



DISCUSSION PAPER

Reordering Capitalism: A New Economic World Order post-Covid-19

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Introduction

The world economy is faced with a profound crisis due to the coronavirus pandemic. Governments have been enforcing aggressive restrictions on businesses and movement of people in order to slow down the spread of the disease, and thereby relieve their overburdened health systems. At the same time, a significant economic shock has occurred as a result of such lockdown measures, suppressing both demand and supply, and setting the scene for a deep global economic recession (Meadway, 2020). According to the managing director of the IMF, Kristalina Georgieva, "this is a crisis like no other", and the fallout from the pandemic will be "way worse than the global financial crisis" (IMF, 2020). This extraordinary environment has stirred a lively debate about how governments should adjust economic institutions and policies to cope with the crisis. In all likelihood, this adjustment will not be entirely transitory but instead lead to permanent transformations in the world economic order, with related long-term implications.

In this light, this paper argues that the current crisis may lead to a major paradigm shift in economic thinking and policymaking, which can be understood as a reordering of capitalism. Long-held beliefs about the economy are fading away, while opinions that were once considered radical are entering into the mainstream. Since the 2008 global financial crisis, a significant transformation in the economic system had already been

underway due to the perceived failure of the long-prevailing neoliberal economic paradigm in creating a sustainable and inclusive economic model. Growth rates were already low, and inequality unacceptably high across the world. The current crisis once again exposes the weaknesses of neoliberal institutions, particularly essential services and social assistance arrangements, but also provides an opportunity for policymakers to make fundamental reforms to the system.

The Covid-19 crisis may accelerate the transformation in governments' role in the economy. In this time of crisis, governments necessarily claim more control and responsibility over the socio-economic order. Though some argue for a 'business as usual' approach post-pandemic, residuals of such government activism are likely to remain, as will the impact of the pandemic on the economy. More interventionist, proactive governments with clear social objectives may replace the minimalist, neoliberal-oriented governments that have come to dominate the post-Cold War world, particular in the West. In many ways, this could represent a return to the 'Golden Age of capitalism' that occurred after World War II, when Keynesianism dominated the policy space. Another likely consequence of the coronavirus outbreak may involve a retreat from the hyper-globalisation of the post-1980 period. In the context of developing countries, this may imply that developmentalism and industrialisation policies will once again become the norm.

An Expected Revolution for an Unexpected Reason

A revolution in economic policymaking has in fact been brewing for quite some time. The current economic paradigm dominated by neoliberal ideology has been criticised, both in policy circles and in academia, for its inability to provide security for the vast majority of society. Many have argued that the hands-off approach to the economy taken by central governments has left economies fragile and low-income groups vulnerable to fluctuations (Başbay, 2019a). Low-income growth, rising inequality, the increasing precarity of work conditions and the financial insecurity of working-class people have not been adequately addressed by governments, leading to an economic structure that was ill-prepared to cope with crises such as that witnessed now.

The neoliberal approach has dominated policymaking in developed economies, first and foremost in the US and the UK, since the 1980s. It was then gradually exported to other parts of the world, largely via international institutions such as the IMF and the WTO. Based on the idea that unfettered markets are best suited for bringing about societal well being and efficiency, neoliberal logic transformed economies in significant ways. For example, it led to hyper-globalisation by reducing barriers for trade and finance. It also destroyed labour market regulations, which meant less job security and lower pay for most workers. Governments privatised some essential services including education, healthcare, and even security. This major shift in governments' role in the economy can be summarised as a degeneration of welfare state in favour of a market-based society that is driven by the profit motive. There is a high price to pay for this transformation now, as the values of the market (e.g. cutthroat competition, greed), do not do well in times of socio-economic crisis (Milanovic, 2020).

