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TEN WEEKS THAT SHOOK THE WORLD ECONOMY

Abstract
The COVID-19 pandemic has changed world history and sparked a huge debate among social scientists. In this work, we concentrate on the initial (two months of) institutional responses to the pandemic in the advanced economies, by analyzing the discussions in the press and in the scientific literature. These first analyses of the pandemic represent the "instinctive" and "automatic" responses of the economic profession and policymakers to the emergency, which allows for an interesting overview of the progression of events. We will synthetically discuss the economic measures taken to tackle the collapse of income and production, and the ensuing expanded new role of governments and central banks in the economy. In the appendix, we discuss the different attitudes that emerged from the articles in the first weeks of the emergency to explore the different directions that the economic debate was taking at the time.

Keywords
Pandemic; crisis; financial stability; economic policy.
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1. INTRODUCTION AND CONTEXT

The contingent... has a ground because it is contingent.
G.W.F. Hegel

There are decades where nothing happens, and there are weeks where decades happen.
Lenin quoted by Bank of America

In a matter of weeks, the pandemic of COVID-19 changed the course of world history. We saw a succession of facts and reactions never experienced in decades of economic evolution: macroeconomic uncertainty unknown in contemporary history; strong immediate reaction from the states, with multiple instruments that have had longer term effects, a rapid change of political agendas with a revision of strategic priorities and the crisis of institutional and political architectures starting from Europe.

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Since the start, the emergency forced a new way to face even old problems at a world level; from their part, economists seemed mesmerized by the sudden destruction of most of their reference points. We focus on their analyses as commentators or advisors of government and central banks in the first stage of emergency outbreak. In practice, we have analyzed 10 weeks of works (mostly articles on newspapers) published after COVID-19 epidemic was declared a pandemic (basically, March and April 2020). In particular, we selected three kinds of articles. The first type is made by articles from the major international financial media (Financial Times, Wall Street Journal, Reuters, Bloomberg, etc.). The second kind is composed by articles from important blogs on economic issues (Vox.EU, CEPR, Brookings, EconBrowser, etc.). The last one comes from central banks and international institutions websites. From all these sources we have chosen the articles that dealt with the issues involved in the clearest and most "immediate" way. In the following Table, we summed up our selection.

Table 1 - *Articles sources*

Major financial media		*Economic blog*		*Central banks and international institutions*	
Financial Times	41	CEPR	6	International Monetary Fund	3
Wall Street Journal	10	sbilanciamoci.it	4	European Central Bank	2
New York Times	6	Vox.EU	3	Bank for International Settlements	1
Reuters	5	Brookings	2	Bank of Italy	1
The Guardian	5	LaVoce.Info	2	Federal Reserve	1
Bloomberg	4	Project Syndicate	2	International Labour Organization	1
The Economist	4	SUERF	2	Institute of International Finance	1
Times	3	AdamTooze.com	1		
CNN	2	Daily Telefigure	1		
Others (1 each)	6	EconBrowser	1		
		Economia e Politica	2		
		EnterpriseAI	1		
		InteractAnalysis	1		
		KriticaEconomica	1		
		Micromega.net	1		
		Retrace-Itn.EU	1		

This is an interesting perspective because, with no time to elaborate on the issue, as it is normally the case with scientific articles that undergo a long process of review, but given the urgency to tackle the problem, economists had to rely on their instincts, so to speak. The discussion of this instinctive and automatic responses of the economic profession and policymakers to the emergency, is a first step to understand how the economic theory will deal with the momentous outcome of the pandemic, that changed the economic and political landscape worldwide.

2. THE BEGINNING

The pandemic produced so unprecedented economic data that 1929 immediately resurfaced as a comparison. Macroeconomic uncertainty became the strongest ever seen[1]. The IMF[2] was forced to observe: "This crisis is like no other… This crisis will need to be dealt with in two phases: a phase of containment and stabilization followed by the recovery phase. In both phases public health and economic policies have crucial roles to play". In fact, its projection for world growth and world trade are, respectively, -4.2% and -11%, and they were proven realistic. The sudden and synchronized freezing of the world economy was the first result of the emergency. However, economists and commentators pointed out that many trends were already there before the emergency. This is particularly true for the growth of public and private debt, although pandemic has produced a steep increase. The point, therefore, is to assess how much the pandemic has exposed previous weaknesses vis à vis it has created new ones. The "already there" case happened, for instance, with pollution: in areas with high pollution levels, like northern Italy, the virus spread more easily[3], also social inequalities did not help; for instance, the significantly large poor working population in the US worsened the effects of the pandemic, lacking the means to cope with the emergency[4].

