

UNCERTAINTY — PROSPECTS FOR THE WORLD ECONOMY AFTER ONE YEAR OF COVID-19 PANDEMIC

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Abstract:

The contraction of national economies in 2020 reveals that the economic crisis associated with COVID-19 is the deepest world depression since the 1930s. Estimates of deaths attributable to COVID-19 though May 2021 reach close to ten million. This estimate is likely to increase significantly given that the pandemic seems to be evolving with little or no control in many African nations as well as India and other countries. At any rate, the impact of COVID-19 is still very far from the 50 to 100 million deaths caused by the flu pandemic of 1918, when the world population was about 2 billion, about a quarter of the present population. The prospects of recovery of economic growth are dubious, as the closure of many parts of the world economy depends on the evolution of the pandemic, which is uncertain, given the low levels of vaccination worldwide and uncertainty about the ability of vaccines to provide protection against emerging viral strains. Furthermore, national debts have skyrocketed and macrofinancial instability may surge at any time. The pandemic has provided suggestive evidence that authoritarian policies, often unpopular, to drastically contain the transmission of the virus have been effective, while countries practicing a somewhat “hands-off” approach to deal with the pandemic have had a higher death toll. In the middle of the pandemic people in many countries have revolted against governments openly engaged in corruption, defense of corporate interests, racist discrimination, or brutal repression of civil liberties.

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Estimates from various sources indicate that the contraction of the major national economies during 2020 has been equivalent and in many cases significantly greater than the Great Recession of 2009. The gross domestic product (GDP) of the US, which shrank by 2.5% in 2009, decreased 3.5% in 2020. In 2020 the Japanese economy contracted almost the same, 5.3%, that it contracted in 2009, 5.4%. The respective rates of economic growth in 2020 and 2009 in Germany were -6.0% and -5.7%; in France -9.8% and -2.9%; in Spain -11.0% and -3.8%; in Russia -3.1% and -7.8%. National economies that in 2009 could get through the Great Recession with reduced but positive rates of growth have been severely hit this time. Thus, India's GDP growth, 7.9% in 2009, fell to -10.2% in 2020; Australia's GDP growth was 1.9% in 2009 and -6.7% in 2020. China had a positive growth rate of 2.3% in 2020, an almost minuscule level compared with the 9.4% of 2009 and the double-digit rates of economic growth that China exhibited during the years leading up to the Great Recession. These figures for countries with significant weight in the world economy reveal a very profound economic contraction in 2020, in many cases unprecedented since the Great Depression of 1929.

The COVID-19 pandemic pushed the world economy off a cliff from unsustainable processes that were already widespread in 2019. We will never be able to know whether the world economy would have gone into crisis by 2020 even if there had been no pandemic, but business profits were falling in 2019 and private debt had reached record levels, even exceeding those seen before 2009. This time the debt in many countries was mainly corporate debt, not household debt as in 2009. At any rate, the world is now again facing a global economic crisis. This one is, of course, a very specific one.

At the time of writing (late May-2021), though there is no doubt that the depression of 2020 will be confirmed to have been the most important global economic crisis since World War II, it is virtually impossible to predict how far this economic crisis will affect each national economy, how long the crisis will continue, and to what extent the likely but still uncertain decline of the pandemic as a result of mass vaccination and public health measures will allow economic activity to recover throughout 2021. US president Biden's \$1.9 trillion economic stimulus has been approved by the legislative branch and is now in the process of being implemented. This is a quite large expense, compared to earlier public spending stimuli. It remains to be seen whether the US economy will continue locked in depression, as some Marxists believe; will revive with that spending, as Paul Krugman and other Keynesians like him optimistically expect; or will revive just to enter an inflationary crisis, as Gregory Mankiw and other economists, also Keynesians or New Keynesians, less optimistically fear. The state of the art of economic knowledge is far from being able to give an answer with some degree of security to such disagreements.

