

Training Toolkit 18: CORONAVIRUS - Lessons from Three Crises



Training New Trainers

CORONAVIRUS– LESSONS FROM THREE CRISES

Background and principal conclusions.

This paper does not intend to provide any further addition to the list of practical proposals to respond to the immediate effects of the Coronavirus pandemic or end the current lockdown phase. Instead we are looking at the longer-term pattern of recovery from the 2007/9 financial recession the current Coronavirus and the pending crisis arising from climate change and its economic consequences. Our principal conclusions are:

1. The return to “normality” will not be a short-term event but will last a considerable period with significant levels of uncertainty.
2. The return to “normality” will not be a return to the status quo ante, instead it will represent a new normality with significant changes to government policies and social behaviours.
3. A key part of this new normality must be the building of resilience in key areas both nationally and internationally. We conclude that in both economic and health spheres the issues are global, demanding global solutions.
4. The vehicles for achieving these global solutions already exist but will need to be significantly strengthened. If these changes can be achieved then there is a real possibility that the international community will be better placed to deal with the next crisis – climate change – but the policy changes required are not inevitable, and that there is the possibility of different policy trajectories, some of which we consider would be disastrous.
5. Unless radical action is taken the resulting recovery from the three crises of our time will lead to even greater inequity between rich and poor countries and people and between generations.
6. A new approach to socially responsible economic management is required, to address inequality and threats to planetary health. This must step beyond Neoliberal economics to an era of shared ownership and social responsibility for local, national and global health and wellbeing.

The Three Crises

The 2007/9 financial crisis was caused by US bankers mismanaging debt. The crisis became global as international bankers tried to share the expected profit from a boom in housing debt by participating in debt leverage schemes, which quickly collapsed. Governments in high income countries (HICs) which had previously relaxed controls over banking operations, intervened to bail out their financial institutions, to protect the savings of high and middle-income people and their jobs. This caused a reduction in GDP in High-Income Countries like the UK, greater than at any time since the Great Depression of 1929-39. It resulted in a growth in unemployment, increased poverty and a widening inequality gap in these countries. It has been called the Great Recession with an estimated fall in global GDP of some 5% mostly for HICs. It also caused a reduction in economic growth of lower income countries (LICs) due to their dependence upon High Income Country markets.

Responses to the Corona virus pandemic include: furloughing jobs, social distancing measures, travel restrictions and diversion of health services for Covid-19 patients. These have required vast increases in government funding financed by debt. They will also inevitably result in further increases in business and household debt, loss of jobs, increased need for health and care service due to delays in treatment, mental health and domestic abuse issues. These impacts are already becoming apparent in HICs, where

it is also found that the impact upon disadvantaged communities and families is much greater than for the better off. For LICs the situation is unclear, as many low-income countries do not have the capacity to monitor the pandemic or respond to the healthcare needs of their people.

Estimates of the economic impact of the coronavirus restrictions vary between authorities with the Office for Budget Responsibility, IMF, Bank of England, and independent analysts all coming up with slightly different calculations as to the immediate impact – varying from 20 to 30% of GDP – and the impact on GDP across the whole year varying from around -6.5% to -10%. Much depends on assumptions that are made about how long the restrictions will last – but a general estimate is that restrictions lasting more than 3 months would significantly increase these estimates. The impact of reductions on the world economy, the IMF estimates could be in the order of minus 5% for the USA, minus 6% for the UK and minus 7.5% for the EU. The general consensus is that these reductions are significantly greater than those experienced in the financial crisis of 2007/9 and may be greater than those experienced during the 1930s depression.

The economic impact of Climate Change suggested by the Stern Review of 2006 could be in the order of 15 to 20% of GDP as a permanent reduction assuming little or no action was taken at the time. More recent predictions, taking into account how little has been done, have estimated the global impact at up to \$50 trillion, about 60% of global GDP. The impacts of climate change and other aspects of planetary health neglect such as the reduced alkalinity of the oceans, plastic waste, deforestation, loss of biodiversity and overuse of fertilisers, include: reduced agricultural productivity, damage and loss due to disruptive weather events, the movement of people and cities due to rising sea levels and floods, damage to people's health due to the spread of tropical diseases and abnormally high temperatures. These impacts will have secondary effects due to factors such as mass migration to avoid flooding and starvation, conflict over access to water and other resources and a rise in poverty and malnutrition. The most hardship in terms of economic development and health will befall the poorest people in LICs.

