What Have We Learned from the COVID-19 Crisis? Domestic and International Dimensions and Policy Options for a Post-Coronavirus World: Introduction

Mario Seccareccia & Louis-Philippe Rochon


To link to this article: https://doi.org/10.1080/08911916.2020.1857588

Published online: 21 Jan 2021.

Submit your article to this journal

View related articles

View Crossmark data
What Have We Learned from the COVID-19 Crisis? Domestic and International Dimensions and Policy Options for a Post-Coronavirus World: Introduction

Mario Seccareccia\textsuperscript{a} and Louis-Philippe Rochon\textsuperscript{b}

\textsuperscript{a}Department of Economics, University of Ottawa, Ottawa, Canada; \textsuperscript{b}Laurentian University, Sudbury, Canada

ABSTRACT

This introductory article describes how modern financialized capitalist economies of the 21\textsuperscript{st} Century, which adopted the neoliberal creed over the last half-century, have been facing increasing vulnerabilities whose acceptance of this policy system has made them progressively susceptible to crises, of which the COVID-19 pandemic will not be the last. Government actions, especially on the fiscal side, have led to an unprecedented evolution of key macroeconomic variables which have stood on its head the neoliberal logic. Given the requirements to protect our societies from the Coronavirus through programmed cuts in both employment and consumption spending, particularly during the severe lockdowns, government actions have not only starved modern credit-driven financialized economies of their key fuel but have, in many ways, further magnified the income and wealth inequalities that characterize our 21\textsuperscript{st} Century dual economies. The challenge will be how to break away from the neoliberal discourse that wants a return to the austerity policy box and to focuses, instead, on much-needed public investments with an eye to the future that will build public capacity so that modern societies become less vulnerable to future crises.

KEYWORDS

COVID-19 crisis; dual economy; neoliberal creed; stagnationist tendencies

JEL CLASSIFICATION

E2; E5; E6; H5; H6

The twenty-first century has not been kind to modern financialized societies designed in accordance with what could be dubbed, to borrow a Polanyian expression, the neoliberal creed. Indeed, had Karl Polanyi still been alive today, he would have undoubtedly extended his original vocabulary to describe the set of neoliberal policies that were adopted since the 1970s, which transformed modern consumption-driven capitalist economies from the postwar Keynesian consensus of regulated trade and financial markets to a world dominated by high finance in the context of deregulated commodity and financial markets both domestically and internationally.

The first truly major challenge to this neoliberal order was the global financial crisis of 2007–2009. On an international level, that crisis resulted in a lost decade of relative stagnation, not because that was inevitable but rather because, after the initial “Keynes moment” of fiscal stimulus, macroeconomic policy discourse rapidly returned to a policy vision largely anchored within the neoliberal creed, as if the 2007–2009 financial crisis had never existed. As a result, the world economy was already heading toward a slowdown when the COVID-19 pandemic emerged, which many observers believe originated in China at the end of 2019 and then spread internationally during the winter of 2020.
Some may say the COVID-19 pandemic was just the coup de grâce afflicting a society already tending toward an increasing number of crises in both frequency and duration, where the “new normal” by then had become one of long-term or “secular” stagnation. Hence, the pre-COVID-19 world seemed to already have been plagued by increasing uncertainties arising from such disparate phenomena as the appearance of the bad omen of negatively-sloped or inverted yield curves in 2019 that struck fear in the financial markets and there appeared major turbulence arising from the prospect of increasing trade conflict internationally, as the hostile rhetoric escalated, particularly between the United States and China.

As the Coronavirus spread from China to Europe and then quickly to every other region of the globe, the pandemic challenged the very essence of the neoliberal creed. Combating the crisis meant standing on its head most of what the previous neoliberal order stood for. Indeed, in the pre-COVID-19 world, growth took the form of either spurts of (mostly debt-financed) consumption spending or speculative excesses in the housing market. These relied on either growing household indebtedness, because of relatively stagnant real wages, or by a rise in net exports. However, these policies were unsustainable for long-term growth. Household indebtedness cannot grow permanently without some eventual rise in personal disposable income and, in much the same way, as is well known, neo-mercantilist trade policies require an importer of last resort, and the United States was no longer willing to play that role, despite the US dollar’s persistence as hegemonic international currency.

When countries recognized the existence of a pandemic by the end of the first quarter of 2020, governments adopted policies to reduce contact and enforce social distancing by imposing on these societies programmed cuts in both employment and consumption spending, especially during the stringent lockdowns, which by their nature starved modern financialized economies of their essential fuel. At the same time, to keep people under lockdown, governments introduced additional transfer payments to households, namely transfers to those outside of the essential workers, say, continuing to labor in strategic industries such as the health-care sector, or those service-sector workers who technologically were in a position to work from home.

