

Rethinking Economics in the Light of COVID-19 and Future Crises

Comments

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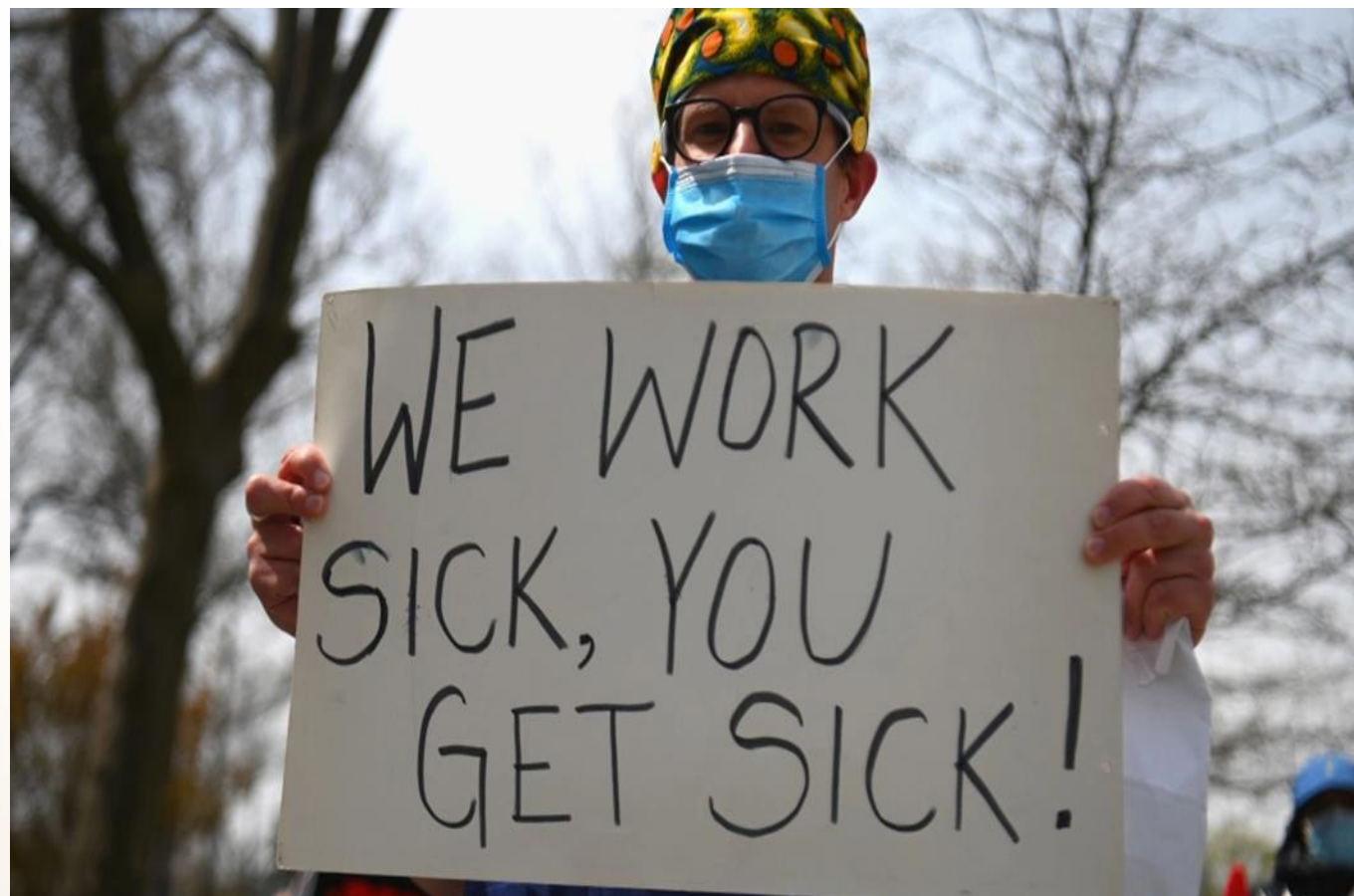
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Growth is no longer what it used to be...

