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The Global Economic Context for Justice for All

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The Global Economic Context for *Justice for All*

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This Paper includes data available up to June 24, 2020

The Global Economic Context for *Justice for All*

Preface

The *Sustainable Development Goals (SDGs)* are an integral element of the United Nations *Agenda 2030* vision¹, and SDG 16 has a specific focus on the promotion of justice: namely, to:

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

While much of the work to date in pursuit of this Goal has focussed on significantly enhancing justice systems – both formal and informal – and on the access of *all* people to the means to resolve criminal and civil injustice, the successful delivery of justice necessitates a far wider perspective.

As *Agenda 2030* recognises, sustainable development depends not only on justice with respect to criminal and civil need, but critically to sustainable and sustained economic, social and environmental justice, too.

Economic and social justice are central to – and, indeed, pre-requisites for – the vision for justice in the criminal and civil justice system.

While justice services will always be necessary – and equality and ease of access for all is rightly an absolute objective here – reducing the flow of adults and children who come into unnecessary and avoidable contact – and especially, conflict – with the law is a prime objective. Economic and social justice lie at the heart of this preventative priority, since the roots of criminal and civil conflict and injustice very often lie in injustices deep within society.

Investing in society to address these deep-seated injustices is therefore crucial, and evidence suggest this yields significant returns for society as a whole, as well as for the individuals – both adults and children – concerned.

Moreover, establishing and delivering criminal and civil justice for all *now* equally necessitates a significant investment in justice systems – and indeed all – public services. Globally, there are major gaps in the provision of necessary justice services, and these gaps adversely impact on the vast majority of people. Only a small proportion of the global population is estimated to have access to meaningful justice. This, in turn, feeds further inequalities and injustices.

COVID-19 hugely exacerbates this challenge. The future path of the global, and of national, economies will be central to the response to the challenge of injustice in all its forms. Addressing criminal and civil injustice can not be seen in isolation from the complex economic environment in which people live their daily lives, nor as unaffected by the economic context of the post-COVID-19 era. Appropriate resourcing will be massively challenging.

This paper looks at the global economic context in the light of COVID-19: at the immense economic impact of the health crisis, and additionally at the impact of the economic response to the crisis itself.

It sets out the outlook for the next decade at this stage of the crisis, and the very substantive implications for fiscal policy for the medium-term recovery period.

Most starkly in the context of justice, it reflects on the future direction of public services in the context of unprecedented fiscal pressure and at a time of a far greater demand for the State to intervene in addressing a wide range of economic, social and environment objectives – all compelling and all urgent in the post-crisis era.

Resources are therefore very likely to be under severe pressure, with the resulting fiscal policy decisions having immensely important ramifications for *justice for all*, and for future generations.

¹ United Nations: <https://sustainabledevelopment.un.org/post2015/transformingourworld>

SUSTAINABLE DEVELOPMENT GOAL 16

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

PATHFINDERS FOR JUSTICE

The *Pathfinders for Peaceful, Just and Inclusive Societies* are a group of 36 UN member states, international organizations, global partnerships, civil society and the private sector. They work to accelerate action to implement the SDG targets for peace, justice and inclusion (SDG16+). In September 2017, the Pathfinders launched the *Roadmap for Peaceful, Just and Inclusive Societies*.² Their goal is:

*To deliver **justice for all** by 2030 in a world where billions of people are not yet able to obtain justice, we must resolve justice problems, prevent injustices from occurring, and use justice systems to create opportunities for people to participate fully in their societies and economies.*

What is Justice for All ?³

- ❖ *Justice* is a foundation for peaceful and inclusive societies, and an enabler of sustainable development.
- ❖ *Justice* should be provided not for the few, but should deliver justice for *all*.
- ❖ *Justice* is having the legal protections that allow everyone to claim their rights, fulfil their potential, and participate in shaping the future of their countries.
- ❖ *Justice* meets people's everyday needs in an accessible and affordable way, providing universal access to basic justice: that is, legal advice, legal empowerment in communities, formal justice institutions that play a frontline role in resolving conflicts and disputes, and alternative mechanisms to resolve these justice problems
- ❖ *Six areas account for most justice problems:* violence and crime, disputes involving land, housing or neighbours, unresolved family disputes, problems related to money, debt or consumer issues, or those related to access to public services, and legal needs related to employment or businesses
- ❖ To deliver *justice* for all, countries must resolve people's justice problems, prevent injustices large and small from occurring, and create opportunities for people to participate fully in their societies and economies.
- ❖ *Justice* puts people at the centre of justice systems, and justice at the heart of sustainable development.

² **More detail:** <https://www.justice.sdg16.plus/>

Key documents:

- **The roadmap for peaceful, just and inclusive societies: a call to action to change our world.** July 2019
https://530cfd94-d934-468b-a1c7-c67a84734064.filesusr.com/ugd/6c192f_0349710665254122b0a00066c31fa8d2.pdf
- **Justice in a pandemic. Briefing One. Justice for all and the public health emergency.** April 2020
https://6c192f99-3663-4169-a572-e50276ce5d6d.usrfiles.com/ugd/6c192f_1e8d8e91cfec4098b7b26db9cd296d30.pdf

³ This section comes from *Justice for All: Report of the Task Force on Justice*, April 2019:
https://cic.nyu.edu/sites/default/files/english_task_force_report_27jun19-min-compressed.pdf

Justice for Children, Justice for All

Commissioned by the *Pathfinders*, ***Justice for Children, Justice for All***⁴ is an international, multi-agency initiative with a strategic vision that actively puts children at the centre, affirms children's human rights, and is an essential part of the collective global challenge to achieve SDG 16.

The ***Justice for Children Call to Action*** offers a new starting point to place children at the heart of an emerging global movement for justice. It is:

- ❖ **Advancing a new understanding of justice:** not only aiming to overcome the challenges children face in accessing legal justice, but also promoting justice as an enabler of children's opportunities and development to their full potential.
- ❖ **Targeting critical decision makers:** drawing together a range of leaders to realise children's rights; including those whose primary focus is *not* children, but whose decisions have a crucial impact on children's lives, both directly or indirectly. Sustained political commitment, and the securing of the necessary investment in financial resources and skills, underpin these efforts.
- ❖ **Building on the growing momentum of national commitments:** working coherently alongside the SDG 16 global platforms (*Open Government Partnership; Global Partnership to End Violence against Children; the Pathfinders for Peaceful, Just and Inclusive Societies*) to support country-led commitments to deliver better outcomes for children, that will realise their rights, meet their needs and open up opportunities.
- ❖ **Sharply prioritising impact on children's outcomes:** the *Call to Action* is maintaining a focus on the end results for children, achieved through highly effective implementation channels to secure sustained change.

What is Justice for Children ?

- ❖ ***Justice for Children* is responding to the distinct needs of all children**, and realising their full range of rights and opportunities, to achieve peaceful, just and inclusive societies for all.
- ❖ ***Justice for Children***, in all its forms, includes criminal and civil justice, as well as economic, social and cultural justice.
- ❖ Children can come into contact with the law and justice systems as victims, as witnesses, and when accused of an offence, as an interested party or because intervention is required for their care, protection, health and wellbeing.
- ❖ They require child-friendly and gender-sensitive justice systems that are specialised, meet their needs and ensure access to justice when their rights are violated. This is of greatest importance where children are unheard and for those who experience profound and sustained injustice.
- ❖ To ensure this *justice*, all children need universal and equal access to universal services
- ❖ Children have a right to be empowered to contribute to, and participate in, all areas of justice in their lives.

⁴ **More detail:** <https://www.justice.sdg16.plus/justiceforchildren>

Key documents:

- Davidson, J.; Elsley, S.; Giraldo, M.; Goudie, A.; Hope, K.; Lyth, A.; Van Keirsbilck, B. (June 2019). **Justice for Children, Justice for All: The Challenge to Achieve SDG16+ Call to Action**. Glasgow: CELCIS - Inspiring Children's Futures, University of Strathclyde. Available: https://bf889554-6857-4cfe-8d55-8770007b8841.filesusr.com/ugd/6c192f_23f7a997509d40388a689da6f0059a82.pdf
- Davidson, J.; Elsley, S.; Giraldo, M.; Goudie, A.; Hope, K.; Lyth, A.; Van Keirsbilck, B. (June 2019). **Justice for Children, Justice for All: The Challenge to Achieve SDG16+ A Challenge Paper**. Scotland: CELCIS-Inspiring Children's Futures, University of Strathclyde. Available: https://bf889554-6857-4cfe-8d55-8770007b8841.filesusr.com/ugd/6c192f_f5ad9c32f99947448cc56754dcaad75a.pdf

The Global Economic Context for *Justice for All*

A. An economic framework for *Justice for All*

The economic impact of the global health crisis⁵ bears on justice in far-reaching and profound ways. As the health crisis evolves through its different phases, the economic impact is equally changing in nature, with differing consequential implications for justice too. Moreover, within each nation, these impacts will vary significantly as each has its own distinctive health, economic and justice characteristics and culture.

Despite these important distinctions, a broad and common framework can be identified that demonstrates the linkages between these critical elements in the current crisis, and within which it is helpful to frame both the challenges that need to be addressed and the responses that might be adopted.

The progression of the health crisis itself has varied in its timing, its nature, its severity and impact across the world and, indeed, within nations very considerably, but there are broadly three phases that help frame the response.

The first phase of the Crisis: lock-down and caring for the vulnerable

While the first phase of the COVID-19 crisis, dominated by humanitarian objectives and the protection of the most vulnerable in society, may be receding in many countries - but by no means all – its impact will last for decades.

The primary economic impact of this first phase has been directly related in almost every nation to the global and national lockdown of the majority of the population, and the consequent abrupt termination of significant economic activity. With production and employment in all but the essential economic sectors - largely those providing food, medicines, medical and social care, internal transportation, and the like - being severely constrained, the impact has been immense.

Many countries have hurried to establish or greatly expand social protection to their peoples, or to provide short-term support funding channels to their businesses – both large national, and multinational companies as well as the SME sector, and sometimes to the self-employed – in order to try to stave off long term damage to their economies and the collapse of vast swathes of economic activity. The capacity of countries to provide such support has unsurprisingly varied greatly. Many countries have simply not had the resources or the borrowing capacity to provide such protections and the immediate impact on both individuals and businesses has in consequence been all the greater.

While some people in countries with high aggregate incomes have been furloughed in the expectation of returning to their existing employment, significant numbers of these will not do so, and many others have been immediately laid off. The impact on unemployment for the short- and, indeed, the medium-term is widely expected now to be immensely serious. In poorer countries, there have been no such safety nets or only much weaker social protection and business support. In these circumstances, unemployment has risen very sharply in most nations, with the

⁵ See also: Goudie, A.W., *'Re-thinking our Global Economic Future' (2020)* University of Strathclyde, Fraser of Allander Institute; <https://www.sbs.strath.ac.uk/feeds/news.aspx?id=2023>

prospect of a very protracted recovery. A deep and perhaps prolonged recession is now widely anticipated in many nations.

The immediate impacts of this phase of the crisis on both the economies and the social structures of most countries have therefore been acute and will be long-lasting. Significant proportions of the population, and especially the most vulnerable communities, will see their lives and livelihoods massively disrupted for the foreseeable future.

In this context, the *Sustainable Development Goal 16* vision - *to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels* - has become a far greater challenge to deliver.

Progress will undoubtedly have been interrupted with major areas of regression. New and significantly more severe challenges to the delivery of a universal people-centred justice, that is equitable and accessible to all, have become a reality.

Moreover, they must be addressed, and new innovative solutions must be found, in a vastly more difficult economic climate.

The second phase of the Crisis: progressively re-mobilising society and the economy

Many countries are now entering the second phase of the health crisis. Their approaches vary markedly, from extremely tentative and cautious approaches to more bold steps to permit the greater mobility of their peoples. Many are motivated by the extreme fear of the harm that phase 1 has already inflicted on their economies and the powerful wish to avert further damage, as well as the very concerning impact of isolation on the physical and mental health of their people. There is no doubt that the more protracted the social and economic lock-downs, the greater the long term and structural cost to every nation.

The equal fear remains, however, that premature re-mobilisation, or the weak compliance of communities in adhering to the new and more complex rules and guidance for social interaction that this second phase necessarily entails, will precipitate a second and indeed further waves of the crisis. The absence of effective health treatments and vaccines significantly raises the risk of such events, although the growing capacity to isolate further outbreaks, drawing in some cases on technological advances in tracking, is anticipated to mitigate and manage this threat to an extent.

However, there is no simple path out of phase 1 and the remobilisation of the population in phase 2 would appear to almost certainly be a non-linear, and, in all probability, far from a smooth, progression to full mobility.

Moreover, in those countries that have taken major steps to mitigate the worst economic impacts of the crisis, the more protracted is this second phase of gradual re-mobilisation of the population and the re-opening of economic activity, the greater the budgetary cost will be, leaving very significant deficits and the accumulation of debt-GDP ratios that are unprecedented and will dwarf those seen in the 2008-09 Financial Crash.

Importantly, the uncertainty of the future course of the health crisis has direct implications for the degree of uncertainty around the future course of the global and national economies. Such risks are highly likely to inhibit the rate of economic recovery, as both consumers and corporate investors may well pause while they assess the nature and strength of the revitalisation of economic and social life, thereby themselves contributing to the weakness of the recovery.

The third phase: moving towards a medium-term sustainability and unconstrained societies

The third phase of the crisis may broadly be described as the re-establishment of mobility and the medium-term recovery period. While the health constraint and behavioural rules and guidance may still prevail to an extent, mobility restrictions will have been largely removed, although with the uncertainty that they could be re-imposed at any time, if it proved necessary.

There is little likelihood this will simply be a restoration of the pre-COVID-19 era.

Many have argued that that should not indeed be the objective, and, in any case, there seems little prospect of that given the immensity of the disruption to almost every aspect of life and the very protracted period over which the crisis will now cast its shadow.

A Framework for Justice for All⁶.

Throughout all these phases – with their varying duration and sharply differing forms across the globe – the impact provoked by the global health crisis on the economic and financial environment, and on the evolution of that environment, will be profound. Moreover, the response to this massive economic shock has been exceptionally far-reaching, and the economic and financial strategies that are put in place globally over coming years, each with their medium-term recovery programmes, will be equally critical.

Both the economic and financial disruption because of the crisis, and the economic response adopted in the face of the crisis, are impacting on society in very different ways, and the nature and significance of the social impact will evolve as the economic and financial conditions themselves evolve.

At each stage of the crisis, these societal impacts will take on a different form, with important implications for the strategic approach to addressing the *Justice for All* objective (as set out in the *Preface* above).

In particular, national medium-term programmes of adjustment will bring very significant implications for all public services in their societies and, specifically for the services that focus on the imperative of *Justice for All*. While the ultimate vision for *Justice for All* remains as paramount as ever, the entire economic, financial and social context for addressing the primary challenges has changed.

The financing of the programmes to deliver justice for all in the pre-COVID-19 era was already a very major challenge: it has now become yet greater.

⁶ *Justice for All* is explained in the *Preface* above.

A Framework for *Justice for All*.

In essence, within this *Framework*, there are two primary impacts on justice that might be identified:

- ***the impact on the demand for justice:***

Justice

- The **economic ramifications of the crisis for poverty, inequality and social cohesion** would be expected to be very profound, with obvious implications for a much-increased proportion of the population and for their access to justice. Whether this period of economic recession and recovery creates greater degrees of need for justice services is a crucial question, and to what extent that increased need is translated into a visible demand for support services, may not yet be clear, but it would be anticipated that both **the need and the demand for support would rise sharply** in some communities.

Given the pre-existing need, this will only exacerbate the challenge. Moreover, to the extent that access to justice is contingent on individuals' own resources, access would be expected to be severely and adversely impacted.

Economic and social justice

- The crisis has already exposed the continuing high levels of global and national inequality and poverty, and the ***economic and social injustices that lie at the root of these huge disparities***. It has, moreover, greatly exacerbated the injustices in this regard, as the well-being of the most vulnerable - and the newly vulnerable - communities and individuals has declined sharply, as they have suffered the greatest impact from the economic shutdowns and recession.

Not only are these economic injustices unacceptable in their own right, and addressing them lies at the heart of the United Nations *Agenda 2030* and the *Sustainable Development Goals*, but they are critical to **the preventative perspective of *Justice for All***. Stemming the flow of children and adults into situations in which they are in contact, and especially conflict, with the law will always be the priority, and economic and social justice for all lies at the heart of this preventative perspective.

- ***the impact on the supply of services:***

- The crisis has created a **massive financial burden on most economies**, both through the drastic reductions in output and government revenues, and through the fiscal policies that have been pursued – most notably, in countries with high aggregate incomes – to mitigate the impact of protracted periods of lock-down in which huge numbers of companies have been put at risk and a significant proportion of each nation's population has faced the prospect of major losses of income.

This financial burden carries **huge implications for the future of all public services**, in general, and for the supply of justice services, in particular, for at least a decade. The same will apply to programmes that explicitly seek to address the economic and social injustices that prevail, and which play a critical role from the preventative perspective.

Not only does it raise severe challenges to increased provision, but it would be expected that even existing levels of service provision would now come under extreme pressure. The competition for scarce government resources will be intense during a period of much increased need across much of society.

The **implications of this for justice services** are crucial: services would potentially be significantly affected in terms of their quality and relevance, their accessibility and geographical availability, their focus on all communities equitably, and their cost.

