TEARS FOR FEARS

Securing a balanced post-pandemic recovery: lessons from the Economics of Uncertainty and Trust

By Bart Le Blanc

- *The new IMF outlook delivers a sad story: If you live in a rich advanced country your post-pandemic recovery may be well under way. If not …* 
- *IMF identifies two main threats to the post-pandemic recovery: (1) continuing public health restrictions from new COVID-19 waves/variants, and (2) economic disruption from uncontrolled inflation pressures.*
- *But is the current economic policy response sufficient to contain these threats? Economic modelling based on 'rational expectations' may not provide all the right answers in times of extreme uncertainty and eroded levels of (institutional) trust.*
- *The recipes for a balanced post-pandemic recovery are not simple. A 'recce' through the economics of uncertainty and trust, puts our experiences with COVID-19 and public health response in context. Not a pretty sight….*
- *Without rebuilding trust there is not much hope for a sustainable recovery.*
- *We start anno 2021 from a place where trust in institutions has been eroded for many years.*
- *However, surveys by Edelman, YouGov and particularly Deloitte in their 2021 Millennials and Generation Z Survey, tell a surprisingly upbeat story of new promise, purpose, and commitment.*
- *So, what starts as a 'Sad Story', ends in confidence. Happy days!* 😁

1. Sad Story

The IMF published its latest update of the World Economic Outlook (*'Fault Lines Widen in the Global Recovery'*) hiding a cruel message: Yes, the world economy will recover with on average some 6% GDP growth. If you live in a rich and advanced economy, you will benefit from it. If not, you will suffer. As a result, the gap between rich and poor will widen.
The recent economic projections show (see table below) the growth prospects in advanced economies improved from last quarter's outlook. However, the emerging market and developing world is expected to see a much more subdued recovery than earlier hoped for.

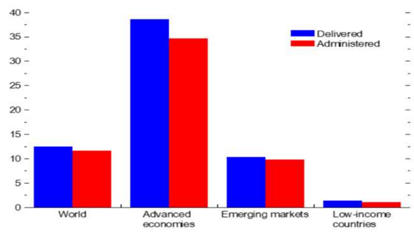
Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year				Difference from April 2021 WEO Projections 1/		Q4 over Q4 2/		
			Projections					Projections	
	2019	2020	2021	2022	2021	2022	2020	2021	2022
World Output	**2.8**	**–3.2**	**6.0**	**4.9**	**0.0**	**0.5**	**–0.5**	**4.8**	**3.9**
Advanced Economies	**1.6**	**–4.6**	**5.6**	**4.4**	**0.5**	**0.8**	**–3.0**	**5.9**	**2.6**
United States	2.2	–3.5	7.0	4.9	0.6	1.4	–2.4	8.0	2.8
Euro Area	1.3	–6.5	4.6	4.3	0.2	0.5	–4.7	4.8	2.7
Germany	0.6	–4.8	3.6	4.1	0.0	0.7	–3.3	4.9	1.4
France	1.8	–8.0	5.8	4.2	0.0	0.0	–4.6	4.5	2.5
Italy	0.3	–8.9	4.9	4.2	0.7	0.6	–6.5	4.7	2.9
Spain	2.0	–10.8	6.2	5.8	–0.2	1.1	–8.9	7.4	2.8
Japan	0.0	–4.7	2.8	3.0	–0.5	0.5	–1.0	2.2	1.6
United Kingdom	1.4	–9.8	7.0	4.8	1.7	–0.3	–7.3	7.3	2.1
Canada	1.9	–5.3	6.3	4.5	1.3	–0.2	–3.1	5.4	3.6
Other Advanced Economies 3/	1.9	–2.0	4.9	3.6	0.5	0.2	–0.7	4.1	2.9
Emerging Market and Developing Economies	**3.7**	**–2.1**	**6.3**	**5.2**	**–0.4**	**0.2**	**1.6**	**3.9**	**4.9**
Emerging and Developing Asia	5.4	–0.9	7.5	6.4	–1.1	0.4	3.6	4.3	5.9
China	6.0	2.3	8.1	5.7	–0.3	0.1	6.3	4.2	6.2
India 4/	4.0	–7.3	9.5	8.5	–3.0	1.6	1.5	4.2	4.9
ASEAN-5 5/	4.9	–3.4	4.3	6.3	–0.6	0.2	–2.7	4.5	6.3
Emerging and Developing Europe	2.5	–2.0	4.9	3.6	0.5	–0.3	–0.2	3.4	3.5
Russia	2.0	–3.0	4.4	3.1	0.6	–0.7	–1.9	3.9	2.7
Latin America and the Caribbean	0.1	–7.0	5.8	3.2	1.2	0.1	–3.4	3.2	2.5
Brazil	1.4	–4.1	5.3	1.9	1.6	–0.7	–1.2	2.2	1.9
Mexico	–0.2	–8.3	6.3	4.2	1.3	1.2	–4.6	5.0	3.2
Middle East and Central Asia	1.4	–2.6	4.0	3.7	0.3	–0.1	. . .	. . .	. . .
Saudi Arabia	0.3	–4.1	2.4	4.8	–0.5	0.8	–3.9	4.8	3.5
Sub-Saharan Africa	3.2	–1.8	3.4	4.1	0.0	0.1	. . .	. . .	. . .
Nigeria	2.2	–1.8	2.5	2.6	0.0	0.3	–0.6	2.6	2.4
South Africa	0.2	–7.0	4.0	2.2	0.9	0.2	–4.2	1.2	3.1
Memorandum									
World Growth Based on Market Exchange Rates	2.4	–3.6	6.0	4.6	0.2	0.5	–1.2	5.2	3.5
European Union	1.8	–6.0	4.7	4.4	0.3	0.5	–4.4	5.1	2.8
Middle East and North Africa	0.8	–3.0	4.1	3.7	0.1	0.0	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	3.5	–2.3	6.5	5.2	–0.4	0.2	1.6	3.9	4.9
Low-Income Developing Countries	5.3	0.2	3.9	5.5	–0.4	0.3	. . .	. . .	. . .

