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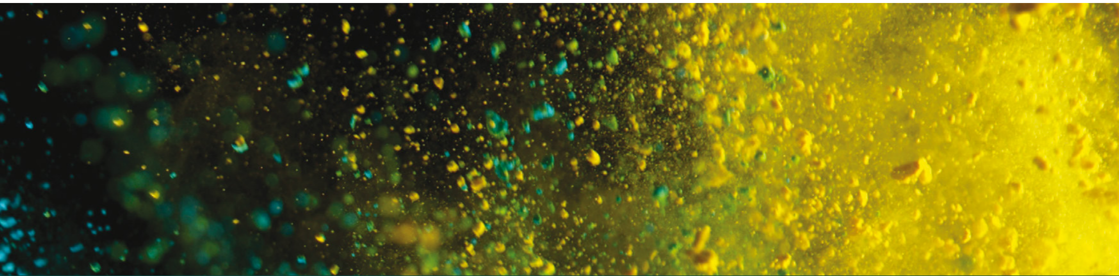

TRADE AND DEVELOPMENT REPORT 2020

FROM GLOBAL PANDEMIC TO PROSPERITY FOR ALL: AVOIDING ANOTHER LOST DECADE

OVERVIEW

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Geneva, 2020

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This publication has been edited externally.

The Overview contained herein is also issued as part of the *Trade and Development Report 2020* (UNCTAD/TDR/2020).

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/TDR/2020 (Overview)

OVERVIEW

The future is not what it used to be

The world economy is experiencing a deep recession amid a still-unchecked pandemic. Now is the time to hammer out a plan for global recovery, one that can credibly return even the most vulnerable countries to a stronger position than they were before. *The status quo ante*, is a goal not worth the name. And the task is urgent, for right now, history is repeating itself, this time with a disturbing mix of both tragedy and farce.

Ten years ago, the world's major economies vowed to bounce back from the worst financial crisis since the Great Depression and struck a tone that suggested a readiness to recast the international order in a manner inspired by the people who led the march out of war and ruin after 1945. In April 2009, leaders of the G20 gathered in London to agree a collective response to the global financial crisis that had ambushed leaders from Tokyo to Washington and Beijing to Buenos Aires.

The plan agreed in London was bold: restore confidence, growth, and jobs; repair the financial system to restart lending; strengthen financial regulation to rebuild trust; fund and reform international financial institutions to help overcome this crisis and prevent future ones; promote global trade and investment and reject protectionism; and forge an inclusive, environmentally sustainable recovery.

But it didn't happen. Or, rather, it was honoured more in the breach than the observance: trillions of dollars were spent on repairing the financial system but with little contrition on the part of bankers for past misdeeds or accountability, either in the form of prosecutions or serious reform; new free trade agreements took shape but with no acknowledgement that previous agreements had contributed to a more unequal and fragile world; Europe and the United States turned toward "structural reforms" and austerity on the false premise that too much regulation and a bloated public sector would restrain future growth. The result was a self-reinforcing cycle of weak aggregate demand, tepid growth and widening inequality.

Now another crisis, in the form of a microscopic pathogen that rapidly made its way around the world, is throwing into sharp relief the shortcomings of the global economy and its stewardship. In March this year, with Covid-19 contagion becoming a full-blown pandemic and the death toll rising, governments across the world opted for a policy-induced economic coma – stopping the human interactions that define much of commercial life – to prevent new infections and relieve overburdened health systems. This Great Lockdown, as the IMF calls it, has tipped the global economy into recession in 2020 on a scale not witnessed since the 1930s. Massive relief packages have been adopted, particularly by advanced economies, and the medical community has come together in search of a vaccine. Still uncertainty abounds and anxiety persists. Additional waves of infection and death cannot be ruled out.

The overall employment impact this year from the combination of lockdown, temporary relief and return to work is difficult to gauge. Still, the ILO estimates that more than 500 million jobs worldwide have been put in jeopardy by the crisis mainly in the developing world, and while many jobs will return with the end of workplace closures, some will be permanently lost; at least 100 million jobs will have gone entirely by year end. Furthermore, between 90 million and 120 million people will be pushed into extreme poverty in the developing world, with hunger and malnutrition certain to follow, while income gaps will widen everywhere. These developments point toward a massive uptick in sickness and death.

Hope of a rapid economic bounce-back from a scientific breakthrough – in the form of an effective and widely available vaccine – cannot blind us to other man-made dangers ahead. If governments opt for premature fiscal tightening in an attempt to bring down public debt and businesses adopt an aggressive cost-cutting strategy in an attempt to boost exports, the recovery will likely fizzle out, with a double-dip recession a real possibility in many countries in 2022.