Breathtaking economic graphs will forever mark the first days of the pandemic, together with unthinkable images until the emergency itself, like Cuban and Russian medical personnel in the Po Valley or empty streets everywhere. The pandemic forced such a change in the direction of economic data (for instance, industrial production or employment) that was difficult, for commentators and professional economists to grasp the situation.

3. THE FIRST DAYS

A microbe has overthrown all our arrogance.
M. Wolf

The abrupt stop of many economic sectors forced the states to rescue workers from starvation and the firms from collapse. Financial flows have risked a total freeze, with the inevitable consequence of the collapse of the banks due to funding difficulties and, later on, for the worsening of their assets. Financial markets have also collapsed for many days. In particular, on 23 March 2020, there was a terrifying destruction of $26 tril-

[1] R. Wigglesworth, "Coronavirus Creates Biggest Economic Uncertainty in Decades", *Financial Times*, April 20, 2020.

[2] IMF, *World Economic Outlook*, Washington: International Monetary Fund, April, 2020, V.

[3] A. Donati, "La pessima aria che alimenta il coronavirus", in *L'epidemia che ferma il mondo*, edited by A. Mastroandrea and D. Zola. Accessed March 7, 2024. https://sbilanciamoci.info/la-pessima-aria-che-alimenta-il-coronavirus/.

[4] M. Mazzonis, "La tempesta perfetta. Gli Stati Uniti di fronte al COVID-19", in *L'epidemia che ferma il mondo*, edited by A. Mastroandrea and D. Zola. Accessed March 7, 2024. https://sbilanciamoci.info/la-tempesta-perfetta-gli-stati-uniti-di-fronte-al-COVID-19/.

lion in financial wealth, forcing a public intervention that reminded how much financial markets depend on central banks to survive[5]. The situation forced the largest and fastest public support in peacetime ever both on the fiscal and monetary side. Governments have acted supporting households' income in many ways, discussions on universal fiscal measures ("helicopter money") have flourished, and direct cash handouts have happened (for instance in Hong Kong). The debate on how much inflationary these measures were rapidly diverged from the classical equivalence (more public deficit more inflation), and assessing how much a measure is really expansionary in those conditions was also difficult[6]. Also central banks reacted promptly, with the Federal Reserve particularly active against the consequences of the pandemic. The Fed has created a whole array of new programs and it has shielded financial markets from collapse, taking on board most of the financial risks in the country. Its balance sheet has grown by trillions in days, giving to the central bank a role in the economy greater than during the Great Depression or the WWII[7]. How much these interventions interfered with the role of prices as signals?: "While price discovery is difficult, it should be allowed to continue. It is not better for the economy to have no public prices at all"[8]. On top of these programs, the Fed and other central banks have used forward guidance to suggest low rates for years and multiplied international swap lines among them[9]. Banking regulators also contributed to tame the panic[10]. To this end, they took a large number of measures, in particular on capital, liquidity and provisioning[11].

What worried many commentators is that what started as temporary could become permanent if it is lasted sufficiently enough: shops can close temporarily but after months, they are out of business permanently. This is true for public helps too: they might become a permanent necessary pillar of future economic growth. This brings us to the long term effects of the decisions we described.

4. MORE LASTING EFFECTS

The first weeks of the spreading of the pandemic on a world scale brought uncertainties at all level, included what policies could be used to contain the emergency. We will try to sum up the most relevant issues of the debate.

Since the start of the pandemic, it was clear that public debt was set to explode also because, just like after the collapse of Lehman, private debt will become public debt, as Mario Draghi explained: "Much higher public debt levels will become a permanent feature of our economies and will be accompanied by private debt cancellation"[12]. Gov-

[5] A. Tooze, "How Coronavirus Almost Brought Down the Global Financial System", *The Guardian*, April 14, 2020.

[6] D. Masciandaro, "COVID-19 Helicopter Money: Economics and Politics", *CEPR Press*, April 20, 2020.

[7] N. Timiraos, J. Hilsenrath, "FED Breaks Its Taboos to Prop Up Economy", *Wall Street Journal*, April 28, 2020.

[8] "Closing Markets Is Not the Way to Stop the Slide", *Financial Times*, March 17, 2020.

