The Global Economy In The Age Of The Pandemic And Beyond: An Interview With Political Economists Gerald Epstein And Robert Pollin

The global economy experienced a massive contraction in 2020, with the overall global GDP falling by 4.3 percent. Compare that with the 2008 global financial crisis, which triggered a 1.8 drop in global output in 2009, and it's bluntly clear why the Organization for Economic Cooperation and Development (OECD) called the global recession triggered by the pandemic "unprecedented in recent history." Moreover, the World Bank sees a subdued recovery in 2021, while noting simultaneously that "if history is any guide, the global economy is heading for a decade of growth disappointments unless policy makers put in place comprehensive reforms." In addition, there are stern warnings from major establishment institutions about the impact of climate change on financial and economic activity that makes one wonder what the future holds for global development and prosperity.

With the above in mind, one needs to ask the following: Why did the ramifications of the CPVID-19 pandemic end up being so great and with far wider reaching effects than any other previous recession? Indeed, in what ways did the pandemic change the world? Moreover, did policymakers utilize all of the tools available to them to diminish the scope of the recession? And what should be done to ensure that economic recovery is steady and sustainable in the post-pandemic era?

In an interview below with C. J. Polychroniou, leading political economists Gerald Epstein and Robert Pollin shed considerable light on the above questions. Gerald Epstein is Professor of Economics and Co-Director of the Political Economy Institute at the University of Massachusetts at Amherst; Robert Pollin is

Distinguished Professor of Economics and Co-Director of the Political Economy Institute at the University of Massachusetts at Amherst.

C. J. Polychroniou: The outbreak of the coronavirus pandemic caused a massive contraction of global economic activity. In what ways is the Covid-19 induced recession different from previous ones, including the 2008 global financial crisis, and how did it change the world?

Prof.dr. Robert Pollin

Robert Pollin: If we consider the roughly 90-year period from the 1929 Wall Street collapse to the present, it is certainly the case that our current COVID-19-induced recession has been unique. To begin with, it is the only recession that was caused by a public health pandemic. Of course, previous recessions did also have triggering events—for example, the collapse of speculative financial bubbles both in 1929 and 2007 and the near-doubling of global oil prices both in 1973 and again in 1979. But these previous economic "shocks" were occurring within the operations of the economic system, not the public health system.

The public health shock in 2020 produced a cascade of other impacts that were also unique. One was that the speed and intensity of the economic downturn was unprecedented, even relative to the months immediately after the October 1929 Wall Street crash, which ushered in the 1930s Great Depression. Focusing for the moment on the United States, the number of people who lost their jobs and filed for unemployment insurance went from 256,000 in the week of March 14, 2020 to 2.9 million, the following week of March 21, an 11-fold increase. Two weeks later, in the week of April 4, the number of people filing for unemployment insurance spiked still higher, to 6.1million people. That was a 24-fold increase in the three-week period between mid-March and early April. Over the full year since the onset of the pandemic, 78 million people have applied to receive unemployment insurance. That is approximately half of the entire U.S. workforce. Moreover, these figures do not include the millions of people who lost their jobs but did not either qualify for unemployment insurance, or didn't apply for whatever reason. It also doesn't take account of the 8 million people who dropped out of the labor force within a matter of two months only, between February and April 2020. Remember that the U.S. experienced this magnitude of job losses over the year since the COVID outbreak despite the federal government mounting stimulus programs in March and December of 2020 amounting to about $3 trillion (14 percent of U.S. GDP) and the Federal Reserve bailing out Wall Street with another $3 trillion in bond purchases.

