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The Pandemic and the Global Economy

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Developing countries face collapsing international trade, falling remittances, sharp reversals of capital flows, and currency depreciation. Only bold policies—debt relief, international financing, planning, and more—will avert further catastrophe.

Jayati Ghosh • April 20, 2020



People waiting for ration packets in New Delhi during India's national lockdown (Sanchit Khanna/Hindustan Times via Getty Images)

Read more of our coverage of the coronavirus crisis [here](#).

There are still many uncertainties about the COVID-19 pandemic: about the extent of its spread, its severity in different countries, the length of the outbreak, and whether an initial decline could be followed by a recurrence. But some things are already certain: we know that the economic impact of this pandemic is already immense, dwarfing anything that we have experienced in living memory. The current shock to the global economy is certainly much bigger than that of the 2008 global financial crisis, and is likely to be more severe than the Great Depression. Even the two world wars of the twentieth century, while they disrupted supply chains and devastated physical infrastructure and populations, did not involve the restrictions on mobility and economic activity that are in place in the majority of countries today. This is therefore an unprecedented global challenge and requires unprecedented responses.

This very severe economic impact largely stems not from the pandemic itself, but from measures that have been adopted across the world to contain it, which have ranged from relatively mild restrictions on mobility and public gatherings to complete lockdowns (and clampdowns) that have brought to a halt most economic activity. This has meant a simultaneous attack on demand and supply. During lockdowns, people (especially those without formal work contracts) are deprived of incomes and joblessness increases drastically, causing huge declines in consumption demand that will continue into the period after the lockdown is lifted. At the same time, production and distribution are halted for all but essential commodities and services—and even for these sectors, supply is badly affected because of implementation issues and inadequate attention to the input-output linkages that enable production and distribution. Previous regional and global crises have not entailed this near-cessation of all economic activity. The deadly combination of collapses in both demand and supply is why this time is truly different and has to be dealt with differently.

World trade in both goods and services is already collapsing. The [WTO expects](#) trade to fall anywhere between 13 and 32 percent over 2020. But even these dismal projections could well be underestimates, because they implicitly rely on relatively rapid containment of the virus and the lifting of lockdown measures by late summer. Exports of goods—other than those deemed “essential”—have effectively ceased; travel has declined to a tiny

fraction of what it was, and tourism has also stopped for the time being; various other cross-border services that cannot be delivered electronically are contracting sharply. Trade prices have collapsed and will continue to decline. In the month leading up to March 20, 2020, primary commodity prices fell by 37 percent, with energy and industrial metals prices falling by 55 percent.

Within countries, economic activity is contracting at hitherto unimaginable rates, bringing about not only a dramatic immediate collapse but the seeds of future contraction as negative multiplier effects start playing out. In the United States alone, around 22 million people lost their jobs in four weeks, with GDP estimated to contract by 10 to 14 percent from April to June. Elsewhere the pattern is no different, probably worse, as most countries are facing multiple forces of economic decline. The IMF predicted on April 14 that global output will fall by 3 percent in 2020, and as much as 4.5 percent in per capita terms—and this is based on the most optimistic projections.

These collapses in economic activity necessarily affect global finance, which is also in disarray. The classic point about financial markets being imperfect not only because of asymmetric but also incomplete information is being borne out in practice: these markets are all about time, and now we must painfully accept that no one can know the future, even a few months ahead. Financial bets and contracts made just a few months ago now appear completely implausible to sustain. Most debts are clearly unpayable; insurance claims will be so extreme as to wipe out most insurers; stock markets are collapsing as investors realize that none of the assumptions on which earlier investments were made are valid anymore. These negative forces together amount to humongous losses that could threaten the very viability of the global capitalist order (an order that was already struggling to show any dynamism over the past decade).

Unequal Effects

In an already very unequal world, this crisis already has and will continue to sharply increase global inequality. A large part of this is because of the very different policy responses in most developing countries (other than China, the origin of the pandemic, which has managed to contain its spread and revive economic activity relatively quickly) as compared to advanced economies. The sheer enormity of the crisis has apparently registered with policymakers in the developed world, who have (probably

temporarily) abandoned all talk of fiscal austerity and suddenly appear to have no problem simply monetizing their government deficits. It is likely that the global financial system would have collapsed in the panic that arose in the third week of March without massive intervention by the major central banks of the developed world—not just the U.S. Federal Reserve but the European Central Bank, the Bank of Japan, the Bank of England, and others.