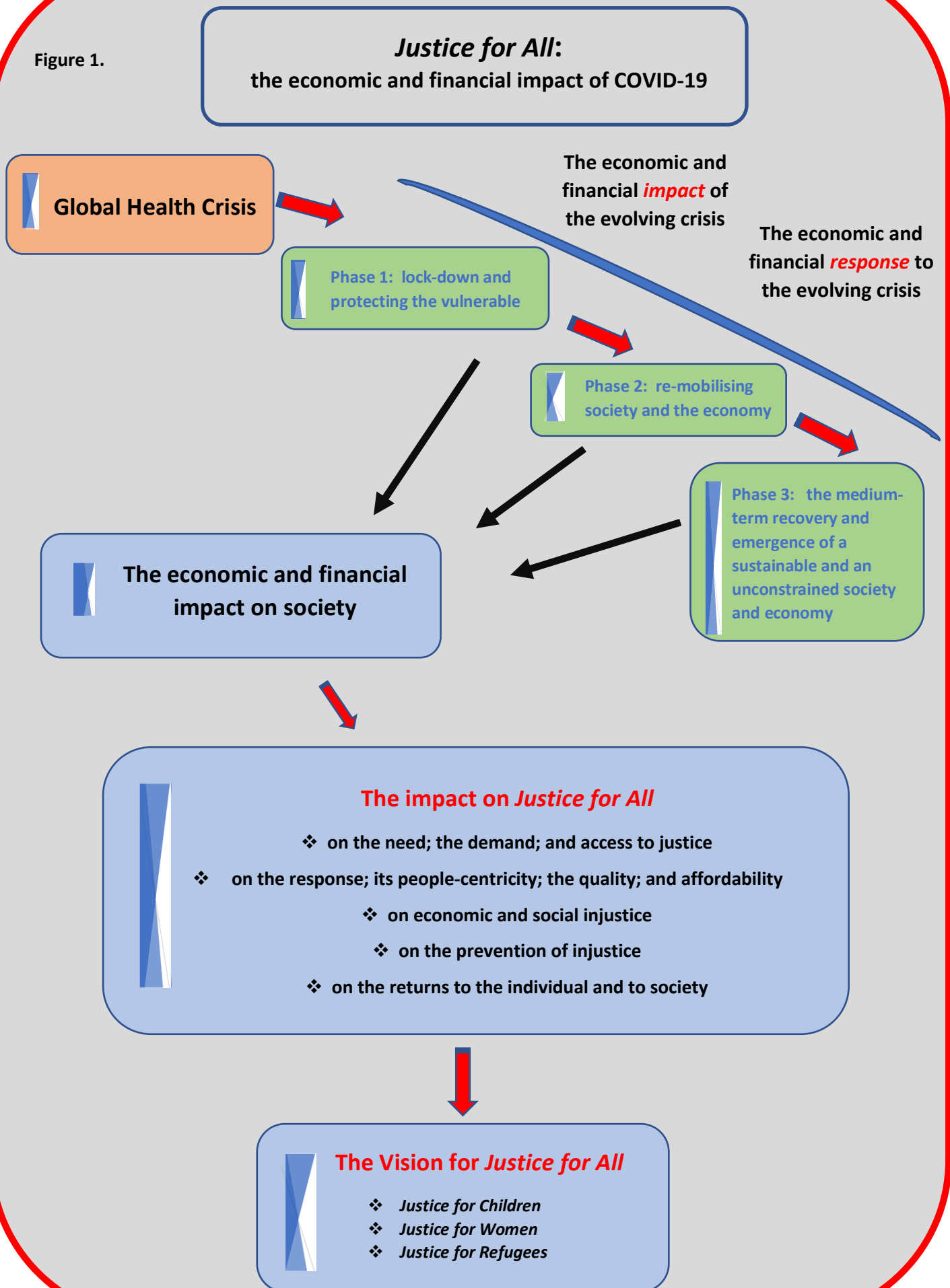
Addressing the justice challenge is not, of course, simply about the financial resources available to meet the service needs. We know this to be true especially when **finding new and innovative ways** of realising access to *justice for all* has always been a top priority, even prior to the global health crisis. But financial and human capital resourcing will have a critical part to play.

Securing the *Pathfinders'* vision⁷ of *Justice for All* - and, in particular, for all those communities and groups whose rights are more likely to have been violated, such as women, children, minority ethnic groupings, and refugees - is therefore hugely dependent on the manner in which government at all levels determine their strategic visions and priorities in the post-COVID-19 recovery period.

The illustration below, Figure 1, suggests a ***Framework for Justice for All***, within which the important interdependencies, set out above, between the evolving COVID-19 health crisis and its impact on the economic and financial well-being of every nation, and, critically, on the well-being and justice needs of its people, might be considered.

⁷ As set out in the *Preface* to this Paper.

Figure 1.



B. Pre-COVID-19 vulnerability

Many nations entered the COVID-19 crisis already in a precarious state and were ill-suited to withstand the full force of both the global health threat itself and the impact of the economic disruption necessitated by the health crisis. Pre-existing societal vulnerabilities, and economic and financial vulnerabilities, have both exposed the fragility of progress over recent years. *Justice for All* has always been a fundamentally demanding vision, and the crisis is now demonstrating how maintaining past progress – if not restoring it – and accelerating progress toward the vision will be exceptionally challenging.

Many national economies were not in an acceptable state of preparedness or demonstrating the degree of resilience that might have made the huge external shock from COVID-19 less disruptive and with less far-reaching long-term consequences. For example, the Financial Crash of 2008-09 had left many economies highly exposed following the unprecedented support of governments in many countries to stave off far more serious financial, economic and social instability at that time, if not collapse, and the decade of adjustment, prior to COVID-19, had by no means run its course. Indeed, outstanding debt:GDP levels remained at historically very high levels in 2019.

Nations were also deeply vulnerable in a different sense too, namely, regarding the resilience of their societies and the degree of social fragility amongst many communities, notably those including the most deprived, the physically and mental challenged and the elderly. Again, this social vulnerability left many nations exceptionally exposed to the sudden and very rapid onset of COVID-19, with little capacity to protect the health, and indeed lives, of these groupings.

With COVID-19 inflicting significantly elevated levels of vulnerability and a major intensification of deprivation in most societies, there are deep concerns for those in need of justice and seeking channels through which to access support, whether formal or informal.

Not only are individuals less able to afford justice services as the economic shocks eliminate major areas of employment, self-employment and informal employment, but individuals' connectivity with the opportunities for support become fractured and their awareness of how to seek recourse and support declines markedly. Indeed, the confidence of individuals to embark on the journey to access and secure justice is severely dented in such vulnerable communities.

Deprivation and the impact of COVID-19

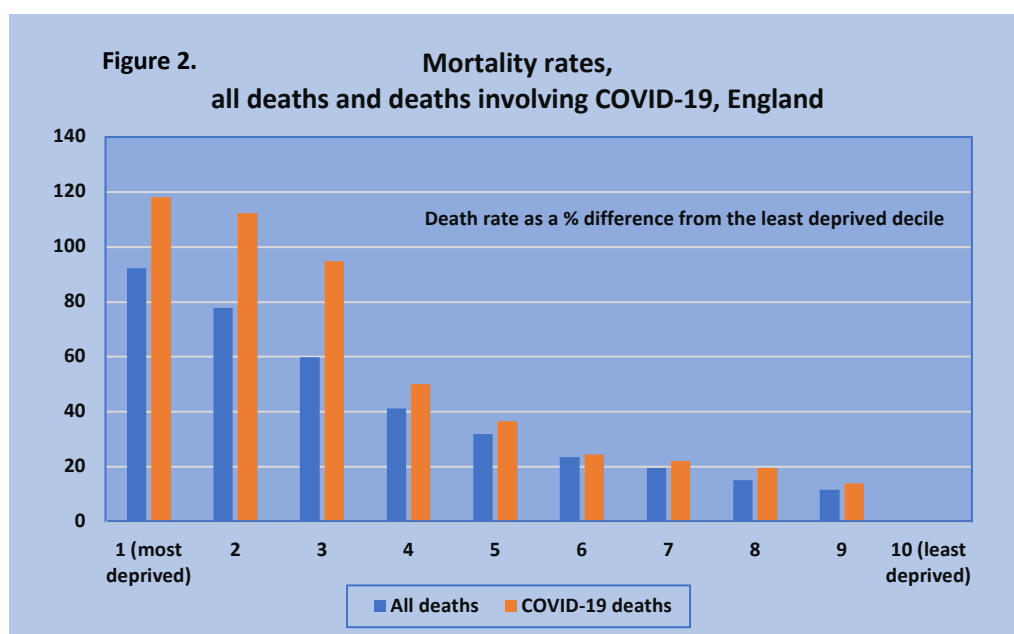
It is noteworthy in this context that the crisis has impacted very unevenly across both global and national societies. The health risks may present a serious threat for all individuals and all groupings in society, but the evidence is now demonstrating that these risks have by no means been equal irrespective of age, sex, race, income, and wealth.

Certainly, differing degrees of deprivation, and notably inequality of income and wealth, have been major explanatory factors in the apparent variability of death rates across communities⁸.

⁸ The Index of Multiple Deprivation (IMD) is an overall measure of deprivation based on factors such as income, employment, health, education, crime, the living environment and access to housing within an area. There are different measurements for England and Wales, which are not directly comparable.

One illustration of this global reality - the case of England, a high-income country - is highly instructive: as reflected in Figure 2.

This Figure⁹ show the mortality rates for both all deaths, and for deaths involving COVID-19, in England between March and May 2020, setting out the death rates by deprivation decile as a percentage difference from the least deprived decile.



Source: ONS¹⁰. Deaths occurring between 1 March and 31 May, 2020.

COVID-19 related deaths in the most deprived areas appear to be more than twice those in the least deprived areas, with the socio-economic disparity in COVID-19 mortality being greater than the general mortality disparities.

How far global societies will respond to this evidence and come to see such degrees of inequality as inconsistent with their future aspirations for the directions in which they wish to take their societies is, of course, difficult to say. The greater the discriminatory impact of COVID-19, the greater the likelihood that these powerful forces of inequality will indeed impact on the values of society in more profound ways.

The economic implications of these potential changes are equally profound. They are not just questions of society's values and priorities, and of social organisation, but of how the economic and financial system should facilitate and support such change, and how public services are designed and targeted to these outcome goals.

⁹ ONS: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand31may2020>

¹⁰ ONS: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand31may2020>

Pre-COVID-19 vulnerability

Some indication of the global challenge *even prior* to COVID-19 may be gained from the high-level evidence around global inequality, global poverty and the progress towards the securing of even the relatively modest UN inequality target - SDG target 10.2 - highlighted and prioritised in the United Nations' *Agenda 2030 Vision* and the *Sustainable Development Goals*.

While some evidence displays good progress over the past two decades, the levels of inequality and poverty, and the global and intra-national disparities, remain exceptionally pronounced. Moreover, these vulnerabilities are by no means confined to countries with lower incomes, with significant societal weaknesses being apparent in countries with high aggregate incomes too, despite them having the greater capacity to address these fragilities in their societies.

Summarily, these global trends are illustrated below and they provide a clear insight into global vulnerability as the COVID-19 crisis hit, and the context within which the health impacts, and the associated economic and financial impacts, will have exacerbated the extensive pre-existing set of global injustices.

Inequality.

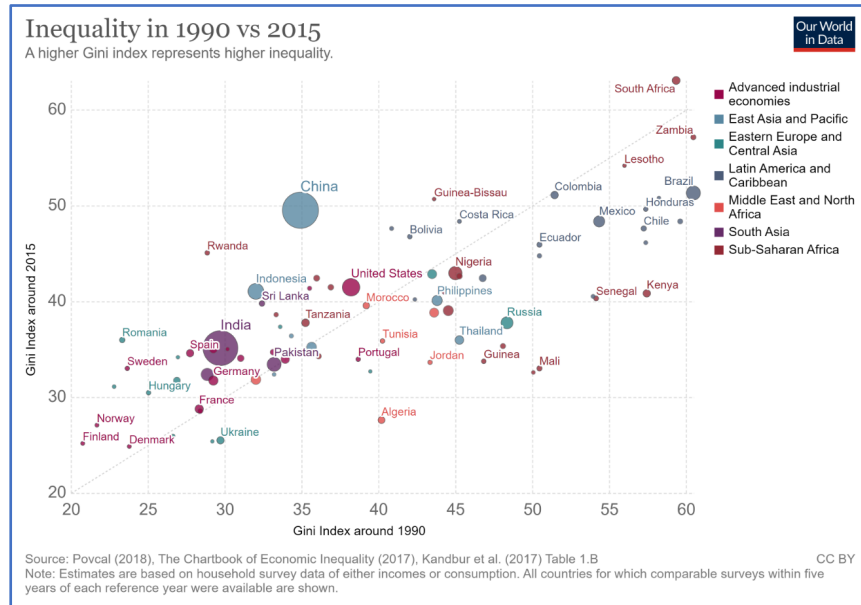
Global inequality

Inequality has rightly been seen as a key element in determining the nature of poverty and deprivation in all societies, and thus of the vulnerability of societies to major health and economic shocks such as COVID-19. Trends in inequality have varied significantly across countries, with those countries with higher aggregate incomes typically displaying increasing inequality over recent decades, albeit from a lower level than other regions of the world. Other nations with much higher levels of inequality in 1990 – such as Latin America – have, in contrast, seen falling inequality.

A study by *Our World in Data*¹¹ provides some valuable insights here: Figure 3 below illustrates these changes in inequality between 1990 and 2015, as measured by the Gini coefficient, and the following Box sets out the primary conclusions of the study.

¹¹ *Is income inequality rising around the world?* Joe Hassell, Our World in Data. November 19, 2018. <https://ourworldindata.org/income-inequality-since-1990>. The estimates draw on two online databases: *PovcalNet*, run by the World Bank, and the *Chartbook of Economic Inequality*, published by Joe Hassell, Tony Atkinson, Salvatore Morelli, and Max Roser. This provided a sample of 83 countries, covering around 85% of the world's population.

Figure 3.



Inequality across the globe, 1990-2015

No general trend to higher inequality: over the last 25 years, inequality has gone up in many countries and has fallen in many others.

There is diversity between countries: the level of inequality is very different across countries. The spread from the highest inequality countries in Latin America and Sub-Saharan Africa, to the lowest-inequality countries in Scandinavia is much larger than the changes in individual countries over this period.

There are clear regional patterns:

- Almost all **Latin American and Caribbean** countries show very high levels of inequality, but considerable declines from 1990 to 2015.
- Conversely, **advanced industrial economies** show lower levels of inequality, but rises in most, though not all, instances.
- A number of **Eastern European** countries experienced rising inequality as they transitioned from socialist regimes.
- Across the six countries in our sample from the **Middle East and North Africa** region, we mostly see falls. In **Sub-Saharan Africa and East Asia and Pacific**, the trends are more mixed.

Across countries, the average level of inequality has not changed:

- The average Gini across countries fell marginally from 39.6 to 38.6 over the 25 years; while the *population weighted average* Gini index increased by four percentage points, from 36.7 to 40.8. This means that, whilst in terms of the average *country* the Gini index stayed roughly constant, the average *person* lived in a country that saw rising inequality.
- There were rises in inequality in some of the **world most populous countries**, including China, India, the US and Indonesia (together accounting for around 45% of world population).

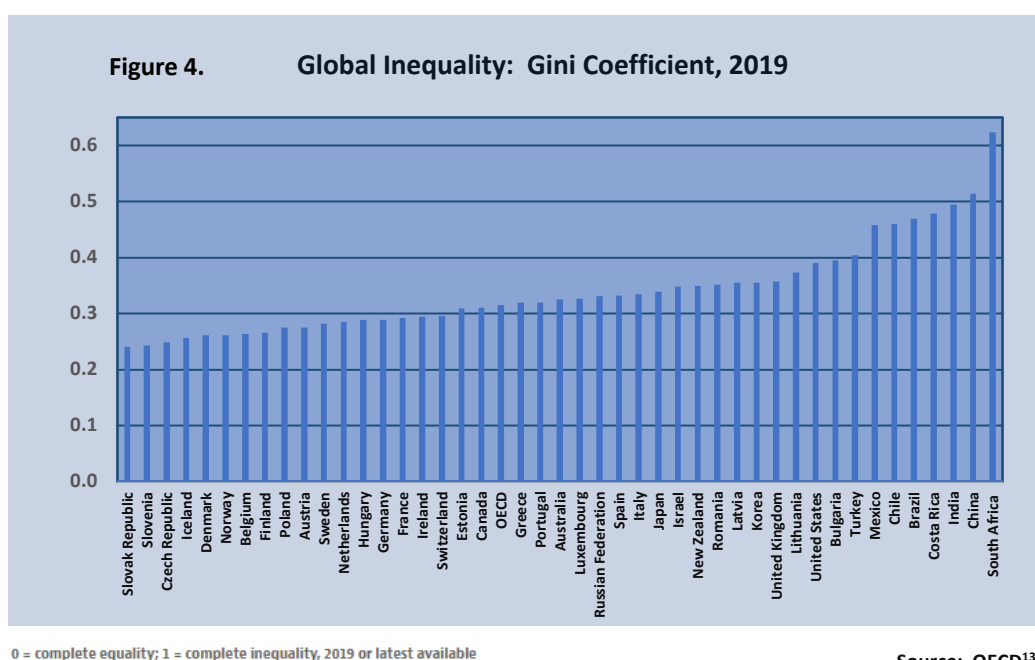
Levels of inequality are converging: there was some convergence in inequality levels across countries over the last 25 years.

J. Hassell, Our World in Data¹²

¹² Is income inequality rising around the world? Joe Hassell, Our World in Data. November 19, 2018.
<https://ourworldindata.org/income-inequality-since-1990>

Not only are there, therefore, huge disparities internationally in the *levels* of inequality, but intra-national inequality increased over the past decade in many countries, notably the more populous nations. As the *Our World Data* study showed, the population-weighted Gini index suggests that overall global inequality has deteriorated over the 25-year period. Thus, these trends have left significant proportions of national populations highly vulnerable to both health and economic risks.

Figure 4 below illustrates the range of inequality levels in 2019 – again, as captured by the Gini coefficient - for a sample of OECD countries with high aggregate incomes and, additionally, for some emerging economies.



Amongst the selection of nations here, for which appropriate data are generally available, the Gini coefficient ranges widely from around 0.2 to 0.5, if the extreme case of South Africa is excluded, with many displaying strongly adverse trends prior to 2020.

While no reliable data will be available for some time, it is anticipated that the COVID-19 crisis will have generated significant increases in the degree of inequality in most nations.

Inequality in the USA

The case of the USA is highly instructive in this context and provides insight into other high income nations. Here, the trends in both income and wealth inequalities have been very pronounced. The trends in income growth over the past 20 years are demonstrated clearly in Figure 5 below¹⁴.

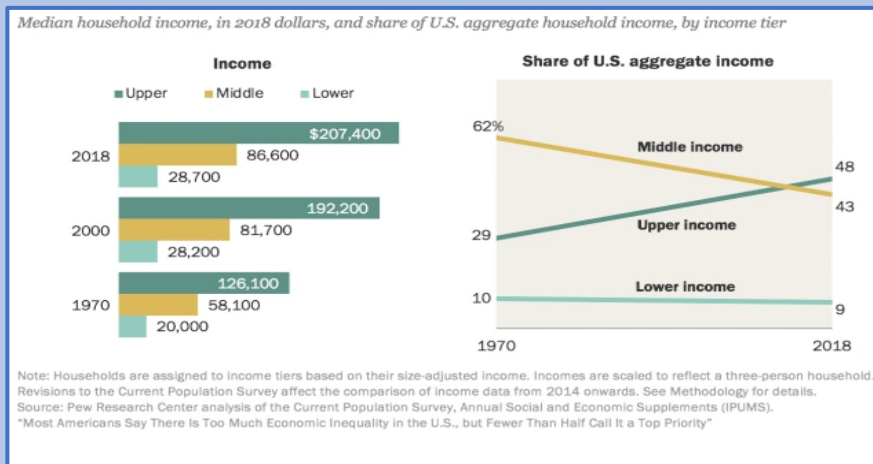
As the Pew Research Center *Social & Demographic Trends* show, “the growth in income in recent decades has tilted to upper-income households¹⁵. At the same time, the U.S. middle class, which once comprised the clear majority of Americans, is shrinking. Thus, a greater share of the nation’s aggregate income is now going to upper-income households and the share going to middle- and lower-income households is falling”.

¹³ OECD : <https://data.oecd.org/inequality/income-inequality.htm#indicator-chart>

¹⁴ Pew Research Centre: <https://www.pewsocialtrends.org/2020/01/09/trends-in-income-and-wealth-inequality/>

¹⁵ Middle-income” Americans are adults whose annual household income is two-thirds to double the national median, after incomes have been adjusted for household size. Lower-income households have incomes less than 67% of the median and upper-income households have incomes that are more than double the median.