The IMF currently estimates that the advanced economies will return to pre-pandemic GDP levels in the next 2-3 years.
Unfortunately, no such luck for emerging and developing economies as they might not get back to this level in the foreseeable medium term. On top of this comes the utterly selfish politics of some rich nations which have curtailed their development budgets (e.g., the UK aid was scaled down to well below the UN target of 0.7% of GDP), resulting in the gap between rich and poor to grow for years to come.

The inequality of vaccine availability across the world makes it worse. While in the advanced economies the vaccine roll-out has reached almost half of the population and almost 100% of the most vulnerable groups, the vaccination coverage is low in emerging economies and low-income countries (see IMF chart below).

Figure 1. Vaccine Courses
(Percent of population)



Sources: Airfinity; and IMF staff calculations.
Note: Latest data available are for July 6, 2021. Bars show the ratio of vaccine courses needed for full vaccination (two doses generally, but one dose for Johnson & Johnson and CanSino) either delivered or administered to population by WEO economy group.

In our interconnected world, the virus travels with trade and business; nobody is fully protected.

It is no wonder that the IMF emphasizes the multiple downside risks for the nascent recovery. Its analysis elaborates two key factors that may threaten the post-pandemic recovery:

- *A continuing pandemic/public health threat.* Such threat could emerge from potential new COVID 19 variants, uneven and lagging vaccination programmes leading to new waves of infections. The impact of the *ensuing uncertainty* could kill the recovering economic activity, longer-term consumer and investor confidence and spending/investing.

- *An economic threat of uncontrolled inflation*. Resurging inflation caused by commodity price increases, post lockdown catch-up demand, new wage pressures, supply-chain problems could force central banks to adjust their decade long generous monetary policies. The resulting interest rate increases could create major problems for emerging economies and for world trade.

Each of these factors could seriously upset the nascent post-pandemic recovery quickly and effectively, let alone their combined effect. They will hurt some more than others and emerging and developing countries with unbalanced economies, weaker governments and rickety health systems will be the bigger losers.

The IMF prescribed recipe is multi-pronged and impressive: multi-lateral support for a world-wide vaccine roll-out (see joint IMF/World Bank/WHO/WTO proposal amounting to $50billion) and an additional IMF financial support plan of $650 billion *General Allocation of Special Drawing Rights* complemented by national fiscal policies and public infrastructure investments (see for example the $1 trillion US infrastructure bill). On top of this central banks have been urged to continue their monetary support until the recovery is well under way.