The “exorbitant privilege” of the United States as the holder of the world’s reserve currency obviously gives it greater freedom to prop up its own economy. But other developed countries are also putting forward fairly large fiscal packages, from 5 percent of GDP in Germany to 20 percent in Japan, in addition to various other expansionary and stabilizing measures through their central banks.

By contrast, most developing countries have much less leeway to engage in such policies, and even those larger developing economies that could do so appear to be constrained by the fear of financial markets punishing them further. This is terrible: their economic challenges are already much greater than those in the developed world. Developing countries—many of which have yet to experience the full force of the spread of the virus—have been hit by a perfect storm of collapsing global trade, falling remittances, sharp reversals of capital flows, and currency depreciation. In just the month of March, capital flight from emerging market assets was an estimated \$83 billion, and since January nearly \$100 billion has flown out—compared to \$26 billion after the 2008 financial crisis. Portfolio investment is down by at least 70 percent from January to March 2020, and spreads on emerging market bonds have risen sharply. Currencies of developing countries have mostly depreciated sharply, other than in China. The foreign exchange crunch is generating serious problems in servicing external debt, which is harder to do because of shrinking foreign exchange inflows and rising domestic costs for servicing them. By early April, eighty-five countries had approached the IMF for emergency assistance because of severe problems in meeting foreign currency payment obligations, and that number is likely to rise.

These external pressures, which are already together much greater than anything experienced during the Great Depression, have come to bear on economies that are already struggling with the terrible domestic economic consequences of their virus containment strategies. The burden of these processes has fallen massively upon informal workers and self-employed people, who are being deprived of their livelihoods and falling

into poverty at very rapid rates. Seventy percent of workers in developing countries are informal and are unlikely to be paid at all during lockdowns in which they are forced to be inactive. Workers with formal contracts have also started losing their jobs. The International Labour Organization estimated in early April that more than four out of every five workers in the world are facing the adverse impacts of the pandemic and associated policy responses, and most of them reside in the developing world. Women workers are more likely to be disproportionately adversely affected: more likely to lose jobs and experience major pay cuts, more likely to be rationed out of labor markets when jobs do become available, more likely to suffer during lockdowns because of enhanced possibilities of domestic abuse, and more likely to suffer from inadequate nutrition in a time of household food shortages.

In many countries, livelihood losses are associated with dramatic increases in the extent of absolute poverty and growing hunger, even among those previously not classified as poor. Indeed, the re-emergence of hunger on a global scale is likely to be an unfortunate legacy of the pandemic and the containment measures that resulted. To add to all of this depressing news, most states in developing countries will not be able to indulge in the necessary levels of deficit financing (by borrowing from central banks) to enable the required increases in public expenditure, because of foreign exchange constraints and greater surveillance of financial markets over their deficits.

The Aftermath

This, unfortunately, is just the beginning. What of the aftermath, when the pandemic is brought under control? It bears reiterating that after a seismic shock of this magnitude, economies across the world will not simply be able to carry on as before, picking up where they had left off before this crisis. Over the coming year, many things are likely to change, including global reorganization of trade and capital flows. International trade will remain subdued for a while. Most commodity prices will also remain low, because global demand will take some time to pick up. This will affect commodity exporters' revenues, but it need not provide much advantage for commodity importers because of the overall deflationary pressures stemming from depressed demand.

On the other hand, the breaking of supply chains could well lead to specific shortages, including of some essential items, generating cost-

push inflation especially in developing countries. Cross-border capital flows will be volatile and unstable, and most developing countries will struggle to attract sufficient secure capital on terms that would make it beneficial to add to domestic savings and meet trade financing costs. The steep currency depreciations that have already occurred are unlikely to get completely reversed and could even accelerate further, depending upon what strategies are pursued in both developed and developing countries. These falling currency values, higher margins on interest paid, and rising yields on bonds will all continue to make debt servicing a massive problem. Indeed, most developing country debt will be simply unpayable.

