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# *Lives and Livelihoods*

## *Post-Crisis Paradigm Shifts in Economic Theory and Practice*

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**SUMMARY:** Crisis triggers change in economic theory, this time bringing healthcare to the forefront of attention. We now have our primary focus on finding a cure, and developing treatment as well as preventive capacities. While saving lives is of utmost interest, securing livelihood is also a priority, particularly amid a major economic recession caused by lockdown measures introduced to contain the spread of the virus. The extent of the recession varies in different regions of the world, often because they have very different financial resources to commit to protection. This study focuses on the USA, Europe and the emerging world. It draws the conclusion that taking effective action against the pandemic crisis requires greater international cooperation. It reminds us that the crisis cannot be solved by monetary policy alone. It calls for the use of fiscal policy, as well. All this will most likely have a major impact on and trigger the change of the rules of financial system.<sup>1</sup>

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Analysts have unanimously argued that the pandemic-crisis pushed both economic policy and economic theory to a turning point. It has become clear that once the coronavirus crisis ends, we cannot go back to the way we lived before. We cannot return to the usual business standards, and there is no more ‘business as usual’. Not even after we can – hopefully – contain the spread of a catastrophic pandemic. The virus brought lasting changes, inevitably. But in what direction? And how comprehensive are these changes?

This study focuses only on finances, while we

understand that there are many other aspects of and lessons to be learned from the crisis. Yet, the fact remains that without adequate financing there may be no solutions to other – highly important – social, healthcare, political issues.

First, we would like to offer an in-depth interpretation of two key phrases. Lives and livelihoods. Lending not spending.

### LIVES AND LIVELIHOODS

In humane societies, response to threats to human life always comes first when resolving a crisis. Livelihood may be better or worse, but rarely does it become life-threatening.

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This, however, is the mindset of the developed world, which normally has a social safety net of some kind, and where the issues arising out of the pandemic are less intense or of a lower magnitude compared to places where losing a job could easily lead to starving to death. However, in developing countries it is not a rare phenomenon. That said, let us remind ourselves to the times – even in the 20<sup>th</sup> century – when today’s developed countries had to face similar problems. Europe had a major lesson to learn from the huge number of deaths following World War I, when the famine in “peacetime” Germany killed more people than warfare. Food shortage caused the death of an estimated one million people. Or the Holodomor in the Ukraine, when the Soviet agitprop peasant policy killed 5 million people. *Steinbeck’s* *The Grapes of Wrath*, a novel set in the USA during the Great Depression of the 1930s, also describes how a woman who just delivered a baby has an old man, an agricultural worker dying of starvation, drink of her breast milk to save his life. (Do not be surprised to find literary quotes in an economic study. These works truly reflect the severity of the problem in the so-called developed world of the 20<sup>th</sup> century.)

Certainly, a lot has changed over the past 70 years. Safeguarding human life and – just recently – nature has been gaining importance.

Safeguarding human life seems like a fundamentally healthcare issue. Much depends on the advancement of medicine, the availability of human capital and the effectiveness of medical research. Nevertheless, even in medicine financial capital is just as important as human capital, because new drugs are long researched, which in turn costs a lot. Pharmaceuticals must then be manufactured, which also requires funding. Overall, financials are just as important as the human factor. The question arises whether or

not it is an economic interest to fund research aimed at protecting human life? And if it is, where should finances come from? Should research be financed by the private sector or from community sources? Can we trust the market to come up with solutions in time? Hardly can we expect to have adequate services available for everyone only on a commercial basis. Unfortunately, healthcare competence is a very limited good. It requires a lot of education (and a lot of funding). While only few can earn acceptance to medical schools, their education also consumes vast amounts of money to be paid by both the student and the community. In a sense, it explains why those successfully completing the strenuous requirements of medical schools expect a return on their human capital investments, both in terms of the pricing of their services and in the wages they get paid. This, however, renders healthcare – in the absence of public funding, or if public funding is inadequate – unaffordable for the poor. But healthcare is a public good. Particularly, in times of pandemics. It is public health that is at stake. Viruses are not picky about hosts. They get to both the rich and the poor. Infections spread through certain channels in our global world. Even rich countries are unable to prevent transmission if the virus can be transmitted with air. It is yet to be determined whether the current (maybe excessive) long distance traffic is sustainable in the world. A medical emergency is impossible to be resolved alone and for a single country alone, no matter how developed, unless they cooperate with and help the other, less wealthy countries of the world.