Since the 1950s and 1960s, when Milton Friedman and other conservative economists launched a major attack against the reformist ideas of John Maynard Keynes, economists have disagreed endlessly about whether Keynesian policies are or are not effective to stimulate the economy in free-market capitalism. That several decades later they continue to argue about such basic issues shows the major limitations of economics as a supposedly scientific discipline. Indeed, what the historical record shows is that Keynesian policies—i.e., interventions to promote the expansion of a national economy—have a manifest effect only when they are massive, so that they question the free-enterprise character of the market economy. An example of such massive intervention occurred in 1942 immediately following Pearl Harbor, when the mass unemployment of the 1930s ended: even in the early 1940s, after years of New Deal policies to fight the Great Depression, unemployment had remained at very high levels. In the 1930s, the unemployment rate peaked twice in the US, first in 1933, when it reached 24.9%, then in 1938, in the so-called Roosevelt recession, when it rose again to 19.0%. It was still at 9.9% in 1941, when the US, though it had not yet entered World War II, had begun significantly to increase its military preparations. It was only after the Japanese attack in December 1941 that the US government took half of the country's economy under

its control to meet military needs and the unemployment rate fell dramatically to 4.7% in 1942.

The global economic crisis associated with the COVID-19 pandemic has unique characteristics and if economic forecasts are always risky, on this occasion they are even riskier, because of the complexity of the linkage between the crisis and the pandemic. All optimism about an economic recovery supposedly just around the corner assumes the effectiveness of the policies implemented to control the pandemic. If lockdowns and restrictions of movements of people and goods continue, it will be impossible for national economies to recover positive rates of growth. A further issue is whether the US economy could recover in a context of business-as-usual, or rather economic-policy-as-usual, in the rest of the world. For the moment, the US \$1.9 trillion stimulus does not seem to have been taken as an example by other countries. In Europe, the idea of austerity and fiscal prudence is very entrenched among politicians, not only of the conservative right-wing parties but also among the moderate left-wing forces such as the socialist and social-democratic parties that long ago abandoned any perspective of social transformation.

Still, whatever the macroeconomic effect of the policies now proposed will turn out to be, there is no question that policies that protect low-income people from the effects of unemployment must be applauded, as they will give some protection to the most vulnerable in society, many of them now jobless and without prospects, as well as cloistered for months in overcrowded households. That such policies are implemented is also a sign that ruling elites do not feel comfortable allowing social discontent to spread because of generalized social misery.

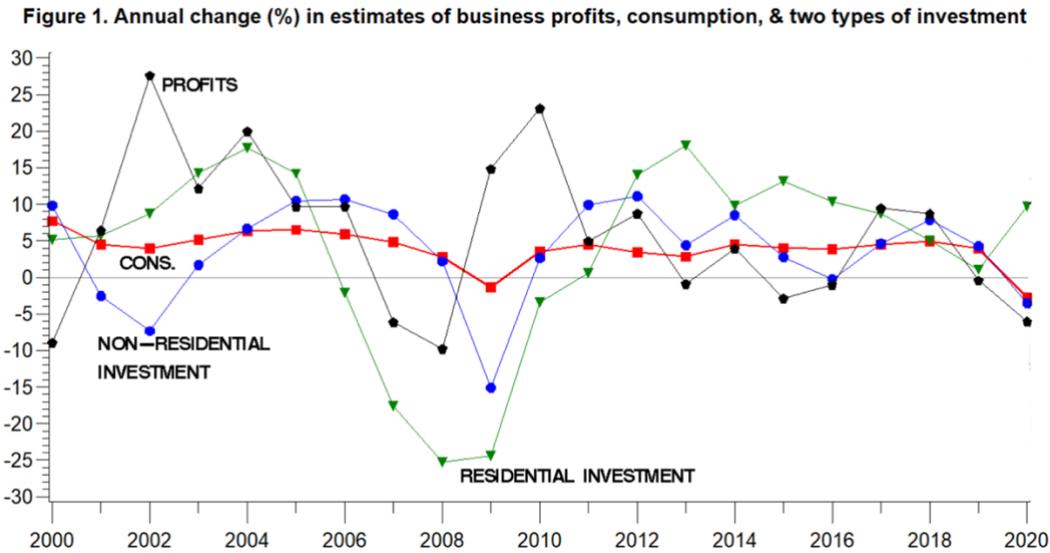
After a year of the COVID-19 pandemic we know that the disease affects men more than women and that—unlike the 1918 flu pandemic that concentrated its victims among healthy young adults—COVID-19 is more severe and more lethal the higher the patient's age and when there are previous chronic health problems such as obesity, alcoholism, high blood pressure, and diabetes. But these health conditions have a social gradient: they are more frequent in lower socioeconomic strata, as indicated, for example, by income level, or years of formal educational, or professional qualification. Smoking and chronic respiratory diseases have the same gradient, the latter often because of occupational exposures. All these