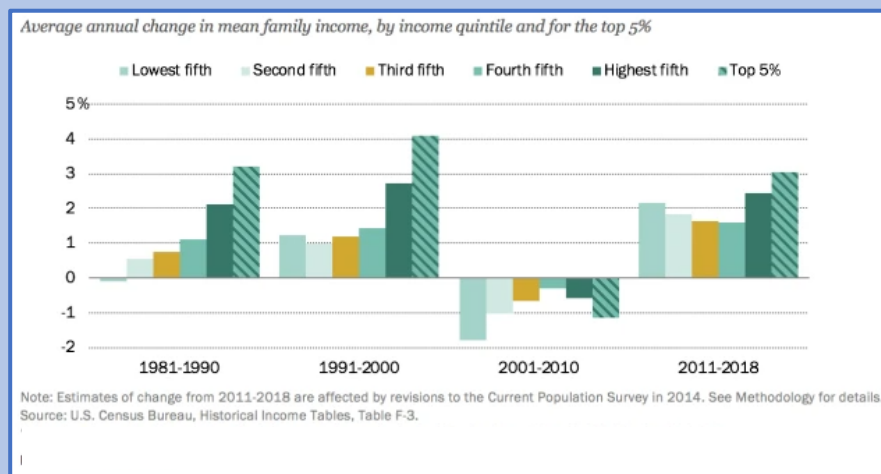
Figure 5. USA: Income inequality



Source: Pew Research Centre

From Figure 6, it is clear that the income growth of the top 5% of the US population has consistently exceeded the income growth of every quintile of the population over the four decades, and the top quintile has equally exceeded the growth of the other four quintiles in three of the four decades, too. While the second highest quintile has not matched the growth of the top quintile, it has nonetheless outpaced the lower three quintiles over three of the four decades, thus further exacerbating the disparities across the income spectrum. Only in the decade, 2001-10, did the top 5% of the population suffer relative to the other quintiles, and then only because it declined slightly more than all, except the bottom quintile.

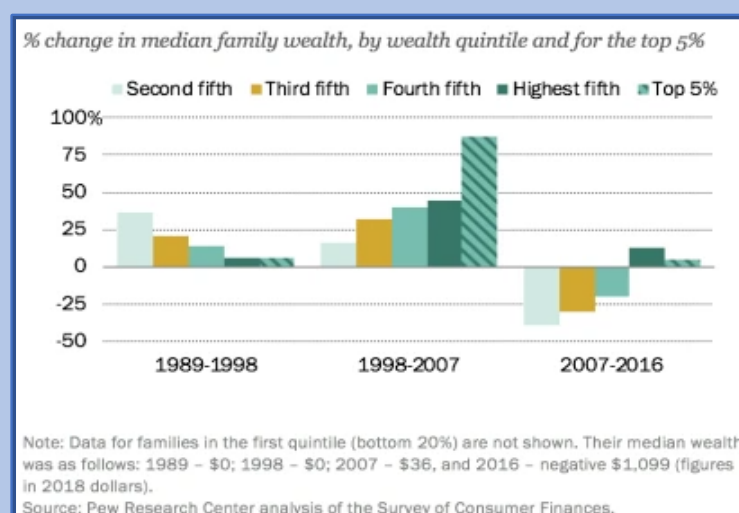
Figure 6. USA: Income inequality



Source: Pew Research Centre

Similarly, as Figure 7 illustrates, wealth inequality in the USA has risen sharply over the 1989-2016 period, too. Since 1989, the wealth of the top 5% and the highest quintile have consistently grown – most notably in the decade 1998-2007 - with the three middle quintiles having fallen back relatively since 1998 compared to the top two quintiles, thereby significantly opening up the disparities more sharply over this 20-year period.

Figure 7. USA: Wealth inequality

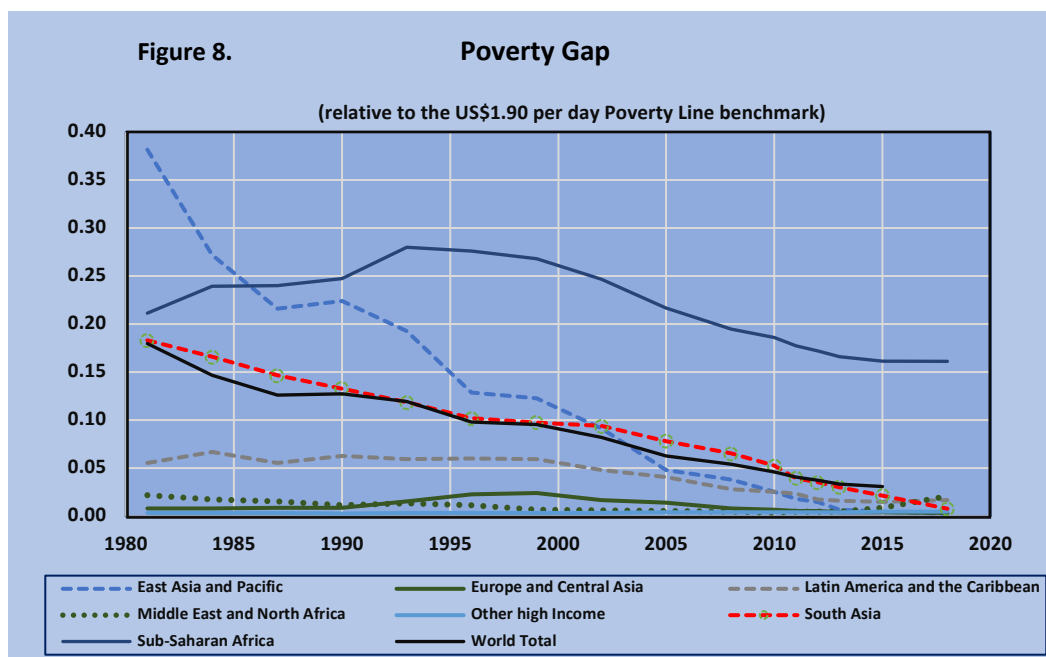


Source: Pew Research Centre

Poverty.

As is familiar, there has been impressive progress in many regions of the world over recent decades in reducing *extreme* poverty, specifically when defined somewhat unambitiously relative to the US\$1.90 per day benchmark – the first of the UN’s 17 *Sustainable Development Goals*. As Figure 8 shows, the poverty gap¹⁶ has fallen strikingly, especially in East and South Asia, with the prime exception being in Sub-Saharan Africa where the poverty gap remains at 0.16 in 2018, very substantially greater than in other regions of the world where the gap has fallen consistently below 0.05. Moreover, the trend in Africa is less pronounced and less convincing, although broadly still in the right direction. If more ambitious definitions of poverty are adopted, this picture looks less impressive and in most countries the prevalence of *relative* poverty is still considerable.

¹⁶ *Definition of Poverty Gap.* The poverty gap is the ratio by which the mean income of the poor falls below the poverty line. The poverty line is defined as half the median household income of the total population. The poverty gap helps refine the poverty rate by providing an indication of the poverty level in a country. This indicator is measured for the total population, as well as for people aged 18-65 years and people over 65.



Source: World Bank¹⁷

As the World Bank¹⁸ has observed recently:

“....there has been marked progress on reducing poverty.... over the past decades. According to the most recent estimates, in 2015, 10 percent of the world’s population or 734 million people lived on less than \$1.90 a day. That’s down from nearly 36 percent or 1.9 billion people in 1990.

However, due to the COVID-19 crisis as well as the oil price drop, this trend probably will reverse in 2020. The COVID-19 crisis will have a disproportionate impact on the poor, through job loss, loss of remittances, rising prices, and disruptions in services such as education and health care.

*For the first time since 1998, poverty rates will go up as the global economy falls into recession and there is a sharp drop in GDP per capita. **The on-going crisis will erase almost all the progress made in the last five years.** The World Bank estimates that 40 million to 60 million people will fall into extreme poverty (under \$1.90/day) in 2020, compared to 2019, as a result of COVID-19, depending on assumptions on the magnitude of the economic shock. The global extreme poverty rate could rise by 0.3 to 0.7 percentage points, to around 9 percent in 2020”.*

Moreover, when more ambitious – but still relatively modest - benchmarks are adopted, the Bank notes that:

“..... the percentage of people living on less than \$3.20 a day could rise by 0.3 to 1.7 percentage points, to 23 percent or higher, an increase of some 40 million to 150 million people. Finally, the percentage of people living on less than \$5.50 a day could rise by 0.4 to 1.9 percentage points, to 42 percent or higher, an increase of around 70 million to 180 million people”.

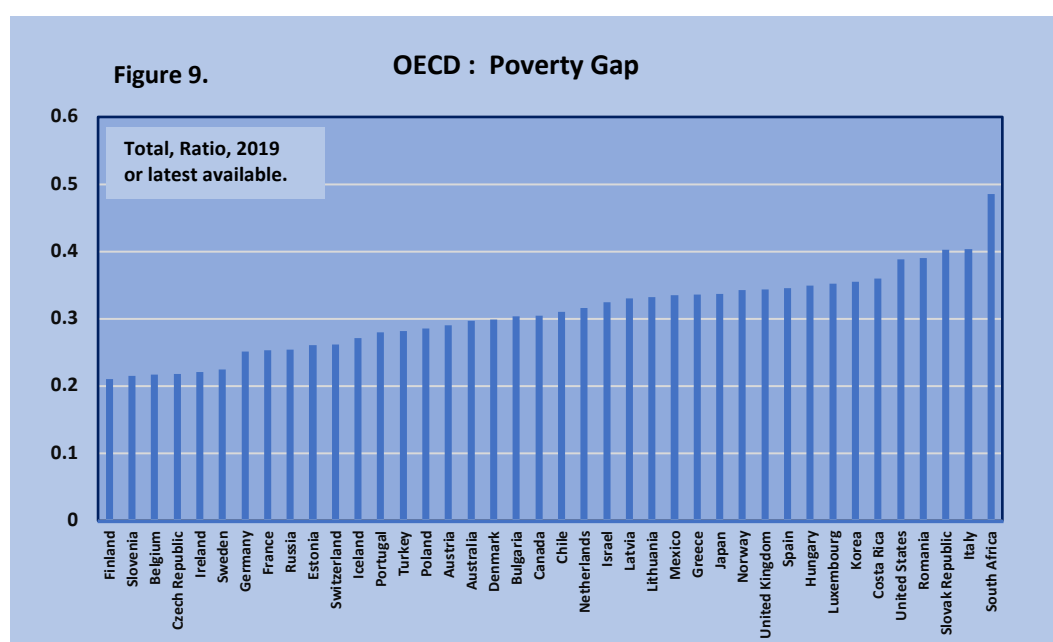
¹⁷ World Bank: <http://iresearch.worldbank.org/PovcalNet/povDuplicateWB.aspx>

¹⁸ World Bank: Apr 16, 2020. <https://www.worldbank.org/en/topic/poverty/overview>

Most seriously, given the ambition of the UN *Agenda 2030* Vision¹⁹ and the *Sustainable Development Goals*, the World Bank conclusion is particularly striking, that:

*“....due to global shocks such as COVID-19 and because it is becoming increasingly difficult to reach those remaining in extreme poverty, who often live in fragile countries and remote areas, **poverty reduction may not be fast enough to reach the goal of ending extreme poverty by 2030**”.*

Unsurprisingly, the OECD economies²⁰ have a significantly lower incidence of *absolute* poverty compared to other parts of the world (Figure 9), but nonetheless still displays variability across countries, and has major challenges with respect to *relative* poverty. The 2019 data, with the poverty gap referenced to a poverty line that is defined as half the median household income of the total population, show that the poverty gap ranges from 0.2 in Finland to 0.4 in Italy (again excluding the outlier of South Africa).



Source: OECD, 2019²¹

Child poverty.

Child poverty is a particular challenge. The Brookings Institute²² observed in June 2019, before the COVID-19 crisis hit:

“.....since 2016, the ranks of Earth’s poorest people have decreased by some 55 million. On the other hand, the speed of poverty reduction appears to be slowing down and the situation in a number of countries is worse today than it was five years ago. And yet, while the global community scrambles to find ways to accelerate progress in sub-Saharan Africa—the world’s last frontier of poverty reduction—a new dimension in the poverty narrative is now coming into focus: child poverty.”

¹⁹ United Nations: <https://sustainabledevelopment.un.org/post2015/transformingourworld>

²⁰ OECD, 2019 <https://data.oecd.org/inequality/income-inequality.htm#indicator-chart>

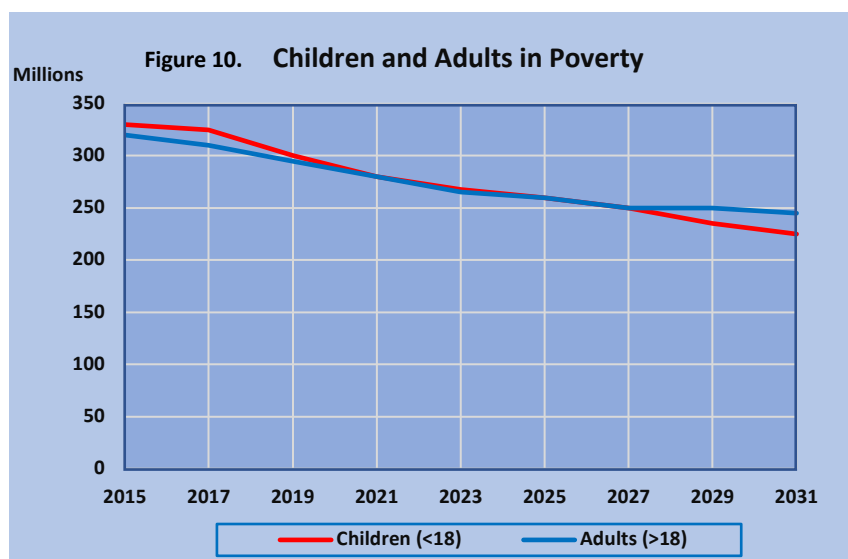
²¹ OECD: <https://data.oecd.org/inequality/income-inequality.htm#indicator-chart>

²² Brookings Institute. <https://www.brookings.edu/blog/future-development/2019/06/20/more-than-half-of-the-worlds-poor-are-children/>

Indeed, Brookings estimates (Figure 10) that, of the world's 2.3 billion children (those less than 18 years of age), 301 million live on less than \$1.90/day in 2011 PPP, implying that that 13 percent of the world's children are very poor, compared to 6 percent of adults.

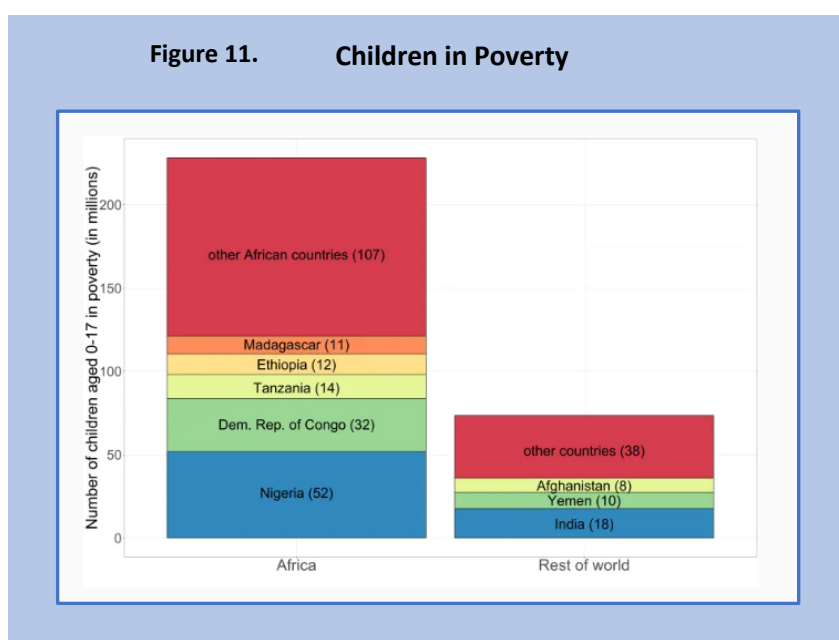
More than half of the world's poorest people are children, even though children represent only 30% of the world's total population. Global trends – and expected future trends - *at that time* were, however, modestly encouraging even if the absolute number of children in poverty remains exceptionally high.

It is widely accepted that this picture will now have changed strikingly with the onset of the COVID-19 crisis, bringing both a spike in child poverty in 2020 and a slower trend decline for the coming years.



Source: World Data Lab projections

The concentration of the challenge certainly focusses on Africa (Figure 11), where around 228 million children were estimated to live in extreme poverty, representing over three-quarters of all the poor children in the world.

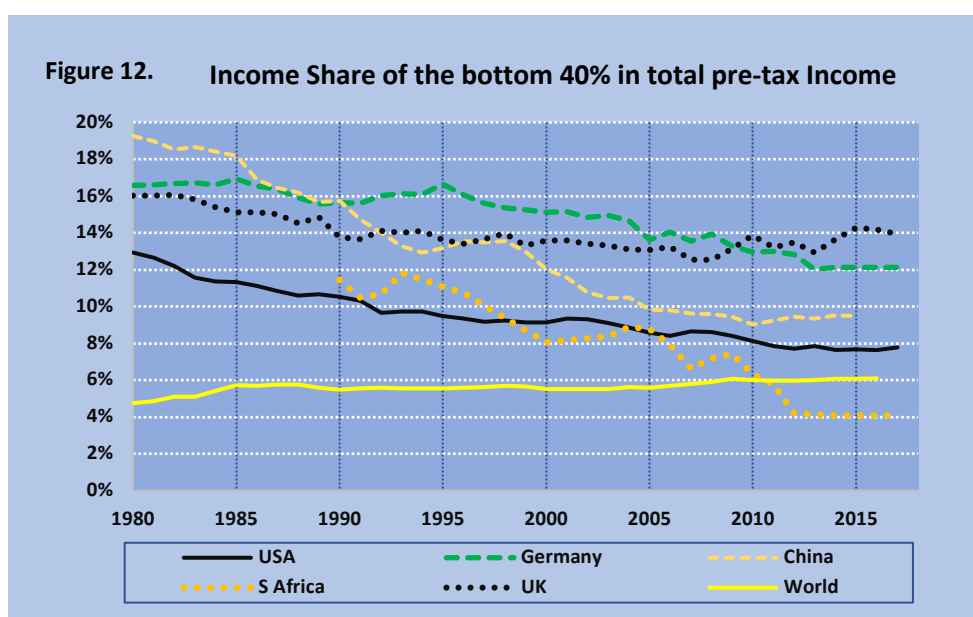


Source: World Data Lab projections

SDG Target 10.1.

With respect to the key United Nations *Sustainable Development Goal* target in this domain, target 10.1 - *to, by 2030, progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average* - progress has been more varied, with the income share of the bottom 40% of the population in aggregate pre-tax income displaying a far weaker trend in some regions (Figure 12).

