

INSECURITY, UNCERTAINTY & COVID-19:

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Expert Group Meeting

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OECD Economic Outlook – Sept. 2020

Known: COVID-19 Crash was Massive & very Unequal

Forecast: already superseded (+ assumed convergence ?)

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Figure 1. Global output contracted sharply in the first half of 2020

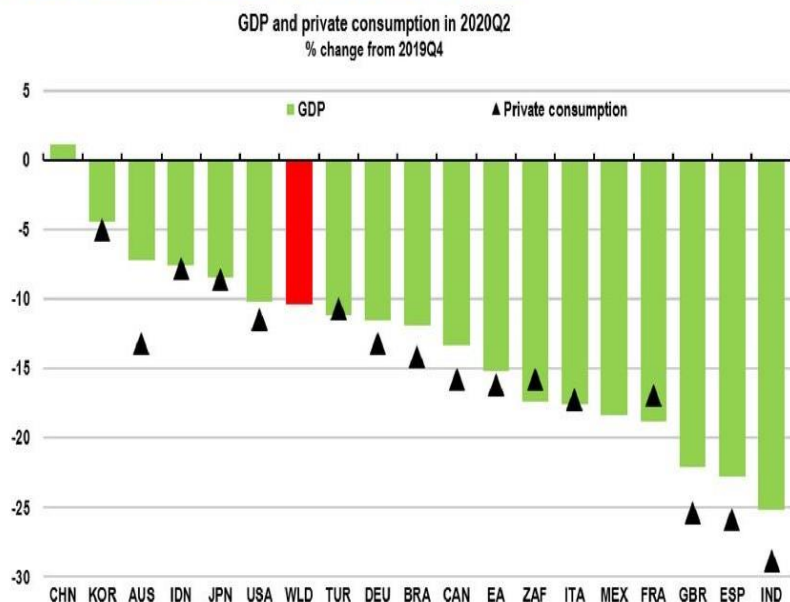
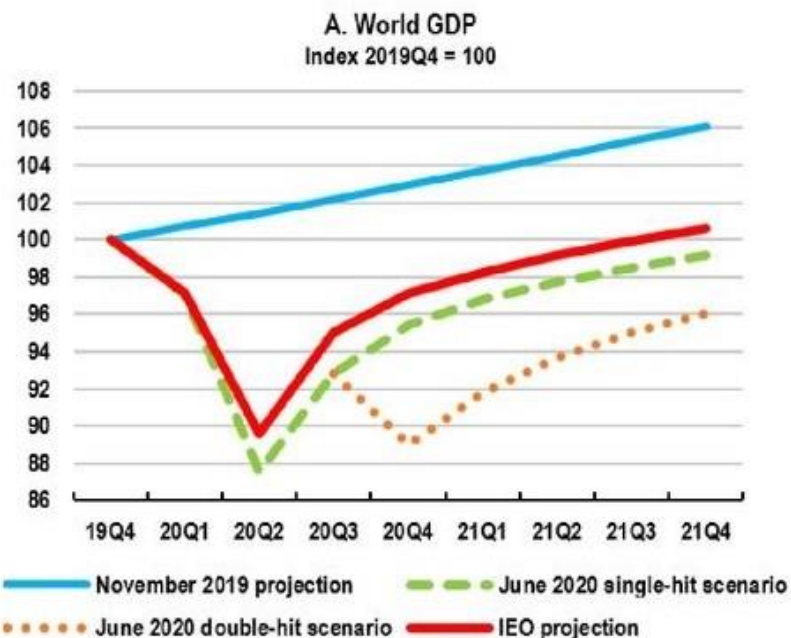


Figure 6. A partial recovery is projected to continue



Note: Based on available countries with published quarterly national accounts. Private consumption is unavailable for China. Global growth is a PPP-weighted aggregate.

Source: OECD Economic Outlook database.

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A recovery is now under way following the easing of strict confinement measures and the re-opening of

Covid-19 = Massive Insecurity Shock + Uncertainty Overload for Future

1. Interacting Uncertainty Dimensionalities

1. Medical
2. Political
3. Social
4. Economic

2. Unknown Phase Durations

- a. Short-term: initial shock and lockdown phases (still ongoing);
- b. Medium-term: scarring / losses / shifts following initial lockdowns
- c. Long Run: Trend growth + political economy implications of [a] & [b].

Very Different Recession => Uncertainty+

	Normal Recessions	Covid-19
Sectors	Interest Rate sensitive Goods (Housing, Autos) then layoffs	Interactive Services (Hospitality, Tourism, etc.)
Speed of Onset	propagates over months	3 weeks in March
Synchronization	Some Exports continue	World-wide export collapse
Severity	"Great Recession" - 4.3% US GDP	Initial shock 10X greater
Amenability to Policy	Lower Interest Rates + Fiscal Stimulus G7 Co-ordination of Response	Near zero interest rates already Pandemic dependent duration International Co-ordination ≈ 0 QE = Massive monetization of deficits
Distribution of Impacts	Initially often male @ mid wage	Low wage - female, racialized K shaped recession