In response to the 2007/9 financial crisis HIC governments bailed out their financial institutions by borrowing from their Central Banks, this brought government borrowing to an average of some 100% of GDP, and in some cases to even higher levels, that were thought to be unsustainable. The Coronavirus pandemic is requiring even higher levels of government debt, reaching 100% of GDP or more. A study by the World Bank concluded that attempting to maintain a debt to GDP ratio greater than 77% over an extended period of time, would slow economic growth. Moreover, there is also likely to be a demand for increased business and household debt at a time when these are at a very high level in most High-Income Countries. Total global debt levels could rise to over 300% of GDP.

These crises, whether caused by financial or health issues are all global in their consequences. They all have implications for future health and economic wellbeing. While health and life expectancy differ between countries with different levels of income, comparisons between high income countries show no correlation between income levels and health outcome. In this case it is the level of equity within the country that is most closely related to health and wellbeing outcomes. We may conclude that while economic performance affects the level of resources available for health and social services, in HICs the consequences for health and wellbeing outcomes depend on policy choices made by governments.

It is already apparent that the most severe consequences in all cases will be borne by poor people and low-income countries, even though these countries have played almost no part in the causes of these crises. The response by high income countries of borrowing to protect their economies will leave very little scope for dealing with the economic consequences of climate change by further borrowing. High income countries have burdened future generations with both the consequences of climate change and an extraordinary level of public and private debt, which limits the scope for further action of this type.

The long-term pattern of recovery

There are a wide range of different assumptions about the nature and length of time required for economic recovery from these three crises, characterised alphabetically as V shaped, W-shaped, U-shaped, or L-shaped. The types of policy to be adopted from what is universally seen as the deepest reduction in UK and world GDP since the 1930s depend critically on the assumptions that are made about the nature of recovery.

The neoliberal economic orthodoxy that is currently adopted in most countries would indicate that the recovery from an economic shock should be quick – a V shaped recovery pattern. This economic model assumes that without government interference the economy will recover to its prior equilibrium. More pragmatic commentators would suggest that the recovery is more likely to be “U-shaped” – taking longer to recover than this model would indicate. How long the recovery will take is not clear. An estimate from the Ernst Young Independent Treasury Economic Model Club (the EY ITEM Club) using modelling based on the UK government’s own Treasury calculations, suggest that the recessionary period would take 3 years to clear. Most of these calculations are based on the crisis being concluded as a single incident. As we point out below this seems unlikely in the case of the corona virus and impossible for climate change, which has led to suggestions that the recession is more likely to be W-shaped, that is what has been known the past as “double dip” recession or perhaps an undulating wave.

We suggest that the assumption of rapid recovery from crisis is unrealistic. The experience of the finance crisis of 2007/9 would suggest that the pattern is more likely to be L-shaped. The growth of the economy following the finance crisis showed this pattern with an approximate 5% reduction in GDP and economy recovery along a long-term growth path parallel to that which might have been assumed from the longer term estimates but not converging with it. The shape was an elongated L. It was not until 2013 that the rate of growth from the lower GDP starting point got GDP to the level that it had been before the crisis. In recovering from the Coronavirus many businesses will need to refinance and reorganise their business and reactivate their supply chains this will increase the time required for recovery. In relation to climate change a great many businesses and individuals will need to radically rethink their operations and lifestyles. So in this case it will be a very long term process.