The threat is of particular concern for developing countries where a combination of precarious work conditions, high levels of debt distress and insufficient fiscal and policy space limit their options to respond to shocks of any kind, let alone one as serious as Covid-19. The urgent need for increased health spending along with declining tax revenues, combined with a collapse in export earnings and pending debt payments has exposed a $2-3 trillion financing gap in the developing world which the international community has, so far, failed to address. There is a very serious danger that the shortfall will drag developing countries into another lost decade ending any hope of realizing the ambition of the 2030 Agenda for Sustainable Development. The inability of the international community to agree on comprehensive debt standstills and write-downs, the resistance to rapid provision of appropriate levels of emergency liquidity and the reluctance to rein in rogue bondholders in sovereign debt negotiations along with the sight of vulture capital already hovering ominously over distressed economies are early warning signs that things could get worse – far worse.

In the absence of a radical policy shift and effective coordination at the international level, there will be pressure to return to the pre-crisis normal as quickly as possible, in a manner reminiscent of the period after the 2008 financial crisis. The call to "reglobalise" on free market principles is already being voiced, on the assumption that only renewed trade and capital flows will put the global economy on the path to recovery and resilient growth. Ardent free marketeers are using the disruption in international supply chains to push new rules on international trade and investment, and new privileges for owners of intellectual property and vital technologies that would further reduce the policy space of developing countries. Demands for a retrenchment in government spending are sure to follow. But adherence to those principles is precisely why a resilient recovery failed to emerge after 2010, indeed, why trade and foreign direct investment flows were anemic before the pandemic hit.

An aborted economic recovery, or worse, another lost decade, is not preordained. It is a matter of policy choice. An inclusive recovery will require a willingness on the part of government not only to keep spending for as long as it takes the private sector to regain its confidence to spend, but also to tackle the underlying stresses and fractures that were already exposed by the global financial crisis, papered over, and left to fester for a decade. It means addressing a series of pre-existing conditions that were threatening the health of the global economy before the pandemic hit, including high and entrenched inequality, sluggish growth, weak investment, endemic wage repression in the developed world and precarious working conditions in the developing world. Deficient welfare and care systems, and deepening environmental stress, not least because of the world's failure to delink economic activity from greenhouse gas emissions, remain high barriers to an equitable recovery.

The coronavirus has ruptured this world and, as with past global pandemics, raised fundamental questions about the way we organise society and the values that structure our lives. But it has also encouraged us to imagine a better world. If we are to act on that imagination, we should acknowledge the mistakes of the last decade, above all in the world's richest economies. Recovering better demands that we treat the Covid-19 pandemic not only as a crisis to be managed, but an opportunity to identify and address the structural barriers in the way of a more prosperous, equitable and resilient future. Success will turn less on epidemiology than it will on leaders at the national and international levels, and their willingness to confront the human consequences of their decisions. The measure of our success cannot be whether we ward off another financial crisis and avoid increased public debt. Succeeding generations will not applaud higher share prices or fuller treasuries if we fail to meet the challenge – and sacrifice an untold number of lives and livelihoods in the process.

Look back in anger

The recovery from the global financial crisis was sluggish by historical standards and unbalanced between households (with those at the very top grabbing a disproportionately large share of the increased income), firms (with large corporations raising their share of profits often at the expense of smaller business) and regions (with large metropolitan areas pulling further ahead). Policy did not leave people behind so much as it picked who wins and who loses.

Monetary policy, more by default than design, took the lead in orchestrating recovery, and rising equity and other asset prices were taken as a measure of success and a distraction from lagging wage growth and growing inequality. Government spending did increase, but the programmes targeted large firms and financial institutions, not workers, homeowners and local communities. And once tax breaks, bailouts and cheap money had helped calm market nerves, calls for fiscal rectitude grew ever louder; a swift turn to austerity combined with "structural reforms" – often little more than a euphemism for weakening social safety nets and keeping wages in check – extinguished hopes of a demand-led growth strategy that would lead to a sustainable medium- to longer-term recovery of jobs and incomes.

While the withdrawal of fiscal stimulus adversely impacted growth, the continuation of quantitative easing and low interest rates propelled asset prices ever higher. At the same time, a combination of corporate rent-seeking and cheap credit, in the context of weak demand, reinforced a culture of quick financial returns, with private equity, outsourcing, share buy-backs and mergers and acquisitions the instruments of choice; to take a startling example, between 2010–2019, S&P 500 companies channelled almost a trillion dollars a year in to share buy backs and dividend payments.

With central banks in advanced economies sticking to an easy money policy, tighter financial conditions in developing countries opened up new investment opportunities for those with access to liquid resources and an appetite for risk. This global search for a return on invested capital has led to a rapid build-up of foreign currency denominated public and private debt in many developing countries, along with increased penetration of their financial markets by non-resident investors, foreign banks, and other more shadowy financial institutions. The greater presence of foreigners in bond and equity markets, moreover, increased the potential instability of exchange rates and further exposed domestic financial markets to the vagaries of global risk appetite and liquidity conditions.