The European economies did not experience such severe spikes in unemployment. For the 27-country European Union, unemployment did rise, but only from 6.5 percent in February 2020 to a peak of 7.8 percent in September, before returning to 7.3 percent as of January 2021. This is despite the fact that the collapse in economic activity (as measured by GDP) was nearly as bad. Job losses weren't as severe in Europe because several of the countries, including Germany, the UK, Ireland, and Denmark operated with work-sharing programs. With work sharing, workers are able to retain their jobs, while moving onto part-time schedules consistent with the decline in their employers' revenue. For example, if the restaurant industry experienced a 36 percent decline in revenue, the businesses did not lay off 36 percent, or thereabouts, of its work force. It rather retained its workforce, but moved the workers onto roughly two-thirds time schedules. The employers then paid workers for two-thirds of their normal pay, while the government work-sharing program covered the remaining one-third. Congresswoman Pramila Jayapal, the head of the House Democratic Caucus, proposed such a program for the U.S., but her proposal went nowhere.

Latin America, sub-Saharan Africa, and India all experienced severe economic collapse during 2020. The expectation is that their recoveries will be slow and halting. This is first of all because, unlike the U.S. or Europe they don't have the financial resources to mount major economic stimulus programs. They also haven't been provided supplies of COVID vaccines at anywhere near the rate as the U.S. or even most of Europe. This is due to the pharmaceutical multinationals hoarding their vaccine patents rather than pushing out the vaccines as quickly as possible to all regions of the world, regardless of any country's capacity to pay for them.

How long it will take to move the global economy onto a sustainable recovery path will depend, first of all, on how quickly inoculations become universal. Right now, it’s clear that protecting the profits of the pharma multinationals is taking priority over the health of the global population and an economic recovery.

C. J. Polychroniou: There is broad consensus that central banks can play a crucial role in supporting economic recovery. Did central banks respond to the Covid-19 pandemic as effectively as they could have? In other words, did they exhaust all of the available policy tools? And, if so, do they need new ones to combat the next economic downturn?

Prof.dr. Gerald Epstein

Gerald Epstein: The Covid-19 pandemic has had devastating impacts on the lives and livelihoods of millions of people around the globe. But for the wealthy, and for finance in particular, things have been mostly just fine.

The clearest picture of this contrast appears if one juxtaposes the global unemployment rate with the stock market we have experienced since the outbreak began in February 2020. As the pandemic took off in the Spring of 2020, global stock markets first crashed, and then, by the summer, started their gravity defying ascent. Meanwhile, the global deaths from the pandemic (or unemployment) have jumped and kept growing.

What accounts for this grotesque divergence? One key explanation is the massive financial intervention undertaken by the Federal Reserve (Fed), European Central Bank (ECB), Bank of England (BOE), and other central banks around the globe. When the pandemic first spread to Italy and then was announced by the World

Health Organization (WHO) in February/March, panic gripped the global financial markets and these financial authorities immediately and massively stepped in. This enormous intervention led to a quick and remarkable recovery in global financial market activity and re-energized the “animal spirits” of stock market investors. But these interventions were much less favorable to workers, small businesses, and state and local/municipal governments, who were either more slowly helped by central government programs (in some countries) or not much at all (in others).

The intervention by the world’s major central banks was swift and powerful, much more so than with the Global Financial Crisis of 2007. In late January, 2020, word spread that the Covid-19 epidemic broke out into the open in Wuhan China, but it wasn’t until early February that it was clear that the virus was going to spread beyond China. On February 21, 2020, Italy announced a lockdown in the northern part of the country and then the global financial markets began to fall, and panic soon ensued. Immediately there was a flight to safety, with banks, hedge funds, stock market investors and others selling off their financial assets and buying “safe assets” notably US Treasury securities, German government securities (bunds) and the like. But when price movements and costs in these usually “safe” assets began to go haywire, financial institutions and wealthy investors began a desperate search for cash, in which they tried to liquidate these safe assets and bought the shortest term government assets and held cash assets in major banks. During this period, the corporate bond market experienced major distress as investors worried about the shut-down effects on corporate profits and cash flow, and the ratings agencies began downgrading these corporate securities. In the US, the municipal bond markets were also hit hard around the same time. In turn, the Fed, Bank of England (BOE) and the European Central Bank (ECB) massively intervened in financial markets, lowering interest rates close to zero, buying trillions of dollars of government bonds and other financial assets, and then creating special lending facilities to prevent bankruptcies, liquidity crises and asset fire sales in various financial markets around the world. In the Covid Panic, the Federal Reserve and other major central banks used many of the same tools during the Covid Crisis, as they had used to stabilize and bail-out the financial markets during the GFC, but they also created some new facilities to deal with problems in the financial markets.