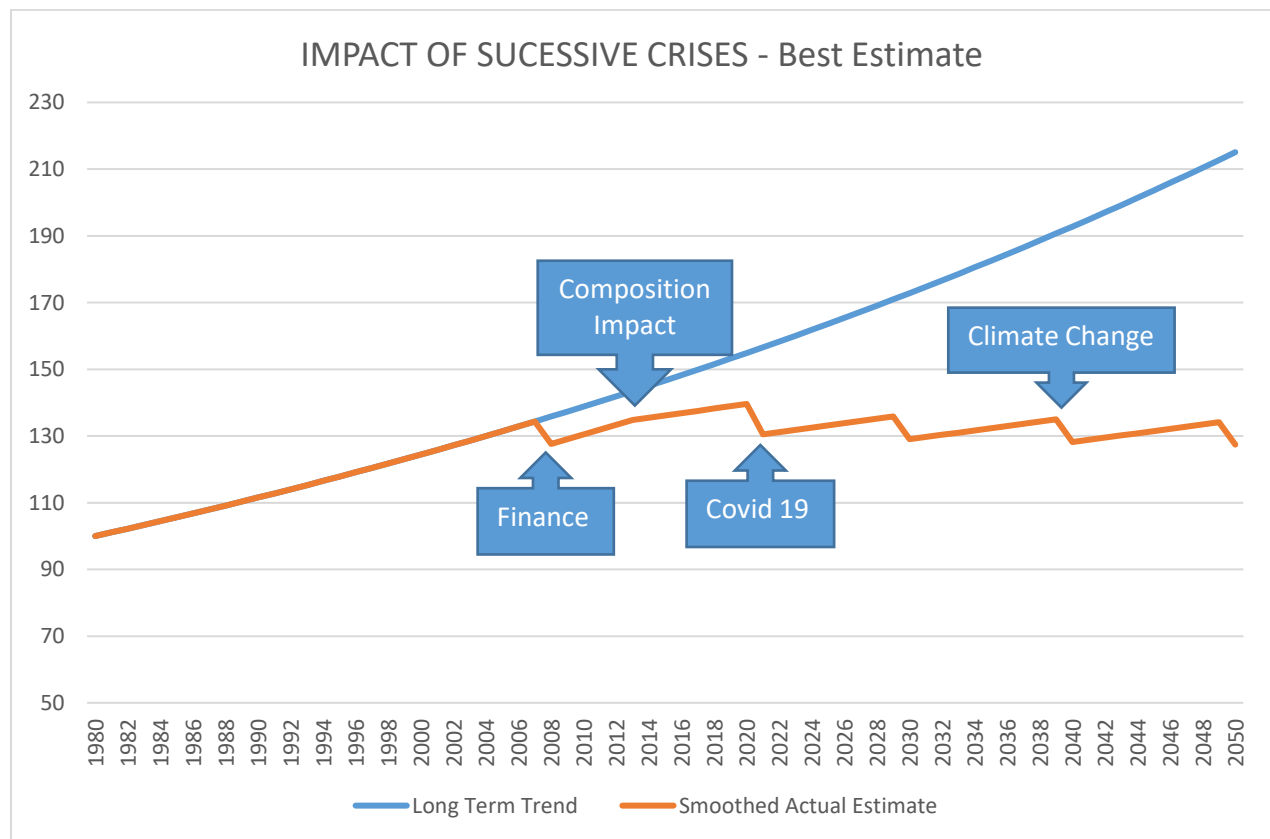
Moreover, if all countries attempt to finance their increased debt levels simultaneously, they will find themselves in a problem of the fallacy of composition. This was a feature of the finance crisis which applied to banks. When banks’ balance sheets had levels of debt un-sustained by the value of assets, they sought to write down their debt levels by taking cash from profitable loans and not re-lending; by taking government cash intended to deal with the loss of liquidity as a result of the banks reckless behaviour and not handing it on by way of new lending; and by selling, at a high discount, some of their less profitable loan books – to each other. Unfortunately, this latter strategy did not work since each bank wanted to sell its loan book and no bank wanted to buy it, so the emphasis instead went on restricting lending, a fact much complained about at the time. This time it is not the banks, but governments that are placed in this position. To fund their increased level of debt they will either have to pay a higher premium – in an increasingly competitive market – or they will need to extend quantitative easing or worst still, printing money with inflationary consequences. Thus it seems likely that the rate of growth to which the global economy is likely to recover will be greatly reduced.

Much of this debt is inevitably going to end up in the hands of those with significant levels of wealth who are looking for profitable and safe investments – particularly at a time when the world economy may face higher risk levels. This will further concentrate the inequality of wealth promoted by the current economic orthodoxy. This will lead to what has been called a K shaped recovery with the rich increasing their wealth while the poorest suffer unemployment, poverty and lower levels of wellbeing.