In view of the above, the Global Preparedness Monitoring Board (GPMB) called upon members of the G20 to join forces in addressing this critical healthcare challenge. The GPMB, through its Secretariat hosted by the WHO, is committed to creating a safer

world by monitoring global health crises. Since its establishment in 2018, the body has been monitoring pandemics as well as the preparedness of certain economies globally. It emphasizes the importance of prevention and helps mobilize in times of pandemics. The co-chair of the GPMB is *G. H. Bruntland*, former Prime Minister of Norway and a vanguard of sustainable development, who submitted the famous Bruntland Report.

In response to the call for action, the EU and its global partners held a videoconference on 4 May 2020.<sup>2</sup> The political leaders of developed countries committed to pledging \$8 billion to researching vaccines, and developing therapeutics and diagnostics. As agreed, all jointly developed materials will be made available globally. This is, indeed, an unprecedented initiative in the history of the 21<sup>st</sup> century. To help reach the objective, the European Commission has pledged €1.4 billion from its budget in grants (including €400 million loans and guarantees). Japan has committed €730 million, Germany €530 million, while Italy and Spain, the countries hardest hit by the crisis, each offered more than €100 million to the cause. The Visegrád countries have made a joint contribution of over \$3 million. While some countries (for instance Russia) opted out of the initiative, there were others who joined without stating the exact amount of their commitment. The USA has chosen to go on a separate way, making major investments in its own research. That said, donors also include private persons, such as *Bill Gates*, who pledged \$100 million through its foundation.

The €7.4 billion (\$8 billion) funds raised at the videoconference was somewhat less than the target, but the initiative was still considered a success, although more will be needed in the future. Additional resources must be allocated primarily to the alignment of research &

development and mass production, as well as to ensuring universal and affordable access to vaccines (which will be offered according to the plans). Nevertheless, vaccination against other severe, but vaccine-preventable diseases should not be ignored (not even for Covid). Cross-border cooperation is inevitable for supplying vital medical and healthcare equipment, the availability of which is currently reduced or limited. It is important to make testing available in every country. Developing countries must be offered assistance in establishing their healthcare systems and developing social safety nets. The G20 have been urged to step up to address the humanitarian impacts of the pandemic to a greater extent.<sup>3</sup>

In the current pandemic crisis the best way to reduce the spread of the disease in the short term, while there is no effective treatment against the virus, is to minimize close interactions between people. This, however, induced a great economic recession.

### The Impact of the Pandemic on Livelihood

Japan's GDP dropped by 27.8 percent just in the second quarter of 2020. Germany suffered a 9.7 percent decline. In France, the second quarter was closed with a 13.8 percent downturn. The slump in Britain is expected to be even bigger, it ranks second place in developed countries according to the OECD, with a value of 20.4 percent.

International trade also suffered a major blow due to the crisis. The Directorate General for Trade of the European Commission (DG Trade) estimates the plunge to be 10-16 percent in 2020. Naturally, it is transportation and the machinery sector which suffer the most in the crisis.

In its outlook, the IMF projected global

economy to shrink by 4.9 percent in 2020.<sup>4</sup> The June outlook was almost two percent (1.9 percent) below the April 2020 World Economic Outlook (WEO) forecast, and in 2021 global growth is projected at 5.4 percent, which implies a further decline. Overall, this would leave the GDP some 6.5 percentage points lower than in the pre-COVID projections of January 2020.

The forecasts of the European Commission do not look good, either.<sup>5</sup> The latest forecast projects that the economy of the euro area will shrink by 8.7% in 2020, which is more than what was anticipated in the spring, but will grow by 6.1% in 2021. The EU economy is forecast to contract by 8.3% in 2020 and grow by 5.8% in 2021. This means that the decline will be higher than anticipated and even the recovery in 2021 will fall behind earlier expectations.

In any case, public funding shall not only cover the costs of healthcare services in sufficient quantities – which is, by all means, a top priority –, but shall also prevent a mass loss of demand which may be entailed by the lower income of households during lockdown or quarantine periods. In some developing countries, it may be more deadly than the coronavirus itself.

Recession – so it seems – may reverse the current improving trend in poverty. The United Nations’ reports forecasts that the coronavirus pandemic will push more than 34 million people, most of them living in Africa, into extreme poverty. By 2030 Africa could be home to 90% of the world’s poor.<sup>6</sup> Other estimates suggest that the number of people living in poverty could increase by 420–580 million.<sup>7</sup> The United Nations’ World Food Programme warns that the Covid-crisis will double the number of people (265 million) suffering from acute hunger.