preexisting conditions make COVID-19 infection more severe and more lethal; conversely, COVID-19 is less severe in those with better jobs or higher incomes who also tend to live in less overcrowded settings and generally have fewer chronic diseases. The lower-income group—which in the US largely overlaps with Latinos and African American—is also the one formed by people likely to have jobs in the service sector, in construction, or in industry, i.e. jobs that do not allow them to work online, require directly contact with people, and therefore lead to more potential exposure to contagion.

In the US, where there is no national health system and health care is basically private, health care is worse for those low on the social ladder, particularly workers in the informal economy and undocumented migrants. Statistics from the past year show that COVID-19 mortality is considerably higher among African Americans, Latinos, and the native American population. Most likely, and probably with not too large differences among countries, the rate of incidence (the number of cases per, say, million people), the rate of mortality (the number of deaths per million people) and the case-fatality rate (the proportion dying among those who get the disease) will be higher the lower socioeconomic status of the group considered. The pandemic will thus contribute to maintain and increase health inequalities by income, race/ethnicity, citizenship status, and other forms of social differentiation.

Vaccines are being distributed worldwide mostly based on countries' ability to pay and in many countries vaccination have followed a pattern where favoritism and connections take precedence over epidemiological criteria that seek to minimize the number of deaths. An unknown is the extent to which the rejection of vaccines—because of misinformation or fear of being subjected to experimentation by the government or “big pharma”—may be sufficient to compromise the effectiveness of vaccination, which will generate herd immunity sufficient to suppress the pandemic only if it reaches a high coverage threshold in the whole population. Unfortunately, in recent years both the fear about vaccines and the skepticism of large sections of the population about the need to deal with climate change have shown that current public opinion on scientific issues feeds on sources highly polluted by a kind of modern superstition in which witches, maledictions, satanic rites, and curses have been displaced by conspiracies to invent data, promote theories, or manipulate elections.

Preliminary data for the US economy in 2020 show some differential characteristics of the pandemic depression. As Figure 1 shows, while personal consumption expenditure contracted by 1.3% in 2009, in 2020 it contracted much more, by 2.7%. The major annual declines of residential investment after 2007—it declined 25.3% in 2008, 24.4% in 2009, and 3.4% in 2010—were a major component of the Great Recession. In contrast, in 2020 such investment surprisingly increased by 9.7%. Non-residential investment dropped 15.1% in 2009 but only 3.6% in 2020. The monumental profits of some companies like Amazon or Apple in 2020 have been commented on the media, but they do not compensate for the similarly monumental losses experienced by the many other companies likely to be in the majority. Indeed, according to preliminary estimates, profits after taxes dropped by 6.0% in 2020—they had decreased by 15.1% in 2009. Arguably, the figures for 2020 will very likely be revised and changed, as usually occurs, by the agencies that report economic statistics, but the statistics as they appear now show obvious differences between the 2020 depression and the Great Recession of 2009. On February 28, *The New York Times* reported on the activity of Berkshire Hathaway, the Warren Buffett-led business conglomerate whose estimated value is about half a trillion dollars. One of the most characteristic aspects of what Berkshire Hathaway did in 2020 is the acquisition of massive quantities of its own publicly traded shares. This is, in the short term, a way to increase the market value of the company; it also shows how scarce are the opportunities for acquisitions of other profitable companies or for direct investment in productive activities with good profit prospects.