- Complementary to Bowles and Carlin's (B&C) invitation to expand the "government-market axis" in economies dominated by incomplete contracts and behavioural dimensions to "non-market social interactions" let me focus here on some of the more macro and dynamic aspects of such broadening of economics.
- B&C raise much more fundamental issues about democracy, ethics, freedom and social norms than just providing a framework for analysing COVID-19 or climate change which I will not address here.
- I rather focus on the COVID-19 pandemic and by extension other "future crises" as in the title of this webinar.
- The COVID-19 pandemic has directly challenged traditional economic policy focus on "growth" ("***it's the economy stupid!***") with what could be called: "***it's well-being stupid!***" including now health but so much more than GDP or national income.
- Climate change challenged this 1992 Clinton slogan first; COVID sends it into history...

Shifting policy priorities



Expanding vs shrinking capitalism

- In B&C's terms, emphasis on "growth" allowed policy makers to escape the "government-market axis" trade-off and avoid discussions on (re-)distribution. It's easier to distribute the economic cake of wealth when it grows. Future generations could be assumed to be much better off in terms of QALE, better living conditions, new scientific discoveries, improved technologies and as a result higher productivity and income.
- The climate crisis and COVID-19 pandemic have directly questioned this belief. One has woken up to the intrinsic limits of a continuously expanding capitalism – the opposite of Bowles and Carlin's "Shrinking Capitalism" as relevant economic paradigm -- accumulating indefinitely thanks to its inbuilt tendency to continuously expand supply and demand for new material wants.
- This holds not just at the macro-level; but also at the firm level as argued elsewhere (Soete, 2019): innovation as "**destructive creation**" instead of Schumpeter's "creative destruction": innovation destroying the usage value of the existing stock of goods inducing consumers to repeat their purchase. "**The power to "wreck" the value of old versions of a product ends up serving restoring profits.**" (Emilio Calvano, 2007)

COVID's "creative destruction" impact

- In the slipstream of COVID-19, one observes today a blossoming of "second-hand" markets, of "circular economy" initiatives.
- But also Schumpeterian "creative destruction" processes of organisational changes following lockdown, and likely to stay:
 - The reduction in commuting with "online work" taking-off shifting radically the "work place". In B&C's terms while pay might now become more closely linked contractually to output, "the power in the principal-agent relationship" will be very different. It will become based on social norms and ethics.
 - Growth in delivery of all sort of goods and services including restaurant food as in the case of dark kitchens, likely to destroy existing retail and catering firms.
 - Knowledge and human capital mobility becoming primarily digital with conferences and seminars becoming fully online and virtual, and the efficiency gains becoming gradually visible in terms of time savings.

The state and the region

- I side though on the FT line that the forgotten role of the state in infrastructure investment, health care, public research funding (including Mazzucato's missions), education is likely to increase under COVID and future crises.
- What COVID pandemic is not, is that 'we are all in this together'. More than just redistribution issues, new forms of universal income benefit, of improving job security and recognizing much more the value and dependency on "essential" physical presence jobs as in the current COVID pandemic will become core policy issues .
- The more so as these new "essential" jobs are very different from what was traditionally considered from a human capital perspective as being essential.
- So in the end, I tend to agree with B&C that global crises are likely to increase the value of local activities and hence the importance of local civil society.

The unequal local impact of global crises

- Global crises such as COVID and climate change have very differentiated, local territorial impacts. Both have been characterized by strong local/regional clusters of “infection”.
 - COVID represents not just a pandemic but a “syndemic” (Richard Horton): a new virus interacting with other non-communicable diseases clustering health outcomes in a very differentiated way.
 - The global climate crisis has a very differentiated local impact based on an array of physical, economic and social conditions.
- Both depend on global frameworks (WHO, Paris Convention) and regional knowledge and governance power that matter.
 - Germany's relative success in dealing with COVID has a lot to do with the decentralized nature of the German health care system, enabling individual Länder to respond to the crisis in a more effective way on the basis of more local knowledge.
 - The European Green Deal will require in its implementation local knowledge, innovation and mitigation skills of local entrepreneurs and regional/local authorities. They have better knowledge on the local situation and in a better situation to make decisions locally.