Countries in Africa, Asia or Latin America should be provided immediate aids as early as

in the first phase of the crisis so that they can address the healthcare emergency. However, it is not only lower- but also middle-income countries which are in great need of help. Together they account for 70 percent of the world’s population, but only around one-third of the world’s GDP. How can their problems be addressed? How will there be enough funding, i.e. adequate demand, in countries struggling with severe private and public indebtedness? Many of them have excessive sovereign debt in foreign currency, the repayment of which requires continuous export earnings or will lead to further indebtedness. This hinders the structural transformation of their economies since they mainly export crops produced in monoculture, while monoculture makes them reliant on import in respect of all other products. To put it simply, without the export-foreign currency flow, they will have nothing to eat. The inflow of foreign capital, however, depends on credit ratings. So these countries are concerned that the budget deficit will deteriorate their credit ratings, which in turn will lead to capital flight. Ultimately, they have no room for true fiscal decisions. They cannot reprioritize funds in the budget to alleviate the impact of the crisis, unlike countries which issue convertible currencies and where monetizing the deficit arising out of additional government spending is not particularly difficult. This is why it is crucial – as argued by many – that the IMF should make another SDR allocation, or alternatively, that their creditors should agree to debt restructuring. As for capital flight, the problem is made more complex by the fact that not only foreign investors but also resident investors choose to “evacuate” their wealth from the country when the budgetary position deteriorates, because of a potential devaluation in a nation’s currency, which in turn would “inflate” their savings. Since the onset of the crisis, more than \$100 billion

have flown out of these countries. The very same reason is quoted as an explanation to the relatively low budgetary expenditures in India, even though this huge Asian country is hit very hard by the crisis.

Problems triggered by the lockdown of the economy arise all over the world, even in developed countries. According to the June 2020 estimations of ILO, the International Labour Organization, global working hours declined by 14 percent (equivalent to approximately 400 million full-time jobs), compared to the pre-crisis situation. No work, no income. For the first time in this century, poverty has become a major threat to the global economy.

We can see fundamental differences between countries as to how much they can allocate from their budget in response to the crisis and to manage the impact of the pandemic. At the end of April, converging countries reported to have allocated only 3 percent, while developed countries pledged an average of 11 percent of their budget to this cause. Since March 2020, the US government has announced additional spending amounting to over 14 percent of GDP. In Japan, the figure is over 21 percent, compared to nearly 10 percent in Australia and around 8.4 percent in Canada. Spending in South Africa also accounts for around 10 percent. In India, the same spending is only 1 percent!<sup>8</sup>

In Europe, the extent of additional spending varied from 1.4 percent of GDP in Italy and 1.6 percent in Spain – in countries that need fiscal stimulus the most – to 9 percent in Austria, with Germany and France in the middle, at 4.9 percent and 5.0 percent, respectively. Up until the third part of May 2020, rigid EU budget rules continued to strictly limit the governments' flexibility in spending if leading to deficit.<sup>9</sup> Eventually, it was only on 27 May 2020 that the EU adopted a robust community crisis response program.

## MONETARY POLICY – FISCAL POLICY?

Effective response to the crisis required prompt government interventions. It costs money to have adequate healthcare capabilities available, it costs money to enforce social distancing measures, but it also costs money to restart the economy after a lockdown during the general quarantine. What is more, people who had been living from paycheck to paycheck, spending all their income and thus not having any emergency savings, also need to make a living.

In most countries government intervention was quickly decided. Yet, as explained above, its extent varied greatly, depending on the budgetary situation of the particular country.

America was quick to adopt the CARES Act (Coronavirus Aid, Relief, and Economic Security Act), an over \$2 000 billion economic stimulus bill. A part of the spending was directed at citizens in relief to employees and small businesses who needed immediate support in the absence of a strong social safety net in the USA. The majority of the funding, however, was aid for large financial corporations without any particular expectations imposed, which was not even thought of due to the rush.

Since making budget funding available always takes time, the FED took immediate action to support the economy through a number of measures. That said, *Powell* (Chair of the FED) did not hesitate to stress that these are lending powers, not spending powers, as the FED can only make loans, but it is not authorized to grant non-repayable funds. „*Lending, non spending*”... Nevertheless, the cooperation between monetary and fiscal policy seems to be working fine in the USA, since the Special Purpose Vehicle (SPV) created by the FED but funded from the budget may receive lending from it, which means a multiplication of resources with immediate cash generation.

