

The Post-Covid 19 crisis is a once-in-a-lifetime opportunity

Carlota Perez – July 25, 2020 - continuing on my blog in March

Pundits and political leaders alike, after the initial surprise – and having been caught off base by the Covid-19 pandemic – started to reach for references in an attempt to cope with the situation. Comparisons to the aftermath of WWII and the Marshall Plan have become common. To be sure, the orders of magnitude are entirely different. But the pattern and the occasion show decisive similarities. In both cases, the historical moment is an inflection point in the middle of a technological revolution (the mass production revolution then; the ICT revolution now), between a first traumatic phase of installation of a new set of technologies, and a second phase of deployment when the benefits reach broader sectors of society. This turning point is usually a financial crash followed by a major crisis. Four months into the Covid-19 pandemic, the ensuing worldwide recession has been so far the biggest since the Great Depression of the 1930s. For those thinking the worst is over, signs are that we may only be at the end of the beginning.

Other parallels with the WWII aftermath are visible. First, governments are now seen as leaders and saviours. From financial bailouts, to pandemic response, to finding a new framework for production and redefining globalization, government will morph – once more – from being ‘the problem’ to becoming the solution. The consequences of the pandemic will however open an opportunity for renewal of a system that seems to have reached its limits, leading from a material, energy and waste-intensive mass production economy to a smart, sustainable and green way of life, using and shaping the ICT revolution. The experience of production and mobilisation in an emergency, and the collective feeling of “everyone being in this together” are likely to create a spirit of more solidarity and social awareness, locally and globally.

What is most interesting is that, whether invoking historical parallels or not, a consensus is emerging around the role of the pandemic experience in requiring a socially and environmentally friendly reset of the system.

A lens that revealed the truth behind appearances: a call to action

The spread of Covid-19 has revealed the fault lines of the system. The 2000s had seen the beginnings of the “gig economy” as a sort of panacea against stagnation. From then on, governments held on to the illusion of “full employment”, while in fact presiding over the creation of a new precariat. Under the big global lockdown, those service jobs that were less regarded and badly paid proved to be essential to keep society running: nurses, cleaning and maintenance personnel, supermarket clerks, deliverers, bus drivers...and last but not least, immigrant labourers. It showed that they deserve not only to be fairly paid but to enjoy more social respect.

It has also become evident that the Welfare State, designed for the mass production society, needs a swift upgrade for the new digital and post-pandemic era. The economy arising from it is increasingly made up of gig jobs, zero-hours contracts, self-employed and freelance workers and professionals, and a workforce deskilled by the new technologies looking for alternative work. Some sort of practical, non-bureaucratic and transparent Universal Basic Income for all would be more appropriate to the new times, and if we had had it during the pandemic, it would have feathered out a great deal of the economic downturn

without creating new debt. Higher earners would return it in taxes and those in need would receive it as citizens, as a protective cushion to help them run their active lives, rather than as a demeaning welfare handout.

It is often said, rightly, that “You don’t get out of debt by saving”. The austerity measures, as implemented after the Great Recession of 2008, rather than overcoming the debt, dried out economies, hollowing out institutions and educational and health systems in many places. The latter became conspicuously clear during the outbreak of Covid-19 in Europe and the US. While those public instances on which the baseline for wellbeing rests need to be thought anew and funded correspondingly, the real solution to job creation is a combination of lifestyle changes and the new smart green economy. So, more than an unprecedented rescue package, post-Covid must be about new wealth creation, about socially and environmentally sustainable growth.

Our tax systems also need a complete makeover. The nature of today’s economy is entirely different from the economy that led to our current taxation system. We need to shift emphasis from taxes on payroll and income, to materials, energy, transportation, pollution, and decisively important, taxes on financial transactions, speculative gains, high-frequency trading and wealth.

When business is in trouble, it seeks government support. But not only does it get generous bailouts, as it happened after the 2008 derivative crash and the current Covid-19 crisis. Taxpayer money also goes to government research and development projects that ultimately benefit the private sector without it having to carry the risks. It is therefore unethical when those companies in turn reach out for loopholes and tax havens to avoid giving back to society the part that made their wealth possible. Some even used the bailout money to pay out dividends or buy back their own shares.