While the global trend in income share of the bottom 40% has been slowly upwards, from 5% in 1980 to 6% in 2016, there has been regression in many highly populated nations including the three most populous nations of China, India and the United States. Many of the countries with high aggregate incomes have also seen a deterioration in the income share of their lowest 40% too.



Source: World Inequality Database²³

The overall picture is therefore one in which there remain very significant degrees of global inequality and poverty, with many nations seeing a deterioration over recent years, in part attributable to the global recession of 2008-09 and its aftermath.

Trends in global poverty have been – with the exception of Sub-Saharan Africa - broadly encouraging, although the ambition, focussed largely around US\$1.90 per day as the benchmark for extreme poverty, remains very modest, and national poverty continues to be exceptionally severe. The World Bank finding that the percentage of people living on less than \$5.50 a day could rise to 42 percent or higher, an increase of around 70 million to 180 million people, is particularly striking.

This conclusion is not confined to the poorest nations, with many countries with high aggregate income seeing significant increases in both inequality and poverty. The persistence of exceptionally high levels of child poverty in Africa stands out as one of the most critical global challenges today.

²³ World Inequality Database:

https://wid.world/world/#sptinc_p0p40_z/US;FR;DE;CN;ZA;GB;WO/last/eu/k/p/yearly/s/true/0/30/angle/false/country

The vulnerability of global society, in general, to any external shock such as COVID-19 was therefore very significant, and huge numbers of global communities were singularly ill-equipped to face the impact of either the health challenges or the economic and financial pressures that have hit with such abruptness and such force.

It is this context that underpins the analysis of the impact of the economic and financial dimension to the COVID-19 crisis.

The importance of pursuing *Justice for All* in the *pre*-COVID-19 world, with such huge numbers of disadvantaged people across most of the world, was always compelling, but the scale, the complexity and urgency have become all the more challenging with COVID-19.

C. The Global Economic Impact of the First Phase of COVID-19

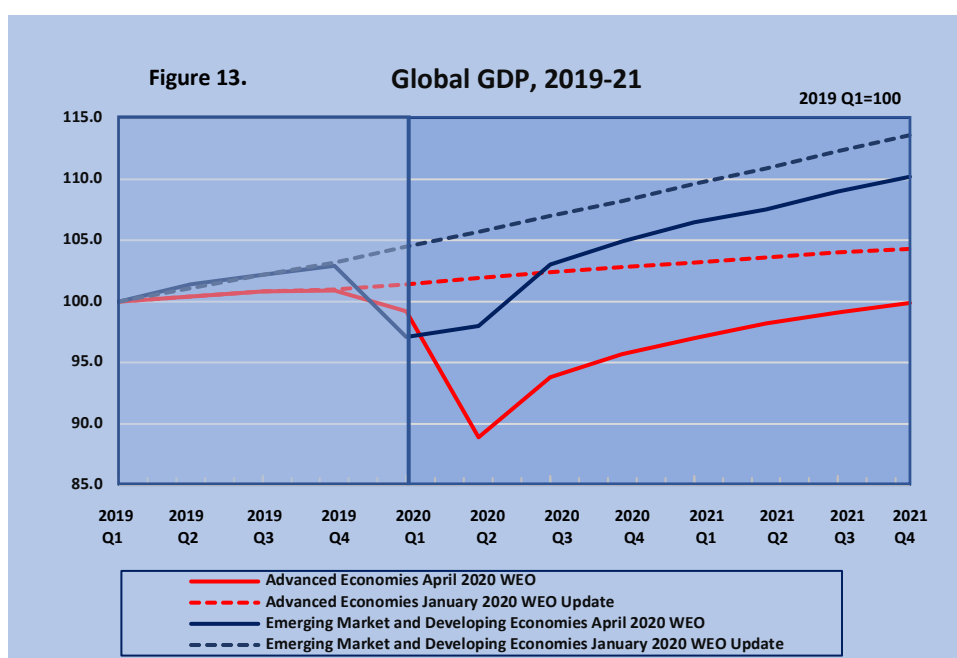
Global output

There are widespread expectations of a deep global recession in 2020, with the rate of recovery being necessarily highly uncertain. In the early days, much was over-optimistically said about the potential for a V-shaped recession with minimal impact on the long-term structure and productive capacity of national economies. It now looks more probable that recovery will be both more protracted and less smooth as the global economy seeks to restore activity in the face of some continuing degree of both national and international constraint on movement.

On the basis of current scientific knowledge, the course of the global health crisis itself remains unclear: not least, regarding the rate at which it is brought under control; the consequent duration and linearity of progress towards the elimination of both the disease and the exceptional risks that have been seen in the first half of 2020; the success in averting secondary and tertiary outbreaks on a significant scale, with the associated sudden, albeit more localised, re-imposition of lockdowns; and the emergence of global treatments and vaccines that can impact on transmission.

In addition, very considerable uncertainties prevail with respect to the effectiveness of the widespread policies that have been introduced in many countries in supporting economic activity and the deterioration of financial conditions, and the effectiveness of the critical economic measures to accelerate the rate of economic recovery and the re-establishment of financial stability and resilience.

Broadly, the global economy is projected to fall into a severe recession this year, before regaining some strength in 2021. The IMF's April 2020 *World Economic Outlook*²⁴ (WEO) provides one example.



Source: IMF World Economic Outlook April 2020

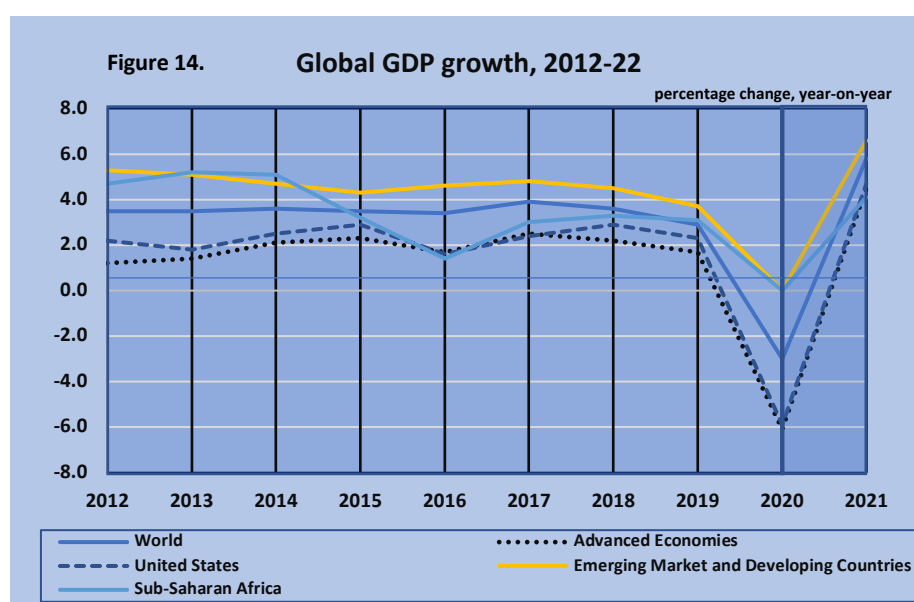
²⁴ IMF World Economic Outlook, April 2020: <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

The IMF projects, in its baseline scenario, that global output will contract by 3.0% in 2020. This significantly sharper contraction than in 2009 reflects a downward revision from the January 2020 *WEO Update* of more than 6 percentage points, with sizable revisions across all G20 economies. With the fallout expected to be concentrated in the second quarter of 2020, a gradual recovery is anticipated thereafter in the second half of 2020, with global growth being projected to turn significantly stronger in 2021.

Figure 13, above, illustrates the trends in the level of GDP over the 2019-21 period for countries with higher aggregate incomes and for the emerging market and developing economies; while Figure 14, below, sets out the GDP growth rates over the longer period of 2012-22.

Importantly, the projections assume that the global health crisis recedes in the second half of 2020 with the most significant disruptions outside China being focussed in the second quarter of 2020. They anticipate that financial conditions will ease over this period, as will commodity prices.

The IMF in common with all observers note, however, the exceptional uncertainty around the projections.



Source: IMF World Economic Outlook April 2020

This overall picture is powerfully reflected in the number of economies anticipated to record negative per capita growth in 2020. As Figure 15 illustrates, the norm has been around 20-30% of economies each year over the last 10 years since the onset of the Financial Crisis of 2008-09 when, at its peak, around 70% of economies had negative per capita growth. It is now expected that in 2020, more than 90% of economies will shrink. While this number is equally projected to fall back rapidly in 2021, it is fundamentally dependent on the uncertainties outlined above.

Kristalina Georgieva, IMF Managing Director,²⁵ recently in April 2020 reiterated this point regarding the scale of the economic downturn:

²⁵ IMF, April 9, 2020: *Confronting the Crisis: Priorities for the Global Economy*.
<https://www.imf.org/en/News/Articles/2020/04/07/sp040920-SMs2020-Curtain-Raiser>

“We are still faced with extraordinary uncertainty about the depth and duration of this crisis.

It is already clear, however, that global growth will turn sharply negative in 2020..... In fact, we anticipate the worst economic fallout since the Great Depression.

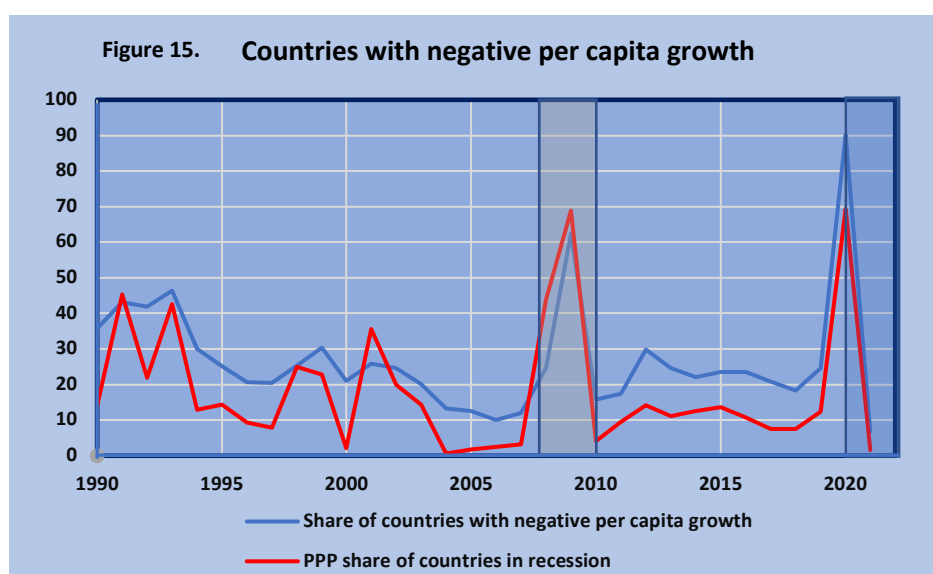
Just three months ago, we expected positive per capita income growth in over 160 of our member countries in 2020. Today, that number has been turned on its head: we now project that over 170 countries will experience negative per capita income growth this year.

The bleak outlook applies to advanced and developing economies alike. This crisis knows no boundaries.”

Moreover, in a recent IMF Blog²⁶, it was suggested that:

“This is a truly global crisis. Past crises, as deep and severe as they were, remained confined to smaller segments of the world, from Latin America during the 1980s to Asia in the 1990s. Even the global financial crisis 10 years ago had more modest effects on global output.

For the first time since the Great Depression, both advanced and emerging market economies will be in recession in 2020 ... This crisis will have devastating consequences for the world’s poor.”



Source: IMF World Economic Outlook April 2020

Similarly, the OECD Report²⁷ *Evaluating the initial impact of COVID 19 containment measures on economic activity* suggested that:

“... the initial direct impact of the shutdowns could be a decline in the level of output of between one-fifth to one-quarter in many economies, with consumers’ expenditure potentially dropping by around one-third. Changes of this magnitude would far outweigh anything experienced during the global financial crisis in 2008-09.

²⁶ IMF: <https://blogs.imf.org/2020/06/16/the-great-lockdown-through-a-global-lens/>

²⁷ OECD. April 2020. <http://www.oecd.org/coronavirus/policy-responses/evaluating-the-initial-impact-of-covid-19-containment-measures-on-economic-activity-b1f6b68b/>

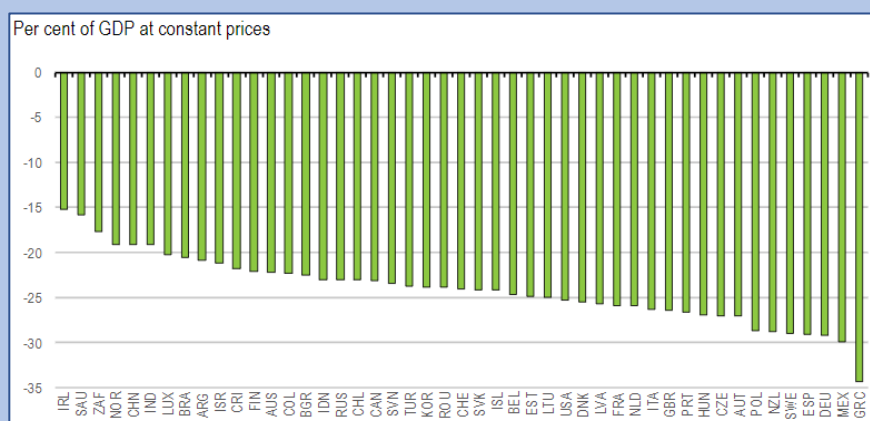
This broad estimate only covers the initial direct impact in the sectors involved and does not take into account any additional indirect impacts that may arise.

The implications for annual GDP growth will depend on many factors, including the magnitude and duration of national shutdowns, the extent of reduced demand for goods and services in other parts of the economy, and the speed at which significant fiscal and monetary policy support takes effect.

The scale of the estimated decline in the level of output is such that it is equivalent to a decline in annual GDP growth of up to 2 percentage points for each month that strict containment measures continue. If the shutdown continued for three months, with no offsetting factors, annual GDP growth could be between 4-6 percentage points lower than it otherwise might have been.”

The potential *initial* impact on activity of partial or complete shutdowns on activity in selected advanced and emerging market economies is illustrated in Figure 16 below.

**Figure 16. OECD : potential initial impact on activity
Selected advanced and emerging market economies**



Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics; and OECD calculations. April 2020

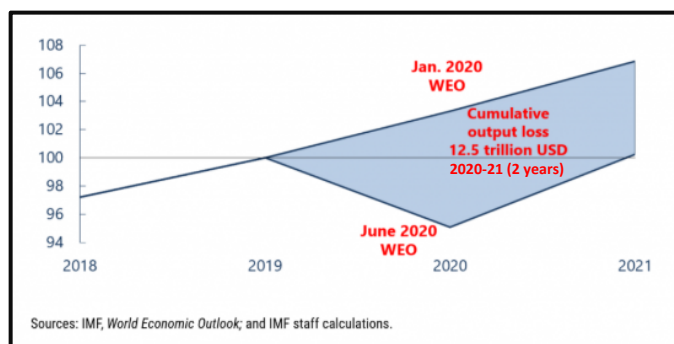
IMF World Economic Outlook Update, June 2020

In the June *Update* of the April 2020 WEO, the IMF indicated that it now expects the global economy to face an even deeper downturn than it previously projected in April.

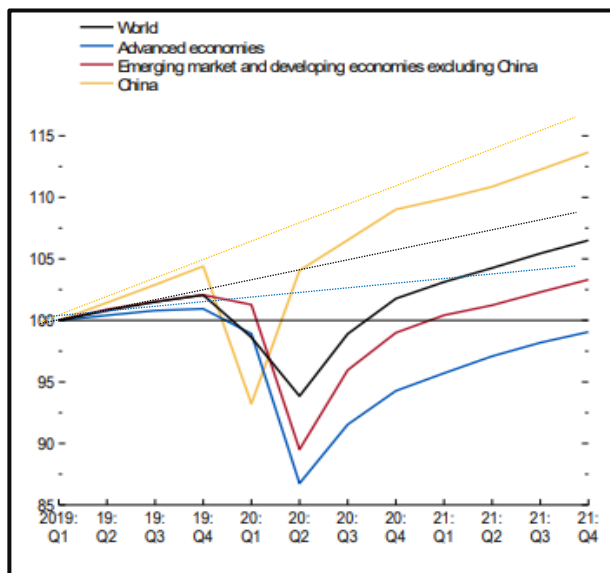
It said that the world was facing the worst downturn since the Great Depression, although the depth and duration of the economic collapse were not expected to be as severe, given the strength of the economy going into the crisis and the relative stability of the financial system.

“Global growth is projected at -4.9% in 2020, 1.9 percentage points below the April 2020 WEO forecast. The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast. In 2021, global growth is projected at 5.4%. Overall, this would leave 2021 GDP some 6½ percentage points lower than in the pre-COVID-19 projections of January 2020. The adverse impact on low-income households is particularly acute, imperilling the significant progress made in reducing extreme poverty in the world since the 1990s.”

Global GDP
Real 2019=100



World GDP
Quarterly, 2019 Q1=100
(dotted line: Jan 2020 WEO;
solid lines: June 2020 WEO)



The IMF anticipates that the recovery will be uneven and protracted as cases continue to surge and consumers remain wary of resuming normal activity.

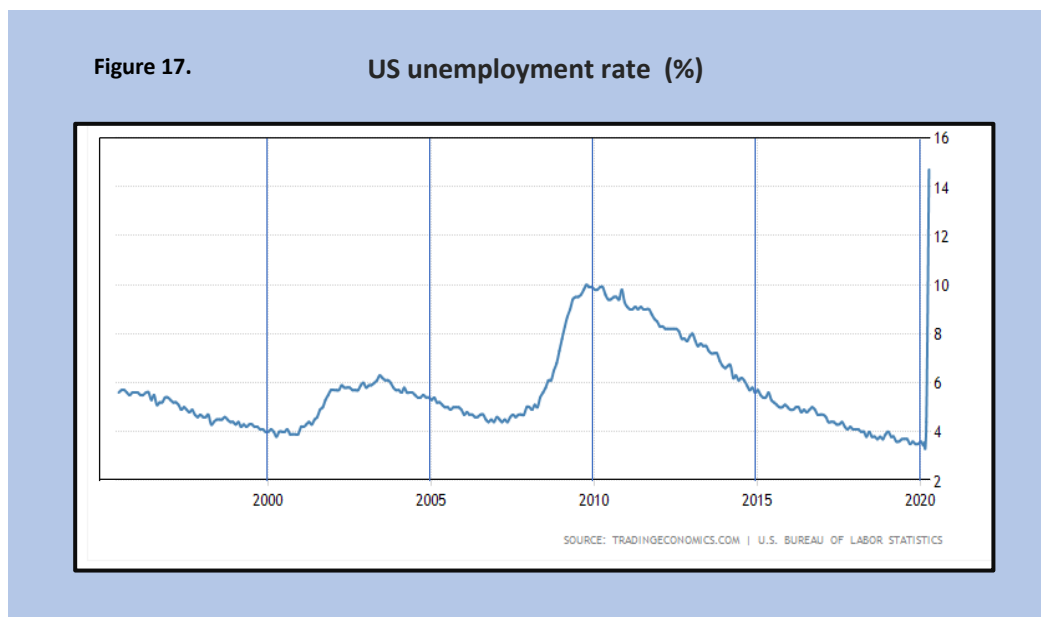
The IMF forecast is more pessimistic than projections set out by the OECD earlier in June 2020.