The situation is less favourable in Europe where the ECB does not have a similar fiscal background. In emerging economies as seen in the case of India, mobilization of the monetary policy is indeed a problem due to the massive public debt.

There is no hocus-pocus. The ‘magic money tree’ of monetary policy cannot be shaken without government support. Income redistribution cannot be avoided, practically anywhere.

## AMERICA, AMERICA...

Economic theory used to idealize the conditions of American economy. (No wonder, since a vast majority of Nobel Prize winners for Economics are associated with one of the Ivy League Schools. And to be honest, following the political and economic changes in Hungary, even many Hungarian economists were convinced that the US practice is worth and should be followed to the letter, because their economic results do validate the methods. Those were normally losing the argument who suggested that the country should follow the social market economy models of European development). Undoubtedly, there are numerous concepts which should not be imported from the US, but on the contrary, the US should learn from Europe. And it is not something we claim in Europe : it is claimed by researchers of American economy.<sup>10</sup> The healthcare system is definitely one such concept. The major income inequality in America is another topic often discussed in academic circles. In their books, *Robert Reich*, *Joseph Stiglitz*, *Raghuram Rajan* and others highlighted several adverse processes which have surfaced in the US economy and society over the past few decades.<sup>11</sup>

Amid the pandemic crisis, the income divide has risen to proportions beyond earlier ones.

*Angus Deaton* and co-author, *Anne Case* have just recently published a shocking book. While the book only indirectly touches on income inequality and its primary focus is the mortality rate in the US<sup>12</sup>, it does introduce a new perspective in which the income divide plays a crucial role. After the launch of the book, they published an article<sup>13</sup> in which they analysed how much these phenomena have intensified, particularly as a result of the coronavirus crisis. Deaton’s analysis clearly challenges the belief that America is a role model country. (If the numerous other authors cited above, pinpointing the anomalies of American economy, were not enough proof.)

The article describes a devastating situation which was only made worse by the pandemic crisis in 2020. Their study claims that America has found itself in the grips of two epidemics. Deaths by suicide, alcohol-related liver disease, and drug overdose, which have risen to a mass phenomenon. These are very dangerous but not particularly new pandemics in the US. Deaton and Case call them the ‘*deaths of despair*’. According to the 2018 statistics, this “pandemic” killed more citizens than the coronavirus did in 2020.

In their books, the authors show how the number of deaths linked to the very same reasons has risen rapidly from about 65,000 per year to 158,000 in only a brief period (1995-2018). They also pinpoint that life expectancy at birth for all Americans fell between 2014 and 2017. That was the first three-year drop in life expectancy since the Spanish flu pandemic, practically for 100 years. Behind these mortality figures there are equally gloomy economic data.

Real (inflation-adjusted) wages for US men without a college degree have continuously fallen for 50 years. At the same time, college graduates’ earnings “premium” over those without a degree has risen to an astonishing 80 percent. With less-educated Americans

becoming increasingly less likely to have jobs, the share of prime-age men in the labour market has trended downward for decades (as has the labour market participation rate for women since 2000).

Educated Americans are in a much better place, at least in terms of income. Pain, loneliness, and disability have become more common among those without a degree. The situation of employees lagging behind have been worsened by quite a few factors.<sup>14</sup> These include unemployment (a phenomenon existing since 1979), which always hit less educated workers harder than educated ones, and globalism which introduced countries with lower pays into the bloodstream of international commercial and production lines. Working conditions have much deteriorated in the US. Laws regulating wages have eroded, while the absence of sick leave, family allowance and minimum annual vacation has become a standard. Workers are often employed for undeclared work, which not only creates unfavourable conditions for those involved, but increases insecurity for others.

These have been further exposed by the pandemic crisis, because those with more education are likelier to be able to continue working and earning from home. Unless they are among the workers in healthcare, they are not at risk of infection, and they can sit back and watch the stock market propel the value of their retirement funds ever higher. They will preserve both their health and their wealth (*Health and wealth*). By contrast, workers who lack a four-year college degree – and that is the two-thirds of workers – will inevitably risk one or the other. They are either nonessential, and thus risk losing their earnings, or they are essential, working in front-line sectors, and thus at risk of infection.

But while less-educated whites have borne the brunt of the first epidemic, i.e. deaths of

despair, African-Americans and Hispanics have been disproportionately killed by Covid-19. As a result, the previous convergence of white and black mortality rates has been derailed as a result of the crisis. This is particularly true in countries and regions characterized by crowded living conditions. While these factors have been especially important in New York City, there has been no such difference in New Jersey, for example, according to the statistics. Historically, pandemics – such as the Black Death in the middle ages – always created a labour scarcity, which improved workers' bargaining and thus living position. This is not the case now. (Deaton – as evidenced by his resume – aspired to be a historian, thus his susceptibility of the facts of economic history).