The coexistence of bubbles of financial exuberance with inadequate demand for goods and non-financial services, weak investment and lagging productivity constrained growth everywhere. In advanced economies, the average growth rate between 2010–2019 fluctuated around an annual average of 2 per cent, compared with 2.4 per cent from 2001–2007. Growth declined for developing countries from 7.9 per cent in 2010 to 3.5 per cent in 2019, with an annual average of just 5.0 per cent compared with 6.9 per cent from 2001–2007 (or 3.4 and 4.9 respectively, excluding China).

Putting a cost on the great financial crisis is a difficult business; one estimate by the Federal Reserve Bank of Dallas puts the figure at between \$6 and \$14 trillion solely for the United States. Since then banks have become bigger than ever and the aptly labelled “shadow banking system” has turned the workings of finance even more opaque. Just how much risk has built up in the financial system over the last decade is difficult to tell but the massive rise of leveraged corporate loans was already spooking corporate bond markets before the pandemic hit. There are growing concerns that the massive relief packages in response to the crisis will keep many large and destined-to-fail firms going, even as viable smaller businesses are starved of funds, again transferring dangerous risks from the private to the public balance sheet.

The massive hole in public finances caused by the financial crisis has led to endless rounds of austerity on the false promise that cutting back government spending would release productive resources for the private sector and ignite growth. This has been one important factor in the lack of preparedness to the Covid-19 shock, particularly in the area of public health infrastructure. In the face of underfunded services, public private partnerships have been promoted, with little or no supporting evidence, as a new source of responsible finance.

Growth of jobs and labour incomes was particularly slow, which reinforced the weak recovery and further depressed productivity growth. In many developing countries, high interest rates and overvalued currencies added to "premature deindustrialisation" pressures. It took a full decade for the global unemployment rate to return to the pre-crisis level but employment-to-population ratios, a better measure of labour market health, did not recover before the pandemic, neither in developed nor developing countries, with many prime-age workers dropping out altogether. Precarious labour contracts have risen sharply in both the North and South. And now we have another crisis on our hands.
The world did not prepare for the Covid-19 pandemic as well as it could have, and the ethos that informed the response to the Global Financial Crisis has something to do with that failure. Epidemiological and economic warning signs have flashed for years.

The threat of zoonotic diseases has been growing since the early 1990s, closely linked to the clearing of natural habitats and their replacement with intensive livestock operations. While scientists and public health specialists have regularly warned of the potential danger vested business interests have downplayed the health risks of deforestation and industrial farming for fear it might damage their bottom lines while consumers, particularly in rich countries, have become addicted to cheaper meat. The financial resources needed to control the spread of zoonotic diseases now appear small change in comparison with the costs of the crisis. And the most vulnerable are, again, disproportionately hit.

Economists refer to the transfer of private risk to the general public as moral hazard; the privatization of profits and the socialization of losses an inevitable corollary. Moral hazard was, of course, what brought the global financial system to its knees in 2008, via banks that turned their privileged position as purveyors of private credit into a gigantic speculative bubble. The hazard was a moral one because insiders knew their elite windfall would give way to economic fallout for the community at large. Tragically, this attitude continued after the crisis, encouraged in part by the actions of central banks and what one astute observer of the last decade has described as a “persistent fealty to so much of the pre-crisis conventional wisdom”.

Opening up to another lost decade

The global economy had entered dangerous waters by late 2019. Growth was slowing across all regions with a number of economies contracting in the final quarter. Still, there was a widely shared expectation that things would improve in 2020, led by an expected rebound in the large emerging economies, with global growth returning to its long-run potential in 2021. Even with contagion from Covid-19 picking up pace, G20 finance ministers meeting in Riyadh in the last weekend of February, were still sounding an optimistic note on global economic prospects.

Lockdown has parachuted economists into unfamiliar territory. The current situation is not like a war economy where a switch to military spending sees output expand. Nor is it a traditional global supply-side shock where inflationary pressure is the big challenge for policy makers. Nor do we face a financial crisis where the banking sector is in the eye of the storm. In a global health crisis, putting lives before profits has triggered a series of simultaneous and mutually reinforcing supply, demand and financial shocks.

In the wake of these shocks the global economy will contract by an estimated 4.3 per cent this year, leaving global output by year’s end over $6 trillion short (in current US dollars) of what economists had expected it to be before the Covid-19 pathogen began to spread. In short, the world is grappling with the equivalent of a complete wipeout of the Brazilian, Indian and Mexican economies. And as domestic activity contracts, so goes the international economy; trade will shrink by around one fifth this year, foreign direct investment flows by up to 40 per cent and remittances will drop by over $100 billion.

The biggest falls in output will be in the developed world, with some likely to register a double-digit decline. But the greatest economic and social damage will be in the developing world where levels of informality are high, there is continued reliance on a few commodities or tourism as a source of foreign exchange, and fiscal and policy space is limited. Latin America is likely to be very hard hit with a drop in output this year of 7.6 per cent with particularly large declines, possibly double digit, in some of the largest economies, notably Argentina and Mexico. The contrast with East Asia, where growth will remain in positive territory, albeit much lower than in 2019 – China, for example, is expected to grow at 1.3 per cent – is stark.