The Impact of the Three Crisis – Financial 2007/9, Covid 19 – 2020/21, Climate 2030/50

The results of combining estimates of the impacts of the three crises of our time, the 2007/9 financial recession, the current Coronavirus pandemic and the coming crisis caused by climate change and other impacts on planetary health are summarised in the graphs below. They show the difference between the average long-term trend of Western economies (including the United Kingdom) and extend that trend into the future up to 2050. Against this is set the actual GDP for the UK, which has been smoothed to indicate the trendline and eliminate variations around it. The finance crisis of 2007/9 reduced the economy by about 5% of GDP. Thereafter it followed the long-term trendline but below it. Around about 2013 the slow growth of the UK economy had put GDP back to the absolute level that it was before the financial crisis, but about this point the impact of the fallacy of composition effect meant that as each sector attempted to adjust its balance sheet deficit the impact on the overall growth of the economy pushed it down from an average of 1% per annum to 0.5% per annum.

In a similar way the impact of the Coronavirus pandemic has been illustrated as a 6.5% decline followed by slow recovery. Climate Change is shown as a series of 5% reductions in the economy spread over 3 decades. The Stern Review of 2006 estimated the cost of mitigating climate change could be between 1-2% of Global GDP. The potential economic impact without mitigation could be up to 20% of Global GDP. Given these forecasts it seems unlikely the world economy will grow over the next 30 years.



Includes impact of Composition Fallacy on long term growth from 1.1% to 0.5% pa
 Assumes 6.5% hit on GDP from Covid 19
 Assumes Best case Stern Review Climate change scenario spread over 3 decades 5%
 1980 =100

Policies for a new world.

If, as we expect, we will be facing a completely new situation as a coronavirus episode winds down gradually and we face the coming crisis of climate change, we will need to look at policies which are not based on “business as usual” but which are radical changes both nationally and internationally. So in this section we consider – a new economic paradigm, and measures to improve the resilience of nations to further cycles of major changes such as further financial crises, pandemics, or climate change.

The neoliberal model of limited government regulation of national and international markets dominated economic policy from 1980 onward. The intent was to maximise the rate of growth of economies. However, the reverse has been the case. During the immediate post-war period to the 1960s, growth averaged 2.2% in Western economies, since the 1980s it is only averaged 1.1%. At the same time inequality of income and wealth inequalities have grown such that in the UK for example, before the current crises, the top decile took 40 – 50% of income, and 50 – 55% of wealth.

To recover debt arising from response to crisis the strategy adopted by nearly all governments was to reduce spending on public services, including health and social care, the USA even reduced taxation on wealthy individuals and corporations. Many countries also planned to increase expenditure on infrastructure to create jobs. This was based on the neoliberal assumption that capital expenditure would generate returns, greater than the prevailing interest rate, while revenue expenditure on services was seen as unproductive. One reason for this is that national taxation policies are in competition to attract wealthy individuals and firms. Those that increase taxes fear that the mega wealthy will simply migrate and firms will relocate their headquarters to lower tax countries.

The crises will bring pressure to change the current neoliberal economic thinking, including:

- The likelihood that the recovery period of current and future crises will be long and stuttering with little real economic growth for the first half of the 21st century means that governments need to take a much more proactive attitude to economic, fiscal, and monetary policies.
- The inequalities created by current the economic system and the intergenerational injustice that is apparent will foster resentment that will lead to a demand for change.
- The downgrading in status of public services, which has been part of the neoliberal economic philosophy is at odds with the proven importance of ensuring continued and properly funded global and national public services, particularly in low income countries
- The conventional approach to funding debt repayment by cutting public services, thereby increasing inequality at a time when public services are already stretched will lead to a demand for governments to work together to apply progressive corporation, income and wealth taxes.
- The emphasis on monetary policy as the key regulator of the economy will prove ineffective as interest rates are kept artificially low and there are no more “shots in the locker” left.

An alternative economic approach to that of neoliberalism would see every individual as a national and global citizen with rights and responsibilities to serve the common good including global and planetary health. Those benefitting from high wealth and income would have a duty to contribute through taxation. Private and public enterprises would also have a duty to fulfil a purpose defined in terms of their social contribution to health, wellbeing and the environment. This should engage workers, investors and governments. At the level of national and multinational enterprises, this would require rethinking of corporate governance, as has been proposed by Colin Mayer. At global level nations and communities need to work together to regulate Multi-National Enterprises and to ensure international cooperation on issues such as poverty, health and climate change. This does not imply a system of state control or a global superpower but rather a system in which individuals and enterprises are regulated for the common good by a system of governance with the consent of nations and communities.