<https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

Employment

Despite temporary short-term supportive measures from some national governments, many companies have had to completely shut down due to the health measures that were initiated, albeit some may have already been struggling to adjust to the evolving competition of global markets. This was compounded by the collapse of demand in many sectors as consumers and investors were both unwilling, or simply unable, to spend in the face of huge uncertainty. In addition, with rapidly mounting cash flow concerns and little prospect of re-opening to the scale required to be economically viable, let alone profitable, many firms have therefore had little option but to cut back on hours and workers. In consequence, millions of people have become unemployed and millions more have been placed at severe risk of losing their jobs.

For example, in the United States, the labour market impact has been immense. Almost 10 million people made claims for unemployment insurance in the last half of March, which was more than seven times larger than in the worst two-week period of the global Financial Crisis. The US unemployment rate rose to 14.7% in April 2020 (Figure 17), the highest level since records began, while the number of unemployed rose by 15.9 million to 23.1 million. The number of employed declined by 22.4 million to 133.4 million. The US Congressional Budget Office predicts 15% of people could be unemployed by the third quarter of 2020, up from less than 4% in the first quarter.

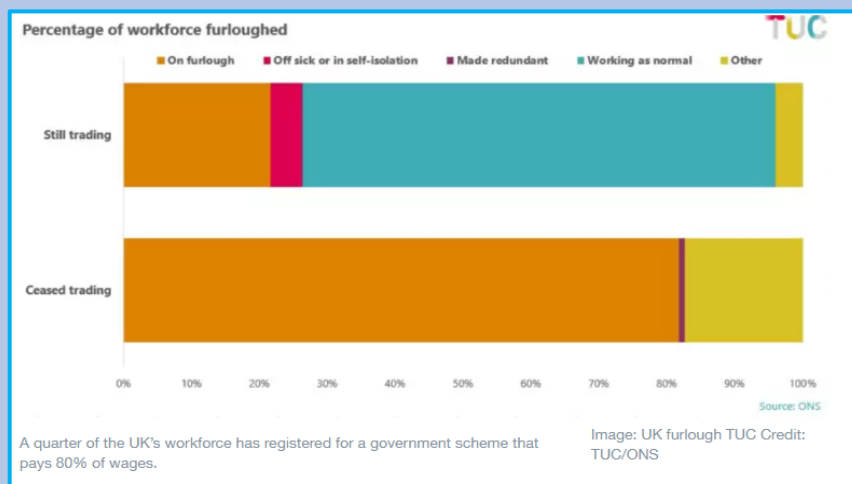


Source: US Bureau of Labor Statistics

In the United Kingdom, the labour market challenge is currently concealed to some extent by Government support measures (Figure 18). With 25% of the workforce furloughed, determining the medium-term impact when support measures are lifted is more problematic. What is evident is that, if the original rationale for such support is to be upheld, then the support programmes may be required for a much longer time than originally envisaged – at considerably greater cost – especially if progress out of recession is both protracted and interrupted, as seems most likely. Certainly, the premature withdrawal of support would have dire consequences for many businesses and for employment, and undermine the original objective of avoiding long term structural damage to the economy.

It is improbable though that there won't be substantial structural damage to the economy and to employment levels over the medium term: how significant is impossible to gauge at this time.

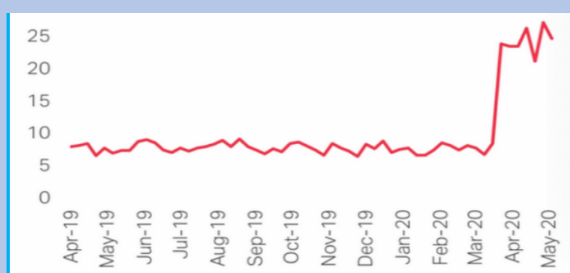
Figure 18. UK: Labour Market under Lock-down, May 2020



Source: TUC/ONS

For many countries though²⁸, the unemployment effects are already more apparent as support measure have not been possible on this scale: India provides one of many examples where unemployment has rapidly escalated in the course of the March to May 2020 period (Figure 19). How long this sudden downturn in employment continues is, of course, fundamentally dependent on the path to both global and national recovery and the effectiveness of measures to re-mobilise societies and economic activity.

Figure 19. India: Unemployment Rate
April 2019 – May 2020



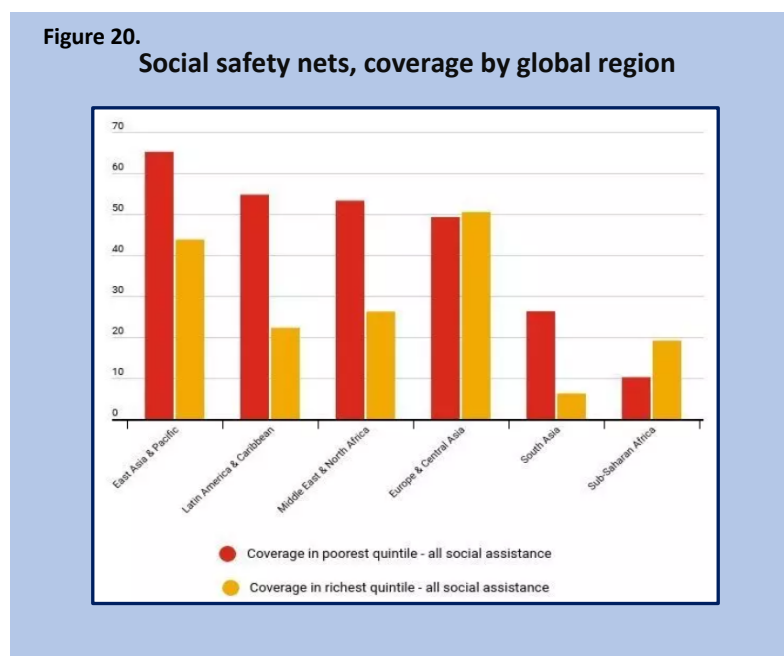
Source: CMIE

²⁸ UN International Labour Organisation. <https://www.weforum.org/agenda/2020/05/coronavirus-unemployment-jobs-work-impact-g7-pandemic/>

Social safety nets and the most vulnerable

In this context, it is instructive to see how varied are the social safety nets that are provided by different national governments and across different regions of the world. Perhaps unsurprisingly, they vary markedly in their scope, with widely differing proportions of the population benefiting from social protection and support programmes.

The following Figure 20 from the IMF²⁹ shows the coverage by region of the world; that is, the percentage of the population in the poorest and richest quintile in each region that benefits from social safety net programmes. It does not reflect the adequacy of those nets. While many regions have a coverage of around 50% for their poorest quintile, South Asia and Sub-Saharan Africa are notable for their exceptionally low levels of coverage for this most vulnerable group.



Source: Francese and Prady, 2018 and
World Bank, ASPIRE Database.

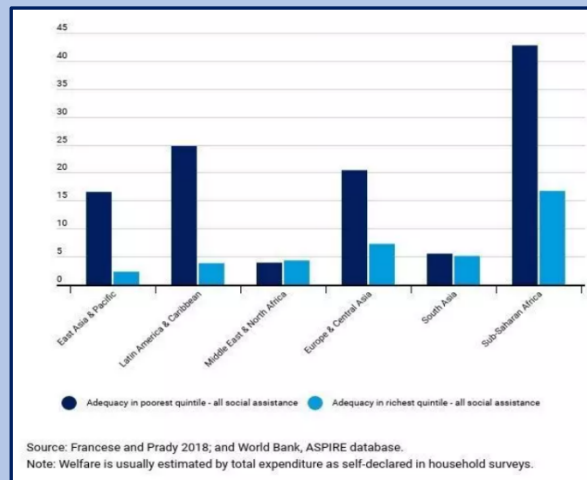
The adequacy of these social nets, as in the current crisis, is of course critical, representing the degree to which the nets do indeed provide sufficient support for the most vulnerable. Across the globe, adequacy is seen in the IMF Figure 21 below to be highly problematic, with the proportion of benefits accruing to the poorest quintile with respect to their total income (or consumption expenditure in the case of South Asia) being extremely low in every region.

Only in Sub-Saharan Africa does the proportion rise towards 50%, but this figure has to be seen in the context of the exceptionally low coverage in Sub-Saharan Africa, as in Figure 20.

²⁹ IMF, <https://www.weforum.org/agenda/2020/05/fiscal-policies-for-the-recovery-from-covid-19>

Figure 21.

Social safety nets, adequacy by global region



**Source: Francese and Prady, 2018 and
World Bank, ASPIRE Database.**

Trade and commodity prices

Some countries with low aggregate incomes and the emerging market economies have been particularly vulnerable to the global crisis and the near synchronised shut-down of much of global production, which has led to sharp consequential falls in the demand for raw materials and commodities. Many of these nations were already vulnerable to external shocks in many respects, with far less capacity to meet health demands, deploy macroeconomic responses of the type seen in many countries with higher aggregate incomes, and raise additional debt, especially at a time when many have experienced a sudden surge in capital outflows. These weaknesses have in many instances only been compounded by a long-standing dependency on key raw materials.

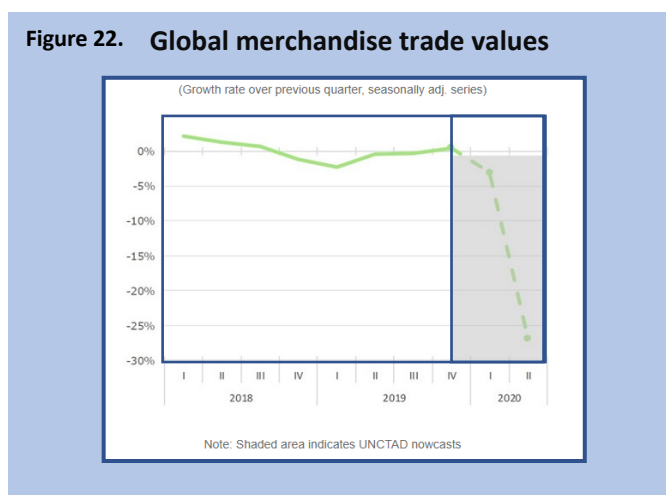
Kristalina Georgieva, IMF Managing Director,³⁰ recently observed that:

“Emerging markets and low-income nations—across Africa, Latin America, and much of Asia—are at high risk.

In the last two months, portfolio outflows from emerging markets were about \$100 billion—more than three times larger than for the same period of the global financial crisis. Commodity exporters are taking a double blow from the collapse in commodity prices. And remittances—the lifeblood of so many poor people—are expected to dwindle.

We estimate the gross external financing needs for emerging market and developing countries to be in the trillions of dollars, and they can cover only a portion of that on their own, leaving residual gaps in the hundreds of billions of dollars.”

UNCTAD³¹ have recently estimated (Figure 22) that global trade declined by almost 30%, quarter on quarter in the second quarter of 2020, having been relatively flat in both 2018 and 2019.



Source: UNCTAD

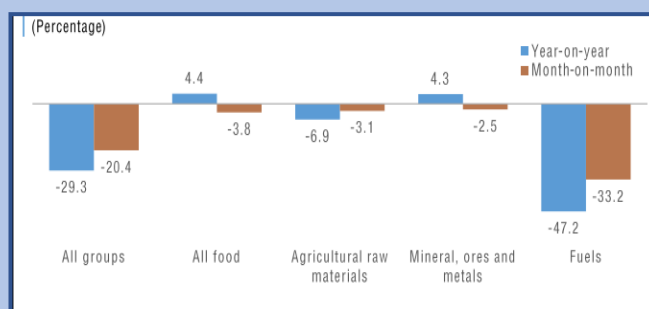
Moreover, UNCTAD note that the drop in global trade was accompanied by a record decrease in commodity prices, which have fallen precipitously since the end of 2019 (Figure 23). Indeed, the free market commodity price index (FMCPI), which measures the price movements of primary commodities exported by low income

³⁰ IMF, April 9, 2020: *Confronting the Crisis: Priorities for the Global Economy*.
<https://www.imf.org/en/News/Articles/2020/04/07/sp040920-SMs2020-Curtain-Raiser>

³¹ WTO: <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2369>

economies, lost 1.2% of its value in January 2020, 8.5% in February and 20.4% in March. This was, however, heavily attributable to the oil price falls over this period, which fell by 33.2% in March 2020, while prices of minerals, ores, metals, food and agricultural raw materials fell less severely by less than 4%, according to UNCTAD. It was also noted that, by comparison, during the global financial crisis of 2008, the maximum month-on-month decrease was 18.6% and the decline in prices spanned a six-month period. At present, how long the current fall in commodities prices will last is highly uncertain, being heavily dependent on the rate of recovery of global production.

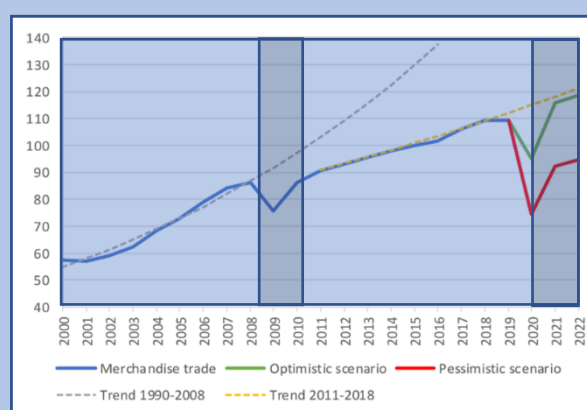
Figure 23. Commodity growth rates, by group, March 2020



Source: UNCTAD

Similarly, the WTO³² have estimated (Figure 24) that world trade will fall by between 13% and 32% in 2020 as the COVID-19 pandemic takes its course. The wide range of possibilities for the predicted decline is explained by the unprecedented nature of this health crisis and the uncertainty around its precise economic impact. As the Figure illustrates, the WTO estimate that the decline is likely to exceed the decline in trade generated during the global Financial Crisis of 2008-09.

Figure 24. World Merchandise Trade Volume, 2000-2022



Source: WTO

Following that Crisis, trade remained significantly below its former trend growth. In the current crisis, while acknowledging the great uncertainty, the WTO considers one scenario with a relatively rapid return to the post-Financial Crisis trend, together with a more pessimistic scenario with a slower recovery and only a return to a trend growth rate even further below that of the pre-2008 growth trend.

³² WTO: https://www.wto.org/english/news_e/pres20_e/pr855_e.htm and https://trade.ec.europa.eu/doclib/docs/2020/april/tradoc_158713.pdf.

See also: <https://www.theguardian.com/business/2020/may/13/global-trade-to-fall-by-record-27-due-to-covid-19-says-un>

One further element is highly relevant to the rate at which global trade will recover and that is the extensive dependence now on highly complex supply chains that entail multiple stages and involve a substantial number of different economies and markets for their integrity and effectiveness. With the uncertainty of COVID-19 and the unpredictability of its impact across the world, the possibility of disruption at some point on the supply chain is not insignificant, certainly compared with the simply and shorter supply chains of the past.

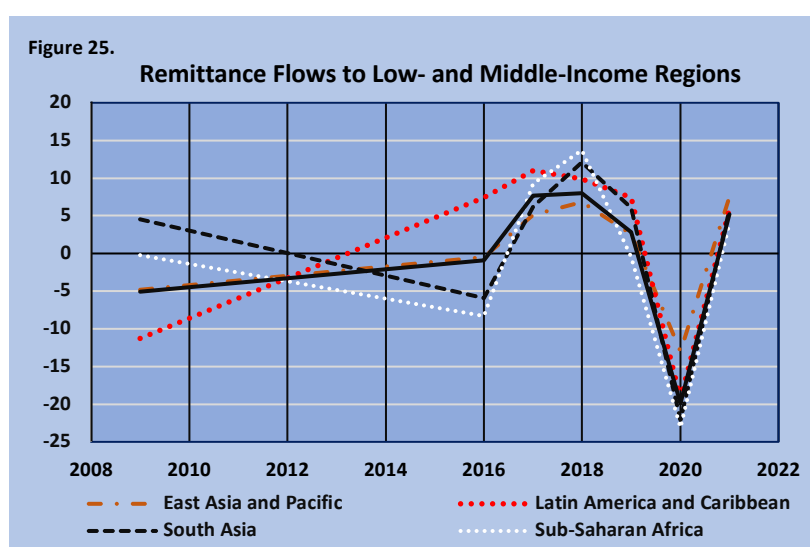
Remittances

As IMF Managing Director observed above, remittances play a particularly important role for the well-being of individuals and communities in both emerging markets and low-income nations, and for national economies in both the home country of the migrant worker and their adopted country. For the individual, the COVID-19 crisis has had a major impact, with migrants often in more precarious employment with poorer incomes and working terms and conditions, and therefore more vulnerable to the severe shut-down of economic activity that has typified the responses in this crisis to date, losing both employment and income. The loss of migrant income has far wider implications with many communities in the home nations being heavily reliant on the receipt of these remittances in normal times and thus themselves suffering greatly increased economic vulnerability as these flows fall sharply in 2020.

The World Bank³³ estimates (Figure 25) that remittance flows in 2020 to low- and middle-income countries are projected to fall by 19.7% to US\$445 billion, one of the sharpest declines in recent history, driven predominantly by the economic crisis caused by the COVID-19 pandemic.

They project a decline of remittance flows across all regions and with the sharpest declines in Europe and Central Asia, South Asia, and Sub-Saharan Africa: specifically, Europe and Central Asia (-27.5%); Sub-Saharan Africa (-23.1%), South Asia (-22.1%), the Middle East and North Africa (-19.6%), Latin America and the Caribbean (-19.3%), and East Asia and the Pacific (-13%).

The significance of these declines is particularly noteworthy as remittances to the low- and middle-income countries had reached a record high of US\$554 billion in 2019, overtaking Foreign Direct Investments. Moreover, the fall in remittance flows, and the consequential effects on the recipient countries, are expected to reach well into 2021, with their recovery being *prolonged and arduous*.



Source: World Bank

³³ World Bank, 2020. <https://migrationdataportal.org/themes/remittances>; <https://blogs.worldbank.org/peoplemove/migrant-remittances-times-covid-19-insights-remittance-service-providers>.

D. The Fiscal Impact of COVID-19

The Fiscal Challenge

It is important to differentiate between the fiscal response in the economies with high aggregate incomes compared to those with lower incomes. As the IMF³⁴ note:

“Fiscal policy has been eased markedly in many countries to provide a lifeline to the most affected and vulnerable. The most significant fiscal actions have been concentrated in advanced economies, where recorded infections were quicker to mount. With some exceptions, emerging market and developing economies have so far relied on smaller fiscal packages, if any, reflecting comparatively delayed increases in infection rates and concerns about limited policy space and high debt. Monetary policy easing and financial sector policies have helped partially offset the tightening of financial conditions.”

The basic challenges: the example of the United Kingdom.