The massive relief packages adopted mainly by advanced economies – estimated to date at a staggering $13 trillion for G20 countries – have helped to mitigate the decline and with the lockdown easing a recovery will be registered in the second half of the year barring a second round of lockdowns. Given that the fiscal side of these packages is stronger than after the last crisis – accounting for 4 out of every 10 dollars in advanced economy packages including direct payments to households – and because East Asian economies will ride out the economic storm better than expected, the global downturn is not likely to be as harsh as some forecasts suggested earlier this year.

Even so the technical bounce in the second half of this year, as countries begin to emerge from lockdown, will coincide with continuing job losses and rising debt distress. With current relief packages expected to wind down or end altogether by the end of this year the big question is what to expect in 2021. A full V-shaped recovery – the best-case scenario under the circumstances – with annual growth next year above 5 per cent and the world economy returning to its 2019 level by end of 2021 is what many are hoping for. However, even this outcome would leave a $12 trillion income shortfall in its wake and an engorged debt burden, particularly in the public sector.

Our own assessment also sees the bounce continuing into next year albeit with stronger headwinds weakening the pace of global recovery which will, under the best scenario, struggle to climb far above 4 per cent. A mixture of higher inequality, greater insecurity and ongoing uncertainty will hold back aggregate demand, shaky corporate balance sheets in advanced countries will damage investor confidence, while a combination of lower tax revenues and higher public debt will – absent appropriate policy support – restrict fiscal space particularly, but not only, in developing countries.

A second generalised lockdown would, inevitably, render any forecast for next year meaningless. But even discounting that possibility there is a very real danger that things could turn out a good deal worse. In particular, a premature squeeze on public spending would compound efforts by the private sector (both firms and households) to balance their books; if governments opt for fiscal tightening in an attempt to bring down public debt and businesses adopt an aggressive cost-cutting strategy in an attempt to boost exports, the recovery will likely fizzle out next year, with a double-dip recession a real possibility in many countries in 2022.

(Almost) Everyone left behind

As policy makers move from relief to recovery in response to Covid-19 any hope of building resilience to future shocks rests on not repeating the post-2008 mistake of leaving reform for better times. Two key areas where recovery and reform should go hand in hand are income distribution and fiscal space.

In a textbook world, income distribution is a well-rehearsed fiction. Wages are negotiated in markets where everyone has equal bargaining power and the outcome is a wage reflecting each worker's productivity. Only in this narrow sense is income distribution "fair". In the real, hyperglobalized world of austerity and depressed employment, corporations wield unique power in wage negotiations and the textbook foundations of fairness in distribution melt away. Even so, any rise in inequality from more liberalizations is justified assuming that the gains from improved allocation of resources, empowered middle-class consumers and improved government revenues would be more than enough to compensate those at the bottom.

That conclusion requires dubious assumptions, like full employment everywhere and at all times. It also misses the point. Power and policies, not fair competition, determine how adjustment processes play out. The playing field is not level. The rise of footloose capital, and its greater freedom to move production and investment around the globe, has over recent decades strengthened the bargaining power of capital compared to that of labor. This has triggered a steady increase in the share of income going to profits that began well before the global financial crisis but continued after it. In the last decade, the profit share has increased in all but three G20 countries. If these pre-Covid-19 forces of wage repression remain in place, the labor share will likely continue its decline in many economies in the next years exacerbating inequalities. In the United States, after a 50-year descent, the labor share is now back to its 1950s level; if current trends continue, in ten years' time it will be back to the brink-of-the-abyss level of 1930.

Pinning the blame for inequality on job-stealing robots and, more generally, technological advances, is simplistic. At least two other factors, determined by policy choices, have played significant roles. One is hyperglobalization. Research has shown that trade and investment liberalizations have adversely affected wage growth in developed and developing countries, by driving up competition for export shares and promoting cost-cutting at the expense of long-term investment. Flimsy or almost non-existent protection for millions of migrant workers also drives down wages. The other factor is a wide-ranging weakening of labor market institutions – such as unionization, minimum wage and employment protection legislation – in most developed and many developing countries.

Data reveal a deeper cause of this imbalance: the fissuring of many economies into two unequal classes: one made up of a large number of low-wage, low-productivity jobs and one consisting of a small number of high-wage high-productivity sectors. A similar dualistic pattern is familiar in developing countries which have long strived to transfer resources from agriculture to manufacturing. But 21st century dualism is newer for countries, both developed and developing, where parts of the service sector are creating more jobs and, at the same time, experiencing a fall in wages and productivity. While manufacturing and high-wage services provide relatively fewer jobs, growth in low-wage, low-productivity employment does not replace the lost income. Overall economic growth and productivity growth suffer: in most G20 countries – including the United States and all the BRICS – productivity slowed down after the global financial crisis and in some countries productivity was lower in 2019 than in 2009. In the United States productivity grew 17 percent in the 1999–2009 decade but only 12.5 percent in the last decade; China's impressive productivity growth of 162 percent in the earlier decade came down to 99 percent in the last decade. When combined with financialization and heightened corporate power, this economic fissuring generates instability by driving countries into a spiral of slowing aggregate demand and growing financial fragility.