A major issue is the expansion of the public debt in almost all national economies, a steady trend in recent years that has had dramatic overtones in 2020. In the US, the federal debt, which amounted to 62% of GDP in 2007, rose steadily during the Great Recession to reach 89% of GDP in 2010. During the following tepid recovery during Barack Obama's presidency and "the best economy ever" trumpeted by Donald Trump, the US debt continued growing to reach 104% of GDP in 2018, 105% in 2019 and then jumped 20 percentage points to 125% of GDP in 2020. Something similar has happened in many other countries: the national debt amounted in 2020 to 150% of GDP in Italy, 120% in Spain, 116% in France, and an astounding 266% in Japan. Nobody is talking about these figures, perhaps because they are obvious evidence that the market economy requires major government intervention just to continue dragging itself along. Isn't capitalism a well-functioning system that regulates itself?

In almost all countries, a significant proportion of the population today earns its income from irregular or illegal work, or self-employment; but the gig or informal economy fell apart in the second and third quarters of 2020 like a house of cards, due to policies of physical isolation required to curb the pandemic. Hundreds of millions of formal and informal jobs were lost worldwide at the time and the last three quarters have been very heterogenous across countries.

With minor exceptions and differences, since the last decades of the last century, both in advanced economies and in the countries of the periphery, labor market regulations and laws have changed generally towards more deregulated and precarious employment conditions. In our free enterprise system, most jobs depend not on social needs but on the ability of those who own assets to make a profit by employing others, and that is why social protections are often eliminated (because they create "labor-market rigidities") when they interfere with the ability to invest money to produce more money--that is, with the accumulation of capital. That is a general trend under capitalism. When labor markets are more formal and more regulated, there is some temporary protection against the consequences of unemployment.

Table 1. Estimates of total deaths caused by COVID-19 until the third week of May 2021, as reported in the Johns Hopkins University database—which presents the information provided by the World Health Organization from government reports—and the Institute for Health Metrics and Evaluation (University of Washington, Seattle); M are millions, K are thousands

	JHU/WHO	IHME
<i>World</i>	3.5 M	7.5 M
USA	0.59 M	0.92 M
India	0.30 M	0.81 M
Brazil	0.45 M	0.63 M
Mexico	0.22 M	0.63 M
Russia	0.12 M	0.62 M
France	0.11 M	0.14 M
Spain	79.6 K	125.0 K
Argentina	73.7 K	70.0 K
Colombia	84 K	84 K
Peru	67 K	156 K
Chile	28.5 K	27.7 K
Japan	12.3 K	66.7 K
Nigeria	2.1 K	8.4 K
China	4.8 K	4.7 K
Uruguay	3.8 K	3.4 K
Dominican Republic	3.6 K	6.1 K
Puerto Rico	2.4 K	4.4 K
Korea, South	1.9 K	1.9 K
Cuba	863	1.3 K
Haiti	276	824
Vietnam	42	96
New Zealand	26	26

After the first quarter of 2020, many millions fell into the ranks of those protected by unemployment insurance, which in many other countries, especially on the periphery, is scarce or non-existent. Everything indicates that a significant fraction of the world's population has survived during 2020 from government-provided income. But the pandemic crisis has also taken from governments a large fraction of tax revenue. The consequence of these ongoing processes is that national debts are steadily rising in all countries to levels that were unthinkable just a few years ago. How much the rope can be stretched is hard to tell. Nobel laureate and *New York Times* economic columnist Paul Krugman has often written in recent months about the need not to be frightened of a public debt equivalent to 100% of GDP or even much higher. Economists who support the MMT or “modern monetary

theory”—that claims the US government can create as much money as it wants without any major consequence for the real economy—are a fringe in the profession but they have attained important influence in the Biden administration. On the other hand, economists who are frightened by the debt levels that are being reached in most countries worldwide do not at the moment proclaim their fears too strongly.