Early on, the Fed moved into uncharted territories, attempting to bail-out the corporate bond markets, including junk bonds, where prices were falling and liquidity was drying up. The Fed also established a special facility to help corporations secure loans as their revenues were drying up in another action to serve as an International Lender of Last Resort, through various international lending facilities for the US dollar.

The Fed then broadened beyond the financial markets per se. On April 9th, the Fed, with capital infusions from the Treasury Department, established new facilities designed to help a variety of other economic sectors and groups. These included, the Paycheck Protection Program Liquidity Facility, the Main Street Lending Facility, the Municipal Liquidity Facility; and at this same time, the Fed expanded the amount and duration of several previously created facilities. Over the next several months, through the Summer of 2020, the Fed expanded on a number of these facilities, and loosened various restrictions and requirements as Congress and various groups pushed from broader access.

As an overall summary assessment of the Fed's response, it is important to note that the policies that were oriented toward supporting the financial institutions, corporate bond issues and buyers, and the financial markets more generally were much larger and operated much more smoothly than did the special facilities oriented to small business, workers, and state and local governments. Part of this divergence may be due to the novelty of these latter facilities. But the problems also stemmed from the restrictions and administrative structures connected to some of these facilities. Take for example the Municipal Liquidity Facility, designed to offer credit for cash strapped state and local governments. This facility was established with paid up capital from the Treasury and with authorization to lend up to $450 billion to state and local governments. Yet, only around $6 billion was borrowed. The main reasons this facility was so under-utilized was that the interest rate charged by the Fed for borrowing was too high for most borrowers and the term of the loan was typically too short to make the borrowing worthwhile. It was almost as if the facility were designed to be underused.

Perhaps the most important initiative taken by the Fed and other central banks in terms of their positive impacts on the majority of people was the financial support given to the large government spending programs that have helped to cushion the devastating blows of the Coronavirus and shutdowns. By keeping interest rates low and buying government bonds, the Federal Reserve has reduced the burden of government debt and reduced the stresses associated with large scale government spending and borrowing. So while many of the Fed's actions simply propped up the financial markets and the risky activities of major financial institutions, the support of fiscal spending by governments has been very productive.

Financiers and some economists have decried the "threat to Central Bank independence" they believe such fiscal support entails. But what they are really worried about is that the central banks are supporting the needs of the broader economy, rather than the Wall Streets of the world, which is what the typical "independent" *central bank is wont to do.*

C. J. Polychroniou: US-China trade relations experienced much turmoil during the Trump presidency. Can we estimate what has been the impact of the US-China war trade on global growth, and whether we will see a positive turnaround with Biden in the White House?

Robert Pollin: I think it is more constructive to think about US-China trade relations from a different starting point. In my view, the first question to ask is why, for the past 40 years, China has been enormously successful in exporting manufactured products to the high-income countries? The main reason is straightforward: they are producing goods that people in high-income countries want to buy. This is due both to the combination of relatively low cost and high quality of Chinese manufactured goods.

Moreover, whatever else one might say, good or bad, about China's success as an export powerhouse since the early 1980s (and there are lots of good and bad things to say), we need to recognize that it has been the single most important factor lifting more people out of destitution than any other event in human history. Thus, as of 1975, average per capita income in China was $323 (expressed in 2019 U.S. dollars). That is equal to 88 cents per day. By 2019, average per capita income had risen to $9,783, or $26.80 per day. This is a 30-fold increase in average living standards for a population of 1.4 billion people, 18 percent of the world's population.

