

BIRD SONG.

Economics and politics before and after the Corona crisis

By Bart Le Blanc

1. Pandemic and social economic wrecking balls

Not so long ago, the world economy was facing a gloomy outlook with slow growth, geo-political discord, international rivalry and social tensions in many advanced economies.

Then the corona virus went travelling.

It left human, social and economic devastation in its wake.

"We now encounter a grim reality, where exponential growth of contagion means 100 infected individuals become 10,000 in a matter of a few days. Tragically, many human lives are being lost and the virus continues to spread rapidly across the globe. We owe a huge debt of gratitude to the medical professionals and first responders who are working tirelessly to save lives."

(IMF's Gita Gopinath in her Foreword to the new IMF World Economic Outlook, April 2020).

The new IMF World Economic Outlook: "The Great Lockdown", looks like a screenplay of an economic horror film playing out before our eyes.

We are all observers and most of us can only contribute on an individual level by following government rules of social distancing and self-isolation and in doing so helping overstretched health systems.

The social and economic impact of corona virus and the following lock down of national economies is devastating: the earlier expected modest recovery of GDP growth in 2020 will turn in to deep red negative territory.

Based on current assumptions on the length of the lockdown and a recovery strength afterwards, some countries will see their economies shrink by over 9% (e.g. Italy) and the poorest nations suffer badly.

And those assumptions could turn out to be far too optimistic!

The IMF estimates that the economic impact of the lockdown is bigger than the GDP loss following the 2008/9 financial crisis and is comparable to the damage created by the Great Depression of the 1930s. The economic and social scars will stay for many years to come. The summary table in its World Economic Outlook shows how countries and regions will be affected differently. This is partly related to the timing of the full pandemic moving from China and South East Asia westwards via the Middle East to Europe and onwards to the US. However, the starting positions of some regions play an important role. Developing economies with weak health systems and strongly commodity exports dependant are expected to be hurt more, as well as already overstretched Mediterranean countries in Europe.

Table 1.1. Overview of the World Economic Outlook Projections
(Percent change, unless noted otherwise)

	2019	Projections		Difference from January 2020 WEO Update ¹		Difference from October 2019 WEO ¹	
		2020	2021	2020	2021	2020	2021
World Output	2.9	-3.0	5.8	-6.3	2.4	-6.4	2.2
Advanced Economies	1.7	-6.1	4.5	-7.7	2.9	-7.8	2.9
United States	2.3	-5.9	4.7	-7.9	3.0	-8.0	3.0
Euro Area	1.2	-7.5	4.7	-8.8	3.3	-8.9	3.3
Germany	0.6	-7.0	5.2	-8.1	3.8	-8.2	3.8
France	1.3	-7.2	4.5	-8.5	3.2	-8.5	3.2
Italy	0.3	-9.1	4.8	-9.6	4.1	-9.6	4.0
Spain	2.0	-8.0	4.3	-9.6	2.7	-9.8	2.6
Japan	0.7	-5.2	3.0	-5.9	2.5	-5.7	2.5
United Kingdom	1.4	-6.5	4.0	-7.9	2.5	-7.9	2.5
Canada	1.6	-6.2	4.2	-8.0	2.4	-8.0	2.4
Other Advanced Economies ²	1.7	-4.6	4.5	-6.5	2.1	-6.6	2.2
Emerging Market and Developing Economies	3.7	-1.0	6.6	-5.4	2.0	-5.6	1.8
Emerging and Developing Asia	5.5	1.0	8.5	-4.8	2.6	-5.0	2.3
China	6.1	1.2	9.2	-4.8	3.4	-4.6	3.3
India ³	4.2	1.9	7.4	-3.9	0.9	-5.1	0.0
ASEAN-5 ⁴	4.8	-0.6	7.8	-5.4	2.7	-5.5	2.6
Emerging and Developing Europe	2.1	-5.2	4.2	-7.8	1.7	-7.7	1.7
Russia	1.3	-5.5	3.5	-7.4	1.5	-7.4	1.5
Latin America and the Caribbean	0.1	-5.2	3.4	-6.8	1.1	-7.0	1.0
Brazil	1.1	-5.3	2.9	-7.5	0.6	-7.3	0.5
Mexico	-0.1	-6.6	3.0	-7.6	1.4	-7.9	1.1
Middle East and Central Asia	1.2	-2.8	4.0	-5.6	0.8	-5.7	0.8
Saudi Arabia	0.3	-2.3	2.9	-4.2	0.7	-4.5	0.7
Sub-Saharan Africa	3.1	-1.6	4.1	-5.1	0.6	-5.2	0.4
Nigeria	2.2	-3.4	2.4	-5.9	-0.1	-5.9	-0.1
South Africa	0.2	-5.8	4.0	-6.6	3.0	-6.9	2.6
Memorandum							
European Union ⁵	1.7	-7.1	4.8	-8.7	3.1	-8.8	3.1
Low-Income Developing Countries	5.1	0.4	5.6	-4.7	0.5	-4.7	0.4
Middle East and North Africa	0.3	-3.3	4.2	-5.9	1.2	-6.0	1.2
World Growth Based on Market Exchange Rates	2.4	-4.2	5.4	-6.9	2.6	-6.9	2.6

