise that the emergency has increased the need for many non-digital jobs such as personal care for the elderly and dependent.

## **7. Borders are back**

People will travel less, and it will be harder to move between countries – or even within countries. National and local lockdowns have shrunk travel drastically compared to the pre-Covid world. In the UK, restrictions on travel between England, Wales and Scotland are some of the tightest for more than a century. The end of the Brexit transition period will bring at least some hardening of the border between the UK and the EU – and more obstacles to trade between Northern Ireland and Great Britain. Governments will show more self-interest (as they have in buying up vaccines for their own people). The EU's lack of co-ordination at the start of the pandemic was striking.

## **8. Local government rising – but federalism has been strained**

The vast programmes of vaccination needed will illustrate one point: many of the steps needed to combat coronavirus can only be organised locally. But they also illustrate the opposite point: only central government is capable of buying up millions of doses of vaccines. The pandemic has brought this tension to the fore: central government must take some of the decisions, but it needs to work with local government to get these decisions put into practice. Where that works, it has led to success against the virus, as in South Korea. But in the UK, tension between national strategy and local concerns has led to clashes between the Johnson government and mayors, furious when their cities were put under tight constraints. Meanwhile, Wales, Scotland and Northern Ireland have set their own rules to popular support but impeding travel and business within the UK and adding to public confusion. In the US, the astonishing array of tactics by state governors has deprived the country of a united approach; the result has been fast-rising infection rates.

## **9. Generational anger**

This will be the big legacy of Covid-19: the cost borne by younger citizens. So far, they have been remarkably graceful about it, given that they are least affected by catching the virus and yet are bearing the biggest cost in terms of lost job opportunities, disrupted education and annihilation of social life. That is before counting the wider costs that will transform their financial futures: [the national debt](#) (which they will have the responsibility for paying down) and the low interest rates which continue to send the prices of housing and other assets beyond their reach, even as it hampers their ability to save for their old age. Some will not yet have realised the full implications. But demands for a new generational settlement are only likely to grow.

## **10. Climate change becomes mainstream politics (and economics)**

That will in turn push climate change even further up the political agenda. Younger voters may even be explicit that this is what they want in return for the costs of Covid imposed on them. The year of 2021 looks like being the point when climate change action becomes an inescapable plank of democratic governments' policies.

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That greenery does not extend to China, which is likely to keep expanding coal-fired power stations, and that may limit the achievements of the COP26 climate change summit at the end of the year. But the willingness of John Kerry, President Barack Obama's secretary of state, to be Biden's 'climate envoy' and of Mark Carney, the former governor of the Bank of England, to be the United Nations special envoy on climate action, signal that the issue is finally commanding high-level attention. Carney has called action against global warming "the greatest commercial opportunity of our time"; we can expect governments, not just Johnson's, to talk of greening the economy. Action against the current crisis of coronavirus will be linked explicitly to action against the next one – of climate change.

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