A sustainable recovery requires faster wage growth for low-wage jobs too in order to revive productivity and employment growth. Wage repression and ever weaker labor market rules are only going to make the world economy's pre-existing conditions worse.

Borrowed time, limited space

With footloose capital holding back productive investment and extractive corporate power driving economic polarization, it is little wonder we have entered an age of deep-seated anxiety and increasing anger. With the social contract fraying, governments and households have turned to debt to keep themselves afloat and fractured communities together. But debt is as much a solvent as it is a glue. The threat of economic breakdown hangs ominously over debt-dependent economies. Anxiety turns to foreboding as the logic of extraction moves from the social to the natural world; and while there is a chance that bankrupt families and firms can work through their insolvency, there will be no return for an environmentally bankrupt planet. All the remedies require a stepwise scaling up of long-term public investments and dedicated strategic planning.

The post-2008 turn to austerity was premised on a belief, hard-wired into conventional economic thinking, that crises are exceptional. In normal times, free, flexible markets succeed in keeping the economy at, or close to, its optimal level, with only minimal public intervention. Distortion and abnormality are the product of government interference. The result is a reluctance or unwillingness to actively reverse the destruction of productive capacity incurred during crises and recessions, or to mitigate the distortions generated by financial markets, which discourage long-term productive investments. Together with the dismantling of permanent and counter-cyclical welfare structures, in the name of efficiency, those assumptions have not only undermined the ability of policy-makers to prevent crises in the real economy, but also – at this moment – to respond more effectively to health crises.

The tendency is not only to underestimate the costs of contractionary policies but also the potential benefits from expansionary fiscal policy, in the name of preserving a market-friendly notion of financial "credibility". Borrowing conditions attached to IMF programmes tend to mimic this contractionary bias.

Austerity always has a contractionary effect on growth and, absent a large enough current account surplus, drags the private sector into debt. Conversely, a stimulus can be self-sustaining and produce the result fiscal hawks long for in a better and faster way. Fiscal contraction does not guarantee a country's public debt sustainability. Indeed, especially in weaker economies, fiscal deficits have often derived from government's squeezing of the private sector, which results in lower tax receipts and higher unemployment. Nor has austerity rewarded its adherents with reliable access to financial markets. Among G20 countries, Argentina, Brazil, India, Mexico and South Africa have all implemented austerity in the past years but are now struggling to access reliable sources of finance. In the Eurozone, the late intervention of the ECB proved once again that it is not fiscal discipline but central bank liquidity that can tame the markets, while fears of inflation have long turned into efforts to encourage it.

Fiscal space is not a matter of accumulating funds for a rainy day, which makes little macroeconomic sense, but of access to stable and affordable financial resources – taxes and debt – which is a matter of history and politics, as well as economics. This has been made abundantly clear during the Covid-19 crisis. Central banks, rather than simply defending a notion of independence that protects the status quo, should combine their function of lenders of last resort with more active management of the credit system that protects, rather than limits the space for domestic fiscal policy. This will, no doubt, require their closer collaboration with other areas of economic policy making. However, sometimes, and especially in developing countries, where fiscal space is constrained by external factors, measures must be put into place at the international level in order to reinforce, or substitute action by the domestic monetary authorities. The response of the multilateral system to the Covid-19 shock has, to date, exposed serious shortcomings in this respect.

Whether or not the current crisis pushes that system, established at the end of World War Two, closer to the brink of implosion or begins a new chapter of international cooperation is, no doubt, closely tied to shifting political currents in the major economic powers. What seems certain is that avoiding a doomsday scenario will require planning for a different future while tackling the current crisis, in all its dimensions. That was the same challenge facing the original architects of multilateralism and given the scale and depth of the Covid-19 crisis, it is not unreasonable to ask today`s leaders to take a harder look at the class of 1945.

Birthday blues

On the twenty fourth of June 1945, following two months of deliberations, over 800 delegates from 50 countries gathered in San Francisco's Herbst Theatre to endorse the idea of a United Nations. Its Charter remains one of the abiding achievements of the 20th century, indeed any century, and its aim, set out forthrightly in its opening paragraphs was to harmonize the actions of nations through friendship, respect, justice and cooperation in the attainment of common ends.

The United Nations has over the intervening 75 years expanded its membership and mandate with an extended – though not always happy – family of institutions and agencies tasked with promoting the virtues of international cooperation. Time, however, has taken its toll on the multilateral project. Talk of a crisis is commonplace even as the need for global solutions to global problems has become more urgent than ever. A mixture of moral suasion, technical expertise and trust-building have been the principle levers for advancing the multilateral agenda, but in a world composed of unequal states, the actions and attitude of the most powerful matters a lot if international cooperation is to work at all.

