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Economic Preparations for the Post-Coronavirus Era

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EXECUTIVE SUMMARY: Once the critical danger to public health posed by the coronavirus has passed, there will be a multitude of issues to be urgently addressed, and the global economy will have to be a top priority. Planning should begin now, as enormous government interventions will be necessary. Where vast amounts of money are at stake, critical assessments have to be made ahead of time and throughout the process to avoid waste and abuse.

The coronavirus pandemic has led to huge societal problems all over the world. In such an unprecedented reality, it is important for governments to start planning as soon as possible for the period immediately after the worst danger to public health has passed. Such an agenda should be constructed ahead of time, even if it is full of holes. New plans can be added as developments arise.

Among the multitude of issues governments will face post-coronavirus, the hit to national economies will have to take priority. Lockdowns and other government decisions have destroyed significant portions of GDP for many countries for this year, and unemployment has increased dramatically.

Huge financial intervention by the states will be necessary to cope with these shocks, and several countries have already taken initial steps. The best means of intervening is far from clear, and different governments will take different approaches. As extremely large amounts of money are at stake, critical efficiency assessments will have to be undertaken on an ongoing basis. Vast wastage and abuse in such a fluid situation could make a catastrophic situation even worse.

The top priority has to be determining what kinds of interventions can help return a country to a normal, albeit different, economy. Democracies ruled by politically centrist or center-right governments will want to return to a non-socialist type of reality as soon as possible. Mass injections of money into society will be required, but so will ongoing evaluations throughout. Countries that do not do this will risk falling into the trap of becoming *de facto* socialist.

There are other risks as well. In view of the massive interventions that will be required and the need for results as fast as possible, there will be a temptation in some quarters toward authoritarianism. This contains two dangers. One is that those in power may want to circumvent civic opposition, which can be expensive and can delay decision-making, by employing emergency measures that they then refuse to roll back. The other is a possible trend in which some citizens view others' civil rights as obstacles to their own economic advancement. That could lead them to vote for more populist and authoritarian parties. The latter development could also result from the dashing of expectations among parts of the population about the extent of the help they will be receiving from the government.

Checks and balances will have an important role to play in government policies, and not only as far as economics are concerned. It remains to be seen how the interventions will affect pre-coronavirus commitments to act against human-caused climate change, for example.

There will be a temptation to nationalize essential industries and financial institutions that have sunk into deep trouble as a result of the crisis. Doing so only makes long-term sense with respect to privatizations of state-owned industries where re-nationalization would have been inevitable anyway. The failed British railway privatization and break-up come to mind.

For other corporations that are so much in need of state help that governments have to acquire their shares, nationalization should be only temporary. Israelis may remember that their government became a shareholder of some of its large banking institutions when the banking sector collapsed in 1983. When the banks became healthy again and the markets permitted it, the government sold off its shares.

In the meantime, another issue is coming to the fore. How does one trade off the huge economic cost in terms of lost GDP and greatly increased national unemployment against the need to take extreme measures to fight the health impact of the virus? That discussion will grow much louder in the coming weeks as pressure rises for a return to "normal," come what may.

The value of a human life is not a new subject in economics, though it is often kept out of the public eye. There are many risk evaluations in which a specific figure is assigned to the saving of a human life. Health care funds, to give one example, must determine the cost of expensive medication to be reimbursed against the number of lives it can save.

The sudden huge increase in unemployment levels needs to be addressed through major government measures. The temptation will be great to make state payouts to all citizens or to large groups of them. This can only be done on a large scale for a short time. The exceptions are countries with small populations and significant income from oil or other natural resources.

For this to work, a government service will have to be set up to assist those who fall outside the safety net. Some businesses will have no choice but to close down or enter bankruptcy, and their employees will become jobless. Many self-employed will be unable to restart their jobs. Countries that had grown accustomed to low unemployment levels will have to find ways to help the suddenly much greater numbers of jobless citizens.

This necessitates immediate planning for extensive retraining programs. Governments should assess vacancies and determine what jobs can be filled by the newly unemployed. This is even more relevant in European countries where the birth rate is below, sometimes far below, replacement level.

The debate on the need to reduce the impact of globalization has already started. Governments will have to rethink which products imported at a low cost from abroad should be made in their own countries instead. India, for example, struggled to provide the drugs it needed at the height of the crisis because the raw materials could not be delivered from locked-down China.

The pandemic has had a huge impact on the EU—so huge that it prompts the question of just how far European solidarity goes. National governments have made decisions in the face of the crisis that served their own interests at the expense of that solidarity. Germany, for instance, kept some medical equipment for itself and did not export it to other European countries. It also closed its borders to citizens from several neighboring EU countries.

The 1985 Schengen Agreement was a great step forward in terms of easing travel within the EU. A European could move from one participating country to another without having to go through passport control, which created a sense of unity and meaning on the continent. The recent closure of borders by some EU countries has had the opposite effect: it created a greater awareness among citizens that they live in different countries.

All this pales against the enormous financial problem created by coronavirus. Initially, attention was focused on Italy, which was hit harder than any other European country by the pandemic. Its suffering will likely continue even after the peak of the health threat, as the virus could have an even greater impact on Italy's economy than on that of other EU members.

In the years before the 1999 introduction of the euro, it would have been helpful to devalue the Italian currency. This is no longer possible. The coronavirus crisis shows once again what a huge mistake it was to introduce a joint currency while individual member countries continued to employ divergent fiscal and economic policies. (As an aside, Brexit looks far more sensible nowadays. The British government can make plans for the UK's economic recovery without having to navigate through Brussels.)

Ianis Varoufakis was Greek finance minister during part of that country's economic crisis. He recently published an article in which he relates the economic *dictat* that was imposed on Greece by the EU. He explains that in practice, the economic restrictions were dictated by Germany. None of the proposals he made on behalf of his country were even considered. Varoufakis warns that such a policy cannot be repeated toward Italy, which is far bigger and more powerful.

Even before the coronavirus crisis, it would have been extremely difficult for many European governments to pass legislation through their national parliaments granting loans to Italy like those made to Greece. This is not only because of the larger sums required. Euroscepticism has greatly increased in recent years in several EU countries, as has the number of parliamentarians who hold such views. They would have strongly opposed massive financial assistance to Italy.

Only a few weeks ago, it was believed that even if funding for Italy were forthcoming, the harsh conditions demanded by the EU would probably lead to the collapse of the Italian government. A new Eurosceptic government headed by Matteo Salvini, leader of the Northern League, might introduce an alternative currency to be used in Italy in addition to the euro. This could be a way of gradually taking Italy out of the joint currency.

Yet another problem for the EU is that Italy has been an important annual net contributor to the EU. That may now end.

In the meantime, the EU has been overtaken by a far bigger problem. Ten EU members, including Italy, Spain, France, and Belgium, want the EU to issue Eurobonds amounting to hundreds of billions of euro to assist them with their financial problems. These bonds can only be sold if there are proportional national guarantees. Germany, the Netherlands, and Austria have announced their total opposition to this. This may turn into the largest conflict about mutual solidarity the EU has ever faced. Tensions on this issue are rising fast.

These are only a few of the many issues affecting the economic sector that will have to be addressed quickly as the world emerges from the coronavirus pandemic.

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