In addition to problems in domestic banks and non-bank lenders because of likely large-scale defaults, there will be massive problems in insurance markets, with the failure of some insurance companies and rising premiums that could be a disincentive for most medium and small enterprises to be insured at all. Travel and tourism revenues will also be significantly curtailed over the medium term, as the earlier confidence underlying such travel will have eroded. Similarly, many migrants will have lost employment. Demand for foreign labor is likely to decline in many host countries, so remittances will also decline. All of this will continue to put pressure on government finances especially (but not only) in the developing world.

Averting Catastrophe

This litany of horrors is well within the realm of the possible. The saving grace is that these outcomes are not inevitable: they depend crucially on policy responses. The terrible consequences described above are predicated on international institutions and national governments not taking the measures that could ameliorate the situation. There are both national and global policies that could help, but they must be implemented quickly, before the crisis generates even more humanitarian catastrophe. It is essential to ensure that the policy responses do not (as they currently do) increase national and global inequalities. This means that recovery strategies must be reoriented away from handouts to large corporations without adequate regulation of their activities, and toward enabling the survival, employment, and continued consumption demand of poor and middle income groups, and the survival and expansion of tiny, small, and medium enterprises.

There are some obvious steps that the international community needs to take immediately. These steps rely on the existing global financial architecture—not because this architecture is just, fair, or efficient (it is not), but because, given the need for a speedy and substantial response, there is simply no possibility of constructing meaningful alternative institutions and arrangements quickly enough. The existing institutions—especially the International Monetary Fund—have to deliver, which requires that they shed their pro-capital bias and their promotion of fiscal austerity.

The IMF is the only multilateral institution that has the capacity to create global liquidity, and this is the moment when it must do so at scale. An immediate issue of Special Drawing Rights (SDRs), which are supplementary reserve assets (determined by a weighted basket of five major currencies), would create additional international liquidity at no extra cost. Since a fresh issue of SDRs must be distributed according to each country's quota in the IMF, it cannot be discretionary and cannot be subject to other kinds of conditionality or political pressure. At least 1 to 2 trillion SDRs must be created and distributed. This will have a huge impact in ensuring that global international economic transactions simply do not seize up even after the lockdowns are lifted, and that developing countries are able to engage in international trade. Advanced economies with international reserve currencies are much less likely to need to use them, but they can be a lifeline for emerging markets and developing economies, providing additional resources to fight both the pandemic and the economic disaster. They are much better than depending on the IMF to provide loans, which often require conditionalities. (Insofar as additional emergency loans from the IMF are required, they must also be provided without conditionality, as purely compensatory financing for this unprecedented shock.) The issuance of more SDRs is also preferable to allowing the U.S. Federal Reserve to play the role of sole stabilizer of the system. The Fed's swap lines are currently providing central banks of a few chosen countries with dollar liquidity as it becomes scarce in this crisis. But this is not a norm-based multilateral allocation; these swaps reflect the strategic national interests of the United States, and therefore reinforce global power imbalances.

One reason why there has been only limited issue of SDRs so far (the last increase was after the 2008 crisis, but to the tune of only around 276 billion SDRs) is the fear that such an increase in global liquidity would stoke inflation. But the world economy has just experienced more than a

decade of the largest increases in liquidity ever due to “quantitative easing” by the U.S. Fed without inflation, because global demand remained low. The current situation is only different because it is more acute. If additional liquidity is used to invest in activities that would ease the supply shortages likely to come up because of lockdowns, then it could also ease any cost-push inflation that might emerge.

The second important international measure is dealing with external debt problems. There should immediately be a moratorium or standstill on all debt repayments (both principal and interest) for at least the next six months as countries cope with both the spread of the disease and the lockdown effects. This moratorium should also ensure that interest payments do not accrue over this period. It is obvious that very few developing countries will be in any position to service their loans when foreign exchange inflows have effectively stopped. But in any case, if everything else is on hold in the global economy today, why should debt payments be any different?

A moratorium is a temporary move to tide these countries over during the period when the pandemic and the closures are at their peaks. But eventually substantial debt restructuring is likely to be necessary, and very substantial debt relief must be provided especially to low-income and middle-income countries. International coordination would be much better for all concerned than the disorderly debt defaults that would otherwise be almost inevitable.

Within nation-states, the institution of capital controls would enable developing countries to deal at least partly with these global headwinds by stemming the volatility of cross-border financial flows. Such capital controls must be explicitly allowed and encouraged, in order to curtail the surge in outflows, to reduce illiquidity driven by sell-offs in emerging markets, and to arrest declines in currency and asset prices. Ideally, there should be some cooperation among countries to prevent any one country from being singled out by financial markets.