My main question remains: Will it be enough?
To find the answer, we may need to rummage well beyond the well-trodden paths of macro and micro-economics.
My fear is that the uncertainty coming from continuing pandemic threats and uncontrolled inflation could seriously hurt economic confidence and undermine trust.
That is not a good base for a balanced and robust recovery.
So, let's do a 'recce' in the economics of uncertainty and the economics of trust.

2. *A continuing pandemic/public health threat: lessons from the economics of uncertainty*

The economics of uncertainty study the impact of uncertainty on economic behaviour and economic activity. Its risk and probability-based approach reviews the origins of an uncertain situation through a number of analytical steps such as: the identification of risks, followed by assessing the probability of the risks occurring, and then measuring the severity of the impact of these risks, and consequently developing actions to mitigate them.
Important analytical work has been conducted in this area by the Norwegian econometrist/actuarial mathematician *Karl Henrich Borch* in the 1970s and 80s, and more recently *Steven Lippman and John McCall of UCLA (see their 'The Economics of Uncertainty' 2000*).

Risks and probabilities
Applying this approach in the context of the current COVID-19 pandemic, I come to the following:

- Focus on the risks causing the uncertainty and identify and define them:
  The COVID-19 virus first identified in Wuhan, China in the Autumn of 2019 caused severe respiratory illness with significant mortality risk.
- Assess the probability of the risk affecting people:
  The infection proved immediately to be highly transmissible. Infections travelled the globe from East-Asia via Iran and spreading dramatically in Italy in early 2020, before crossing the

Atlantic to North and South America. Transmission was easy via (close) contact even via surfaces of objects. As a result, the probability for people to become infected was very high.

- Establish the severity of the risk:
  We have all been exposed to the intensive media coverage of the devastating severe illness following infection with COVID-19. Mortality rates, particularly for more vulnerable, older people, were high and scarily reminiscent of medieval plague stories. There was/is no doubt about its severity.
- Mitigate the risk*:*
  The initial public health approach was logically aimed at public health restrictions and lockdowns to reduce the probability of infections spreading. Once the unprecedented success of developing effective vaccines was established, the next phase was targeted at limiting the severity of the infectious illness through mass vaccination.

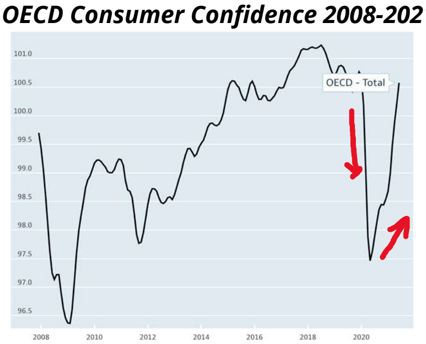
Uncertainty and economics

Living in uncertain times makes people less confident in their personal lives. Such lack of confidence in their future (personal health, work, income, family) results in a wait-and-see attitude; money is not spent, buffers are built as people fear for their jobs and income. Businesses tend to become more cautious and expansion, job creation and corporate investments are revisited and possibly delayed.

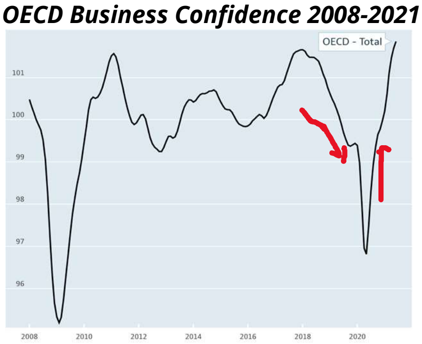
Economists love to measure, even unquantifiable things.
Some 50 years ago the Conference Board in the US started to report on consumer confidence. It quickly became seen as an important economic indicator. The OECD started to conduct international surveys in the 1970s and launched its *Main Economic Indicators* series with broad surveys on consumer and business confidence.

The graphs below show the development of these confidence indicators for the OECD countries over the last 5 years. The impact of the COVD-19 pandemic is very visible with a sharp drop in consumer and business confidence.

