Corona The economy of tomorrow

‘Our existence doesn't have to suffer any more misfortune’

This crisis calls for far-reaching international cooperation. There's no way back to normal. With proposals in the areas of solidarity, tax reform, the Green Deal, the social contract, and risk sharing, these are ‘ Vendrik’s Five'.

Kees Vendrik

‘We have to realise that we cannot continue our consumption of limited supplies of fossil fuels and raw materials, as we have done in the last quarter of a century. Seen in this light, the world before the oil crisis will not return. We must continue to adopt a lifestyle behaviour that uses resources and energy more sparingly. This will change our existence. Certain views are disappearing. But our existence doesn't have to suffer any greater misfortune’. So declared the then Dutch Prime Minister Joop den Uyl in his national address on the Arab oil boycott that hit the Netherlands in 1973.

Den Uyl not only spoke about the acute consequences of the boycott for the Netherlands, but in his announcement of rationing measures and ‘car-free Sundays’, he echoed the warning of the Club of Rome a year earlier. In its report *Limits to Growth*, this group of scientists had analysed how the spectacular post-war rise of the consumer society was being accompanied by an unprecedented raid on nature and raw materials. This untenable path is still being trodden. All the ecosystems on which our civilization rests are in the red. Combined with illegal animal trafficking and excessive use of antibiotics, particularly in intensive agriculture, this also increases the risk of pandemics that, for example, the UN environmental organisation UNEP warned of in 2016.

Current Dutch Prime Minister Mark Rutte's national address in mid-March on his cabinet's crisis measures to control the corona virus lacked such insights. Perhaps it was too early to take an overview of the origins and impact of this pandemic and to provide initial forecasts. The need to quickly return to 'normal' probably also played a role: the virus characterised as an annoying but temporary interruption of life in a hip country.

It probably won't be like this. Things can't just open up without the risk of new outbreaks and dependence on 'battlefield medicine'. In any event, a resounding blow has since been dealt to the world economy, with particularly significant consequences for people in a vulnerable position - in this country, and more so elsewhere. That, understandably, puts pressure on business activity to get back underway. However, there is not yet sufficient knowledge about the virus, its current level of spread, the build-up of immunity, et cetera. Data is incomplete, partly due to lack of testing capacity. We do know about the other pandemic of diseases of affluence in rich countries. Not only the elderly are vulnerable. For the time being, governments can't do much else than move forward at a walking pace.

This is how we end up in the ‘metre-and-a-half economy'. Whether this will help counter last week's depressing IMF figures remains to be seen. For the time being, 'the Great Lockdown', as the IMF labels the impending depression, surpasses all crises of the past eighty years. The global community faces an unprecedented future with records of rising unemployment, failing companies, disrupted public finances, and depleted banks. The fact that governments and central banks have made massive interventions everywhere is justified, given that roughly a third of the economy is out of action. The global figure now stands at eight thousand billion dollars in public interventions. Nation states are also required for this 'part-time socialism' in times of need. This will alleviate the misery for now. Rapid recovery is unlikely and will also be delayed by global differences. Where Asia seems to be getting back up to speed, the peak of the pandemic in the United States is probably yet to come.

We now have a full view of the 'underlying suffering' of today's economic order. See the accurate description by Dirk Bezemer *(De Groene Amsterdammer,* 16 April). It contains a long list of symptoms, such as lack of resilience and diversity due to financialisation, oligopolies and inequality.

Global, private and public debt has increased by some thirty percent since the 2008 financial crisis. Many companies, such as Hema, have a substantial debt burden, the result of *'financial engineering'*, intended to withdraw money from the company as quickly as possible. A much-used variant is the repurchase of own shares with borrowed money, driven by low interest rates. This extraction model, facilitated by the strong position of shareholders in the economic order, has no mercy for buffers. Only the short term counts.

The resulting lack of resilience also affects the global manufacturing industry, which has been under the spell of 'customization' since the 1980s. With parts coming from all corners of the global economy, the major manufacturers of anything from mobile phones to cars are aiming for maximum competition between suppliers without buffers and stock. The lockdown affects not only the global giants, but especially emerging countries that have geared their economies to these waves of globalization. Resilience and diversity are also hampered by global oligopolies in digital technology, pharmaceutical companies and trade in food products, which makes countries worryingly dependent on a handful of boardrooms for vital products and services.

Meanwhile, the platform economy relies on a variant of the extraction model: a range of loose contract forms aimed at avoiding social security costs for working people. Just as the systemic banks were able to pass on the losses to the Treasury in 2008 after years of private profits - thanks to minimal capital buffers - the implicit subsidy to platform companies is now being discounted: the cost of supporting the army of bogus self-employed and flex workers, such as Uber drivers, is now borne by the government. Not very innovative, but disruptive to the sense of social justice.