The United Kingdom provides just one example of the impact that the COVID-19 crisis is anticipated to have on many national economies. **While the specifics here are not important, the general messages have a relevance for most economies and for their thinking over the immediate, medium and longer terms.**

With COVID-19, it is impossible to measure the ultimate implications for the government finances, but the scale of the impact is looking to significantly exceed that of the 2008-09 crisis. Deficit financing has risen extraordinarily rapidly during the first phase, with the debt-GDP ratio rising far above that of the post 2008-09 period.^{35,36} Writing in March 2020, the UK Institute for Fiscal Studies (IFS) provided some insight into the scale that looks inevitable:³⁷

“Only taking account of measures announced so far, and even if the economy “only” shrinks by 5% per cent this year, we might expect borrowing in the coming financial year to exceed £175 billion, or more than 8% of national income. This would be more than triple the amount forecast in the Budget just two weeks ago. About 40% of that increase would result from new fiscal measures, and the rest from the economic downturn depressing revenues and adding to government spending.

The deficit could easily swell by much more than that if the economy shrinks by more, if take up of the employment retention scheme is high, or if further substantial fiscal measures are unveiled. A deficit of over £200 billion in the coming financial year is well within the bounds of possibility. Yesterday’s announcement in Parliament to increase the contingency fund for the coming financial year from £10.6 billion to £266 billion suggests the government may be prepared to go even further than that.”

³⁴ IMF. <https://www.imf.org/external/np/g20/pdf/2020/041520.pdf>

³⁵ The UK’s public sector net debt peaked at an equivalent to 82.9 percent of the country’s GDP in 2016-17 fiscal year.

³⁶ The IFS paper *for sale: £45 billion of gilts* sets out the scale of this huge rise in government borrowing to manage this crisis. <https://www.ifs.org.uk/publications/14782>

³⁷ IFS, March 26, 2020 : <https://www.ifs.org.uk/publications/14771>

These conclusions are broadly mirrored in the work of the UK Office for Budget Responsibility (OBR), which estimated more recently in April 2020 that^{38, 39}

"...public sector borrowing would increase by £218 billion (in 2020-21) relative to our March 2020 Budget forecast, to reach £273 billion or around 14 per cent of GDP. Once the crisis has passed and all the policy interventions have unwound, borrowing falls back relatively quickly to roughly the Budget forecast, but net debt would remain around £260 billion (10 per cent of GDP) higher by 2024-25.

Public sector net debt rises sharply in 2020-21 thanks to lower GDP, higher borrowing and the accounting consequences of the Bank of England's policy measures. It surpasses 100 per cent of GDP during the year, but ends it at 95 per cent (versus 77 per cent in the March 2020 Budget forecast) as the economy recovers. It remains 10 per cent of GDP above the Budget forecast in 2024-25".

Importantly, with an eye to the medium term and the nature of adjustment in the recovery period, the IFS noted in April 2020⁴⁰ that:

"...Government borrowing is set to rocket to levels well above those seen during the financial crisis, and debt is set to approach 100% of GDP.

These figures are predicated on a short-term economic hit and a swift recovery. Should the lockdown last for longer than 3 months or the economy fail to bounce back, the picture would worsen further.

We will need a complete reappraisal of economic policy once the current economic dislocation is behind us. Tough decisions will have to be made which are likely to involve tax rises and higher debt for some time to come. The only other alternative would be another period of austerity on the spending side. That looks unlikely."

The IFS subsequently stated⁴¹ in May 2020:

"....that borrowing of around £300 billion, or 15% of GDP (in 2020-21).....certainly seems plausible.

For subsequent policy, one approach to the one-off increase in borrowing associated with the pandemic would be to bring it back down over the course of many many years.

One cost of this approach is that it would increase our exposure to the risk of increases in interest rates that were not accompanied by greater growth. it is possible that higher borrowing will..... endure..... for three reasons.

- *First there will be additional debt interest spending to finance, though at current interest rates this impact is modest.*

³⁸ OBR, April 14, 2020: https://cdn.obr.uk/The_OBRs_coronavirus_analysis.pdf

³⁹ OBR: https://cdn.obr.uk/Coronavirus_reference_scenario_commentary.pdf. The estimates assume a three-month lockdown due to public health restrictions followed by another three-month period when they are partially lifted. For now, we assume no lasting economic hit. Real GDP falls 35 per cent in the second quarter, but bounces back quickly. Unemployment rises by more than 2 million to 10 per cent in the second quarter, but then declines more slowly than GDP recovers. Policy measures support households and companies' finances through the shock.

⁴⁰ IFS: <https://www.ifs.org.uk/publications/14810>

⁴¹ IFS, May 22, 2020: <https://www.ifs.org.uk/publications/14857>

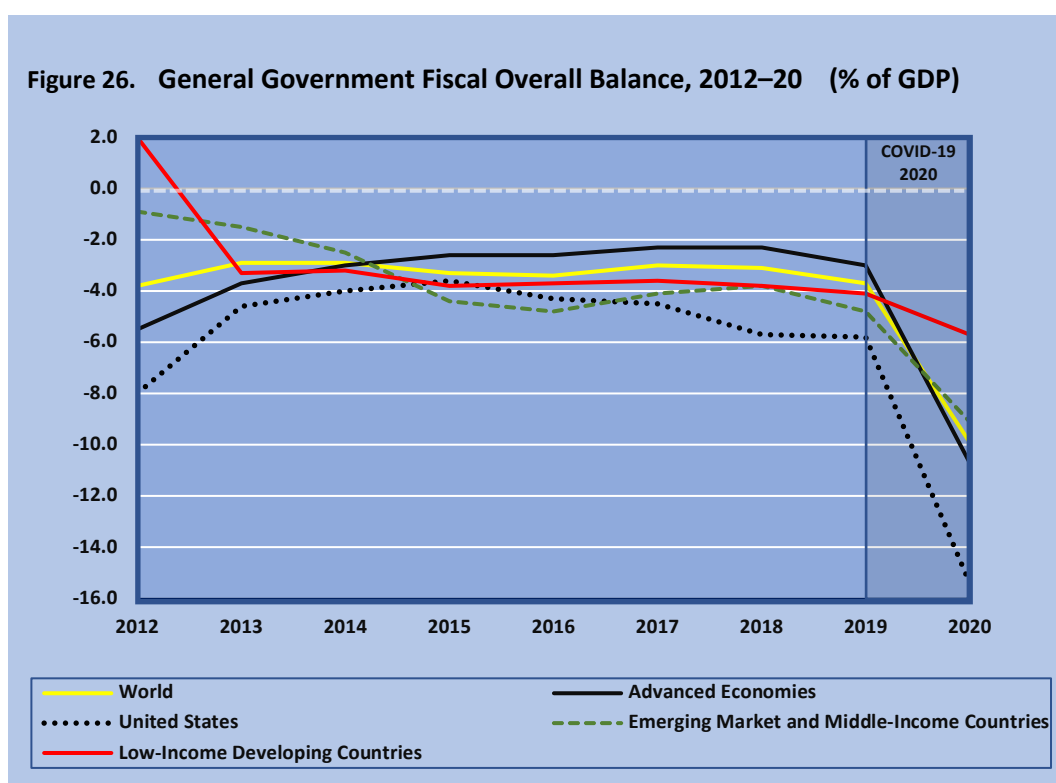
- Second, if – as is likely – the economy does not rebound fully from the current crisis then receipts will to some extent continue to be impaired.

- Third, it is possible that even after the immediate crisis has passed, voters and policymakers will push for increased public spending in some areas. This could be the NHS and social care, but also preparedness and stockpiling for future pandemics or other disasters, or a higher level of social insurance in “normal” times.

Were any of these three scenarios to come to pass, then tighter fiscal policy – perhaps more likely through tax rises rather than spending cuts – would be required if borrowing is to be brought back onto its pre-crisis trajectory”.

The overwhelming economic impact of the crisis, and the equally powerful response to it, have therefore defined the massive scale and nature of the future fiscal challenge that is emerging strongly now. This challenge will shape the macroeconomic thinking for the next decade and more.

This UK impact is mirrored across many of the higher-income economies. Fiscal overall balances have moved sharply into deep deficit as expenditures to protect national economies and provide social protection have been massively increased. As the following IMF⁴² Figure illustrates (Figure 26), the global general government overall fiscal deficit is anticipated to fall from -3.0% over the past 7 year to almost -10% in 2020, while for advanced economies it is expected to fall from around -2%/-3% over the same period to almost -11% in 2020. Countries with lower aggregate incomes have generally been less able to secure the external or integral resources to match the response of the higher oncome counties, with their overall deficits declining less sharply from around -4% to between -5%/-6%.



⁴² IMF. <https://www.imf.org/en/Publications/FM/Issues/2020/04/06/fiscal-monitor-april-2020>

Implications for Debt

As noted above, the magnitude of some nations' economic response at the height of the global health crisis will have very far-reaching implications for national financial and fiscal policy for years to come. The scale of the challenge is most clearly seen in the debt:GDP ratios that have risen very sharply in consequence of the fiscal response.

As the IMF made clear in the context of the G20 meetings⁴³ in April 2020, the impact on future policy will be highly significant:

"... the necessary national and international responses during the containment phase will inevitably result in higher public and private sector debt. Addressing these vulnerabilities will require collective efforts to address debt overhangs and to repair and strengthen balance sheets."

Future economic and financial sustainability and resilience are unambiguously dependent on the definition of the adjustment paths to recovery that will impact very substantively upon the full range of fiscal policy.

In the 2008-10 Financial Crisis, unprecedented fiscal and monetary policy measures were rapidly put in place at national level, coordinated to a considerable degree by collective global strategic thinking and joint action. Gross debt to GDP ratios jumped in 2009-10, with countries with high aggregate incomes on average showing sharp increases from around 70-80% in 2007-08 to almost 110% in 2012. Countries with lower aggregate incomes displayed very little change, reflecting less need to respond, as well as their minimal capacity in this regard. While the COVID-19 pandemic has been characterised to date by a highly fragmented, nationally-focussed response, with little if any global collaboration, national fiscal and monetary policies have been striking nonetheless in their size, especially across countries with higher aggregate incomes.

As was noted earlier, since 2012, when debt:GDP ratios peaked on average, the decline in debt in the higher income economies has been very modest, while debt ratios have drifted upwards in the emerging markets and middle-income economies, and also in the economies with lower aggregate incomes, in both cases by around 10 percentage points.

In the IMF *Global Financial Stability Reports* of October 2019 and October 2019,⁴⁴ the continuing risks to the global financial system, after 10 years of responding to the 2008-09 crisis, were highlighted, with the IMF's then Managing Director, Christine Lagarde, expressing concern that the total value of global debt, in both the public and private sectors, had grown sharply by 60% in the decade since the Financial Crisis to reach an all-time high of \$182tn (£139tn).

⁴³ IMF G-20 Surveillance Note. G20 Finance Ministers and Central Bank Governors' Meetings, April 15, 2020. <https://www.imf.org/external/np/g20/pdf/2020/041520.pdf>

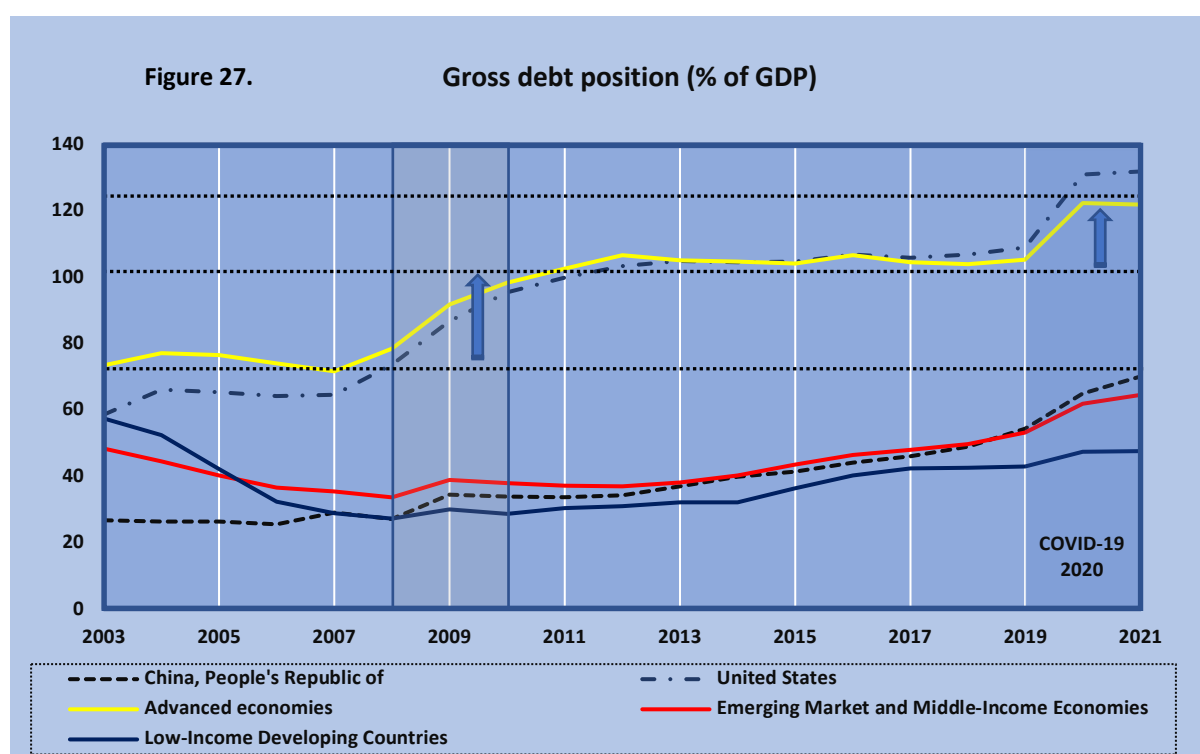
⁴⁴ IMF: <https://www.imf.org/en/Publications/GFSR/Issues/2018/09/25/Global-Financial-Stability-Report-October-2018> and <https://www.imf.org/en/Publications/GFSR/Issues/2019/10/01/global-financial-stability-report-october-2019>

The IMF noted that:

“The sequence of aftershocks and policy responses that followed the Lehman bankruptcy has led to a world economy in which the median general government debt-GDP ratio stands at 52%, up from 36% before the (financial) crisis; central bank balance sheets, particularly in advanced economies, are several multiples of the size they were before the crisis; and emerging market and developing economies now account for 60% of global GDP in purchasing-power-parity terms – which compares with 44% in the decade before the crisis – reflecting, in part, a weak recovery in advanced economies.”

The resilience of the world financial system was therefore already being raised as a concern in 2019.

These trends could be interpreted as having left the global economy relatively vulnerable to the massive external shocks from COVID-19, but nonetheless, over the first half of 2020, the combination of heavy falls in revenues and massive increases in expenditure have left national governments with little choice but to raise debt finance. With exceptionally low interest rates, and the expectation that they will remain at these levels for many years, raising finance has not been a constraint.



Source: IMF Fiscal Monitor, April 2020. IMF DataMapper

Consequently, as the IMF estimate⁴⁵ (Figure 27), gross debt jumped very sharply in 2020, and more abruptly than in 2009, although it remains to be seen to what peak debt eventually attains. Certainly, given the pre-COVID debt levels, debt to GDP ratios are now expected in advanced economies to reach over 120% in 2020, with debt to GDP ratios reaching almost 70% and 50%, respectively, in the emerging market and middle-income economies, and in the economies with lower aggregate incomes.

⁴⁵ IMF: https://www.imf.org/external/datamapper/G_XWDG_G01_GDP_PT@FM/ADVEC/FM_LIDC/FM_EMG/USA/CHN/IND/IDN/BRA

IMF World Economic Outlook (WEO) Update, June 2020

In the June *Update* of the April 2020 WEO, the IMF indicated that it now expects the global economy to face an even deeper downturn than it previously projected in April, with consequential impacts on the fiscal balance and debt to GDP positions of many economies.

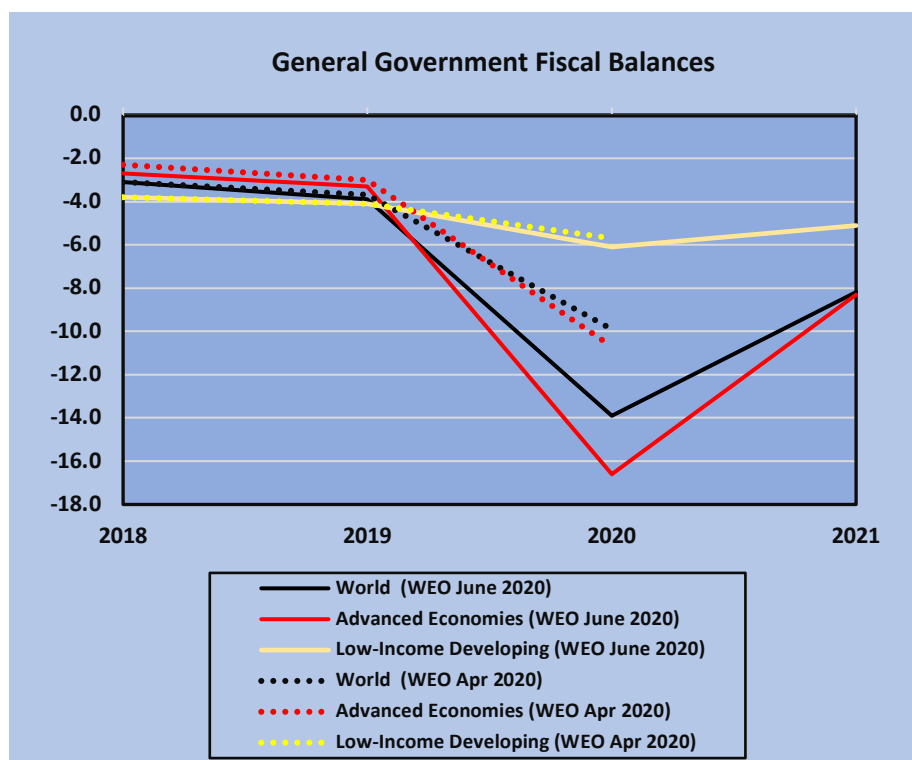
Under the baseline scenario in the June WEO, global public debt is expected to reach an all-time high, exceeding 101 percent of GDP in 2020–21, increasing by 19 percentage points on 2019–20. The average overall fiscal deficit is expected to rise to 14 percent of GDP in 2020, 10 percentage points higher than 2019.

Most **advanced economies** have introduced additional fiscal support as activity contracted more than expected. Overall fiscal deficits are now projected to widen to 16.5% of GDP on average this year, 13 percentage points higher than last year, and government debt is set to exceed 130% of GDP during 2020–21.