Strengthening resilience - Global issues – global solutions

The current pandemic shows the weakness of national responses to a global issue. Bodies and arrangements already exist at international level to deal with health, climate change and economic issues that affect all nations, we do not need to reinvent new ones. We do, however, need to make sure that international agreements and organisations are properly funded and enabled to work effectively. We argue that improved resilience requires that we have greater transparency, that we implement mutual insurance arrangements, and that we recognise the limitations and threats of a globalised economy and make changes accordingly.

The UN Environmental programme receives less than \$1 billion per year largely through voluntary contributions. While it has led the provision of advice, actions in these field such as the Kyoto Accord and the Paris Agreement can be characterised as “too little, too late and too weak”.

The International Health Regulations agreed in 2005 provides a framework to deal with global health threats, where the incidence of infection in one country has implications for others. The WHO monitors these threats and makes policies and recommendations for action. In respect of this pandemic the recommended policy is “test, trace, and isolate”. The WHO has already recommended that this policy could be implemented internationally through relatively modest national contributions. Unfortunately, those have not been forthcoming, and the result is that only a few nations put the policy into effect. For the most part, these nations have been those that were affected significantly by the SARS outbreak and had the necessary resources and structures to implement the recommended policy. In the current outbreak these nations have seen significantly improved outcomes as a result.

The IMF and the World Bank assist and advise governments in financial crises. But because the world economy is open to capital and income flows, it is beyond the scope of nations to ensure Multi National Enterprises make appropriate tax contributions or account for the costs that they impose on communities by their activities. A proper schedule of the income, wealth, capital, the cost caused to the environment and others (externalities) is essential for the assessment of fair taxation. The introduction of a “Tobin tax” on international financial transactions and increases in assessed national contributions could provide the resources necessary to deal with issues like pandemic and climate change.

None of these international organisations is perfect. Indeed, very often they are enmeshed by national and international politics, which diminishes their effectiveness. In relation to economic management the World Bank and IMF have often been associated with the imposition of the neoliberal economic orthodoxy on countries in return for financial assistance. In particular the recipe suggested for highly indebted nations has been a reduction of expenditure on health, education and other public services. But for many LICs these services are necessary, cost-effective foundations for economic and social development. In order to create resilience for the future, a greater pool of emergency resources needs to be built into national health services to handle sudden crises. Without such resources episodes like the coronavirus pandemic threaten to overwhelm national health services.

Resilience could be built upon an arrangement for mutual insurance, whereby national resources of areas not affected can be used to assist the affected countries. This particularly applies to situations where the resources available to a country are limited by the poverty of its economy. Arrangements already exist for the differential pricing of drugs in response to emergencies such as the HIV/AIDS pandemic. Similar arrangements are needed to deal with the pandemic for the future and to provide a level of international emergency capacity which can be provided corporately at lower cost than individually by countries themselves. It was in recognition of this that the EU established a fund to assist member states in responding to the Coronavirus pandemic and has led other countries in establishing an Euro 8 billion fund for the development of vaccines and treatments for global distribution.

Achievable policies?

We are facing three crises of such significance that they could create a sea change in public opinion:

- 1) The first crisis was the 2007/9 financial crisis. We learnt little from this. Deregulation remained the order of the day. Banks and speculative financing were not significantly changed or regulated. The response of most governments to the increased level of debt was to institute long-term policies of austerity – with disastrous consequences for social well-being. Public Services were reduced in scale to the point where they were just coping with current demands but had no capacity to deal with growth in demand or unexpected pressures. In this weak state nations were ill placed to deal with the second crisis.
- 2) The second crisis is upon us – an international pandemic – where the solutions proposed by international bodies like the WHO of “test, trace, and isolate” which could have been supported by relatively modest international financial support were not followed through. Consequently many countries have been caught flat-footed with neither the resilience in their health services, nor the extensive ability to undertake testing of their populations, to avoid the blunt policy of universal public “lockdown” with significant short, medium, and long term impacts on their domestic economies. The impact of this could have been reduced with a little foresight and investment. Will we learn from this? Some say that it is a game changer, others that we have a poor capacity for learning from our previous mistakes. We will see.
- 3) The third crisis will be even more significant – that of climate change and the impact of human beings on the environment, which has been officially recognised as a new geological period – the Anthropocene. The issues here are multi-dimensional, compared to the unidimensional financial crisis and pandemic crisis. They are longer term and cannot be short circuited. They will demand significant permanent changes to human lifestyles – not temporary restrictions. They will have differential impacts on individual nation states, groups of individuals, and on resources, all of which have the capacity for creating serious international conflicts.