By now, it should also be clear that China isn't just selling t-shirts, toys and kitchenware to the high-income countries. We now have the spectacular case of

Chinese solar panel production. Just since 2010, the average global cost of generating electricity from solar photovoltaic panels has fallen by 82 percent, from 38 to 7 cents per kilowatt hour. This is due almost entirely to innovations in China's solar manufacturing industry.

China's success as an exporter is largely the result of the aggressive industrial policies to which they have been committed, including government subsidies for exporting firms as well as heavy commitments to research and development. China does also keep labor costs low through aggressive repression of an independent labor movement. But China's economy could now flourish on a foundation of rising wages and living standards for the working class. The country would then depend increasingly on the expansion of its own domestic markets as opposed to remaining so heavily dependent on exports. Transitioning China into a higher-wage economy will then also lead to relaxed trade tensions with the US and other high-income countries.

That said, if the US under Biden wants to start vying with China to produce more efficient and cheaper solar panels, I say let the competition begin. In terms of advancing a viable global climate stabilization project, in which we, first and foremost, stop burning oil, coal and natural gas to produce energy and build a renewable energy-dominant global energy infrastructure, there is nothing that could be more beneficial than to deliver solar energy that is universally cheap and abundant, *whether the panels are produced in China, the US or elsewhere.*

C. J. Polychroniou: A few months ago, the Commodity Futures Trading Commission issued a report titled "Managing Climate Risk in the U.S. Financial System", in which it states that "climate change poses a major risk to the stability of the US financial system and to its ability to sustain the American economy." A similar report issued by the Bank of England, titled "Climate change: what are the risk to financial stability?", also sent stern warning to policymakers on the impact of climate change on the financial system, especially on the banking and insurance sectors. Furthermore, Governor Lael Brainard of the Federal Reserve Board, in a speech titled "Why climate Change Matters for Monetary Policy and Financial Stability", made also a few months ago, even warned about the implications of climate change on monetary policy.

With the above in mind, firstly, what exactly is the relationship between climate change, financial stability, and monetary policy, and, secondly, what are the specific risks that climate change poses to global banking and the financial system?

Gerald Epstein: The fact that major central banks and other financial regulatory agencies are finally paying some attention to the climate emergency is both welcome and profoundly troubling. It is welcome, of course, because these institutions have enormous power to help address the climate crisis that humanity faces. It is profoundly troubling for at least two reasons: first, because it is so late in the game. The United Nations' Rio Earth Summit was held in 1992, and it has taken almost thirty years for these central banks and other financial institutions to engage with this existential threat. And, second, it is troubling because, so far at least, the central banks' approach to the problem is so narrow and so limited. As your question indicates, the Bank of England's (BOE), European Central Bank (ECB's) and Federal Reserve's (Fed's) focus, thus far, has been on the impacts of climate change on financial stability – period. They have not expressed an explicit concern for the many other economic aspects which climate change is likely to impact and which are actually under their purview: fundamental macroeconomic issues such as unemployment, inflation and economic growth. As Bob Pollin has explained and elaborated in great detail in his work, climate change, if left to itself, will cause enormous economic damage – droughts will lead to famines; rising sea waters will flood coastal cities; forest fires will worsen; extreme weather will get more frequent and more extreme.

It is profoundly naïve, if not malpractice, for central bankers to act as if they believe that these disruptions will not impact inflation (think food shortages) or unemployment (think hurricanes, forest fires, water shortage and coastal flooding), or reduce economic growth (all of the above). The mandate of the European Central Bank is to control inflation. The mandate for the Federal Reserve to maintain price stability and high employment, along with a concern for financial stability. The Bank of England also has multiple objectives in its mandate.