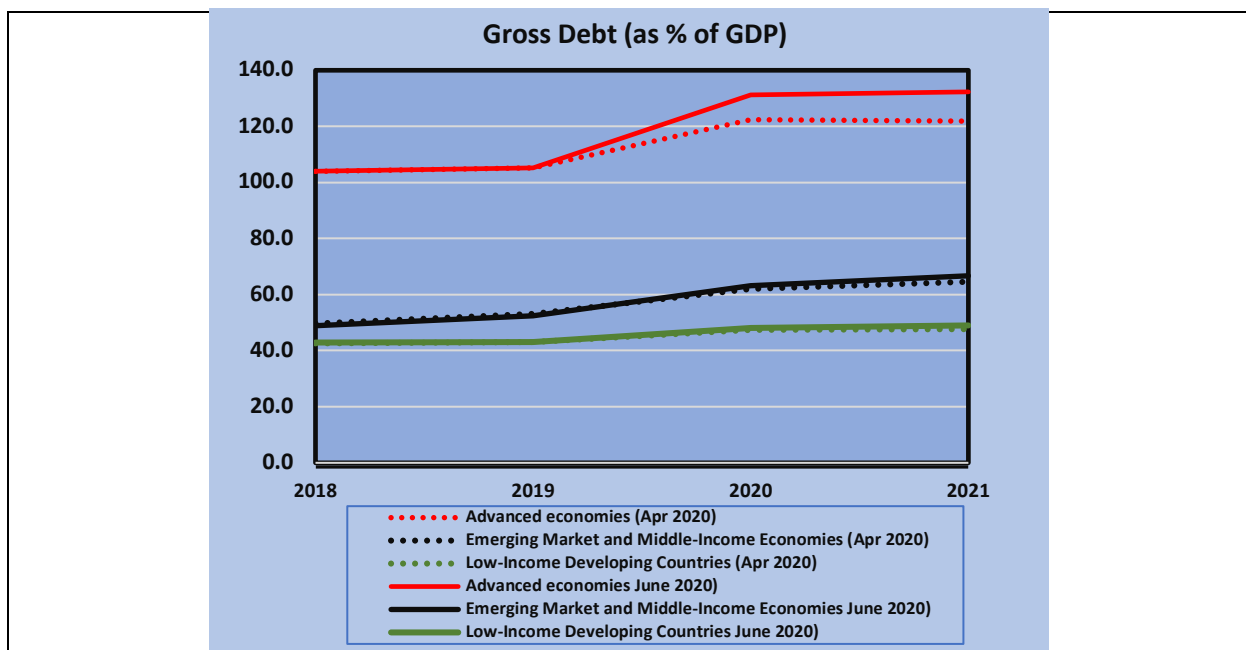
In **emerging market economies**, the average fiscal response to the pandemic is now estimated at 5% of GDP, sizable but less than in advanced economies. Fiscal deficits are projected to widen sharply to 10½ % of GDP on average in 2020, more than double the level in 2019. Government debt is now projected to average 63% of GDP in 2020, rising by 10 percentage points on 2019.

As **low-income developing countries** face tight financing constraints and a less severe impact of the pandemic thus far, the fiscal response to the pandemic has been modest, at 1.2% of GDP on average, and mostly through budgetary measures. As a result, the headline deficit for low-income developing countries is projected to widen to 6% of GDP in 2020, 2 percentage points higher than 2019, and much higher for oil exporters. Within the group, many countries have requested a suspension of official bilateral debt repayment under the G20 Debt Service Suspension Initiative, and 45 countries have sought IMF emergency financing. While these provide temporary relief, elevated public debt—exceeding 48% of GDP on average during 2020–21—has raised sustainability concerns in many countries.

The following two Figures illustrate the deterioration in the fiscal and debt positions in the IMF WEO for June 2020, compared to the projections in the baseline scenario in the WEO for April 2020.



<https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>



Debt Challenges for the Low-Income Nations. While debt levels and debt:GDP ratios in the countries with lower aggregate incomes may be small in comparison to the countries with high aggregate incomes, their importance is clearly often as great, given their capacity to service debt and the demand for the most basic services in their societies. In particular, there has been an urgent need to explore how debt burdens and the associated debt service implications for annual budgets of the poorest countries could be reduced in the crisis, thereby releasing crucial resources to address both the immediate health challenges of the pandemic and also the huge impacts on their economies and communities, not least the impact on the most vulnerable.

In response to this urgent need, the IMF⁴⁶ is providing grants for immediate debt relief to the poorest and most vulnerable members. Specifically, through the *Catastrophe Containment and Relief Trust* (CCRT), the IMF can provide eligible countries with up-front grants for debt relief, and the IMF Executive Board recently approved enhancements to the CCRT to enable the extension of debt service relief to a wider group of economies. In addition, the IMF is seeking to boost the CCRT funding capacity, and several members have already pledged their support.

On March 25, the IMF Managing Director and the President of the World Bank specifically called on official bilateral creditors to suspend debt service payments from the poorest countries. In response to this call, the G20 agreed on a suspension of debt service on official bilateral credit worth about US\$11 billion from the poorest countries. The Fund, the World Bank and the G20 have also called for private sector creditors to participate in such debt relief on comparable terms, which could add a further US\$7 billion of relief.

The IMF⁴⁷ is also responding to an unprecedented number of calls for emergency financing, and has doubled the access to its emergency facilities —the *Rapid Credit Facility* and *Rapid Financing Instrument* — allowing it to meet the expected demand of about US\$100 billion in financing. These facilities allow the Fund to rapidly provide emergency assistance without the need to have a full-fledged program in place and without the more traditional IMF conditionality. These are in addition to the concessional financing available at zero-interest to the low-income poorest countries under the *Poverty Reduction and Growth Trust* (PRGT) facility.

⁴⁶ IMF. <https://www.imf.org/external/np/g20/pdf/2020/041520.pdf>

⁴⁷ IMF. *How the IMF Can Help Countries Address the Economic Impact of Coronavirus*. May 20, 2020. <https://www.imf.org/en/About/Factsheets/Sheets/2020/02/28/how-the-imf-can-help-countries-address-the-economic-impact-of-coronavirus>

E. The Medium Term: global recovery and resilience in the next decade

This section provides a brief summary of the present thinking around the nature of the path to recovery and to building a greater global and national resilience in the future.

The crucial point is that this path to recovery is one characterised by very considerable uncertainty, stemming heavily from the continuing threat from COVID-19, and the health risks that prevail. As noted above, the timing of treatments and vaccines, together with unresolved questions surrounding the future immunity of those who have had the disease and the potential for the virus to mutate and intensify, make the science extraordinarily complex and uncertain at this time.

The future of global health

More concerning are the fundamental risks surrounding the potential for viruses of this form to recur more frequently and with even greater health impacts. While the critical interdependence of global economic growth and the sustainability of the environment has now been acknowledged, and – belatedly – global policy is painfully and slowly being redirected to meet the alarming challenge here, the interdependencies of our environmental and economic growth policies with our global health have received far less attention.

Indeed, the current health crisis has highlighted the close interaction of the environmental and health crises, as the degradation of the environment – interacting with global poverty – appears to have played a catalytic role in the increased transmission of viruses from the animal kingdom to the human species, and with the immense costs that have recently been seen.

One school of thought⁴⁸ strongly suggests, even if there may not yet be definitive evidence, that viruses historically lived in a more stable equilibrium within the animal and wildlife ecosystem and the broader environmental ecosystem – including the biological ecosystem - prior to the hugely significant environmental shocks of recent decades. It is suggested that these massive external shocks to the environmental ecosystem from human behaviour have drastically disturbed this equilibrium and thereby enhanced the probability of the transmission of viruses from the animal ecosystems into humans.

This increased risk is at the heart of the more concerning analyses of the COVID-19 crisis.

Even in the absence of further global health shocks in the medium term, the phases of recovery from COVID-19 are highly speculative at this stage. The potential for secondary outbreaks on a large scale has only receded but not been eliminated and the presence of relatively uncontrolled hotspots continues to pose a high risk to the entire world. Unconstrained international travel remains the biggest threat to the recycling of the crisis, and the re-imposition of travel restrictions – including those within nations - has major implications for the nature and rapidity of the economic recovery.

One example of the international dependency in this regard is the fear that, if the crisis is not managed and eliminated in the poorest nations, where health capacity is probably at its weakest globally and where poverty and deprivation are at their most serious, then there remains the risk of potential transmission to other

⁴⁸ This is discussed in more detail in: **Goudie, A.W., 'Re-thinking our Global Economic Future' (2020).** University of Strathclyde, Fraser of Allander Institute; <https://www.sbs.strath.ac.uk/feeds/news.aspx?id=2023> . See also, for example, <https://www.theguardian.com/environment/2020/mar/18/tip-of-the-iceberg-is-our-destruction-of-nature-responsible-for-covid-19-aot>

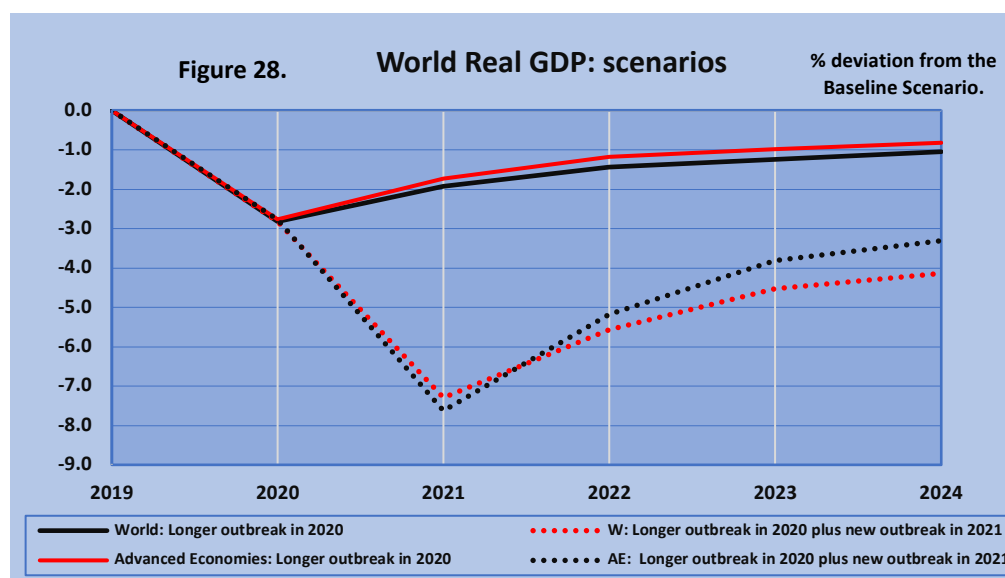
continents and the reigniting of further outbreaks. Africa is one such concern, even though the population is typically much younger and less susceptible to the virus. With this health risk in mind, as was noted above, the highly interconnected global trading system, with its highly complex supply chains, displays a significant economic vulnerability. The challenge for economic and financial decision-makers will be how to build systems that are resilient to this threat, but it undoubtedly bears on the speed of recovery in consumption and investment, and therefore on output and international trade.

Paths to Economic recovery: the medium term

Given the uncertainty over global health for the foreseeable future, the economic path to recovery in the medium term is unsurprisingly impossible to predict with any degree of certainty at this time. Much has been written of the shape of the recovery in global and national output⁴⁹, as noted above, but it is increasingly looking as if the recovery will be protracted and non-linear, and not regain the pre-COVID growth path. It is hard to see anything resembling a smooth V-shaped recovery.

IMF Analysis

All the major forecasts illustrate both uncertainty and the scale of the shock. Figure 28 shows the percent deviation from the baseline scenario that the IMF set out in its April 2020 *World Economic Outlook*⁵⁰ (which was discussed above on pages 19-20), for two possible alternative scenarios: both are more bleak than the baseline scenario, with the first being the more optimistic scenario of the two – characterised by a longer outbreak of COVID-19 in 2020 – with consequently a relatively more modest departure from the baseline scenario of around -3% and a slow return to that trend; while the second scenario is more pessimistic and posits, in addition, a recurrence of the health crisis in 2021 with the implication that the magnitude of the deviation from baseline GDP is considerably greater at around -7.5% and more protracted.



Source: IMF WEO April 2020

⁴⁹ The Brookings Institute. <https://www.brookings.edu/blog/up-front/2020/05/04/the-abcs-of-the-post-covid-economic-recovery/>; and World Economic Forum. <https://www.weforum.org/agenda/2020/05/z-u-or-nike-swoosh-what-shape-will-our-covid-19-recovery-take>

⁵⁰ IMF World Economic Outlook, April 2020: <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>, and <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020#Statistical%20Appendix>

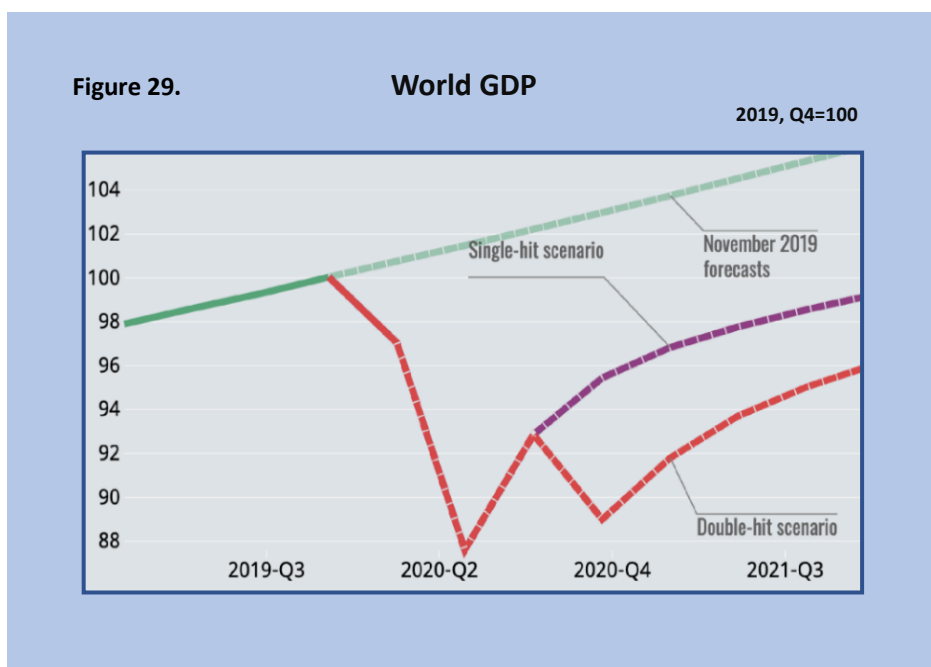
Both scenarios imply that the social and economic cost of the crisis will extend for many years, with long-term impacts on output and employment levels. Clearly, the second of the two alternative scenarios anticipates a far longer recovery, with GDP remaining significantly below the baseline scenario for much of the decade.

OECD Analysis

Similarly, the OECD Economic Outlook in June 2020⁵¹ sets out two possible scenarios: one where the virus continues to recede and remains under control; and one where a second wave of rapid contagion erupts later in 2020 with renewed lock-downs. Figure 29 illustrates the two scenarios compared to the November 2019 pre-crisis forecasts. Neither scenario implies a return to the pre-crisis levels of economic activity, and both imply that:

“...by the end of 2021, the loss of income exceeds that of any previous recession over the last 100 years outside wartime, with dire and long-lasting consequences for people, firms and governments”.

With the first scenario – with only a single-wave - global economic activity falls 6% in 2020 and OECD unemployment climbs to 9.2% from 5.4% in 2019; and five years of income growth is lost across the economy by 2021. With the second scenario – a double-hit, with a second wave of infections later in 2020 - world economic output falls sharply by 7.6% in 2020, before climbing back by 2.8% in 2021. In this scenario, the OECD unemployment rate nearly doubles to 10% with little recovery in jobs by 2021. In both scenarios, growth remains very significantly below the growth path of 2019.

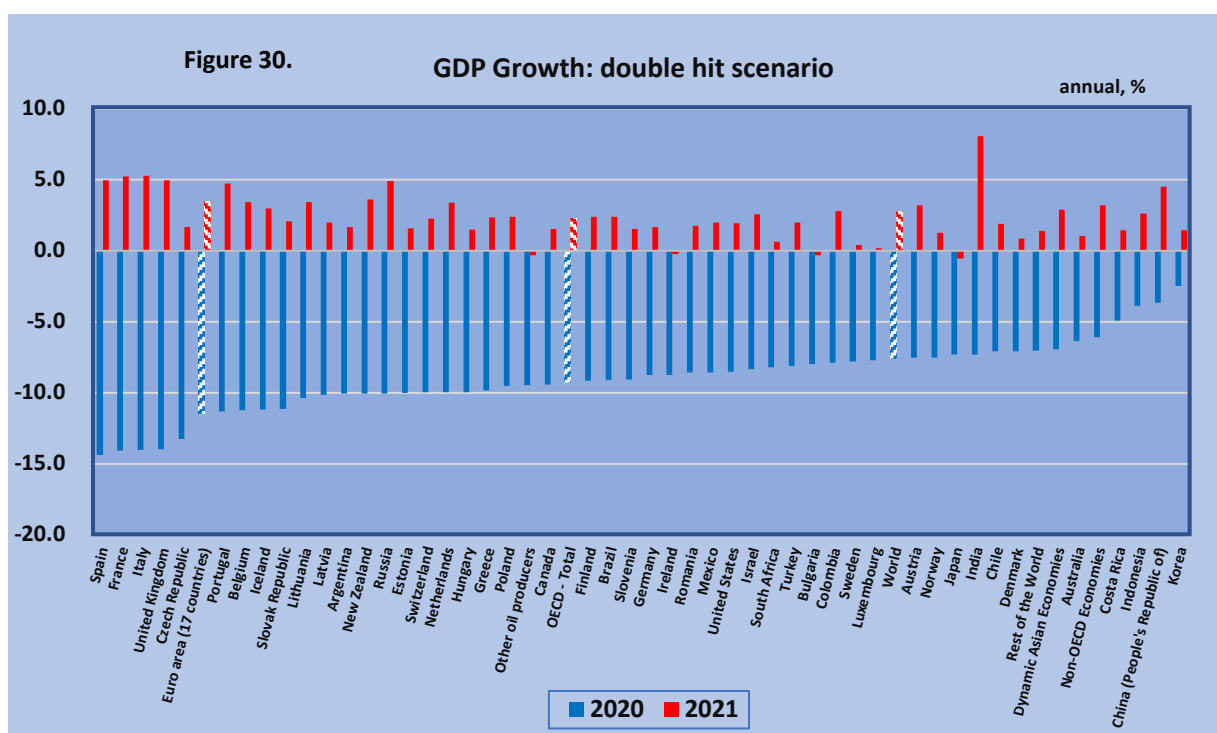


Source: OECD⁵²

⁵¹ <http://www.oecd.org/economic-outlook/june-2020/>

⁵² <http://www.oecd.org/economic-outlook/june-2020/>; https://stats.oecd.org/viewhtml.aspx?datasetcode=EO107_INTERNET_2&lang=en

Figure 30 shows the impact on economic growth rates of the second double-hit scenario for the individual OECD economies and some emerging market economies in 2020 and 2021.



Source: OECD⁵³

Microeconomic concerns.

At a more microeconomic level, the recovery will vary greatly across sectors, reflecting the evolution of the health challenge. The imperative of social distancing for the indefinite future impacts on most economic activity, if only in its impact on workplace behaviours and on commuting patterns, and both national and international travel.