The aftermath of this crisis is also going to require a revival of planning—something that had almost been forgotten in too many countries in the neoliberal era. The collapse of production and distribution channels during lockdowns means that defining and maintaining the supply of essential commodities is of critical importance. Such supply chains will have to be thought through in terms of the input-output relationships involved, which in turn requires coordination between different levels and

departments in governments as well as across provinces—and possibly at the regional level as well.

The pandemic is likely to bring about a change in attitudes to public health in almost all countries. Decades of neoliberal policy hegemony have led to drastic declines in per capita public health spending in rich and poor countries alike. It is now more than obvious that this was not just an unequal and unjust strategy but a stupid one: it has taken an infectious disease to drive home the point that the health of the elite ultimately depends on the health of the poorest members of society. Those who advocated reduced public health spending and privatization of health services did so at their own peril. This is true at a global scale as well. The current pathetically nationalist squabbles over access to protective equipment and drugs betray a complete lack of awareness of the nature of the beast. This disease will not be brought under control unless it is brought under control everywhere. International cooperation is not just desirable but essential.

While pushing for these major strategies for national governments and international organizations, we need to be conscious of some concerns. One is the fear that governments across the world will use the opportunity presented by the pandemic to push for the centralization of power, with significantly increased monitoring and surveillance of citizens, and increased censorship and control over information flows to reduce their own accountability. This has already started in many countries, and fear of infection is causing many people across the world to accept invasions of privacy and forms of state control over individual lives that months ago would have been seen as unacceptable. It will be harder to sustain or revive democracy in such conditions. Much greater public vigilance is required both at present and after the crisis has ended.

There is also a fear that the increased inequalities thrown up by this crisis will reinforce existing forms of social discrimination. In principle, a virus does not respect class or other socio-economic distinctions. But there are well-known negative feedback loops between the squalor associated with income poverty and infectious diseases. In our unequal societies, poor and socially disadvantaged groups are more likely to be exposed to COVID-19 and more likely to die from it, because people's ability to take preventive measures, their susceptibility to disease, and their access to treatment all vary greatly according to income, assets, occupation, and location. Perhaps even worse, COVID-19 containment policies within countries show extreme class bias. "Social distancing" (better described as physical

distancing) implicitly assumes that both residences and workplaces are not so crowded and congested that the prescribed norms can be easily maintained, and that other essentials like access to soap and water are not limited. The fear of infection during the pandemic has brought out some more unpleasant forms of social discrimination and prejudice in many countries, from antipathy to migrants to differentiation on the basis of race, caste, religion, and class. At a time when the universality of the human condition is highlighted by a virus, responses in too many countries have been focused on particularistic divisions, which bode ill for future progress.

Despite these depressing possibilities, it is also true that the pandemic, and even the massive economic crisis it has brought in its wake, could also bring about some changes in attitudes that point to a more hopeful future. Three aspects of this deserve comment.

The first is the recognition of the essential nature and social significance of care work and the greater respect and dignity accorded to paid and unpaid care workers. This could result in societies increasing the number of paid care workers, providing required training for them because of greater appreciation of the skills involved in such labor, and offering these workers better remuneration, more legal and social protection, and greater dignity.

Second, the wider realization among the public of the real possibility that unthinkable events can occur and unimaginably dreadful processes can be unleashed by our ways of life may also bring home the reality of climate change and the disasters it will bring in its wake. This could make more people conscious of the need to change how we live, produce, and consume, before it is too late. Some of the less rational aspects of global supply chains, especially in the multinational food industry (which has encouraged produce from one part of the world to be shipped to another part of the world for processing, before coming back to places near its origin to be consumed), will be questioned and could decline in significance. Other changes in lifestyle and consumption and distribution patterns could follow.

Finally, on a more philosophical level, existential threats like pandemics encourage more recognition of the things that really matter in human existence: good health, the ability to communicate and interact with other people, and participation in creative processes that bring joy and satisfaction. These realizations could encourage the first steps toward

civilizational shifts that lead to the reorganization of our societies. There is an opportunity to move away from dominant assumptions about individualistic utility maximization and the profit motive to more caring and cooperative social frameworks.

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