It was not only during the 2008 crisis when unemployment rocketed over 10 percent, that the toll of the 'deaths of despair' was high, but it continued to rise well into the consolidation period when employment figures were improving and unemployment dropped under around 3 percent. This implies that this 'pandemic' cannot be attributed to cyclical reasons; it is caused by a permanent decline in the life prospects of American workers. (Deaton's study is used as reference for several other researchers.<sup>15</sup>)

We are not surprised by this establishment of facts. What we see in world economy today is that globalism and the collapse of the socialist world system triggered a flow of capital into countries offering cheaper labour but also capabilities of using advanced technology. The fundamental laws of economics do seem to apply here, and at worldwide scale. Individual decisions are not affected by macroeconomic employment considerations. The phenomenon of "outsourcing" has appeared everywhere. It would be hard to deny that Germany relocated much of its automobil industry into Hungary and Slovakia for the same reason. Given the limited purchasing power of

converging economies, these investments are fundamentally made for export purposes and will ultimately return to the original country, making it impossible for former workers to be employed again in the industry. This is not a cyclical, but a permanent trend. The mainstream response to this problem has always been the assumption that workers will eventually enter sectors requiring higher education and offering higher pay, so the trend will ultimately benefit the citizens of the outsourcing country, as well. Retraining, however, is not a simple matter. A metalworker is not likely to become a nurse or a doctor. Or as an American author wrote in a comment to the current situation: laid-off flight attendants are not easy to redeploy as online teleworking professionals. A career change is particularly difficult in the US where training largely depends on solvency. Deaton et al. have concluded that the proportion of workers with a limited education and limited funding for retraining is very high. It also suggests that with no substantial improvement expected in the medium term, mortality trends will also strengthen. Or – as we have seen in the events of summer 2020 – social tension may boil over into severe riots.<sup>16</sup> As more and more people understand that their life does not matter. Even white males, and a growing number of them, realize that it is not only ‘*black lives*’ that do not matter; their live does not matter either. Their outlook on life, the low income position and uncertain conditions of the poor have been sharply exposed in the pandemic crisis.

That said, the life of non-white citizens in the US is even more difficult, which is directly reflected in the intensity of the latest civil disturbances. Those who have been hospitalized, incurred potentially unpayable medical bills. Healthcare in the US is predominantly provided by private players, and insurance plans are linked to employment. Many who lost their jobs might

not be able to re-enter the labour market soon, despite government efforts, and many will not be able to secure alternative health insurance coverage. The resolution of these issues is a major challenge for the USA, both in terms of its economy and its domestic policy.

The economic model relying on high income inequality must inevitably be reviewed – so it seems – and not only in the USA, but everywhere in the world.<sup>17</sup> Generally, the USA was seen as a ‘role model country’. Unfortunately, it is also the model of income inequality, having the highest differences among the developed economies. The World Bank reports the respective Gini coefficients for recent years (2016-2018) at 41.4 in the USA, 53.5 in Brazil, and 45.9 in Mexico. The US has the highest Gini coefficient among the advanced economies, while Brazil and Mexico are among the world’s most unequal countries. Three countries – the United States, Brazil, and Mexico – account for nearly half (46 percent) of the world’s reported Covid-19 deaths, yet they are home to only 8.6 percent of the world’s population. This implies that income inequality and the current pandemic are indeed closely linked.

In the US, but also in general, the existing economic model needs to be replaced. Failing that, the toll of the ‘deaths of despair’ will continue to rise – at least in the US – even if the Covid pandemic is successfully curbed.

While it is not easy to predict the development of political situation in the USA, it seems fairly unlikely that America will be fundamentally different from what it was before the crisis.

## EUROPE AND THE PANDEMIC CRISIS

The situation is not much simpler in Europe, either. While certain correlations between the pandemic crisis and income inequality may be

apparent, both Continental Europe and Great Britain relies more on the middle classes and, therefore, income inequality is normally lower. This inequality is clearly – in part – related to the settlement structure, as well. The American continent has historically been marked by urbanized regions.

In Europe, however, the majority of the population lives in the country. Instead, it was tourism which entailed vast movements of people in Europe, ultimately causing deteriorating figures in some countries.