[9] J. Cheng *et al.*, "What's the Fed Doing in Response to the COVID-19 Crisis? What More Could Do?", Washington: Brookings, 2020.

[10] T. Beck, "Finance in the Times of COVID-19: What Next?", in *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, edited by R. Baldwin, B. Weder Di Mauro, London: CEPR Press, 2020.

[11] IIF, "An Aerial View of the Bank Prudential Regulatory Response to COVID-19", Washington: International Institute of Finance, 2020.

[12] M. Draghi, "We Face a War Against Coronavirus and Must Mobilise Accordingly", *Financial Times*, March 26, 2020.

ernment expanded deficit and debt and central banks bought much of it given that: "The difference between QE and direct monetary financing is mostly one of presentation"[13]. The inflationary consequences of this enormous increase in public debt and monetary aggregates were considered manageable[14]. As for financial leverage, that was already high before 2008, its sustainability rests on low rates that are basically the only policy central banks can pursue, extending the loose monetary policy that contributed to dangerous levels of debt in the global economy[15]. Leverage increased dangerously[16] and the monetary stimulus could cease to work[17] or could make the US economy "dependent on asset bubbles for survival"[18]. The situation has reopened old theoretical discussions on the endogeneity of money[19].

A second discussion concerned inequality and poverty, because pandemic has hit especially hard the poor layers of the population for practical reason ("more hand-washing is good advice, unless there's no running water"[20] also in advanced countries[21]. Overall pandemic exacerbated inequality[22]. A different set of policies for the labour market was needed, especially for low-paid workers, also having in mind that many of them were on the front lines of the pandemic[23]. Something had to be done, and even conservative economists acknowledged this[24]. However, there were also proposals to cut salaries and taxes to help the economy using the mainstream rhetoric of the last decades[25].

A third hot topic was the inevitable stronger role for the state in production. That "Governments will have to accept a more active role in the economy"[26] was obvious from the start of the pandemic. However, there were many possible outcomes of this new role. For one part, "We desperately need entrepreneurial states that will invest more in innovation"[27]. The Chinese solution, where private firms are junior partners of the government, could become attractive elsewhere, also for the stronger role of China today: "The Chinese economy accounts for at least 16% of world output […] more than twice its share in 2008 […] and one-third of global growth"[28]. The issue was connected

[13] "Printing Money Is Valid Response to Coronavirus Crisis", *Financial Times*, April 6, 2020.

[14] O. Blanchard, J. Pisani-Ferry, "Monetisation: Do Not Panic", *VoxEU*, April 10, 2020. Accessed September 1, 2020. Accessed March 7, 2024. https://cepr.org/voxeu/columns/monetisation-do-not-panic.

[15] J. Plender, "The Seeds of the Next Crisis", *Financial Times*, March 5, 2020.

[16] M. Wolf, "The Crisis Lays Bare the Risks of Leverage", *Financial Times*, April 29, 2020.

[17] G. Tett, "Markets Contemplate a Future which Stimulus Does Not Work", *Financial Times*, March 13, 2020.

[18] F. Rana, "A Dangerous Dependence on Wall Street", *Financial Times*, March 9, 2020.

[19] Y. Nersisyan, L.R. Wray, "Coronavirus Has Destroyed the Myth of the Deficit", *Guardian*, April 17, 2020.

[20] A. Kluth, "This Pandemic Will Lead to Social Revolutions", *Bloomberg*, April 11, 2020.

[21] A. Sen, "A Better Society Can Emerge from the Pandemic", *Financial Times*, April 16, 2020.

[22] A. Deaton, "We May Not All Be Equal in the Eyes of Coronavirus", *Financial Times*, April 5, 2020.

[23] M. Brooke, "Workers Rights and Protections Are Suddenly Top of the Agenda", *Financial Times*, March 11, 2020.

[24] R. Florida, S. Pedigo, "How Our Cities Can Reopen After the COVID-19 Pandemic", *Brookings.com*, March 24, 2020. Accessed September 1, 2020. Accessed March 7, 2024. https://www.brookings.edu/articles/how-our-cities-can-reopen-after-the-COVID-19-pandemic/.

[25] A. Sapir, J. Manson, "Cut Salaries, Taxes to Reopen U.S. Economy Says Laffer, Conservative Fave", *Reuters.com*, April 8, 2020. Accessed September 1, 2020. Accessed March 7, 2024. https://www.reuters.com/article/us-health-coronavirus-usa-laffer/cut-salaries-taxes-to-reopen-u-s-economy-says-laffer-conservative-fave-idUSKCN21Q3AT/.