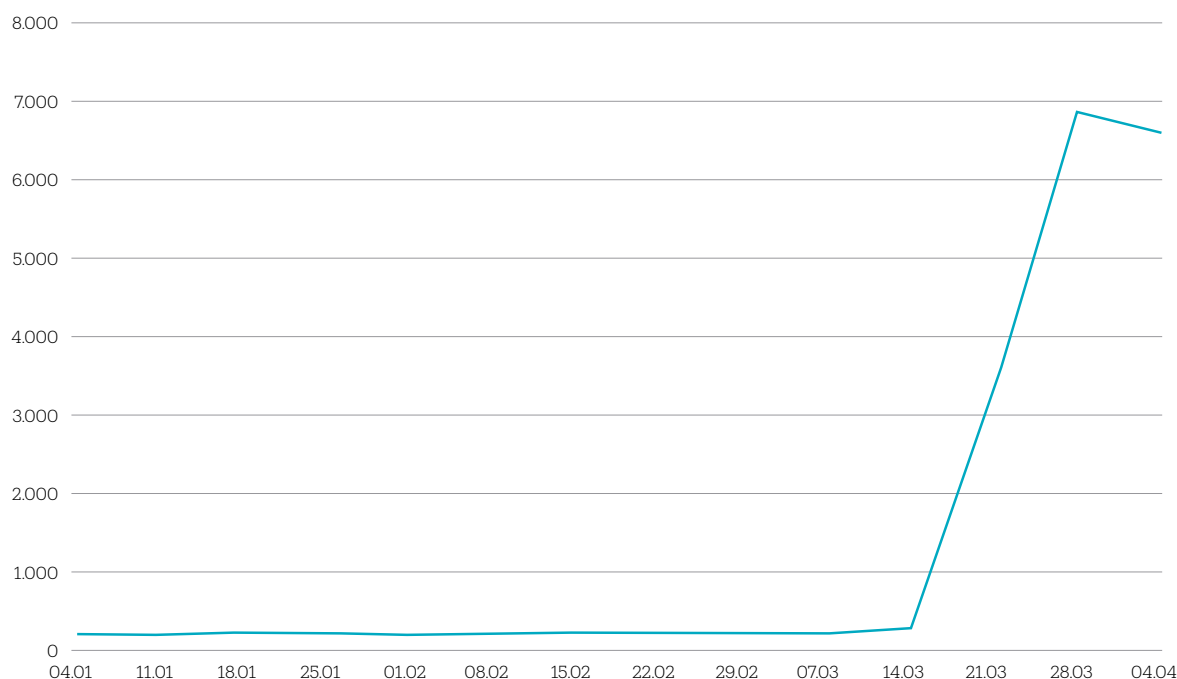
The 2008 global financial crisis was the first big blow to the neoliberal world order. Millions of people at the lower end of the socio-economic spectrum disproportionately suffered the consequences of the crisis. They lost their jobs, property, and savings while their elected leaders lacked the tools to substantially help them. Instead, politicians committed billions of dollars of taxpayers' money to bail out big businesses and the rich who owned them. Central banks flooded the world economy with liquidity, which ended up in the financial sectors,

as governments did not have the mechanisms to direct that liquidity into better use (e.g. investments to create jobs or services for the general public) (Mazzucato, 2020). This explains why after more than ten years, developed economies, including the US, the UK and the Eurozone, have still not fully recovered from the crisis; growth is still lagging, and they continue to struggle to create enough good jobs (Başbay, 2019c).

In the last decade, the resentment and discontent of lower and working-class people toward the established economic order have translated into a political backlash, with mainstream politics being challenged by movements that are previously dubbed as radical. The Yellow Vest movement in France, Brexit in the UK, and Trump Presidency in the US are examples of a trend, which punishes the 'business as usual' politics in developed economies of the West. People around the world are seemingly searching for their own voice in all manner of ways, including protest movements, which also empowers populist, xenophobic or anarchist politics (Başbay, 2019a). Fear and anger among vulnerable groups are at their peak and it is natural to expect a political expression of these feelings. Whether this will solidify populists' positions in politics or not depends on the effectiveness of traditional politicians in dealing with the coronavirus crisis.