Such actions had not worked out so well for the League of Nations. But by 1945 the United States was economically and politically in a position to assume a hegemonic role. It was also armed with an ideological vision that was neither wedded to a highly ideological notion of free trade, nor deeply rooted in the values of a colonial past. And the United States had already clipped the wings of its own financial class, tamed corporate power, and forged new relations with neighbouring countries.

The intellectual foundations of the New Deal, from its inception, was based on two basic ideas. Roosevelt defined interdependence, the first one, as "our mutual dependence one upon another – of individuals, of businesses, of industries, of towns, of villages of cities, of state, of nations". This notion was a close cousin to the second big idea behind the New Deal, social justice, and mutual responsibility within nations. At Bretton Woods, Roosevelt made clear that these ideas were ripe for extension to the international level:

> Economic diseases are highly communicable. It follows, therefore, that the economic health of every country is a proper matter of concern to all its neighbors, near and distant. Only through a dynamic and a soundly expanding world economy can the living standards of individual nations be advanced to levels which will permit a full realization of our hopes for the future.

And the following year in San Francisco, the link between economic interdependence, international peace and social justice became the basis on which the United Nations was established.

In practice, multilateralism in the three decades after San Francisco never lived up to the ideals of the New Deal. Managed capitalism coexisted with a persistent and widening technological divide between North and South, wasteful military spending under a tense East-West divide with proxy wars crippled economic prospects in many developing regions, colonialism and lingering racial prejudice, unequal trade relations that inhibited productive diversification in many countries, and carbon-heavy growth that was heedless of the environmental cost. Relying on the dollar to ensure financial stability was a sticking point at the Bretton Woods conference given its creditor bias and reliance on the US Federal Reserve to accommodate the financial needs of a growing global economy, in a context of strictly regulated capital flows and exchange rates. That role has been steadily augmented since the early 1970s but in the context of a much more volatile international financial environment dominated by massive private capital flows, where the Fed's actions carry greater spillover effects, particularly on developing countries.

Despite its faults, the core principles of Bretton Woods did provide a rough template for a more balanced form of economic development in an interdependent world and provided a platform for a new generation of leaders from the South to break the bondages of colonialism and strive for a more inclusive international economic order. Those efforts ended with the economic dislocations and debt crises of the 1970s and early 1980s. Over the last four decades interdependence has given way to hyperglobalisation as the guiding narrative of international relations, in which the territorial power of strong states has become intertwined with the extra-territorial power of footloose capital. From the perspective of the less powerful, this state of affairs is more a mercantilist jungle than the open plains on which friendship, respect, justice and cooperation can flourish. Multilateralism has struggled to adapt and reforms, while regularly promised, have been resisted by the strongest players.

Capture of state power was the essence of the mercantilist game that Smith railed against in *The Wealth of Nations*. He would be less than pleased to find it was still a threat to wellbeing in the 21st century and deeply perplexed to find this game now wrapped in the mantle of free trade, with his own name stamped on the lid. The answer to the puzzle lies, in part, with the way the language of "free trade" has been captured by big banks and multinational corporations to push for "deeper integration" that justifies efforts to rewrite the rules of standard-setting and intellectual property protection and reducing the regulatory reach and policy space available to democratically elected governments. All of this and more has been codified in bilateral, regional and multilateral treaties with disputes taken out of the hands of national jurisdictions.

The economic damages from rigging the rules of the game are not the end of the problem. The concentration of economic power is politically corrosive. National constitutions instruct legislatures to make and enforce the same rules for everyone, whether operating within or without a corporation. The response to the global financial crisis suggested otherwise; banks were bailed out and austerity hits jobs, wages and public services while financial asset holders made further gains from recovery. Trust in the structures designed to set policy priorities, manage trade-offs and mediate between different interests diminishes if political and economic connections favour one group over another.

Even so, 2015 was a good year for the international community. In September, the UN General Assembly unanimously endorsed an ambitious agenda of transformative change and a couple of months later a comprehensive programme to address climate change was adopted in Paris. But, with the rules of hyperglobalisation still firmly in place and even before the current crisis hit, both were facing severe head winds and were, on some assessments, already being blown off course.

The great escape, part 1: embrace bold ideas

The Covid-19 crisis is adding new threats and deepening existing fissures to an already anxious world. The damage will be severe, particularly in developing countries where fiscal space is being compressed under a mountain of unsustainable debt, the room for monetary policy is restricted by external pressures and the informal economy is unable to lift itself up by its own bootstraps. This crisis has shattered policy myths, to be sure. But it has also opened new horizons. The *Financial Times* has laid down the challenge with a call for radical reforms that reverse the prevailing policy direction of the last four decades:

> Governments will have to accept a more active role in the economy. They must see public services as investments rather than liabilities, and look for ways to make labour markets less insecure. Redistribution will again be on the agenda; the privileges of the elderly and wealthy in question. Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix.