OECD Consumer Confidence 2008-2021



OECD Business Confidence 2008-2021

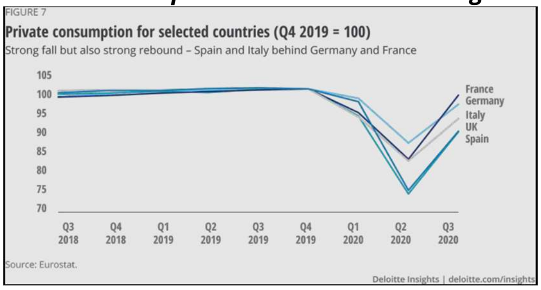


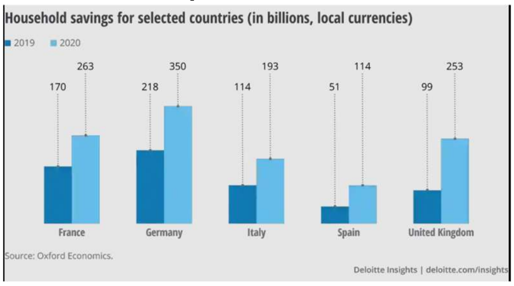
Source: OECD Main Economic Indicators, *July 2021.*

The graphs also highlight a particularly interesting phenomenon on timing: although the overall shape of the confidence drop under consumers and businesses is roughly similar, the responsiveness of consumers and businesses show asymmetric patterns and important time differences (see angles of the red arrows). In 2019 /early 2020, the imposed lockdown measures had a significant abrupt effect on consumer confidence while businesses clearly had an earlier hesitation on the potential economic consequences following the October 2019 reports on the COVID discovery in Wuhan, China. The reverse is also visible in the 2021 upturn: businesses seem to plan for a recovery earlier with a faster come-back of confidence than the general consumer population. These timing differences could be explained by the natural tendences of businesses to take a longer-term view, as they need to adapt their strategies, resource allocation and investment plans to respond to future market developments.

The evidence of the economic impact of sliding confidence has been widely reported. Unsurprisingly, private consumption took a nosedive under the pandemic lockdown restrictions, while household savings have mushroomed.
The evidence of this is very visible in the two graphs below.

Private consumption and household savings in selected Western European countries 2019-2020





Source: Eurostat 2021

Today, halfway through the year 2021, the COVID-19 pandemic seems far from over.
New infection waves are manifest all over the world. There are new lockdown measures in Australia, New Zealand, certain Chinese regions, the Philippines, etc. Ongoing (travel) restrictions in Europe and the US are affecting daily life for business and personal activities. New COVID variants seem to spread faster than the original one, and the efficacity of the approved vaccines is constantly tested.
Not the ideal environment for a post-pandemic recovery to take off.

Public health restrictions and public compliance

There is a vast array of academic research by sociologists, psychologists, and other disciplines on tackling the extreme uncertainties and risks created by the COVID-19 pandemic. Many study the impact of public health measures on (economic) behaviour and on public compliance with the restrictions.

Several points are worth highlighting from some of these studies.
For example, from extensive international research conducted after the first SARS pandemic in 2003, we learn that compliance with precautionary measures such as quarantine sand wearing masks, were more inspired by the (perceived) efficacy of the measures, than by high levels of trust in government/political institutions.[1] Recent studies by international teams of psychologists and sociologists confirmed similar findings under the current COVID-19 restrictions.[2] And research conducted by a team from Aarhus University in Denmark concludes that '… *the emergency created an unprecedented motivation to obtain and act on health advice, while ignoring other common*

[1] *See: Fong and Chang: Community under Stress: Trust, Reciprocity and Community Collective Efficacy during SARS Outbreak, Journal of Community Health, February 2011*
[2] *See: Clark c.s.: in Predictions of COVID 19 voluntary compliance behaviour, Science Direct/Global Transactions June 2020)*

psychological considerations including those related to fear as well as trust in fellow citizens and political institutions.'[3]

Tips for the future
Applying the risk and probability approach of the economics of uncertainty to the experiences of life under pandemic restrictions highlight a few interesting issues:

- ***Public compliance with public health measures is determined by 2 main drivers: Self-protection and Efficacy of the restrictions***
  Governments and public health authorities need to acknowledge that self-preservation is the main driving force. I need to know what the probability is of me getting infected and seriously ill and more importantly how effective the measures will be to improve my chances. Relying on trust in government or institutions is ignorant and futile.
  This means that public communication needs to be based on facts and the science behind it. Restrictive measures gain support once their effectiveness is proven, and the data shared.
- ***Public health/pandemic awareness needs to stay***; ***"Return to Normal" is an ignorant message***
  It is nonsense to talk about "return to normal" as if the pre-pandemic life could be fully restored. The world will need to live with COVID (variants), and other pandemics may emerge. As a result, some form of precautionary public health measures may continue to remain part of the 21st century street scene. In a pandemic aware world, changes in consumer behaviour and shopping patterns, production methods and working practices for many (office and home) are here to stay. We should not ignore that this will have a profound societal impact.
  The new (post) pandemic politics is not megaphone politics!