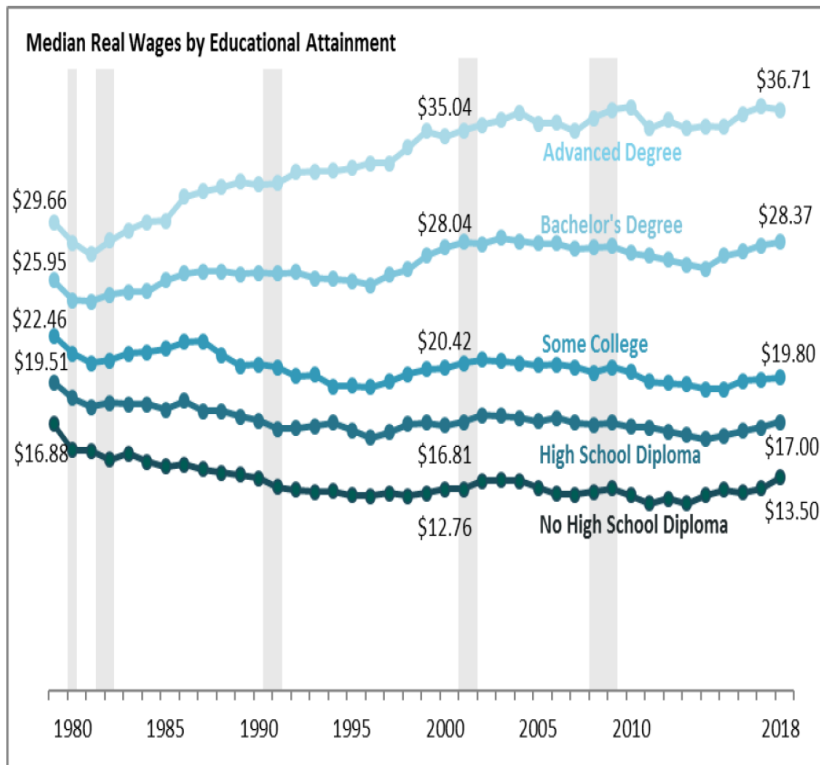
Building Back to What?

1979-2018: US Median real wages of < High school declined by 20%+

<https://fas.org/sgp/crs/misc/R45090.pdf>

Figure 4. Median Wage by Educational Attainment

Wages in 2018 dollars



Is a Return to “Old Normal” + Growth Plausible or Possible?

- Covid-19 has implied:
 - Negative productivity shock
 - Unwinding Globalization
 - Increasing Inequality
 - Debt / GDP already well past 100%
- ✚ 2019 trends still matter
- Slowing Productivity growth
- Increasing Inequality
- Declining Natural Interest Rates
- Aging Populations & Dependency
- Trade Wars / End of WTO era
- Secular Stagnation Headwinds

Safety & Security: Changing the channel

Developing Economies (Most of Humanity)

- Decay of Old Informal Risk-Pooling Mechanisms with no real replacement
 - Much Smaller Families
 - Urbanization
 - Erosion of traditional norms
- Few public social programs to offset pandemic losses
- Faith in Growth no longer ?

Rich Nations

- Neo-Liberal Agenda has emphasized costs of Welfare State protections
 - Decades of austerity cuts
- Trade & Technology
 - End of lifetime “good jobs”
 - “Left Behinds” mourn losses
- Covid-19 “Possibility Proofs”
 - Massive deficits are OK
 - Change can happen rapidly

What happens if current governments do not make safety & security a priority?

- People need Safety / Security when Times are Uncertain
- “The Strong Leader” offers:
 - explanations & villains (the evil “them”)
 - community (the virtuous “us” & the glorious stolen past)
 - protection (authority + walls + return to past certainties)
- Where will the insecure put their faith if current governments do not deliver safety and security ?
 - “We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence. "Necessitous men are not free men." People who are hungry and out of a job are the stuff of which dictatorships are made.”
 - Franklin Delano Roosevelt (1944) "State of the Union Message to Congress," January 11, 1944
http://www.fdrlibrary.marist.edu/archives/address_text.html

The Audacity of the United Nations Vision: “Winning the Peace” -- by ending war

- In 1946-48, anyone 50+ had seen two World Wars & Holocaust
- “Ending wars” required:
 1. Institutions for Peaceful Conflict Resolution & Inter-state relations:
General Assembly + Security Council + co-operation (WHO, UNCTAD,)
 2. Removing the roots of conflict – Human Rights for all
- Universal Declaration of Human Rights:
 - “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services and the right to **security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood** in circumstances beyond his control.”
 - Article 25: United Nations (1948)



Insecurity & Welfare State Origins:

- “The real grievance of the worker is the *insecurity of his existence*; he is not sure that he will always have work, he is not sure that he will always be healthy, and he foresees that he will one day be old and unfit to work. If he falls into poverty, even if only through a prolonged illness, he is then completely helpless, left to his own devices, and society does not currently recognize any real obligation towards him beyond the usual help for the poor, even if he has been working all the time ever so faithfully and diligently. The usual help for the poor, however, leaves a lot to be desired, especially in large cities, where it is very much worse than in the country.”
 - Chancellor Otto von Bismarck, March 1884,
 - Objective: to prevent social instability (i.e. protect Kaiser)

“Economic Insecurity”

- “economic insecurity is the anxiety produced by a lack of economic safety, i.e. by an inability to obtain protection against subjectively significant potential economic losses”; (Osberg, 1998).
- “the anxiety produced by the possible exposure to adverse economic events and by the anticipation of the difficulty to recover from them”. Bossert and D’Ambrosio, (2013)
- “economic insecurity arises from the exposure of individuals, communities and countries to adverse events, and from their inability to cope with and recover from the costly consequences of those events”; (UNDP, 2008).