The fact that the current economic structure does not shelter large segments of society is being demonstrated as the pandemic continues to unfold. In the UK, years of austerity under Conservative governments have left the National Health System (NHS) underfunded and with a lack of capacity to deal with the pandemic. In the US, the privatised health care system had been charging patients for Covid-19 testing until the Senate intervened and made it free. Treatment still costs a lot of money, even to those with insurance policies that millions of Americans still do not have. In America's highly flexible labour market, employers lay off workers without having to bear any costs. Most of those who are laid off do not qualify for the unemployment pay and there is no other effective structural safety net. Furthermore, millions of undocumented migrants in the US will not even be able to get one-time cash benefits that the Senate recently legislated as a part of its rescue plan.

Initial claims for unemployment benefit in the US, thousands



Source: US Employment and Training Administration

The current crisis is exposing all the flaws of the neoliberal economic structure at once. The pandemic, in and of itself, may not be the main reason for a reordering of capitalism likely to be seen in the coming years, but it surely marks a cornerstone. The current crisis mindset accelerates pre-existing trends that were bubbling underneath the surface. Many have already

been calling for a major transformation in the way economies work (Başbay, 2019b). Now, we are most likely to see more efforts in that direction. It would be fair to say that the Covid-19 may become the last nail in neoliberalism's coffin. However, the post-Covid-19 order does not need to be something we have not seen before. More likely, is a return to the pre-neoliberal era.

Big Government is Back

One of the key consequences in the wake of the pandemic may be the re-emergence of strong governments with more interventionist policies (Boratav, 2020). As people demand and expect more from the government in the face of this important social and economic crisis, beginning from the health care systems, we are likely to see that governments once again dominate some essential functions of the economic system with regulatory and even command capacity. Healthcare and education are the most likely candidates. Governments will be more inclined to set clear social priorities and enforce them through regulations in the labour market, financial system, and international and domestic trade.

The world has seen a similar period in the aftermath of World War II. The 1929 Great Depression and the catastrophes of World War II paved the way for a more centralised economic model where the government took a more proactive role in the economy. During the so-called 'Golden Age of Capitalism' between the 1950s and 1970s, governments' role in the economy drastically increased via progressive taxation, massive spending programs and extensive regulatory and control mechanisms. They had more control over essential services and regulated the financial and labour markets more stringently. They used various measures to direct resources into socially profitable investments, which create employment and income growth, or provide

essential services to society as a whole. The 'Welfare State' is an invention of this age. It is very likely that there will be a resurgence of the Welfare State in the wake of the pandemic.

Conventional policy channels have already been tested following the 2008 global financial crisis. Governments became restrained from direct involvement in the economy under the influence neoliberal way of thinking. Instead, the central banks of the most advanced economies lowered interest rates to historic lows, while governments increased their debt holdings tremendously. This led to the longest and largest quantitative easing experiment in economic history. However, these measures proved ineffective in reviving growth rates. Many notable economists have criticised this overdependence on monetary channels and called for a revival of Keynesian fiscal policy measures in order to escape the growth anaemia (Başbay, 2019c). This would also be a return back to the Golden Age when policymaking was dominated by a Keynesian approach to economic management.

The implications of such a paradigm shift would be very significant for economies around the world. Social provision of primary services, including healthcare and education, may, as result, become the norm again. The UK, for instance, is unlikely to be discussing the privatisation of the NHS for quite some time. Austerity was dead even before the pandemic. In the latest government budget, which was announced just weeks before the pandemic started, Finance Minister Rishi Sunak clearly signalled that the Conservative government is done with austerity. Specifically, Sunak announced a fiscal stimulus that is totalling £30bn, including welfare and business support, sick-pay changes and local assistance. The budget also included £5bn for the NHS. This is actually what the UK's main opposition Labour Party had promoted for years. As such, austerity measures are unlikely to make a comeback for quite some time.