3. Managing inflation and rational expectations: lessons from the economics of trust

In economics, inflation is a rare phenomenon: It is mostly hated by economists most of the time, but sadly missed when not around for longer periods of time….

The complicated world of inflation
After many decades of hoping for inflation to re-emerge, now seems to be the time that it is finally happening.
However, *uncontrolled* inflation carries a great cost to the economy as it erodes the real value of income and wealth. As a result, central banks usually race to fight inflation through monetary tightening and higher interest rates.
But there is a risk. Tighter monetary policies mean higher interest rates. And even a moderate increase in interest rates may upset the economic recovery.
The IMF fears its impact on global trade which would hurt the much hoped-for 2021/22 recovery and predicts that world GDP projections could be seriously lower.
There is thus a big dilemma.

Under the term inflation lies a complicated world of temporary and structural factors with very different origins. In analytical terms, inflation is frequently classified under the label 'pull' or 'push' inflation, indicating whether the origin stems from the demand side (*more demand pulls prices upwards*) or the supply side of the economy (*higher costs push up prices).*

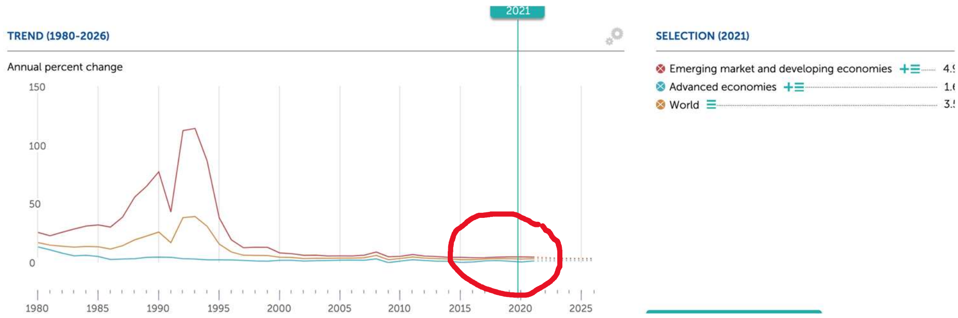
What are the prominent 2021 *inflation-pushers* and *inflation-pullers?*
Here follows my sketchy analysis:

[3] *See: Jørgensen c.s. Compliance without fear: Individual-level protective behaviour during the first wave of the COVID-19 pandemic, Journal of Health Psychology 2021*

- Following successive lock downs there will be a natural catch-up of consumer demand which would logically trigger a *temporary inflation pull* with high primary impact.
- At the same time, industry might struggle with re-starting production facilities resulting from frictions in the process and manufacturing chain interruptions. This may lead to additional costs in the supply of goods and services and have a spill-over in *temporary push inflationary effects*.
- The re-start of the economy and relaunching manufacturing efforts will further push up already climbing commodity prices (e.g., oil) which could result in a *push inflation effect*.
- The impact of winding down of temporary support schemes (e.g., rent/tax holidays, furlough schemes, helicopter money, etc.) will naturally lead to a potential *temporary negative inflation pull*.
- Temporary tensions in some sectors of the labour market will push up wages creating *multiple inflation impact: pulling demand and pushing cost inflation.*
- The transition towards a new greener economy will demand new investments in many sectors and restructuring in others: a *mixed pull inflationary impact* will result.
- Governments' Climate Change agenda with clear focus on greener infrastructure (e.g., President Biden's Infrastructure Bill and the EU Recovery Plan for Europe) will give a *significant investment demand pull to inflation*.
- Introducing unavoidable increases in government taxation (including a global minimum corporate tax rate as agreed by the G7/G20 this Summer) to cover part of the COVID related public expense will have a *negative structural inflation* push effect.

Analysing the 'threat'

Weighing up the plusses and minuses there is little doubt that in the short run a net positive aggregated pull *and* push inflation will manifest itself.
But who wants to bet on the resurgence of rampant inflation for a longer period?
Not many punters I would expect….
Look at the boring picture of the long-term inflation trend and outlook in all relevant parts of the world economy in the IMF graph below.