The first thing to get right is avoiding the mistakes of the last crisis. That means maintaining an expansionary macroeconomic policy stance, appropriately balanced between its monetary and fiscal components, for as long as it takes the private sector to regain its confidence to spend, including, in particular, a strong investment drive. Avoiding a lost decade will require governments, particularly in the advanced countries, to stick to deficits for several years ahead.

A commitment to full employment in advanced economies and a targeted reduction in informal employment in developing countries should act as measures of policy ambition and success. A big public investment push will be needed with a variety of supportive policies used to complement expansionary measures including job guarantees and public works programmes. Tying these measures to a low-carbon future should be a given.

Central banks have, since the last crisis, moved away from a singular focus on inflation targeting into wide-ranging fire-fighting. This approach has continued in the current crisis with their direct lending to the private sector. Credit management will also need to get more nuanced; in terms of recovery, where possible, the real interest rate should be pushed further into negative territory, a measure that effectively cancels part of the principal of debt and, through this, stimulate firms, individuals and the government to borrow and spend. Central banks will also need to reassert their regulatory authority, including over the shadow banking system, to tame boom-bust credit cycles and broaden their financial risk horizon to include threats, such as climate change, from outside the financial system itself.

However, there is more to recovering better than getting macroeconomic policy right. Governments have broken important political taboos – debt in Germany, for example, but also tentative quantitative easing in some emerging economies – to keep things going during the lockdown and that same attitude will need to persist into the recovery and rebuilding stages. A focus on raising productivity growth will require various industrial and innovation policies, including more collaborative projects; as the response to develop a vaccine for Covid-19 demonstrates international cooperation can pay big dividends. But incomes policies that tie wages more closely to productivity and target, in particular, a boost to low incomes and active labour market policies that support job mobility can also be designed to boost productivity levels. Again, the need to make fighting climate change an intrinsic design feature of these measures needs little justification.

Intrusive trade rules, promoted under the banner of "deep integration", are a threat to recovery. A temporary "Peace Clause" in the WTO and in the FTAs on pandemic-related government actions would enable countries to quickly adopt and use emergency measures to overcome intellectual property, data, and informational barriers. A permanent standstill in all relevant fora on claims against government measures implemented in the context of Covid-19 would help create the necessary policy space to support recovery efforts. An immediate moratorium on ISDS cases by international corporations against governments using cross-border investment treaties, and a permanent restriction on all Covid-19 related claims, are also needed. New issues, such as digital rules which are being negotiated by a group of countries under Joint Statement Initiative, should not be multilateralised until their development dimension is thoroughly discussed in the appropriate independent fora, such as UNCTAD, and a consensus reached.

Moving forward, concluding the Doha Development Agenda would be a way to restore trust in the trading system with a commitment to special and differential treatment as a prerequisite for ensuring a fair outcome. The Covid-19 crisis has, moreover, highlighted the need for more resilient production systems and a degree of "strategic autonomy" within the international division of labour; that can only happen if countries have the policy space to diversify their economies and add domestic value.

Given the serious tensions hampering the workings of the international trading system, now would be a good time to establish an independent commission to examine whether the WTO`s 25 year negotiating record has fulfilled the principles of the Marrakesh Agreement. The preamble to this agreement, which laid the basis for the WTO's creation in 1995, bears the unmistakable signs of a pact as yet unfulfilled. It speaks of "ensuring full employment", and "a large and steadily growing volume of real income and effective demand", and the importance of "sustainable development" consistent with different levels of development. It is time to reflect on whether the world has lived up to those ideals.

Strengthening the tax base is a necessary condition for expanding fiscal space. Measures that successfully raise wages will automatically boost tax revenues but even a small change in higher income and corporate tax brackets can generate significant gains, not only in advanced economies. In light of the further increase in inequality resulting from this crisis the case for a wealth tax seems irrefutable. Still, the timing of changes in tax codes will be important and should reflect local circumstances. Other taxes and subsidies need also to be re-visited, including the trillions of dollars devoted to subsidizing fossil fuels and industrial farming. For developing countries, in particular, the challenge of expanding fiscal space will require concerted international support.

In the short-run alleviating balance of payment pressures through a large allocation of SDRs is the most feasible and least burdensome option; UNCTAD has proposed anywhere from 1 to 3 trillion depending on whether or not revisions in the allocation are also made to facilitate political agreement. In addition, debt moratoria and short-term debt relief are essential to avoid liquidity crises turning into serial solvency crises. The G20 Debt payment suspension initiative (DSSI), currently underway, while providing welcome breathing space to just over 40 of the 73 eligible countries that have so far signed up to it, is likely too little and too short.

Further measures will be required to bring on board private as well as multilateral creditors, to broaden the scope of such initiatives to a wider range of countries in need at their request and to extend their duration, as well as to move from debt moratoria to debt relief where required. Given the wide reach of private credit rating agencies and their decisive role in either facilitating or hampering progress on debt moratoria and relief, the time has come to proactively engage with the establishment of a publicly controlled credit rating agency.