Yet, it is interesting that some 50 percent of Europe's deaths are concentrated in just three countries – Italy, Spain, and the United Kingdom – which account for 38 percent of Europe's population.<sup>18</sup> There were fewer deaths in most of Northern and Central Europe. That said, the Gini coefficient still correlates with mortality rates. In the three countries with the highest mortality, Gini scores, indicative of income inequality, are around 35 percent. They are more unequal than their northern and eastern counterparts, such as Finland (27 percent), Norway (28 percent), Denmark (28 percent), while Austria, Hungary and Poland have scores of around 30 percent. While the difference in income distribution among the population in these countries is less paramount than in the case of the USA, Brazil and Mexico, it may not be a coincidence that countries with higher inequality scores also have higher mortality rates.

In respect of the Covid crisis, Europe can hardly be considered a single integrated unit. This is best illustrated by the fact that EU leaders failed to find a budget compromise for the EU's longer term financial plan in February 2020. This one-sidedness of the integration is regularly exposed in the work of both the Council of Europe and the European Commission. The majority of the member states adopted the common currency as part of the monetary integration, and therefore

pursue a shared monetary policy with the ECB, as their central bank. At the same time, fiscal integration lags much behind – say – the US practice, where the proportionate size of the federal budget dominates that of the state budgets'. So it follows that any concept of a United States of Europe is currently not more than pure fiction.

This fact was merely confirmed by the pandemic crisis. Member States were compelled to address the challenges of the pandemic in line with their own social market economy structure. As for joint solutions – while all member states agree on their necessity – there is no consensus as to the hows.

Until September 2020, 217,000 people died due to the virus in the EU. It is a sad fact that in mid-September 2020, the deaths per million was the second highest in Belgium (869). Among the top 10 places of this 'world chart' there were 3 more EU countries: Spain (639), Great Britain (626) and Italy (589). The USA, while having the highest death toll, was only in ninth place in the list of mortality per million.

The measures adopted in response to the pandemic triggered major economic recession everywhere, without exception, exceeding even the Great Depression of the 1930s.

The Spring Economic Forecast projected that the national economies in the EU will contract by an average 7.4 percent in 2020. The summer (July 2020) data, however, already projected that<sup>19</sup> the recession will be deeper, and next year's recovery will be more moderate than originally anticipated. The forecast projects that economy in the euro area will contract by 8.7 percent in 2020 and grow by 6.1 percent in 2021. (The aggregate EU economy is forecast to contract by 8.3 percent in 2020 and grow by 5.8 percent in 2021).

In some of the countries the fluctuation may be even more dramatic. Particularly, where

tourism has been a dominant contributor to national economy. This is the sector which was hit hardest by the pandemic when mobility was restricted and then completely halted during the crisis, and thus causes the greatest problem.

For that reason, the European Commission proposed a crisis management plan, to be followed by a recovery planning and economic stimulus program for the Community.<sup>20</sup> There were quite a few countries, however, which refused to undertake community with other member states and their citizens.

At the end of July 2020, all attempts sought to reconcile the conflicting interests and approaches failed. This may be so, because the resolution of differentiated problems would require income transfers among the countries today or later – if a loan is granted, at the time of its repayment – in the future. To accept that, countries need to have a shared European identity. Not even the shock caused by the pandemic has been, as of today, enough to make these differing views move closer.

This is all the more important, because the exit of Great Britain – the second largest net contributor – from the EU only added to the scarcity of budgetary instruments, inflicting a huge leak in the common budget. Some of the Member States refuse to take on extra burdens so that the citizens of other countries could benefit from them. If Brussels borrows money to hand out support, it shall, in the spirit of existing EU policies, be repaid by the Member States in proportion to their quota, while their share of the funds granted would not be proportionate to that. Some countries are hit harder by the crisis than others, and therefore they are in need of more help. To cater these needs, however, would be against the principle of proportionality set out in the EU treaty. The common budget, accounting for hardly more than 1 percent, has never truly made

European citizens feel united. In the European system, all healthcare and social issues are always resolved at country level. Countries were similarly left alone with their problems at the outbreak of the pandemic; they managed the crisis as they could, relying solely upon their own financial resources. In line with the above, countries in better financial positions explicitly or implicitly suggested that the fact that the Mediterranean countries, otherwise struggling with severe budgetary issues, had the smallest room to respond and were thus hit hardest by the pandemic is something only they can be blamed for.