These are not marginal 'frayed edges' of the labour market: in countries such as the US and the Netherlands this is a large group forced to make ends meet with little income, with no or limited insurance against social risks, and with little prospect of a more secure existence. The *'working poor'* usually have no buffers, but there is a good chance that tomorrow another demand for payment will fall on the mat, coming from a company that has created a profit model based on not solving problematic debts. These are not natural phenomena, but the result of legal regimes and institutions that span the economy nationally and internationally.

Due to the impact of the corona crisis, there is no way back to 'normal'. The best route forward now is to determine what a new ‘normal’ should be. If this crisis is not the time for such a debate, then when? What is now required is a debate amongst political leaders and within society. Here are five proposals.

1. Global solidarity

The fact that the virus does not discriminate between people - anyone can get sick - is a biological truism, not an economic one. Who takes the hardest hit depends mainly on where they were born. Global inequality is plays a role here. To take just one example from many: now that the clothing industry in rich countries has suffered heavy damage, the global fashion giants have cancelled their orders with the world's textile factories in Asia. Reportedly, some brands are still paying for their last orders. The rest have thrown in the towel. In Bangladesh, too, the machines in the sewing workshops are at a standstill. A few million textile workers are out on the streets without money and the first reports of famine are coming in.
Capital is being withdrawn on a massive scale from *emerging markets,* exporters of raw materials, for example, are seeing their earnings go up in smoke, whilst transfers from diasporas are drying up and national currencies collapsing. The scores on the United Nations Sustainable Development Goals - a measure of global prosperity - are being hit hard. A record number of ninety countries have already registered with the IMF for emergency aid. Political focus on the global *fallout* from the corona crash is still limited. Solidarity is mainly organized along national borders, as Dutch Finance Minister Wopke Hoekstra recently again made clear to Europe. This is certainly more than 'lack of empathy' at issue, as he passed verdict on himself after the first clash in the Council of European Finance Ministers. The world celebrates globalisation when things are going well. When they don’t, everyone hunkers down in their own countries.

That may be unavoidable at the start of such a crisis - *all politics is local* - however it not only demonstrates a lacks solidarity to continue in this way, but a lack of wisdom. To assume that this current world disorder will also cause us problems is not rocket science. If eight thousand billion dollars of national emergency aid is now being made available globally, can we make at least one percent of that available for budget support, emergency credits, and aid to the world's most affected citizens?

2. Structural reforms 2.0

This type of IMF credit support for countries in need immediately raises the question of conditionality. This is not an unusual question for financiers. The crux of the question is the conditions themselves, which are ultimately about what sensible economic policy is and what kind of economy we envisage. Since the 1980s, the IMF countries' emergency aid handbook has consistently steered the neoliberal direction. The terms of this 'Washington Consensus' are now breaking up many countries. The years-long enforced course towards an open economy based on the exploitation of a few available resources and cheap labour has made emerging countries - of the Bangladesh type - vulnerable to falling demand and flight of capital, as is happening now. The emphasis on exports, a small government, privatised public services, tax exemptions for capital, and a large and hyperflexible labour market have not done any good for diversity and buffers within many national economies.

This classic package of 'structural reforms' is also part of the standing prescription of the European emergency fund (the ESM), the heavy-handedness of which the Greeks in particular experienced between 2010 and 2015. Given that the Greek political elite also made a mess of things, the shock therapy was so strong that even the economists of the IMF found the approach advocated by the Europeans for Greece to be untenable. The same lesson could also have been learned after the Asian credit crisis of 1997, when it became clear that the ravages of unchecked financial liberalization were wreaking havoc in countries such as Thailand, Indonesia and South Korea.

Time for a change of guard. After the credit crunch, heterodox economists did not sit still. A cartload of insights, plans and options is at the ready, as wonderfully expressed last year in the OECD paper *Beyond Growth: Towards a New Economic Approach* by Andy Haldane, Mariana Mazzucato, Robert Skidelsky and others. This is a good starting point for Structural Reforms 2.0 to build and finance national recovery programmes on principles of tailor-made globalisation, a mixed and diverse economy, basic social protection and accessible health care for all, restriction of the inflow and outflow of fast money that does not add long-term value, and above all a strong green investment agenda that serves as a launch pad for the transition to sustainability. If ninety countries are now in need of IMF support, it is essential for their future.

This reset should also have an impact on the way globalisation is now regulated. This crisis calls for far-reaching international cooperation and solidarity. It’s far from certain to happen. Nationalist leaders do not care, and the current model of globalisation makes few friends in this day and age. It is the free trade regime managed by the World Trade Organisation (the WTO) that has been dominant since 1995. A web of bilateral trade treaties between, for example, the EU and third countries is based on this. The removal of trade barriers - such as tariffs - and the principle of non-discrimination have been guiding principles for years, making it extremely difficult, for example, to curb unsustainable trade. This hierarchy is untenable in times of ecological crises. This also applies to the agreements in trade treaties for the protection of investors against national governments. Why are capital and labour protected by the international trade regime, as Asian textile workers are now experiencing?