The US' fragmented and inefficient health care system has also been exposed. Private health care in the US provides reassurance to those who can afford it while leaving millions of uninsured or poor Americans out. Despite growing demands for universal healthcare (i.e. 'Medicare for All'), voiced by the more 'radical' democrats such as Bernie Sanders or Elizabeth Warren, decision makers remained convinced that the private sector is a more efficient provider for such essential services, as the public sector is often wasteful and non-

competitive. There now seems to be a pressing need to design a more comprehensive system, which looks after the poor as well, because a contagious disease with no known cure poses a risk to the entire society, rich and poor.

Similar things can be said about labour markets. Proponents of the neoliberal approach have always argued for as little regulation as possible in the labour market so that free markets can allocate the resources to their best use. According to this understanding, if there is unemployment, it must emanate from 'frictions' in the market or a 'skill mismatch'. Therefore, they are natural, and so there is not much governments can or should do about it. Now that millions of people are unemployed, it is difficult to support such theories. High unemployment will lead to a collapse in aggregate demand, which will cause businesses to go bankrupt and create further unemployment. Even in the US, the supposed heartland of liberalism, there is a growing demand for the government to play a leading role in overcoming the crisis. Otherwise, American businesses will not likely come out of this swamp for a very long time.

A pandemic represents an extreme example of how human lives are undeniably interconnected and institutional cooperation is inescapable if we wish to feel secure as a society. Almost all governments around the world have felt obliged to take the lead and rescue their people from the various hardships they are facing as a result of the pandemic. The US Government has already enacted the Defence Production Act, last used during the Korean War. Other governments around the world have followed suit with equally dramatic policy moves. This type of government leadership and interventionism will likely continue in the form of a regulatory Keynesian state with important consequences for the international economic system.

De-globalisation?

A pandemic is, by definition, a global problem, which must be dealt with by international cooperation. Gordon Brown, the former Prime Minister of the UK, has called for a temporary global government to tackle the crisis (Elliot, 2020). While it remains to be true that emergencies like these require a coordinated global response, there is also a strong case that the Covid-19 pandemic could lead to a retreat from globalisation in the coming years. Globalised economies are struggling to stay interconnected, while governments around the world have all but suspended international travel in an effort to mitigate the rapid spread of the virus. This comes at a tremendous cost for businesses. The disconnectedness and lack of synchronisation caused by the pandemic are severely hurting a globalised economy.

The pandemic has affected different countries at different times. In other words, it has been breaking different rings of the global supply chain one at a time. This means that global production will remain disrupted for longer than individual economies otherwise would. When the disease started to spread in China earlier this year, it led to a shortage of intermediate goods for producers in developed economies. Now, Chinese manufacturing is back on track. But there is no demand, as Europe and the US are having their own health crises and national lockdowns. Other countries like Brazil are just getting started. Not to mention, the ongoing strict travel restrictions between countries. Considering that this is predicted to continue for some time, companies that have spread different units of production across the world will be deeply affected (Ban, 2020). Even after the pandemic is over, businesses and governments will take measures to try avoiding similar risks in the future. This may lead to a relative concentration of production to specific locations.

Social distancing measures are expected to continue to be in place at some scale for at least a few years. Especially in countries which have been able to contain the disease, the ones with the most effective measures and most robust health systems will continue to limit people from entering their borders. This will have significant implications for sectors that operate at an international scale, such as tourism, air travel, international gatherings and festivals. It would be safe to assume, for instance, that tourism, a leading industry for many countries, may not be back to its previous

scale for a few years or more. Even post-pandemic, the traumatic effects of the contagion entail that people will likely be reluctant to travel for the sake of tourism (Acemoğlu, 2020).