According to the statistics reported by national governments and compiled by the World Health Organization, the COVID-19 infection has caused until late May 2021 3.5 million deaths worldwide. This is a total of national estimates, to be taken just as a quite gross “guestimate,” and it is very probably a large underestimation, as there is evidence that many poor countries (for instance, in Africa) register a quite small fraction of total deaths. The Institute for Health Metrics and Evaluation (IHME) of the University of Washington, Seattle, with large funding from the Gates Foundation, considers the figures reported by WHO as largely underestimated for many countries and provides a total estimate of almost 7.5 million deaths in mid-May 2021 and a projection of over 9 million deaths caused by the pandemic worldwide by September this year. Estimates of the death burden caused by the pandemic, according to WHO or IHME for selected countries are shown in Table 1. Despite the obvious uncertainty about the reliability of these and any other figures on this ongoing pandemic, they can be used to gauge the magnitude of the pandemic.

The USA is number one with a number of deaths that officially is over half a million deaths but according to the IHME can be already close to a million deaths. In each of other four countries, India, Brazil, Mexico and Russia, the pandemic may have caused over half a million deaths, though the official estimates for these countries are much lower. Among the high-income economies of the world, Japan with a population of 126 million, almost identical in size to that of Mexico (but much older) and only 20 million less than Russia, has reported just over 12,000 COVID-19 deaths. The IHME raises the estimate to almost 70,000 COVID-19 fatalities. At any rate, assuming this latter figure is correct, Japan would have suffered less than a tenth of the number of US deaths with a third of the US population. According to both sources in Table 1, South Korea has had almost 2000 deaths, while North Korea has reported zero cases and zero deaths—which looks consistent with the known ability of the North Korean dynastic regime to lie unashamedly about the social realities of the country. Much

more reliable are the reported counts of less than 5000 deaths in China, less than 100 deaths in Vietnam, and less than 30 deaths in New Zealand, countries that, according to knowledgeable observers, have excelled in implementing effective policies to curb the pandemic.

Haiti, the Dominican Republic, and Cuba are neighboring countries in the Caribbean with almost identical populations of 11 million each. The estimates of the death toll in the Dominican Republic range around 5,000 deaths, while for Cuba they are around 1,000. Extremely poor Haiti has reported less than 300 deaths, though the IHME raises the death toll estimate to over 800. It is unclear if these figures for Haiti are credible or relate to very poor death registration systems in the country, which could be a possible explanation. With just 3.1 million people and many similarities to these other Caribbean nations, the US territory of Puerto Rico has had almost as many deaths as the Dominican Republic.

This suggests an international pattern in which countries with authoritarian governments run by Communist parties, like Cuba, China, or Vietnam, have dealt much more efficiently with the pandemic, probably because of a more stringent application of public health policies. The experience of the Nordic countries (not shown in Table 1) seems to show also that the so-called Swedish approach to dealing with the pandemic—not implementing mobility restrictions or mandatory rules of isolation to avoid damaging the economy—has been much less effective than the more “authoritarian” approach of Sweden’s Norwegian and Danish neighbors. Thus, the deaths in Norway, about 1000, with 5 million people, and the 5,000 deaths in Denmark, with 6 million, add up to some 6,000 deaths for 11 million, which compares very favorably with the 16,000 deaths among the 10 million population of Sweden. And these are the death estimates of the IHME, with official figures the proportional death burden is even higher for Sweden.