[26] "Virus Puts Responsible Capitalism to the Rest", *Financial Times*, March 30, 2020; "Virus Lays Bare the Frailty of the Social Contract", *Financial Times*, April 3, 2020.

[27] M. Mazzucato, "Capitalism's Triple Crisis", *Project Syndicate*, March 30, 2020.

[28] A. Breitenfellner, P. Ramskogler, "How Deep Will It Fall? Comparing the Euro Area Recessions of 2020 and 2009", SUERF Policy Note, No. 150, 2020.

to the reshaping of supply chains that, in fact, inevitably followed the pandemic, starting with the food supply chain[29] to prevent the risk of food riots[30]. A similar situation holds for drug production where the reliance on India and China was staggering (up to 90% for EU[31]). States intervened in global value chains and this started to reshape globalization in a non-cooperative direction, thus worsening the emergency[32]; already at the time we had more conflicts, especially among US and China[33], In fact "Trade policy is getting grimmer by the moment. The tit-for-tat retaliations in the climate of fearful hoarding are escalating"[34].

The debate in the weeks we are dealing with, was at its beginning. The main point was, and still is, how to overcome the dire effects of austerity and what kind of monetary policy will do after the pandemic? Both in the EU and in the US at the time a wide discussion on those issues started[35]. Some concrete actions were taken: the 8th of July 2020, the President of the ECB Lagarde proposed a strategic review of the ECB line of action going well beyond the 'whatever it takes' approach introduced by Draghi in July 2012, to take into account the new situation in terms of public debt levels, fiscal policy and inflation[36]. The move followed the choice of the Fed on the "average inflation targeting", i.e. a more tolerant approach towards inflation[37].

5. POLITICAL ISSUES[38]

Since the start of the emergency, governments introduced measures presumably connected to global supply chains, included barriers to immigration, travel bans, border closures. Once again, not a new thing: even before the pandemic the use of immigrants, foreign countries, globalization as a scapegoat was very common[39]. Pandemic was also an opportunity for strong leaders to go more quickly ahead with their plans because "Economic despair and desperation are often the enemies of calm debate and a friend to the conspiracy theories that help populism to flourish"[40], so the emergency became a

[29] J. Yeung, "The Coronavirus Pandemic Could Threaten Global Food Supply, UN Warns", *CNN.com*, April 13, 2020. Accessed March 7, 2024. https://edition.cnn.com/2020/04/10/asia/coronavirus-food-supply-asia-intl-hnk/index.html.

[30] E. Terazono, H. Saleh, J. Reed, "Countries Follow Consumers in Stockpiling Food", *Financial Times*, April 5, 2020.

[31] J. Brunsden, "EU Warned Over Reliance on India and China Drug Imports", *Financial Times*, April 21, 2020.

[32] M. Wolf, "The World Economy Is Now Collapsing", *Financial Times*, April 14, 2020.

[33] J. Beata, "The Pandemic Will Change the Way the World Does Business", *Financial Times*, April 3, 2020.

[34] A.S. Posen, "Containing the Economic Nationalist Virus through Global Coordination", in *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, edited by R. Baldwin and B. Weder Di Mauro, London: CEPR Press, 2008.

[35] For examples of more and less optimistic views see: A. Tooze, "Climate Crisis Offers Way Out of Monetary Orthodoxy". *SocialEurope.EU*, July 12, 2021. Now in AdamTooze.com. Accessed March 7, 2024. https://adamtooze.com/2021/07/12/climate-crisis-offers-way-out-of-monetary-orthodoxy/ and S. Cesaratto, "Quell'anti-Maastricht della BCE", *Micromega.net*, July 12, 2021.

[36] ECB, "Monetary Policy Strategy Statement", Frankfurt: European Central Bank, July 8, 2021 and ECB, "Overview of the Monetary Policy Strategy, Frankfurt: European Central Bank, July 8, 2021.

[37] E. Martínez-García, J. Coulter, V. Grossman, "Fed's New Inflation Targeting Policy Seeks to Maintain Well-Anchored Expectations", *DallasFed.org*, April 6, 2021.

[38] We do not enter in the debate about proposals that were passed after the time span we are discussing (the Recovery Fund, etc.).