The truth is that government has always been the main part of the equation. What changes with the wind of times is who benefits. Since the Reagan/Thatcher era, the playing field was tilted in favour of finance and the free flow of capital. As happened in previous technological revolutions, now comes the time for production and the real economy. We need to guarantee fair tax contribution, upholding the legitimacy of such an expectation, because it is the duty of every citizen or corporation, and closing the loopholes that enable avoidance and evasion. In spite of Milton Friedman’s harsh dictum that the only responsibility of business is to maximize profits for its stockholders, it is being increasingly understood today that, to be legitimate, capitalism must benefit all the stakeholders.

The frailty of globalization uncovered

Covid-19 has also exposed the downsides of globalization. When, from the 1980s, maturing industries were looking to rescue falling profit margins with low wage labour and to revive saturated markets with new ones, they were able to use computers and telecommunications to massively offshore manufacture. The cost and demand advantages in emerging countries also led them to accept doubtful human rights conditions and even intellectual property loss. Relying solely on one or a few supplier countries, with a different understanding of the rule of law or international agreements, as well as the dependence on long supply chains for crucial items, like PPE and some foods, has proven to be a weak link during the pandemic. This revealed a security flaw that has to be addressed and both business and government will have to rethink these issues.

But calls to de-globalise forget that globalisation is natural to internet. Furthermore, the possibilities for full global development are within the potential of the ICT revolution, which is by now fully established and waiting to be deployed. Instead of rejecting it, we need to reshape it intelligently for the benefit of

all. We must give it a new direction that is fair, inclusive, resilient and based on a win-win game between advanced, emerging and less developed countries as well as, within each country, between business and society. With a technology that does not recognise frontiers, attempts at deglobalising will not take us very far. However, Covid-19 has highlighted the need in today's global economy for greater resilience and strategic production relocation. It may well be that taxing transportation will incentivise a change in this direction.

As we move to overcome the pandemic, we will learn new digital savvy and environmentally friendly behaviours. Telecommuting, still an occasional occurrence in pre Covid-19 times, has become familiar to most of us and unlikely to be thought away. We got used not only to working from home or holding meetings over Zoom, but even to dating friends to have a drink... remotely. This will reduce trips to work, to friends and family meetings, and going abroad for business. Remote teaching has been the tool implemented during the lockdown to keep children on top of their school program and it will surely gain importance to give access to education more widely. We might finally adopt the long touted 'flipping of the classroom', where pupils attend lectures at home online and then go to school to do the homework, ask the questions, interact in project teams, and so on, with the teacher as facilitator. The joy of traffic-less cities with no pollution will not be forgotten; it might make bold 'green' policies and regulations more acceptable to the public. The experience of the pandemic and the awareness of the environmental threats will progressively alter settlement patterns which aren't yet clear.

An institutional opportunity

With Covid-19 our governments, economies and societies, have revealed themselves as surprisingly unfit for emergencies, precisely in an age where we all talk about "uncertainty" and "resilience." Climate change seems to be more dramatic than expected, leaving almost no hope of mild outcomes. Pandemics are likely to return and the many catastrophic consequences of reaching the environmental limits will entail life threatening situations and enormous costs. Since new organisations and behaviours will have to be set up for the pandemic and may persist when it is over, they can become an opportunity for institutional improvement. Incorporating highly skilled people for Covid needs may create challenging and exciting jobs in government for future ambitious projects. These are times for institutional innovation.

As stated before, the ICT revolution is already installed and waiting to be deployed. The young and educated, and also the elites, have already adopted the new lifestyles in many aspects. A growing awareness of environmental issues is palpable, and changes in consumer patterns already show: the young increasingly prefer to share, to be creative and to have experiences, rather than to dream of accumulating possessions. We interact now more and more in horizontal structures that require individual agency rather than in pyramidal hierarchies that demand obedience. The elements to move towards an economy of services rather than goods, efficient in energy and materials use, are already there. Above all, it is time to set up consensus building institutions that enable the unfolding of a new digital, green and sustainable potential. They will deliver the platform on top of which citizens, organisations and businesses will develop the myriad of manifestations of a new kind of global growth.

The consensus on the necessary direction of change has been growing. The post-Covid-19 reconstruction is the opportunity to act. We should not let it go unused.