Source: IMF Economic Data July 2021

Even inflation levels well above the central bank target of 2% this year and the next may not excite many. The ECB Council published its new inflation policy guidance on 8 July 2021 which sounds even more dovish with its relaxed attitude to short term overshoots of the inflation target. The US FED seems to be more hawkish on inflation controls but is in practice likely to follow a similar policy route. And in its *Monetary Policy Report August 2021), the Bank of England* revealed 'debate' on possible future tightening in monetary policy.

In a hawkish farewell interview, the departing Bank of England's Chief Economist Andrew Haldane warned against a too relaxed attitude by central banks to the dangers of rising inflation.[4] He fears that doing too little, too late on inflation control, could lead to '*dangerous hand-brake turns*'.
He has now left the Bank of England…

Inflation, rational expectations and the (implicit) trust assumption
To better understand the inflation mechanism, we need to dig a bit in the premise of 'rational expectations' of economic decision making.
For the father of modern economics, Adam Smith, rational expectations guide the behaviour of consumers and producers and is implicitly built on trust. Maybe we should not forget that he was first and foremost a moral philosopher. His first major work was *The Theory of Moral Sentiments* (1759) in which he writes about the need for altruism, sympathy and cooperation which preceded his general economic masterpiece *The Wealth of Nations* by some 15 years.

Over the last decades there has been significant critical review of the rational expectations' theory. The so called '*Lucas Critique'* developed by US economist Robert Lucas, argues that there are more than just statistical correlations of historic data determining expectations and thus economic behaviour. In a recent interesting short essay, IMF's Ceyda Öner elaborates this point further by introducing 'trust' and 'credibility' as an element in central bank's inflation management.[5] However, whether trust is implicitly assumed in rational expectations or is complementing them, it is without doubt an important driver in economic decision making.

Economists have generally shied away from defining trust but have excelled in exploring the costs of *an absence of trust*: the lower the level of trust is between transacting parties, the higher the transaction costs tend to be.
This institutional trust is important: it deals with the legal and regulatory framework for trade, with checks and balances and enforceability. As Steve Knack, a senior World Bank economist expresses it in a slightly mondain way: '*If you take a broad enough definition of trust, then it would explain basically all the difference between the per capital income of the US and Somalia.*' [6]

Tips for the future
Reviewing the many issues of inflation within the context of the economics of trust result for me in some interesting take-aways:

- ***Trust is not without self-interest at its heart.***
  You don't need to be a narrow minded, utilitarian economist to understand the concept of self-interest and self-preservation in a transactional sense. In other words: '*I trust you'* in all its nakedness is meant to signal '*I am confident that you will not chase your own interests if that will hurt me'*.
- ***Certainty and trust are NOT uncorrelated issues***
  There is the cross-over between the economics of uncertainty (a risk analysis approach) and the economics of trust (an opportunity cost approach).
  Assessing and measuring trust or the absence of it is complicated. It can be convincingly argued that uncertainty will have a negative impact on trust and enhances the costs of the absence of trust.
- ***Too much early focus on inflation controls may hurt recovery and undermine trust***

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[4] See Financial Times 30 June 2021
[5] See *Inflation: Prices on the Rise, by in IMF's Finance and Development Magazine, June 2021*
[6] Quoted in Tim Hartford's essay: *the Economics of Trust, November 2006*. For a more academic overview see Dominic Furlong, *'The conceptualization of 'trust' in economic thought', 1996*

As the IMF outlook shows, the emerging and developing economies will be harder hit by rising inflation and an early monetary tightening and higher interest rates. This could result in widening the income/wealth inequality gap and possibly increased social tensions: ' *...in virtually every region of the world, demonstrators are making a comeback. Causes range from frustration over governments' handling of the crisis to mounting inequality and corruption.'* [7]
In addition, we should not ignore the potential impact of rising interest rates on certain asset prices. Overpriced equity/stocks and (residential) property may come under severe strain because of rising interest rates and a bubble may burst. Many owners of homes, and former savings account holders converted into portfolio investors will have a fright which may dent confidence and trust in their personal economic outlook.