Thus, it seems almost disingenuous for the central banks to suggest that the only climate related concern they might have is to monitor its impact on financial risk. Having said that, there are significant financial risks that can come from the climate crisis. The first comes from issues I have already mentioned and impact the insurance companies. Fires, coastal flooding, hurricane all damage property. If insurance companies don't properly price and ration their insurance in the face of these risks, then they could be hit by significant shocks. This is made more likely by the fact that there is so much uncertainty surrounding the impacts of climate change on these factors. Second, bank lending and investments in areas impacted by climate change, and other financial bets that banks place in these sectors, such as those associated with derivatives and other complex asset structures, are subject to these risks. And finally, there are the risks associated with investing in and lending to the fossil fuel companies, whose prospects are likely to be limited by government policies designed to keep these fuels "in the ground" thereby creating trillions of dollars of "stranded assets."

Just as central banks and other financial regulators are supposed to monitor banks and other financial institutions for the risks embedded in their balance sheets from, for example the business cycle ("macro-prudential" risks), so they should try to assess the risks associated with climate change, which is a fact of life probably even more destructive than the business cycle.

And just as central banks have the authority to require that banks raise more capital to hold against their business cycle risk, they should have the authority to raise capital against climate related risks connected to the companies or geographical locations they lend to. In fact, in line with international practices (the so-called Basel Accords) it would make sense to require higher capital ratios for bank lending to fossil fuel companies considering the major global macroeconomic risks and costs they are imposing.

In addition, the ECB has been criticized by Greenpeace and other groups for buying financial assets issued by fossil fuel related companies. Subsidizing such companies by buying their assets is moving in exactly the wrong macroeconomic direction. Central banks should be going in the other direction. Bob Pollin and others have proposed that central banks buy "Green Bonds" to help finance the green transition rather than "Brown Bonds" that finance destructive climate change.

Will central banks do more? It's hard to say. It is not just inertia that is holding back the central banks. The fossil fuel companies and their political supporters are launching counterattacks against "green" efforts by central banks and other financial institutions, weak as they are. When some large US banks, under pressure from environmental groups, pledged to reduce their lending to fossil fuel companies, the Trump appointed Acting Chair of the Office of the Comptroller of the Currency (OCC) proposed a new rule that states that "decisions by banks to not serve a specific customer should be based on individual risks, rather than a categorical exclusion." It is calling the new rule to protect fossil fuel companies as "a measure to ensure fair access to financing" (Rachel Frazin, The Hill, 11/20/20). Along the same lines, Energy Secretary Dan Brouillete compared some banks refusal to finance Arctic drilling to "redlining", a practice that banks widely used to write mortgages for African Americans (ibid). When the Federal Reserve decided to join a consortium of central bankers working on climate change issues, the "Network for Greening the Financial System (NGFS) which includes 75 central banks, worldwide, 47 Republican lawmakers wrote a letter to the Fed condemning their decision. (Frazin, The Hill, 12/10/20). They also opposed the Fed using "stress tests" that include climate risks facing banks.

Similar opposition has come in response to the proposed actions by the ECB to consider refraining bond purchases from fossil fuel companies. Jens Weidman, head of Germany's central bank wrote that "it is not up to us to correct market distortions and political actions or omissions". (Martin Arnold, Financial Times, December 15, 2020).

In short, the central banks of the world, especially the Federal Reserve and other rich country central banks that issue global hard currencies, must do more to help reduce the greatest macroeconomic threat our countries and the world face. Limiting their focus to "identifying" "financial stability threats" though a tiny step in the right direction, is ultimately just a face-saving cover for failure to address the politically controversial macroeconomic crisis we face from the climate emergency.