[39] WSJ, "Trump's Immigration Distraction", *Wall Street Journal*, April 22, 2020.

[40] G. Rachman, "How Strongman Leaders Exploit Ccoronavirus", *Financial Times*, April 21, 2020.

threat to democratic constitutions[41]. Anti-scientific propaganda by politicians like Trump or Bolsonaro also fueled the flames of conspiracy theories. These positions connected to the reshoring phenomenon in an attempt to use beggar-thy-neighbor policies.

In the EU, intergovernmental institutions, starting with the European Council, have been an unfortunate example of bad cooperation, while ECB acted promptly, lowering interest rates, with an expansion (in quantity and easing the conditions) of its QE program[42] . These have been bold moves, even if the Federal Reserve has gone further[43]. In the first weeks, proposals on the fiscal/political front have been blocked[44]; this notwithstanding the merit of the proposal[45] that was anticipated also by Italian economists[46]; the resistance was fierce as it was clear in the observations of the German minister Altmaier: "The debate about euro bonds is a phantom debate"[47]. However, the EC has passed a temporary framework (the stability pact has been suspended; state aids are basically free again). An even more disturbing aspect of the EU case is that the lack of coordination on health measures has been produced on purpose: European countries were not eager to rapidly follow Italy into lockdown to take advantage of the spaces created on the markets by the Italian productive block[48]. On the supervision side, in Europe as elsewhere regulators offered banks temporary capital relief to help lending[49] also changing the definition of forborne credit. At any rate, given the impasse, resentment among European were developing immediately: "There are already signs that Italian faith in the EU has been damaged"[50], Euroscepticism in Italy and elsewhere was growing rapidly[51] and the EU risked to be the most prominent victim of the pandemic[52].

6. PRICES, MONEY AND THE ROLE OF ECONOMIC THEORY

Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is past the ocean is flat again.
J.M. Keynes

We will deal, in this last section, with the issues concerning the economic theory that the first weeks of the pandemic have posed. A first point is connected to economic data.

[41] C. Stelzenmüller, "Coronavirus Is Also a Threat to Democratic Constitutions", *Financial Times*, April 16, 2020.

[42] ECB, "ECB Takes Steps to Mitigate Impact of Possible Rating Downgrades on Collateral Availability", *ECB Press Release*, Frankfurt: European Central Bank, April 22, 2020.

[43] M. Arnold, "ECB Loosens Collateral Rules to Accept Fallen Angel' Bonds", *Financial Times*, April 23, 2020.

[44] W. Münchau, "How to Think about the EU's Rescue Fund", *Financial Times*, April 27, 2020.

[45] D. Dombey, "Spain Calls for 1.5tn EU Recovery Fund to Protect Internal Market", *Financial Times*, April 21, 2020; M. Sandbu, "The Merits of Spain's Proposed Recovery Fund Are Irrefutable", *Financial Times*, April 22, 2020.

[46] F. Giavazzi, G. Tabellini, "Eurobond perpetui contro il COVID-19", *La Voce Info*, March 27, 2020.

[47] M. Nienaber, "German Minister Rejects Euro Bonds – 'It's a Phantom Debate'", *Reuters.com*, March 23, 2020. Accessed March 7, 2024. https://www.reuters.com/article/idUSL8N2BG8RK/.

[48] U. Panizza, "Europe's Ground Zero", in *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, 153.

[49] J. Brundsen, "Brussels Relaxes Bank Rules to Fund 450bn Lending Boost", *Financial Times*, April 29, 2020.

[50] M. Johnson, S. Fleming, G. Chazan, "Coronavirus: Is Europe Losing Italy?", *Financial Times*, April 6, 2020.

[51] W. Münchau. "Italy Is in More Danger than the Eurozone Knows", *Financial Times*, April 20, 2020.

[52] A. Stirati, "L'Italia, l'Europa e la crisi da coronavirus", *Economia e Politica*. Accessed March 7, 2024. https://www.economiaepolitica.it/l-analisi/crisi-da-coronavirus-italia-europa/.

No policy discussion could be possible without a rich and granular series of data. Now, the emergency has provoked many problems to data gathering, due to the practical difficulties practically; services, such as dinners at the restaurant, could not even be bought during lockdowns[53]. This could bring to new ways of collecting and interpreting data, with larger use of big data and artificial intelligence algorithms[54]. However, the emergency has also determined big shifts in consumer behaviour, therefore baskets of goods and services used to measure inflation became less representative of household spending and had to be adjusted accordingly[55]. These aspects brought to new prediction tools as "macroeconomic nowcasting"[56].