Boosting international liquidity will only be partially effective if international financial markets are left unregulated. Volatile international capital flows generate cycles that increase the financial fragility of receiving countries, especially in the developing world. Insulating measures, including capital controls, will need to be country specific, determined by the nature and degree of a country's financial openness and by the institutional set-up of its financial system. To enhance the effectiveness of these domestic policies, capital-account management should be kept out of the purview of regional and bilateral trade and investment agreements. Moreover, capital controls will be most effective if capital flows are controlled at both ends, i.e. in both sending and receiving countries.

The great escape, part 2: reform the global architecture

These measures which are aimed at relief and kick-starting recovery harbour deeper reforms in the multilateral architecture that will be needed to sustain recovery and build resilience.

Reining in corporate power is a prerequisite for recovering better. Anti-trust measures are now very much on the agenda at the national and regional levels. But existing multilateral agreements such as the UN`s Equitable Principles and Rules for the Control of Restrictive Business Practices adopted by the General Assembly in 1980, should be strengthened and operationalised with appropriate institutional support such as a global competition authority. Additional actions, made more urgent by the current crisis, regarding the price gauging, patent abuse and other anti-competitive practices of pharmaceutical giants and digital platforms, are warranted to ensure the recovery is both fair and resilient.

Clamping down on corporate tax avoidance and evasion and other forms of illicit financial flows can help both to expand fiscal space and address the inequality challenge. Recent estimates suggest that revenue losses, caused by tax-motivated illicit financial flows (IFFs) alone, are in the range of $49-$193 billion, accounting for 2.3 per cent of combined GDPs, respectively, in Latin America and the Caribbean and in Africa. Multilateral efforts towards reforming international corporate taxation require new energy, beginning with a much more concerted effort to clamp down on tax havens in the North, establishing a global asset registry to enable wealth taxes on the super-rich and moving to a unitary taxation system that recognizes that the profits of international corporations are generated collectively at the group level.

Sustainable financing will require vibrant public financing options. At the international level, that means boosting the lending capacity of multilateral development banks. This new lending could come from existing shareholders redirecting environmentally damaging subsidies, for example for fossil fuels and industrial agriculture, to the capital base of these institutions, or from more innovative sources, such as a financial transaction tax, and augmented by borrowing on international capital markets, with a measured relaxing of their fidelity to financial sobriety. In return, these institutions should reassess their policy conditionalities in line with a more sustainable and inclusive development agenda.

At the national and regional level, public and development banks also need more support, with governments wholehearted in their mandates and allowing their banks to lend beyond the extremely narrow parameters of triple-A ratings by the world's big rating agencies. The dual-sized role of credit rating agencies' as both player and umpire in the markets needs also to be revisited, given their impact on banks' abilities to raise capital for further lending.

A Marshall Plan for global health recovery could provide a more dedicated framework for building future resilience. But it should take its namesake seriously. In the first place that means being generous. If the donor community met the 0.7% Official Development Assistance (ODA) target for the next two years that would generate something in the order of $380bn above current commitments. An additional $220bn mobilised by the network of multilateral and regional financing institutions could complete a $600bn support package over the next 18 to 20 months. The money should be dispersed largely as grants but with some room for zero interest loans, the precise mixture determined as the emergency response evolves. Finally, given the multi-faceted nature of the recovery effort, a dedicated agency, drawing, like the Marshall Plan, on the personnel of existing agencies as well as from the private sector, with local expertise and coordination involved from the outset. Much like the original, a central financing and oversight agency linked to national public agencies through a regional coordination mechanism remains a model to follow.

Finally, a global sovereign debt authority, independent of either (institutional or private) creditor or debtor interests, should be established to address the manifold flaws in the current handling of sovereign debt restructurings. The Covid-19 crisis, and the stumbling efforts by the international community to agree emergency debt suspension and relief measures, have, yet again, put a glaring spotlight on the crippling fragmentation and complexity of existing procedures, the potentially extraordinary powers of hold-out creditors to sabotage restructurings, and the resultant inefficacy of crisis resolutions.

At a minimum, such an authority should provide coherent frameworks and guidelines to facilitate automatic and comprehensive temporary standstills in recognised disaster situations, ensure that long-term developmental needs, including meeting the 2030 Agenda, are systematically taken into account in debt sustainability assessments, and provide an independent forum for expert advice to governments requesting this. In the longer run, it should provide a blueprint for a comprehensive reform of current sovereign debt workout mechanisms to balance creditor and debtor interests fairly, close loopholes for hold-out creditors, and prioritize the long-term collective interests of the many over the short-term financial rewards of the few.

Conclusion

For all its destruction of human and economic life, the novel coronavirus has created an opportunity for lasting change, in part because it has laid bare the shortcomings of the world that existed well before this pathogen made its way around the world. The financial crisis a decade ago did the same, but the world did not rise to the challenge, and we were still living with the vestiges of that failure when the virus leapt from animal to human in late 2019. Now the problems are, if anything, larger. But the intellectual environment around them is much more vibrant, and the political will to attack them shows some promising signs of life. There is reason for hope but not for complacency.