The pandemic has also damaged international trust between countries, which is a central tenet of a global economy. The US is blaming China for the pandemic, while China blames the US for the lack of cooperation to combat it. Meanwhile, there is an on-going fight between Canada and the US over facemasks because President Trump, using his authority from the Defence Production Act, banned the export of medical masks to Canada (Semotiuk, 2020). Facemasks have become a source of dispute within the EU as well. Both France and Germany banned exports even to other EU-member states. India, which is an important source of pharmaceuticals, has also limited the export of some life-saving drugs. All these tensions around medical supplies and restrictions on trade have heightened the perceptions that every nation is fending for itself, further empowering nationalist and anti-globalisation rhetoric (Legrain, 2020).

The EU has been the source of dramatic demonstrations of a lack of cooperation between states. The failure to mobilise a collective response, combined with some member states' decision to close borders with Italy in the early days of the pandemic, caused tension between EU members. Anti-EU sentiments are on the rise in the worst-hit countries like Italy and Spain. Pedro Sanchez, Prime Minister of Spain, criticised governments' tendency to look after their own citizens. He said, "Europe's future is at stake" and unless it is countered with solidarity, the "union fails" (Sanchez, 2020). Meanwhile, some Italians have burnt the EU flag to demonstrate their anger with the fact that none of the 26 EU countries came to Italy's aid (Legrain, 2020). European Commission President Ursula von der Leyen apologised to the Italians for the EU's handling of the pandemic. Whether the damage caused is irredeemable remains to be seen.

Lastly, a retreat from globalisation has important implications for developing countries. In a global economy, developing countries have a role to play depending on their place in the worldwide supply chain. Most of them produce either primary goods or cheap, labour-intensive manufacturing products, and

depend on more advanced economies for sophisticated capital-intensive products. In a more fragmented world, they will have to prioritise creating a strong and varied internal market as an economic objective. The pandemic is already causing disinvestment in emerging markets. Just when advanced economies

are returning back to Keynesian policies, it is likely that we will see the developmentalist framework make a comeback in developing countries. Governments will take the lead and push for industrialisation in diverse sectors so that states can improve their own productive capacity.

Conclusion

The economic consequences of the Covid-19 outbreak are, in many ways, unprecedented and will no doubt lead to a watershed in the history of capitalism. The world has seen terrible crises in the past, some caused by the financial collapse and others by wars, but never before has such a dilemma been faced whereby governments do not know whether they should incentivise economic activities to avoid an economic catastrophe, or disincentive them to avoid a health crisis. This confusing situation has led to interesting discussions about what is the best course of action for governments to alleviate the effects of the pandemic. Additionally, an important discussion has started on how the coronavirus pandemic will transform the world economic order in its aftermath.

One lesson learned is that the current economic structures are not resilient to crises such as the current pandemic. Neoliberal institutions and their policy toolkits have already been proven ineffective in the face of crises such as the 2008 global financial crisis. Market-based mechanisms often fail to provide security to the vast majority of society. It is now clear that the relationship between the economy and the state will need to undergo a fundamental change in the wake of the coronavirus pandemic. Governments need to claim

more control and responsibility for creating more inclusive and sustainable economies. Big governments with a more direct role in the economy will become the new norm. In many ways, this represents a return back to the pre-neoliberal era, the Golden Age of Capitalism, when government activism and Keynesianism dominated policymaking.

Furthermore, we are likely to see a retreat from globalisation. The virus will leave its mark on the way businesses operate. For a considerable period of time, global supply chains and just-in-time delivery systems of global businesses, will remain disrupted and not be able to function as they previously did. Travel restrictions are also likely to continue for quite some time. Under these conditions, production will become comparatively more localised and supply chains more fragmented. Loss of trust between nations is also an important element in this. Developing countries will also adjust their policy approach to the new norms of the global economic order. Governments will once again take things into their own hands, and aim for upgrading their economic structures through industrialisation policies, rather than depending on a globalised world economy and submitting to their role in it.

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