But for some sectors, and notably those for which significant numbers typically gather in relatively confined areas – such as tourism, restaurants, hospitality, sporting and cultural events, educational establishments and the like – the impact on output and productivity will be far more long term, depending on the degree of stringency surrounding the definition of distancing.

The alleged health-economy trade-off in this regard has become politically very high profile, but, with the real possibility of future waves of the crisis if the health decisions are misjudged, the trade-off may be more of an illusion than real.

The imperative of introducing social distancing into the productive process is the top priority now, and, moreover, in ways that are technically, behaviourally, and financially feasible and sustainable. Here, such mandatory transformations to the production process may relatively rapidly raise questions of the fundamental survival of the company or the institution, and whether there are indeed sustainable business models at all in

⁵³ <http://www.oecd.org/economic-outlook/june-2020/> ; https://stats.oecd.org/viewhtml.aspx?datasetcode=EO107_INTERNET_2&lang=en

an environment where production is so heavily circumscribed. Here, the threat of collapse with the inevitable loss of employment and income for the workforce is a major concern.

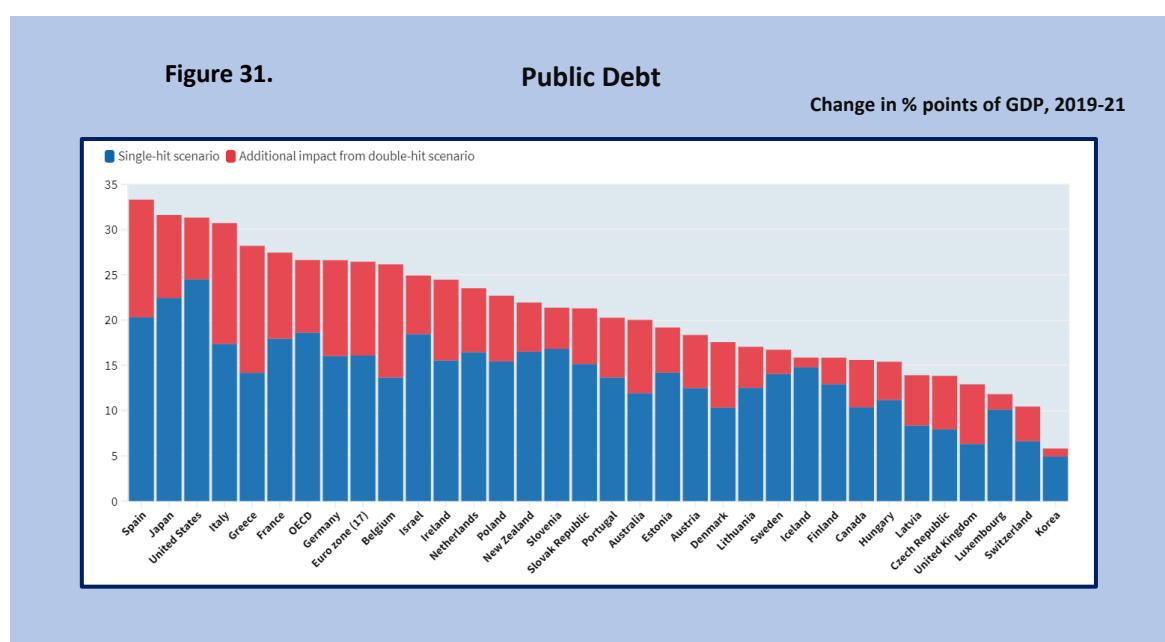
Output and employment in some sectors may also be vulnerable not only to the imposed constraints on personal mobility but also to the longer-term structural changes in behaviour that may have resulted from the crisis itself, as most evidently with the rapid explosion of online consumption. Even if these behavioural changes were employment neutral, which is highly unlikely, traditional jobs in the retail sector, and in the usual locations of towns and cities, are likely to fall sharply.

From a totally different perspective, it is clear the crisis, in general, and the period of global lock-down more specifically in which the movement of goods and people were both hugely disrupted, will lead many nations to review their degree of international dependency and resilience, in the light of the perceived fragility of their supply chains. This will focus in all probability especially on essential products such as food and medical equipment and supplies, where security of supply has been starkly exposed through the humanitarian phase of the crisis.

The implications of this could be immense, and not least for the low-income nations with a huge reliance on the supply of raw materials, agricultural products and other inputs to countries with high aggregate incomes. To the extent that this resilience objective in countries with high aggregate incomes takes on real substance, the consequences for the livelihoods, incomes and employment of people in countries with lower aggregate incomes could be deeply worrying.

The Fiscal Response

The projected high level of budget deficits and the accumulation of very significant new public debt through the first and potentially most damaging phase of the COVID-19 crisis seriously exacerbated the pre-crisis public finance challenges as noted in the earlier section. The OECD scenarios, considered above, provide one illustration (Figure 31) of the impact on public debt of the different possible scenarios over the next phase for each of the OECD economies.



Source: OECD⁵⁴

The critical policy questions

Consequently, the critical questions now relate to how nations will respond to the very major fiscal challenges that their response to the health crisis has precipitated. While it is widely agreed that fiscal and indeed monetary policy responses on such an unprecedented scale were absolutely necessary to prevent even greater economic and social disruption, there is equally agreement that restoring more sustainable deficits and debt levels will be an imperative over the next decade. Indeed, this period is likely to be dominated by these challenges, with a central focus on several key elements, that are briefly summarised here:

The path to sustainable fiscal balances

- What will be the new fiscal rules which nations and regional groupings, such as the European Union, now adopt, and, specifically, what will be **the target that nations set for a sustainable debt:GDP ratio** in the future ? What will be considered to be an *acceptable* and *sustainable* debt:GDP ratio, and founded upon what generally agreed principles ?

⁵⁴ OECD: <http://www.oecd.org/economic-outlook/june-2020/> ;
https://stats.oecd.org/viewhtml.aspx?datasetcode=EO107_INTERNET_2&lang=en

- Given the fundamental need to restore a greater degree of fiscal sustainability, how rapidly does this adjustment need to take place and over what time period ? What will **the path of adjustment** look like ? *How* will these huge debt levels be brought down: beginning with the most urgent question of how primary deficits will be brought under greater control and, subsequently, substantially reduced, ultimately nearer to a balance.
- One consideration will be how rapidly it is deemed prudent to **rebuild resilience** in order to be prepared to face another future external shock that might necessitate a further fiscal intervention on this scale, and the system's ability to manage such a shock. Too slow an adjustment carries obvious risks.
- On the other hand, prematurely **reducing primary deficits** carries serious risks of choking off the all-important economic recovery. For example, excessively rapid reductions in support for business as they emerge from the lock-down phase of the crisis would pose a severe threat to the rate of economic recovery, as many would struggle if demand were to only pick up tentatively.
- Indeed, there are powerful voices arguing, as in 2010, that a **fiscal stimulus** is urgently required now to boost recovery, rather than any rapid move to fiscal consolidation or austerity in public expenditure and indeed tax policy. Steps to generate economic confidence in consumption and investment are arguably crucial at this moment in the crisis - and in the midst of an exceptionally severe recession - in order to minimise the structural damage from the abruptness of the economic lockdown experienced by many economic sectors, and restore production and productivity as rapidly as possible.

The pressure on public expenditure

- How will this adjustment be balanced between **tax increases and expenditure reductions**, especially in the light of the very major pressure on expenditures in the early stages of the recovery ?
- Many observers are anticipating a greatly **increased demand for public expenditure** as countries emerge from the first phase of the COVID-19 crisis. In part, this may be as national and indeed global leaders look to address **global health needs** that have been catapulted to the fore this year. Arguably, responding to the health crisis should now be seen as global priority⁵⁵ in a way that has simply not been true before. Little sustained attention has been focussed on global health previously and the costs of responding could now be highly significant.
- Moreover, there is likely to equally be a significantly increased **demand for public services** more generally following the crisis. In addition to support for crisis-hit business and the economy, there will be intense pressure as societies emerge from the humanitarian phase of the crisis, not least to address health and care services but also the longer-term needs of the most vulnerable in society. Indeed, the number of vulnerable people will certainly increase as a result of the impact of this crisis as, for example, the challenges of unemployment, deprivation, stress and mental health are all exacerbated.

⁵⁵ See also: Goudie, A.W., *'Re-thinking our Global Economic Future'* (2020). University of Strathclyde, Fraser of Allander Institute. Available at <https://www.sbs.strath.ac.uk/feeds/news.aspx?id=2023>

- These new pressures need also to be seen alongside many long-standing and, arguably, equally critical objectives, each necessitating significant expenditures if they are to be appropriately addressed. For example, as well as seeking to find longer term solutions to the current global health crisis⁵⁶ and the potential for such crises recurring in future years, responding effectively and proportionately to the **climate emergency** has been acknowledged now as equally urgent. Global attention has now turned to this crisis and, as with the global health crisis, will require significant investment to both reduce the risks from climate change and to mitigate the worst effects of the current climatic trends.
- In this context, two questions stand out:
 - how will these very substantive new outcome objectives and new demands for scarce resources be addressed and prioritised by national governments; and
 - in the light of these expenditure pressures, will tax increases and continuing high debt levels bear the brunt of adjustment while expenditures are more protected ?

The path to sustainable debt

- Reducing debt ratios will fundamentally depend not only on reducing **the primary deficit**, but equally on maintaining interest rates low relative to economic growth rates in the recovery phase. With inflation anticipated to remain very subdued in, at least, the early phases of recovery, nominal debt will not be eroded rapidly. Equally, a very slow recovery in economic growth would make the re-establishment of sustainable debt:GDP ratios more problematic, although the pressure on interest rates would no doubt be weaker in this scenario.
- Securing **accelerated and sustainable economic growth** provides the most promising route to financial sustainability too, although economic recovery is subject to major uncertainties and is far from guaranteed, with the prospect of both continuing health disruptions and cautious responses in consumption and investment in the light of continuing risks and uncertainty.
- How significant will **the view of markets and investors** be, and what will they accept as an appropriate and suitable rate at which to re-establish an equilibrium, with what implications for the cost of financing government debt ?
- With exceptionally low **interest rates** for many years, the cost of servicing government debt has fallen since the Financial Crisis of 2008-10, and the costs of the huge borrowing in the crisis has been relatively very low. Over the medium term, assuming the private sector recovers at a steady pace, the demand for private sector finance will pick up, and while it seems improbable that interest rates will rise sharply in coming years, sentiment could change and rising interest rates will inevitably carry a degree of risk.

⁵⁶ See also: Goudie, A.W., *'Re-thinking our Global Economic Future'* (2020). University of Strathclyde, Fraser of Allander Institute. Available at <https://www.sbs.strath.ac.uk/feeds/news.aspx?id=2023>

- **Monetary policy** has played a key role in the crisis to date in facilitating the overall response of governments. In consequence, lower interest rates and increased central bank holdings of central government debt have had a major impact in keeping interest service costs low. The OECD for example have argued:⁵⁷

“..this accommodative monetary policy stance will likely have to be maintained for several years given the time it may take for production capacity, income, employment and inflation to recover after the pandemic. If needed to attain central banks’ mandates, more accommodative monetary conditions can be ensured via additional net purchases of government bonds, yield curve control and strengthened forward guidance, with varying implications for government debt servicing costs over a long period.”

⁵⁷ OECD: <http://www.oecd.org/economic-outlook/june-2020/>

F. The implications of COVID-19's impact on the economic and financial environment: Key Messages

A. The economic and financial impact of the crisis on the vulnerable.

- ❖ The prioritisation of the health response in the *first phase of the crisis*, the lock-down phase, necessitated the shutdown of the majority of economic activity and led to massive and immediate rises in unemployment and loss of income.
- ❖ **Striking adverse global and national trends** – and the prospect of only slow recoveries – in output, employment, international trade, commodity prices and remittance flows, are combining to produce massive disruption, and a marked intensification in the deprivation and fragility of the lives and livelihoods of the most vulnerable in every society for the foreseeable future.
- ❖ The **immediate impacts of this phase** of the health crisis have therefore been profound on both the economic and social structures of most countries, and they are likely to remain acute and will be long-lasting.
- ❖ Throughout *subsequent phases of the crisis*, the impact provoked by the global health crisis on the economic and financial environment, and on the evolution of that environment, will be equally profound.
- ❖ Moreover, the **fiscal and monetary responses** to this massive economic shock have been exceptionally far-reaching. The State in many countries effectively assumed the role of *economy of last resort*, supporting companies on a massive scale in some economies, and providing social protection and welfare support as the numbers falling into unemployment and poverty mushroomed at an alarming speed. The **cost of these interventions** is extremely large, leading to the incurring of exceptionally high fiscal deficits and the accumulation of unprecedented debt to GDP ratios. This will consequently have significant implications for the recovery phases of the crisis, especially for national fiscal policy and the affordability and prioritisation of public expenditures.
- ❖ Indeed, this **adjustment will take at least a decade** to resolve as more sustainable and resilient financial conditions are progressively re-established. The nature of the economic and financial strategies that are put in place in every country over the coming years, each with their medium-term recovery programmes, will be critical.
- ❖ The **recovery phases** are unlikely to be rapid or progress smoothly, probably with many reversals of progress, and will not return the world to its previous growth path. Uncertainty will play a key inhibiting role. Global output, trade and employment will most likely be only slowly restored to their former levels, as the health and economic uncertainties constrain economic revival for many years.

- ❖ These deeply concerning trends are greatly exacerbating and **compounding the pre-existing vulnerability** of many groupings and communities due to the prevailing levels and trends in global and national inequality, poverty and well-being, and the exceptionally weak state of safety nets in the majority of nations. **Economic and social injustice has been catapulted to the fore once again.**
- ❖ Significantly augmented levels of vulnerability and the intensification of deprivation, raise deep **concerns for those in need of justice** and who are seeking channels through which to access support, whether formal or informal. Not only are individuals less able to afford justice services, but individuals' connectivity with the opportunities for support become fractured and their awareness of how to seek recourse and support declines markedly. Confidence to embark on the journey to access and secure justice is severely dented in such vulnerable communities.

B. The economic impact of the crisis on the challenge of *Justice for All*

The nature of the *Justice for All* challenge has intensified as the economic impact has grown:

❖ *the impact on the demand for justice.*

Justice

- The social impact of the economic shock is most likely to have **produced far greater needs for justice**, as large numbers in society will have seen their opportunities, rights and needs significantly and adversely affected by increased vulnerability.
- These needs will impact greatly on **the demand for services**, but also on the hidden demand for services that is not readily identified.
- The **capacity of individuals** to seek redress will be severely limited – more than before – by their reduced incomes and marginalisation.

Economic and social justice

- The crisis has exposed the continuing high levels of global and national inequality and poverty, and the ***economic and social injustices*** that lie at the root of these huge disparities.
- COVID-19 has moreover greatly **exacerbated the injustices** in this regard, as the well-being of the most vulnerable - and the newly vulnerable - communities and individuals has declined sharply, as they have suffered the greatest impact from the economic shutdowns and recession.
- Greatly increased **economic vulnerability and desperation** will have driven even greater numbers of poor people into lower quality work and poorer working conditions, often akin to modern slavery, in which they are exposed to the worst forms of exploitation and unacceptable forms of injustice.

- These economic injustices are unacceptable in their own right, but a sharp focus on these injustices is also critical to **the preventative perspective of Justice for All**. Stemming the flow of children and adults into situations in which they are in contact, and especially conflict, with the law will always be the priority, and **economic and social justice for all lies at the heart of this preventative perspective**.

❖ *the impact on the supply of services.*

- The financial cost of the crisis in many countries, together with the anticipated major increases in the demand for public services across society in the aftermath of the worst of the crisis, will impose **immense fiscal pressures on governments**.
- *How* governments seek to restore sustainability to their public finances over the medium term will be crucial in determining how macroeconomic conditions impact on **the resources available for public services**. The impact could be very significant in the recovery phase from the crisis and, in countries with lower aggregate incomes already coping with weak public services, the crisis could set back their progress for many years.
- The implications of the economic and financial crisis are therefore potentially critical: **the resourcing of services to promote justice for all could potentially be significantly affected, with profound implications for service provision** in terms of their quality and relevance, their accessibility and geographical availability, their focus on all communities equitably, and their cost.
- Maintaining the provision of justice services will be a major challenge, and restoring previous support will be the first goal, but **securing the Justice for All vision will require greater resourcing**, even with more creative approaches to the challenge.

C. **The impact of the crisis on progress towards Justice for All**

- ❖ In the current COVID-19 crisis and for the medium term, **the vision of Justice for All has become a far greater challenge to deliver**. Progress will undoubtedly have been interrupted with major areas of regression. New and significantly more severe challenges to the delivery of universal people-centred justice, that is equitable and accessible to all, have become a reality. Moreover, they must be addressed, and new innovative solutions must be found, in a vastly more difficult economic climate.
- ❖ Economic and financial disruption throughout **the crisis is impacting on society** in very different ways, and the nature and significance of the social impact will evolve as the economic and financial conditions themselves evolve. At each stage of the crisis, these societal impacts will take on a different form, with important implications for the strategic approach to addressing the *Justice for All* objective.

- ❖ National **medium-term programmes of economic and financial adjustment** will carry very significant implications for all public services and, specifically for the services that focus on the imperative of *Justice for All*. While the ultimate vision for *Justice for All* remains as paramount as ever, the entire economic and financial context for addressing the primary challenges has changed.
- ❖ The **competition for very scarce resources** at a time of greatly enhanced need will be intense. Demands for financial support throughout the crisis from regional and local governments, private business, educational bodies, NGOs and many others are already evident, with each having compelling reasons for their own prioritisation in the recovery phase.
- ❖ In this environment, prioritising new and **more innovative ways** of addressing the challenges of justice for all will take on an even greater importance than in the pre-COVID-19 days. Anticipating real resourcing constraints and identifying new approaches will be necessary, if progress is to be maintained.
- ❖ Restoring even the pre-crisis levels of **economic and social justice, and then generating a new momentum** will require dedicated and targeted programmes that explicitly address injustices and the well-being of the most vulnerable.
- ❖ **National strategies and effective implementation programmes** need to be prioritised that:
 - elevate **inclusive growth and meaningful employment**, in which the most disadvantaged are able to participate in the economic recovery and contribute to that recovery;
 - pro-actively **allocate the benefits of recovery** to the needs of the most vulnerable, and do not rely on indirect and often highly imperfect channels for these benefits to reach the most deprived. Citizen involvement in this respect clearly has a key role to play, too;
 - develop far more comprehensive, adequate and effective **safety nets** for the vulnerable, thereby providing both resilience to withstand future shocks, but also to address the present and on-going needs of the vulnerable;
 - seek to build the **social cohesion, safety and productivity of communities** over the medium term, through addressing the long-term economic needs, rights and opportunities of all their people;
 - actively promote the national debate to determine the **long-term vision for economic justice** - for economic inequality and economic well-being - for the nation as a whole, and work to define a path towards its delivery.
- ❖ **Identifying and articulating the value to each individual and, importantly, to communities and to broader national society of *Justice for All* is therefore of paramount importance. The case must be made. Without building this political understanding and a sustained and sustainable political commitment to *Justice for All* – including the primacy of economic and social justice that must underpin the more formal justice systems - progress will be severely hampered.**

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