Data from the states of the US also suggest that less stringent policies to face the pandemic have implied higher mortality. There is evidence that for instance, mortality rates have been higher in the counties of Texas than in the counties of California. According to journalistic reports, the policies followed by Texas and California may represent polar opposites in US efforts to deal with the pandemic, with very non-interventionist policies in Texas and “extremely authoritarian” policies in California. Thus, both the national and the

international evidence suggests that policies to curb the pandemic utilizing mobility restrictions and forced isolation, though often unpopular, have been effective, with countries or counties not applying them paying with higher mortality. Of course, all these are tentative conclusions based on data that are being continuously updated, and further research will be needed to give more definitive answers to the question of which policies have been more effective in reducing COVID-19 mortality. Using the estimation of COVID-19 deaths by the IHME to compute a mortality rate, among the countries on Table 1 the highest mortality had been in Mexico, with almost 5000 deaths per million population, followed closely by Russia with 4400, Brazil with 3000, and the United States with some 2700 deaths per million. Compared with the flu pandemic of 1918 which caused between 50 and 100 million deaths worldwide, the present epidemic has been to date much milder, but it is still ongoing and, unfortunately, we do not know yet whether the promising prospects of eradicating the epidemic thanks to vaccine availability will be realized or not in the remaining months of 2021. The pandemic has demonstrated the inability of governments to coordinate a public health response that must necessarily be global, because the pandemic will continue as long as there are population reservoirs without herd immunity. An added unknown is the emergence of viral strains that are easier to transmit and for which the current vaccines might not be effective.

The nearly 8 billion of us who make up the world's population are facing difficult times. The global economic and political system based on for-profit production and national states governed by elites that are mostly defenders of their power and the status quo has shown its inability to deal with the problems of the 21st century. Will our planet Earth evolve into ever-worse social, epidemiological, and ecological disasters, or perhaps toward a Third World War that will end this civilization? Will humanity be able to organize itself in a way that is more in line with its general interests? These are questions that very few people ask themselves. Regrettably, consciousness is often clouded by problems that do not go beyond parochial concerns that at most end at the national border. It would, however, be callous to ignore the fact that for a large majority of humanity the key problems are those related to immediate survival, be they those of getting food for tomorrow, not being evicted next week, or not being killed in the next peaceful demonstration or traffic stop. Recent years seem to demonstrate enormous social inertia and an amazing human inability to curb the uncontrolled

processes that, under the control of economic and political elites, are leading us into the abyss. However, if one thing is clear in today's muddle, it is the need to support those who open up some future prospect, whether it is youngsters demanding climate-change policies, pro-democracy demonstrators in Myanmar or Hong Kong, farmers in India fighting major commercial interests for their survival, or the masses protesting against racism, repression, corruption, and government or police abuse in Russia, Nigeria, Uganda, Paraguay, Belarus, the United States, or any other place in the world.

Sources

Economic statistics presented in this article are all available online from the World Bank, Eurostat, and the FRED database of the Federal Reserve Bank of St. Louis. From *The New York Times* I cite opinions of Paul Krugman (“Learn to stop worrying and love debt: Why you should ignore the coming Republican deficit rants”, December 3, 2020), and Gregory Mankiw (“The Biden economy risks a speeding ticket”, Feb. 26, 2021). Figure 1 is from computations of data in billion current dollars from the FRED database: CONS refers to personal consumption expenditure; PROFITS to corporate profits after taxes with inventory valuation adjustment and capital consumption adjustment; RESIDENTIAL and NON-RESIDENTIAL INVESTMENT are respectively private residential fixed investment, and private non-residential fixed investment. Table 2 data are from coronavirus.jhu.edu/map.html and from www.healthdata.org, the websites of the COVID-19 resource center of Johns Hopkins University, and the Institute for Health Metrics and Evaluation (IHME) of the University of Washington.

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