4. About trust: 'it arrives walking and departs riding'...

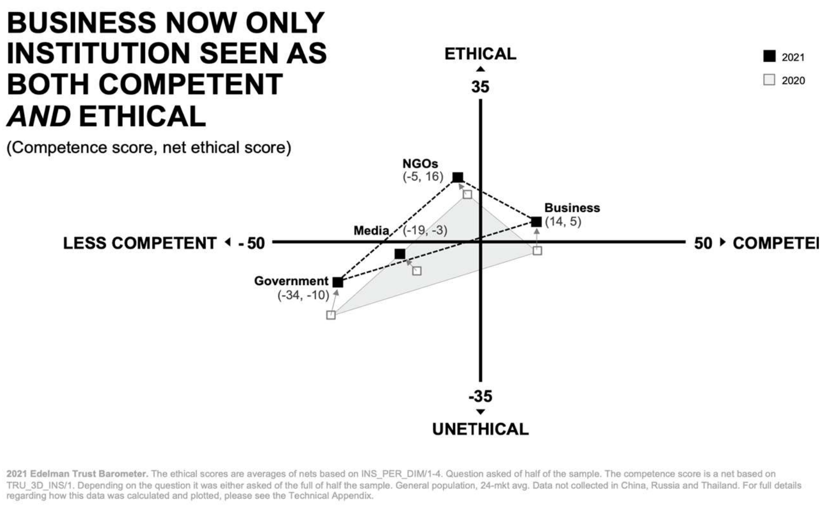
What can be done to rebuild trust in institutions in order to support a robust and balanced recovery?
Before answering this question, we may need to gain a bit more insight in the current status of trust; where do we stand today and where do we want to go?

Trust takes time to win, but losing it is quick, drastic, and frequently dramatic.
There is an old Dutch proverb ("*Vertrouwen komt te voet maar vertrekt te paard*') which literally translates as: "*Trust comes on foot but leaves on horseback*".

The current state of play
In their entertaining book *Angrynomics, Erik Lonergan and Mark Blyth* translate the anger many people feel over socio-economic policies failing to capture "*what most of us experience and care about*". *Angrynomics* published in 2020, highlights a system that benefits few and not many, of stagnant wages, job uncertainty, broken health systems, etc. The perceived disconnect between policy makers and their subjects is undermining trust in institutions and systems.
Studies by the Pew Research Center in Washington DC, a non-partisan think-tank, show a depressing downward trend in institutional trust: from high levels of trust in the US federal government in the 1950s of above 70% of the population to levels hovering around 20% in recent years.[8]

A major US PR consultancy *Edelman* has analysed trust and its dynamic shifts over more than 20 years. Over the years they have tracked the evolution of people's trust in major institutions in Western society: government, media non-governmental organisations (NGOs) and companies (surveys in 28 countries including US and China: 33,000 respondents).
The 2021 Edelman Trust Barometer shows the evolving levels of trust in institutions during the pandemic years: not an uplifting message for governments (see below).

[7] See: *IMF working paper by Hadzi-Vaskoc e.a. Could renewed social unrest hinder the recovery, July 2021*
[8] See *Pew Research Center: Public Trust in Government in the US since 1958*



The Edelman report comments on this: '*Social media has upended trust in institutions. People don't know who to believe and believe what they want to. Trust suffers too when hard truths have been exposed '.*

Looking behind diminishing institutional trust

I am going to generalize 'a bit' with this following introductory statement: *Life for my parents' generation was relatively simple!*

Let me try to explain what I mean: I have mapped life, social networks, memberships (incl. churches), basic economics, etc. of my parents' generation and compared it to those of my children's.

I don't want to bore the reader with too much of my family's story, thus I will just share some of my summary observations:

In broad brush terms, the generation of my children is significantly less bound by institutional ties and group-type relationships than my parents' generation. Church, political party and trade union membership are currently only a tiny fraction of what they used to be in my parents' World War-scarred Europe (*their Church membership stood at 80% of the population, Trade Unions had over 50% of members, and more than 5% was a member of a political party*). Have new networks (social media driven) duly replaced the traditional membership organisations?

My children's generation is significantly better educated than my parent's one with completed university education being at a 20 times higher level. In terms of employment, they are more mobile, female employment participation has significantly increased (twice as high as during my parents' lifetime) and they have more flexible work patterns.

While governments are more present and spend a bigger share of GDP for the public good (on average 50% of GDP compared to less than 40), the burden through direct personal income tax seems to have eased by the introduction of more forms of indirect taxation and, not to ignore, higher public debt levels.

I am not of the 'life-was-so-much-better' school.

Many good things have come from these trends including stronger individual responsibilities and freedom of choice.