Actually, this is the same division that characterized the EU at the time of the Greek crisis in 2008. Greece was granted financial support from funds borrowed by the Commission, but its repayment was their own responsibility. None of the EU states, and particularly Germany, was willing to make the support look like an aid. Even for vast amounts of debt, no easing was applied; it was only the repayment deadline that they agreed to extend substantially so that Greece could pay the instalments.

This time, however, Germany understood that *'Italy is not Greece'*, and they cannot let the third largest economy of the EU to fully break down. For that reason, the Franco-German alliance agreed to propose the creation of a €500 million recovery fund based on grants but raised from common (borrowed) funding, which the Commission endorsed. The size of the proposal was unprecedented in EU history. It would actually mean the increase of a 1 percent budget to 2 percent from borrowed funds. How the money will be granted is yet to be clarified. Several member states (Austria, Denmark, the Netherlands and Sweden), known as the Frugal Four, indicated that they strongly object to collectively taking on the burden of reimbursing the debt. In their view, these countries – just like Greece – should be

helped with loans and not grants (to be pooled collectively). At the same time, putting an extra burden of additional loans on already highly indebted countries would significantly hinder their potential for recovery. Italy's public debt accounted for 135 percent of its GDP already in 2019...

On 19 June 2020, the members of the EU met at a high-level (video) conference to discuss the details of the 'economic rescue package' worth 1.85 trillion euros. Under discussion was the restructuring of the EU's existing budget, as well as a proposal to borrow 750 billion euros from the market to finance grants of 500 billion euros with an additional credit line of 250 billion euros that would help revive economies hardest hit by coronavirus. No consensus was reached.

The agreement was reached at the July summit of the EU, at the expense of some compromise as opposed to the original plans. This summit was the longest meeting session in the history of the Council of Europe. Essentially, the negotiations moved away a lot from the draft proposal, particularly in the proportion of grants and loans to be funded from joint borrowings, i.e. they reduced the transfer of resources for other beneficiaries. The 'Frugal Four' also secured bigger budget rebates in the form of lump sum reductions, arguing that their proposal helped ensure financial fairness. Thus, the final figures are: loans of 360 billion euros and recovery fund grants of 390 billion euros. The conditions attached to the support were also eased, abandoning certain political stipulations from the requirements for utilization. The details are yet to be elaborated.

There is also the question of what type of taxes and contributions would Brussels impose to collect the future funding for the current expenses. Negotiating these issues will most likely take a long time. It is also possible that barely 24-25 percent of the total amount of

grants would be spent in 2020-2021, and the remaining 75 percent will be made available only in 2023.<sup>21</sup>

The spring negotiations was emerging a proposal for issuing so-called Consol Bonds, which have no maturity date, and the borrower should be paying interest for an indefinite amount of time (Soros-plan). Fortunately, this proposal was not endorsed by EU member states.

## CONCLUSIONS

The pandemic crisis will most certainly trigger substantial changes. The focus on healthcare issues is a new component, given that until recently this has not so much been the concern of economic policy anywhere in the world. While 'healthcare' is big business in the USA, accounting for a vast share of the country's GDP, health insurance coverage is not available to the entire population, in part because coverage is expensive, and in part due to the large number of unemployed or illegally employed workers. And insurance plans are linked to employment. As for the poor population of emerging countries, they have no access to an institutionalized healthcare and social system. Although Europe does maintain a social security system, it is maintained and operated at member state level. This leaves little room for integrated responses. At the same time, we can see that effective safeguarding against any pandemic requires worldwide unity.

It is clear that, in economic terms, the most recent crisis may be attributed to two main causes: One of them is growing income inequality, which injures developed countries as much as emerging ones, and is also vastly apparent in the relations of developed-emerging countries. The other is the intense, long distance flows of goods, and

the mobility of people. All these findings will most likely have a major impact on economic theory. No true change is possible, however, without changing the current economic model, which is aimed at producing profit at any price.

There is not one possible model for achieving international cooperation. Nevertheless, any model which does not improve the domestic market of emerging countries with fair wages, or which is set to maintain a monoculture in these countries so to achieve maximum profits, is doomed to fail in the long term. Without a diversified production structure, emerging countries will continue to be linked to an economic ‘respirator’ driven by the loans of international financial organisations, and will continue to struggle with indebtedness, as they have done ever since the 1980s.

These economies need capital. This is a fact. But in what form? In principle, globally available venture capital could develop such industries of these countries which target their production at the internal market, provided that there is demand for the products. (There is, indeed, but without a purchasing power). They could even realize profits. Internal markets, however, cannot operate without fair wages. This would, naturally, lower profit margins on the capital outflow compared to the existing model. It is also true that due to their indebtedness, these countries need convertible currencies, which in turn presupposes some export activities. No one

argues to the contrary; the question is only about proportions.