All of this is well-documented. So there is a possibility that in order to avoid the worst effects, we may decide that the laws of neoliberal economics are not immutable, and that making sure that we are all involved in this together before “we are all in it together” – literally – would be a sensible move. For if we fall into the trap of nationalism, then claims of politicians to garner public support because “its all their fault” will sound the hollow knell of a funeral for humankind.

Unfortunately, the current concentration on nationalism has emphasised national rather than international identity and stimulated authoritarian responses. Some countries, like Russia and China have long had a history of authoritarian rule and this has been exacerbated lately by the desire of the current leaders of those countries to cement themselves into long-term leadership positions. In other countries the imposition of emergency legislation has presented their leaders with powers that they will be reluctant to give up and which they will use for personal or sectional interest – Hungary, Poland, Israel and Turkey are cases in point. In yet other countries the traditional democratic leadership has been subverted by egotistic and narcissistic leaders who espouse divisive and nationalistic policies – such as the United States or Brazil.

Even within transnational associations like the EU the current pandemic crisis has resulted in some responses which are uncoordinated and nationalistic, putting significant pressure on federal or quasi-federal arrangements. Some commentators begin to fear the breakdown of such transnational arrangements under the pressure of the current crisis. Some individual countries – like Chile – which have pursued an ultra-orthodox neoliberal economic policy are experiencing significant social unrest as a result of increased inequality. Within the UK the neoliberal economic orthodoxy is espoused by leading members of the current government and its separatist policy of Brexit. This is not encouraging.

An Alternative to Neoliberalism

A UK Government prepared to face the new circumstances, must consider the prospect of limited economic growth and acknowledge its duty to neglected people and regions, future generations and the world. It should seek a position as a leader for sustainable development in the UK and globally.

- 1) Business debt could be reduced by selling shares to employees (in lieu of wage increases) Government support for banks and industries could be traded for public shares establishing a co-ownership wealth fund. This could also ensure public and employee participation in boards to reinforce social responsibility e.g. on action for planetary health, reducing pay differentials between executives and front-line workers and between men and women. Government debt could be reduced by increasing corporation tax and taxing extreme incomes and wealth.
- 2) While infrastructure investment is an element of sustainable development its evaluation should not be based solely on the expectation of economic growth but improving equity and wellbeing. The basis should be protection of planetary and human wellbeing as defined by the 17 UN SDGs.
- 3) UK participation in international governance could also be targeted at sustainable development including health and education rights for women, poverty reduction and the right to protection and participation for all global citizens. Agreement should be sought to outlaw tax havens.
- 4) The coronavirus has shown the gap between health and social care services as a key fault line. The management of health and care services must be reimagined as a coproduction of families, community groups and professional services and funded to recognise this fact.
- 5) The growth of online shopping, at the expense of high streets, demands a realignment of retail taxation from business rates and profits to turnover. Taxation should ensure externalities such as costs to the NHS, carbon footprint and plastic pollution are charged to the producers of these costs. Such taxes could fund regional and local government.
- 6) Many aspects of health and wellbeing are determined by early life experiences, such as lack of parenting skills, a poor food culture, an education system that fails to recognize children's needs and many other factors that lead to a life of poverty and exclusion at huge cost to society. The post Covid environment demands a re-examination of policies that foster these injustices.
- 7) Robotics, working from home and the gig economy will bring changes to working lives. Measures to address this should include: limiting the working week, supporting a better work/life balance and encouraging beneficial community activity with a basic income.

It would not be too dramatic to say that this current crisis presents us with a choice of alternative trajectories, and it is by no means certain that the current political establishments and the major players will want to espouse the kind of policies that we are suggesting here are necessary to create greater stability and resilience for the changes that are to come.

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