Source: IMF World Economic Outlook April 2020

For some emerging and developing countries the combined effect of falling commodity prices, increased public health costs, rising unemployment and reduced investor appetite hit extremely hard.

The IMF's projections indicate that some recovery is expected later this year and into next year. However, at this stage a return to pre-corona GDP levels is not foreseen in the near term.

The IMF launches a strong appeal for increased international cooperation and investments in the public health infrastructure particularly in the developing world to avoid repetition of this dreadful pandemic. However, President Trump's decision on the 14th of April to stop US funding for the World Health Organisation (WHO) does not bode well for the hope for broad support for such appeal.

In IMF's Chief Economist Gita Gopinath's Foreword comes a prudent hint to what could be ahead: *"The economic landscape will be altered significantly for the duration of the crisis and possibly longer, with greater involvement of government and central banks in the economy."*

Is the end of decades of neo-liberal policies nigh?

2. Neo-liberalism

There is little need to try to theoretically define neo-liberalism.

In the Western world we have been spending decades under its spell and we have experienced its impact on the economy and on society. Its characteristics are widespread and have so become part of the Western culture through the rock-solid belief in the four anchors: *free market economy, multi-party democracy, the rule of law and respect for human rights.*

The theoretical foundations of neo-liberal economic policies were developed under Milton Friedman's leadership in the 1960s and 70s. His concept of monetary economics was widely followed and earned him the 1976 Nobel Prize.

The political introduction of neo-liberalism got wings in the 1980s under US President Ronald Reagan and UK Prime Minister Margaret Thatcher.

On many levels, success in the neo-liberal world is measured on the basis of competitiveness. A prime example of that is to be found in the annual world competitiveness test carried out by the World Economic Forum (Davos) and the International Institute for Management Development in Lausanne (IMD).

The criteria and benchmarks used to rank countries in this competition of competitiveness are the following:

- Economic performance, with KPIs such as domestic, international trade, foreign investment, employment and prices
- Government efficiency, focussed on public finance, tax policy, institutional framework, business legislation and social framework
- Business efficiency, including productivity and efficiency, labour markets, finance, management practices and attitudes and values
- Infrastructure, with basic infrastructure, technological and scientific infrastructure, health and environment and education as criteria

The value of the Public Good does not really figure in these criteria. Small government and low taxes and thus austerity programmes were more appreciated. And the position of public frontline workers in health care and education and police and waste collection and many more servants of the Public Good was subservient to these objectives.

No surprise thus that the 2019 winners were:



Source: The 2019 IMD World Competitiveness Ranking

Which also illustrates that not all 4 anchors of neo-liberalism (free markets, multi-party democracy, the rule of law and respect for human rights) seem to carry the same weight (see for example numbers 2 and 10)

But that was **pre-corona** crisis

My expectation is that things will never be the same.

There are the new, irreversible trends emerging.

3. Comparing crises: 2020 versus 2008/9

Many commentators have been trying to draw parallels between the previous crisis of 2008/9 and the current corona virus crisis.

Although there are strong similarities in the social economic consequences (sharp drop in GDP growth, devastating rise in unemployment, uncontrollably rising debt levels, increased inequality), their origin and development path were very different.

It always helps to try to make a comparative table.