How development may be turned into this direction is not yet clear. The increased focus of economic theory on sustainability may be the right driver. The current economic model inevitably pushes the world into unsustainability. It should be noted, however, that this existing model includes a financial system which – having a monopoly in cash generation – can and does collect vast amounts of resources, which are then not pledged to investments in real economy, but are used to drive speculations. It is without doubt that this is where the first steps of reform have to be made. The financial system does not root in the laws of nature - it is a man-made construction. And as such it may – in theory – be modified.

The development of local economies with the purpose of domestic utilization could lead to a more realistic intensity of the international flows of goods. These should by no means target at creating protectionism, but at curbing the adverse effects of forced export-orientation. We can see that net exporters cannot co-exist without net importers. We cannot sell to aliens! Net importers, however, depend on the availability of funding which seems to conserve the existing mechanisms.

The pandemic crisis has been a drastic warning to the world. Whether or not the makers of politics will learn the lesson is yet to guess.

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#### NOTES

<sup>1</sup> Certain projections referenced in the study have been ‘overwritten’ in part by the statistical data published and the projections modified since the

closing of the manuscript; however, such changes do not affect the key findings and conclusions of the study.

- <sup>2</sup> Coronavirus Global Response: € 7.4 billion raised for universal access to vaccines. Press release 4 May 2020 Brussels
- <sup>3</sup> Erik Berglöf, Gordon Brown, Helen Clark, Ngozi Okonjo-Iweala: A covid-19 response for the world's poor. Project Syndicate, Jun 3, 2020
- <sup>4</sup> World Economic Outlook Reports. World Economic Outlook Update, June, 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/>
- <sup>5</sup> Summer 2020 Economic Forecast - European Commission. [ec.europa.eu/commission/presscorner/detail](http://ec.europa.eu/commission/presscorner/detail)
- <sup>6</sup> NGOZI OKONJO-IWEALA, BRAHIMA COULIBALY: Making Globalization Work for Africa Project Syndicate, May 30, 2019
- <sup>7</sup> UN University, UNU-WIDER Study: Press release, 2020 April 8.: COVID-19 fallout could push half a billion people into poverty in developing countries
- <sup>8</sup> Jayati Ghosh (2020). Messages from “Fiscal Space”. May 13, Project Syndicate
- <sup>9</sup> Jayati Ghosh: Inequality manifests in stimulus - The Mail & Guardian [mg.co.za](http://mg.co.za) › Business 21 May 2020
- <sup>10</sup> <https://www.lifehack.org/articles/lifestyle/8-things-the-world-can-learn-from-europe.html>
- <sup>11</sup> M. Hudson: *J is for Junk Economics: A guide to reality in an age of deception*. Islet Verlag, 2017, Ö. Orhangazi: *Financialization and the US Economy*. Edward Elger, 2008, New York, London, R. Reich: *Saving Capitalism*. Vintage Books, 2016, New York,
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- <sup>12</sup> Anne Case-Angus Deaton: Deaths of Despair and the Future of Capitalism Princeton University Press, 2020
- <sup>13</sup> Anne Case-Angus Deaton: United States of Despair. Project Syndicate, 2020 Jun 15
- <sup>14</sup> Lawrence Mishel, Elise Gould, and Josh Bivens: Raising America's Pay An initiative of the Economic Policy Institute, January 6, 2015
- <sup>15</sup> Nouriel Roubini: The Main Street manifesto. Social Europe, 30 June 2020
- <sup>16</sup> Refer to Footnote 12
- <sup>17</sup> Jeffrey D. Sachs (2020). How Inequality Fuels COVID-19 Deaths. Project Syndicate, Jun 29
- <sup>18</sup> Refer to the previous footnote
- <sup>19</sup> The Summer 2020 Economic Forecast; [ec.europa.eu/info/business-economy-euro/](http://ec.europa.eu/info/business-economy-euro/)
- <sup>20</sup> ECONOMIC Bulletin No. 7: COVID-19 impact and response measures
- <sup>21</sup> Darvas Z. (2020). ‘Next Generation EU: 75% of grants will have to wait until 2023’, *Bruegel Blog*, 10 June, available at <https://www.bruegel.org/2020/06/three-quarters-of-next-generation-eu-payments-will-have-to-wait-until-2023/>

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