C. J. Polychroniou: A Global Green New Deal is an economic policy strategy that, according to its advocates, can ensure not simply economic recovery but secure prospects for the emergence of an environmentally sustainable and equitable global economy. Bob, you have been at the forefront of the struggle for the transition to a green economy for more than a decade, and have produced scores of commissioned studies on the Green New Deal for various states in the US and countries around the world, so I have to ask you this two-fold question: what are the tangible benefits of the Global Green New Deal for economic development and prosperity, and what's holding us back from moving away from the fossil fuel economy?

Robert Pollin: The Global Green New Deal first of all means building a new global energy infrastructure on the foundation of high efficiency and clean renewable energy sources, such as the low-cost solar panels now coming out of China. This will create an opportunity to drive carbon dioxide emissions down to zero, which is the first necessary step towards moving onto a viable climate stabilization path. Investing to build the new clean energy infrastructure will, in turn, be a major source of job creation in all regions of the world. It will also mean cheaper energy everywhere. Raising efficiency standards by definition means that it takes less energy to, say, heat, light, and cool buildings or to commute to work or school. We have seen how cheap solar energy has become over the past decade (thanks to China), with the prospects favorable for still more significant cost reductions forthcoming. This will make solar energy much cheaper than fossil fuels, even without factoring in any subsidies, or the benefits of climate stabilization and cleaner air.

The first thing holding us back from advancing the Global Green New Deal is the most obvious. That is the losses that would be faced by the fossil fuel companies. According to the most recent careful work by Tyler Hansen, fossil fuel companies would lose about $13 – $15 trillion through not being able to sell the oil, natural gas and coal that they own and plan to sell at a profit.[1] Of that total, about $3 trillion in losses would be absorbed by private corporations like Exxon/Mobil, Royal Dutch Shell, and British Petroleum, while publicly-owned, government-run companies, like Saudi Aramco, Gazprom in Russia, Petroleos de Venezuela and Petrobras in Brazil would absorb the other $10 trillion in losses. It is critical to recognize here that while $13 trillion in losses sounds astronomically large, it is actually quite manageable within the context of the overall global financial market. Assume that these fossil fuel assets decline to zero value over the next 20 years. That means average overall losses of $650 billion per year for all the public and private companies. These losses would be occurring within the framework of a global financial market whose total assets amounted to $317 trillion as of 2019. The annual average losses from phasing out the fossil fuel industry would therefore equal about 0.2 percent of the overall market in its current size.

The other thing holding back the Global Green New Deal is the impact that this program would have on workers and communities that are now dependent on the fossil fuel industry. The losses for these specific workers and communities will be real and significant. We should therefore not be surprised that, for the most part, they are resistant to change. The only solution here is to insist that these workers and communities are provided with generous transition support as the fossil fuel industry phases out. For workers, this means that their pensions will be guaranteed, and they will have the right to a new job at their existing pay levels. As needed, they should also be provided with retraining and relocation support. For the communities, it means investments in reclaiming and repurposing the land now used for fossil fuel extraction and production. Locating new clean energy investment projects in these fossil fuel-dependent regions is one important opportunity that will become increasingly available as the Global Green New Deal advances.

Note:
[1] Tyler Hansen (2021) "*Stranded Assets and Reduced Profits: Analyzing the Economic Underpinnings of the Fossil Fuel Industry's Resistance to Climate Stabilization,*" manuscript in progress, Department of Economics, University of Massachusetts Amherst.

C. J. Polychroniou *is a political scientist/political economist who has taught at numerous universities in Europe and the United States and has also worked at various research centers. He holds a PhD in Political Science from the University of Delaware and is author/editor of several books, including Marxist Perspectives on Imperialism (1991), Perspectives and Issues in International Political Economy (1992), Socialism: Crisis and Renewal (1993), Discourse on Globalization and Democracy: Conversations With Leading Scholars of Our Time (in Greek, 2001) and hundreds of articles and essays, many of which have been translated into scores of foreign languages. His latest book is a collection of interviews with Noam Chomsky titled [Optimism Over Despair: On Capitalism, Empire, and Social Change](#) (Haymarket Books, 2017).*