	2008/9	2020
Origin	Lax capital and liquidity regulations, excessive leverage and mis-selling of globally securitised US mortgages and other assets threatened the global financial system	Outbreak of corona virus pandemic in China and initial inadequate government responses lead to global spread of the virus which threatened public health systems across the world
Development	As much of the (soft) mortgages were securitised to the global investor community, the impact was quickly felt around the world. In addition, the interconnectivity of the international banking system meant that defaults threatened to take down big US banks which would drag many major international banks with them. Financial markets all over the world plummeted. The real economy of the Western world suffered as a consequence for years triggering a multi-year recession with the result of sharp rising unemployment and increased inequality.	The pandemic and resulting public health crisis spread very quickly from its epicentre in the Chinese Wuhan province to the rest of China and neighbouring countries in particular South Korea. From there on, there was no stopping its voyage Westwards: first the Middle East (e.g. Iran), up to Europe and onwards to the US and many countries in the southern hemisphere. The real economy was essentially frozen through government public health measures (social and economic lockdowns). Financial markets cliff edged. A global recession resulted in unprecedented GDP losses, sky-rocketing unemployment levels and increased inequality.
Policy response	Predominantly monetary easing accompanied by targeted government corporate bailouts and (part) nationalisation of banks.	Major economic and fiscal government action aimed at supporting affected people and companies, maybe even bailouts (airlines?) and certainly again more monetary easing.

For governments across the world it was clear that drastic and unprecedented public health action was required (lock downs). Everyone knew that this would have a devastating impact on society and the economy.

As a result, governments could not limit their intervention to public health action only. The public health measures needed to be accompanied by quick and effective action to save economic and financial hardship for people and companies as the result of the lock downs. Protecting the people

from the pandemic meant that they also needed to be protected from the social and economic hardships following from the lockdowns.

The OECD has published a very instructive and frequently updated webpage of national action plans to address the consequential social and economic crisis (see OECD Country Policy Tracker below; highly recommended to consult).

Country Policy Tracker

What are countries doing to contain the spread of the coronavirus? How are countries helping people, small businesses and economy to weather the crisis and beyond? This *Country Policy Tracker* helps you to navigate the global response.



Browsing through this OECD database one can see that the main themes of all the national action plans bear some similarity.

They all address in one way or the other the following topics:

- Financial support for public health and health and social care institutions
- Support for social security schemes or the introduction of new social safety-net tools, particularly for vulnerable groups
- Liquidity support for workers, pensioners and families and for companies through cash benefits, wage-subsidies and tax deferrals
- Credit easing measures allowing interest payment and repayment holidays
- New financial support measures for businesses, frequently supported by government guarantee schemes

The OECD data also reveals that international cooperation and consultation was not the initial driving force behind government action. Even in the case of the European Union, national knee-jerk type action (in some cases combined with closed borders for people and medical supplies) took precedent over a coordinated policy response.

One other lesson to learn is that the weakness of the public health systems in certain countries (for example in the US, but also in the UK) has put them in a disadvantaged starting position for a bushfire type global pandemic. In the same vain, the lack of well organised and funded social security schemes (again the US) has made the need for massive temporary cash hand-outs for large groups of people, unavoidable. It demands however structural follow up once the pandemic eases.

4. NEO-NEO-Liberalism: re-valuing of the Public Good.

On a macro-economic level, the scale of the human and economic drama is currently still unfolding. No surprise then that the IMF predicted a different landscape with greater involvement of government and central banks in the economy. Many of the systemic weaknesses need to be structurally addressed.

In my view this will lead to a very different social economic landscape.
It will be adieu to the laissez faire approach of hardcore neo-liberalism.
Time for a new economic policy direction?

My answer is YES. It is time for a different path but not through replacing the 4 basic anchors of market economics, democracy, rule of law and respect for human rights. We need to complement these anchors with an important 5th one: **Res Publica or value the Public Good.**

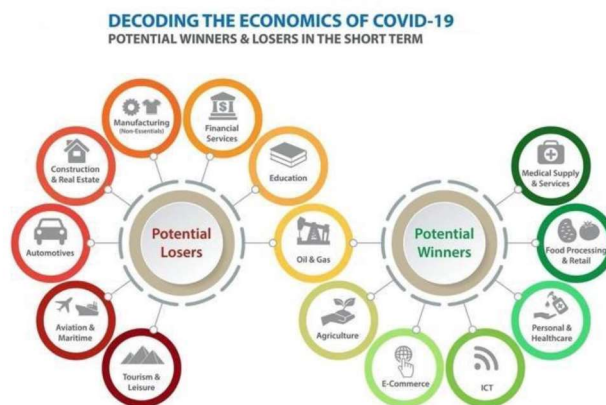
Consequently, we must support this 5th anchor and adapt in a number of areas:

- A new balance between the public sector and the private sector needs to be sought. The massive economic and fiscal support that governments around the globe have extended to people and companies will in part be temporary. But it is also clear that some of the measures will not be short term such as investments in public health and health and care institutions. Similarly, social security schemes will need to be improved.
Furthermore, frontline public sector work (health, education, police and fire services, bin collection, etc) has too long been under-valued. The world population has during the crisis re-found its appreciation for these public sector workers and will support more recognition and a better remuneration outlook for them.
New investment in infrastructure on a broad front will need to be planned.
For now, this additional expenditure is financed by extra government debt. To be honest, under the monetary policy easing policy it is funded by new money creation.
As most countries are in the same boat, no one will unduly benefit from financial rigour. New austerity plans have lost their appeal. The EU's strict Stability & Growth Pact with its deficit and debt limits has long exceeded its sell by date.
And yes, there may be a price to pay for future additional expenditure through taxation.
- Place Nature and Climate Change more prominent in our life and policies. The corona lockdown measures have opened many more eyes to the growing disaster of global warming and climate change. The drop in levels of CO2 as a result of strongly reduced manufacturing activity and air and automotive travel has been astonishing. The forced home bound life of millions of people has revived the values of society and surrounding environment with new appreciation of urban parks and rural countryside. Silence and a bird song is now enjoyed and cherished.
In the area where we live, it seems that Extinction Rebellion has moved from a fringe movement to a broader popular movement. Citizens and companies are expected to emerge from the lockdowns with new respect for sustainable policies protecting our natural environment.
- In a recent interview President Macron of France captured the government's dilemma very clearly: *"When we get out of this crisis people will no longer accept breathing dirty air People will say: 'I do not agree with the choices of societies where I'll breathe such air, where my baby will have bronchitis because of it. And remember you stopped everything for this COVID thing but now you want to make me breathe bad air!'"* (Financial Times, 16 April 2020)

In his coming new film (A Life on Our Planet), David Attenborough gives a very simple message for everyone to contribute to this saving of nature and thus life: "Stop Waste". The transition to a more sustainable economy requires a lot of government support and huge investments in the transition process. There is a role for governments on a national and international level.

- The crisis has also created sectoral winners and losers. It is for example overly evident that mass cruise holidays may not return in favour after the horrible pictures of quarantined cruise ships stuck offshore. Similarly, the forced home-working experience is generally seen as successful, particularly in the service sector. This may not disappear after the crisis and physical business meetings demanding travel (sometimes by air) may well be more frequently replaced by video meetings. This is obviously not good news for the travel and airline business nor for developers of office buildings and real estate investors.

On the other hand, we see increased demand for internet shopping and video conferencing and other ICT services. Digital health services are booming as well. The graphical presentation below illustrates this clearly.



In order to minimise disruption in the radical transformation of the losing sectors, a proactive industry policy is to be developed urgently.

The governments will need to invest to support these transition processes in order to avoid massive capital destruction and rising structural unemployment and support the move towards a sustainable future.

- Address rising inequality was already a growing pre-corona crisis demand (see my: Big Question of January 2019 and Welcome back Mr. Keynes of October 2019). It is very likely that the inequality issues will only be aggravated as a result of this crisis. Continuing monetary easing remains part of the package of policy measures. And thus the “collateral damage” of more QE in the form of more inequality will result from it.

In addition, it is unavoidable that the most vulnerable groups in society will be most affected by any crisis. They have not the same privileged living conditions as the better off, their work situations are less robust, their access to health and care provisions are often hindered, their personal financial reserves are small, etc. As a result, when a crisis threatens the health and livelihood of many the poor and vulnerable get hurt first and hard.

On a global scale this also applies to the poorest countries. They frequently rely on revenues from commodity exports, their governments systems including for public health are mostly weak and underfunded, their access to foreign capital is even in the best times minimal. So in a world hit by a corona virus pandemic with a lockdown of the real economy and rising social costs and public health care costs, the developing countries receive multiple whammies.

Basic human solidarity forces national and international leaders to address these inequality issues on a national and international scale.

5. Adieu Laissez Faire!

The corona crisis has indeed created the perfect storm.

Why were we so unprepared? It was not that we were not forewarned. Why was the first reaction so domestically focussed? Would international information exchange and cooperation not be more effective?

Lessons need to be learnt.

It has also showed that the neglect of the public good, including the role of government and the way we looked at public sector frontline workers, was short-sighted. It is time for a reset.

Adieu Laissez Faire!

Governments and politicians and vested institutions may not push for such reset.

But the people may force it upon them.

Unsurprisingly the person with experience of serious bottom-up ("yellow vests") pressure Emmanuel Macron said in the FT same interview that he sees the crisis: *"... as an existential event for humanity that will change the nature of globalisation and the structure of international capitalism"*.

Bart Le Blanc, April 2020.

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