A step in the right direction here would be to give binding force to the voluntary guidelines for international corporate responsibility as developed by the OECD. Also relevant here are the (old) International Labour Organization (ILO) treaties for decent work that have been waiting years for enforcement. Action is also needed to curb the years-long fiscal arms race between nation states on the way to the bottom. The Panama Papers showed how global tax avoidance has become completely out of hand. Capital and equity avoid their *fair share.* The unsustainability of this is also apparent now, when multinationals hold their begging bowls out in countries where they have never paid taxes. And it is precisely now when governments will find themselves stuck with limited opportunities to raise taxes to cushion the corona shock and fund recovery programmes. Due to a lack of room for manoeuvre, the tax bill ends up in the hands of citizens and small businesses. Time for a second WTO: a World Tax Organization to scale up the OECD's tax repair work and gives a voice to the countries that are now missing out on billions.

The Netherlands also has an important role to play here. After years of facilitating global tax avoidance, it should now take on the role of booster of tax cooperation. Also important for the national budget: Minister Hoekstra regularly refers to the 'deep pockets' of the state, thanks to the strict fiscal policy applied since 2010. Leaving aside the question whether such a policy was actually so sensible, it is private Dutch citizens who have coughed up the extra tax to pay for it - not big business.

3. The Green Deal

It is clear that we cannot let the climate crisis, the dramatic loss of biodiversity, global deforestation and other eco-crises take their course. The world is in injury time. Once past all the *tipping points*, there will be no turning back. It is hard to envisage how we could then sustain civilization and prosperity, and probably only at phenomenal costs, as Lord Nicholas Stern already calculated in 2006: at least twenty percent global loss of prosperity. Seen in that light, the Great Lockdown is still a mild affair. The necessary transitions to this end are ultimately about the question of which economy we will take with us into the post-corona era. That question was already very much on the table with the Paris Climate Accord.

It would be inefficient now to spend many billions of public funds worldwide on a bail-out of fossil fuel companies that are indifferent to the Paris Climate Accord. The option of support is now out of the question. The start of the pandemic coincided with a high level of conflict between the oil producing states, resulting in sharply declining oil prices. Now that transport in many countries is severely restricted, the world - unlike in 1973 - is swimming in oil. There is now an agreement to substantially reduce oil production, but a shake-out of the oil sector remains possible. In America, oil companies have already applied to Trump for support. This also applies internationally to many airlines, probably followed by other fossil fuel carriers. Participation in ambitious emission reductions as a minimum condition for support for (transport) companies seems an obvious way forward.

This is in line with the growing alertness in financial markets and regulators to the risk of *'stranded assets'.* There are astronomical sums of money in the fossil fuels sector that ultimately rest on valuations of reserves of oil, coal and gas, which will never be allowed to be fully exploited if we want to meet the ambitions of the Paris Accord. Just getting rid of this reliance over time without too much damage will be a success in itself. With a public injection of billions, the problem will only get worse: so don't do it.

Sustainable conditions for giving emergency aid right now are therefore of great importance. The next step is recovery based on a Green Deal. The European Commission's Green Deal has been on the table since December; it sets out numerous points of leverage for recovery. Pricing, standardisation and investment are the main routes. At this time in particular, it makes sense to strengthen the European Emissions Trading Scheme (ETS) by increasing the price of allowances over time or reducing the available allowances at a faster pace, which is necessary to strengthen the EU's climate ambitions. The allowances are still too cheap. Added to the low oil price (gas was already cheaper), this is not good news for climate transition. Once again, fair pricing of pollution does not come into play, and investments in sustainable technology and production processes are again becoming relatively more expensive.

In addition to raising the ETS price, it is advisable to reduce (implicit) fossil fuel subsidies. This saves money, and was already an old - unfulfilled - agreement from 2009, part of the G20 package in response to the previous crisis. The EC plan also contains an excellent proposal to regulate imports to the European market via a CO_2 border tax. This creates a barrier against products with a high CO_2 intensity, and offers scope to make stringent transition agreements with major polluters who fear for international competition.

A *'just transition',* an inclusive transition, is of great importance. Especially with the current rise in unemployment. The Green Deal's green investment agenda therefore needs to be brought forward to create jobs right now and give companies and their financiers a target on which to focus their business investments. There are plenty of options. For example, green hydrogen will play an important role in the energy system of the future, including a solid investment programme in relevant infrastructure. As in 2009, construction will also have to deal with a drop in demand. This is a good time to step up efforts for CO_2 neutral homes. Unfortunately that didn't happen when it could, but it can be done differently now. With an agenda of this type, the investment fund announced last year by the government for the Netherlands can be utilized.