This provoked an unprecedented bifurcation between national income and household disposable income, with real national income suddenly collapsing and personal disposable income increasing sharply. The result was a huge rise in the saving rate and, perhaps to a lesser extent, a fall in household indebtedness as household consumption declined dramatically because of the pandemic. This bifurcation is best observed in the diagram below depicting what happened in the case of Canada and the United States during the first three quarters of 2020 respectively. These series had been moving largely in tandem during the two previous years until just before the COVID-19 shutdown, when real national income was already beginning to fall somewhat. To make it easier for comparison, we have displayed each of the data series in the two countries and indexed them all starting at 100 beginning with the first quarter of 2018 and then traced the evolution of the respective indexes. Both countries exhibit a pattern that seems unparalleled historically in terms of the bifurcation, with the Canadian economy having taken a bigger hit than that of the US at the beginning of 2020, but, not unexpectedly, the Canadian series on disposable income also shows a sharper rise because of the higher income support that kicked in during the pandemic (Figure 1).

This government income support, which came to be reflected in the massive increase of government budgetary deficits in most countries, triggered a rise in the household saving rate, which, in the case of Canada, went from an average value of 2.4% during the 2018–2019 period to what, by the second quarter of 2020, had reached 28.2% of household disposable income. This was not unlike what occurred in the United States, where the saving rate had peaked at 33.7% by April 2020! This phenomenon, which was by no means specific to Canada and the United States, can be found in varying degrees in most other countries.
This macroeconomic feature of the crisis completely brought down an important pillar of the neoliberal policy doctrine. Despite the supply-side collapse of employment and output and the spectacular rise of budgetary deficits worldwide, explosive deficits neither generated inflation nor pushed up interest rates or devoured private savings. The opposite would more correctly be true, as central banks pushed interest rates back to their lower bound in many countries to try to maintain inflation within their target range.

In much the same way, globalization went dramatically into retreat not only because borders closed and travel came to a standstill, but also because major supply chains were disrupted as the pandemic ravaged economies of both the industrialized and developing world. Moreover, as governments sought to secure critical supplies of key goods such as protective masks and respiratory ventilators, national governments overrode existing trade deals, which created trade frictions and, in some cases, generated domestic pressure for industrial policies of import substitution. Indeed, the best example (at the time of writing) is the debate over who will get the COVID-19 vaccines first, as countries who had given up their capacity to produce vaccines to global corporations in the name of comparative advantage, are having to line up to try to acquire these essential vaccines against the coronavirus because national borders for these essential products now actually matter.

Lastly, there were a few notable changes or developments with respect to monetary policy. While many central banks acted quickly in reducing interest rates, and in some countries back near zero, these actions are not out of the ordinary for central banks facing crises in aggregate demand. However, since March 2020, central banks developed and adopted a whole panoply of new programs, not unlike during the global financial crisis of 2007–2009, to help governments and the private sector muddle through these uncertain times. For instance, they purchased massive amounts of bonds in both the primary and secondary markets, which allowed governments
to continue their unprecedented fiscal response, and reembarked on large-scale asset purchases of longer-term debt.

However, while central banks have argued that these policies were meant to keep markets liquid, especially banks so that they could keep lending (a version of the money multiplier model), such policies have had considerable consequences, notably on how they contributed to growth in stock market indexes and generated financial wealth, which are now breaking records and quickly surpassed the pre-pandemic levels. As a consequence, this only exacerbated the already unequal distribution of income and wealth that existed before the COVID-19 crisis. The examples are staggering: Elon Musk’s wealth, for instance, apparently grew by $100 billion between March 18 and November 24. This was during a time when workers suffered through high unemployment and lost wages, despite the government’s best efforts to support household income.

In fact, all this reveals how the recent history of our modern financialized capitalist economies have contributed to the emergence and persistence of a dual economy: what we may call a profit economy, where wealth for the few is continuing to increase, and a wage economy, with continued stagnant wages and high unemployment for most working people. In turn, this all risks aggravating the current stagnationist tendencies for many more years to come. The only remaining question is whether such a precarious situation is sustainable?

These important developments that shook the world during 2020 will undoubtedly have important long-term consequences. This special issue on what can be learned from this crisis has brought together a special list of distinguished colleagues internationally who, despite their different focuses, all emphasize the importance of active state spending through demand-side policies in sustaining an economic recovery. Fiscal austerity measures should not be allowed to return as payback for this period of fiscal expansion during 2020, thereby aborting any real chance of a solid recovery. At the same time, strategic public investment to reestablish the national economy’s capacity in crucial areas so as to withstand better future shocks is also deemed of importance. We are most grateful to all the contributors who, during such difficult and challenging times, have been able to produce some truly remarkable and timely research for journal readers.

Notes on contributors

Louis-Philippe Rochon is Professor of Economics, Laurentian University, Sudbury, Ontario, Canada, and Editor-in-Chief of the Review of Political Economy.

Mario Seccareccia is Professor emeritus of Economics, University of Ottawa, Ottawa, Ontario, Canada and Editor of the International Journal of Political Economy.