It is however undeniable that life for my children's generation has become in a general sense more challenging. Traditional networks (churches, trade unions, political parties, etc.) that provided inspiration and guidance for centuries have been replaced by daily avalanches of information, disseminated by virtual networks of social media, where you can befriend or un-friend others by a click of a mouse or a tap on a screen.

The story of Millennials and Generation Z

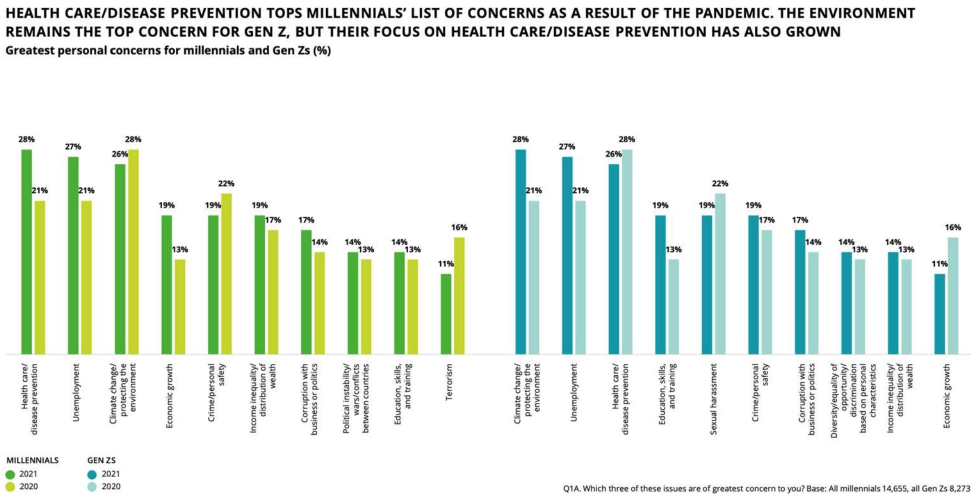
So, without those traditional anchors from my parents' generation, how do todays' younger generations cope with sorting out their life?

A recent study by the international research and data analytics group YouGov shows that social media play a relatively modest role in forming the opinions. And it also clarifies that governments and political leaders are generally not seen to be the wanted reliable, trustworthy sources of information.[9]

A really remarkable and uplifting read is to be found in Deloitte's recent *2021 Global Millennial and Generation Z Survey*: '*This year's survey … makes it increasingly clear that millennials and Gen Zs aren't just resilient— they're channelling their energies into holding themselves and others accountable. They're the people most likely to call out racism and sexism, and to shun companies and employers whose actions conflict with their personal values'.*

Health care (incl. mental health, prevention), climate change, inequality and discrimination are the main issues that concern the younger generation.

They want to see **purpose** in what they do, or work for (see graph below).



Thus, the issues young people care for most, need to be at the forefront of the efforts for rebuilding trust in institutions.

5. *Recipe for a balanced recovery*

The conclusion is that underneath the threats for a post-pandemic recovery lie bigger issues of social and economic uncertainty and institutional trust.

For a robust and balanced recovery to shape up I feel that much more than just a bundle of macro and micro-economic policies are required.

Some of the thoughts from the economy of uncertainty and trust and from recent experiences are not to be ignored:

- Uncertainty and trust are not uncorrelated issues; they feed off each other
- Public health/pandemic awareness needs to stay for much longer; 'Return to Normal' political messaging is ignorant and counter-productive
- Trust is not without self-interest at its heart
- Compliance with restrictive policies is driven by self-protection and the proven efficacy of measures

[9] See *YouGov, 'Which news sources do people trust on COVID?' July 2021*

- Premature inflation control policies may hurt the recovery and create new victims

Fascinating recent surveys by Deloitte and Edelman tell an important story of new promise, purpose, and commitment, particularly under younger generations.
For them, things need to be done differently.
To regain their trust and confidence, economic recovery policies are to be accompanied by a series of socio-political initiatives to tackle issues be such as

- growing inequalities and discrimination
- climate change
- health care/prevention (incl. mental health)
- personal and economic security and safety
- purpose in work and work-life balance.

Humming the lyrics of *Tears for Fears'* major international 80s hit '*Everybody wants to rule the world*' (my generation ☺) … I feel really confident.

'There's a room where the light won't find you,
Holding hands while the walls come tumbling down,
When they do, I'll be right behind you'

Bart Le Blanc, August 2021.