Recently, the European Commission published a series of new proposals in the field of *'sustainable finance'* in order to get the financial sector on time in a sustainable transition and to minimize the risks of stranded assets. That route deserves support. The European Investment Bank (EIB) already took the excellent decision last year to stop new financing of fossil fuels. It is to be hoped that this will also apply to the EUR 200 billion which, in accordance with the latest European compromise on the financing of the corona virus response, will be used via the EIB to finance business. The final element of this approach is the long-term prohibition of all new funding in the fossil fuels sector. In this way, Europe offers clarity about the sustainable economy in the post-corona era. It is precisely now that the business community needs certainty about what lies in store.

4. A new social contract

The corona crisis reminds us how essentially good public institutions are in a market economy. The importance of access to good health care is now more obvious than ever, but the basic insurance that goes with it for all citizens is far from commonplace globally. The United States is a terrifying example: an expensive health care system to which millions of Americans have little access. Nor does it help in the fight against the pandemic if sick workers remain at home for fear of an unaffordable doctor's bill.

Public healthcare systems require accurate maintenance and an adequate budget. The corona outbreak in Great Britain reveals numerous shortcomings within the National Health Service that are partly the result of years of austerity measures. Several countries have homework to do here. There is no unlimited budget, but a new balance is needed between sufficient resources and the desire to control the pressure of healthcare premiums. The pandemic shows that poor health care is not only humanly unacceptable, but also economically costly.

On the labour market, governments are now trying to keep companies and their employees afloat by means of emergency regulations and guarantees. As in the previous crisis, the 'working poor' will be hit first. As indicated above, the holes in the social security net that is supposed to protect people in bad times become visible. Inequality is the outcome here, too. On behalf of the Netherlands, the Borstlap Committee investigated how this dichotomy in the labour market works out in this country. Its proposals are now more topical than ever. The corona crisis is an incentive to work towards an inclusive labour market with elementary basic rights for all workers, regardless of type of contract or employment. It would also make a difference if (global) business were to change direction from that of shareholder capitalism.

Good companies should be on a long-term course that balances the interests of financiers, employees and the social challenges we now face. Long term, positive impact, sustainability, inclusiveness, resilience, fair share, the *commons;* these are the business codes we need.

Emergency aid should now be targeted accordingly, in the way, for example, that Denmark refuses aid to companies in tax havens.

5. The bill

The way out of the 2008-2009 credit crisis mainly involved taking on even more global debt and then pushing interest rates down. That towering global debt is a lousy start. The interest rate instrument has become blunt. The support programmes of governments that are now being rolled out around the world are creating a big hole in the coffers. Selective tax increases are certainly an option (higher CO2 tax, cancelling a reduction in dividend tax (the Netherlands) or introducing a corona tax for the wealthy), but do not close the gap.

What about borrowing? It is hard to imagine that the global capital market will simply finance all those extra public debts. Many investors are now fleeing to dollars. They may come back, but at (much) higher interest rates. For many countries, therefore, the IMF is now the most important point of contact. In the eurozone, the European Emergency Fund (ESM) can be used (with the right conditions). Corona bonds are also a risk-sharing variant. That helps with the financeability.

But even then. High-growth government debts impose an extra heavy mortgage on the future. This could lead to a repetition of the euro crisis. What started as a private debt crisis in 2008 became a public debt crisis in Europe in 2010, which brought years of austerity. The economy and the public sector must now be spared this. Moreover, it would destroy any room for a solid Green Deal with a targeted green investment programme. And we would find, in retrospect, that after the billions in support for the old economy, there would be no scope left for the crucial transitions. Exit the Paris Accord.

Central banks are now more crucial than ever. They are again now buying up on a large scale existing public and private debt from the market in order to reduce interest rates and bring liquidity into the financial system. This is, as in recent years, something for nothing for the financial providers of these debt securities. It's now the time for extra caution: buying up is a form of bail-out. As in recent years, is this indirectly supporting the fossil fuels sector? What conditions do central banks impose?

Avoiding a new debt crisis now requires direct monetary financing of new public debts (or 'helicopter money'). This must be done on the basis of a democratic mandate in which the financing of green transitions is central.

‘Europe has a rendezvous with history', wrote Ilja Leonard Pfeijffer in the *NRC* from his base in Genoa in response to the quarrel between the Netherlands and the southern member states of the eurozone. It's not just Europe. The corona crisis teaches us important lessons about our economy and what is lacking. We can do something about it. I'm looking forward to Mark Rutte's upcoming speech: ‘The Cabinet has been thinking. We're turning things around. We're not going to pass any bills on to the next generations. But our existence doesn't have to suffer any more misfortune’

Kees Vendrik is chief economist of Triodos Bank.

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