Difficulties in collecting and analyzing data have been particularly apparent as far as inflation is concerned. Prices were, in fact, not only difficult to gather but it was not clear what their usefulness was. In the pandemic situation, where firms and consumer's behavior are so blurred, are the prices able to play their key role as a signal (of scarcity, quality, etc.)? Moreover, the public intervention produced a host of distortions, making prices even less effective as signals[57]. These distortions were particularly strong for financial prices, for instance policy rates, that were rapidly pushed to zero by central banks, forcing down all other interest rates. It was difficult, in this situation, to use rates to predict the riskiness of an investment.

If prices were difficult to get and it was difficult to give them an economic meaning in the pandemic chaos, the emergency forced a pragmatic and relatively smooth reshaping of economic policy. A loose monetary policy was not a new thing, after years of QE, although the scale of intervention was unprecedented. On the contrary, an expansionary fiscal policy, especially in Europe, has been out of the radar since the Maastricht Treaty. The public fund put into the economy was enormous from the start and reached trillion[58]. Given the situation, many economists pointed out that policymakers should act out of pragmatism, setting aside ideological taboos[59].

7. CONCLUSIONS

The crisis has accelerated processes already in place in the evolution of the world economy. This acceleration concerns technological, industrial as well as productive issues. It also exacerbated significant difficulties in sectors based on physical contacts (one for all, tourism), in a context in which the financial leverage of businesses and families was already increasing. In the face of an unprecedented situation, economists started to deal with the issues we described. In the first months of 2020, the change imposed by the pandemic was too rapid to allow the theory to keep up with the events. We cited a "pragmatist policies", but an exclusively pragmatic outlook, incapable of long-term

[53] "The Price Isn't Right. The Impossibility of Measuring Inflation in a Pandemic", *The Economist*, April 24, 2020.

[54] C. Biancotti *et al.*, "Salviamo i dati economici dal COVID 19", Rome: Banca d'Italia.

[55] D. Strauss, "Nations Struggle to Measure Inflation as Virus Disrupts Shopping", *Financial Times*, April 27, 2020.

[56] L. Ferrara, A. Froidevaux, H. Thanh-Long, "Macroeconomic Nowcasting in Times of COVID-19 Crisis: On the Usefulness of Alternative Data", *EconBrowser*, March 26, 2020.

[57] "The Economic News Is Terrible but You Would Never Know It from the Markets", *Times*, April 30, 2020.

[58] IMF, "Fiscal Monitor. A Fair Shot", Washington: International Monetary Fund, April, 2021.

[59] S. Trento, "Che lo Stato entri nel capitale delle imprese, ma no a un nuovo Iri", *Il Foglio*, May 8, 2020.

perspectives, was not enough to provide for adequate solutions to the pandemic crisis. Moreover, the issue of pragmatism raises two concerns. The first one is that, even if the pandemic has gone, new crises unfolded. Now, if facing every important event, policy-maker must set aside mainstream economics, it is not very clear whether it makes any sense to teach, to learn and to use mainstream economics. It would be better to stick permanently to "pragmatism".

Connected to this issue, there is the second one: will we ever come back to "normality"? There have been attempts to defend ordinary economics at least for the future[60], while others hinted to a new way of economic thinking[61], although it is not clear in which direction. The real problem is that the last years, at least since the financial crisis of 2007-2008, suggest that the very aim of going back to some sort of "normal times" is senseless. Rather, issues like climate change, financial instability, wars, world health emergencies tell us that there is a new social and economic framework to build.

APPENDIX: ECONOMICS AND STORYTELLING

In this appendix, we are interested not much in the contents of the discussion that was going on in the first weeks of the emergency that we already summed up, but in the attitudes that emerged from the articles, which kind of storytelling came out. The COVID-19 pandemic is the first global health emergency in a world where production is based on world supply chains, where information is spread immediately and politicians use social media to communicate. As we noted, this is interesting because the situation forced an immediate response to an historical event. Economic commentators and economists reacted using their experience and instinct, so to speak, exposing their automatic attitude to the events. These "System 1" answers, to use the famous distinction of Kahneman, reveal the basic attitudes that were already there when the emergency exploded and so they can highlight the deep understanding of the situation.

a) It's all new/ Nothing will ever be the same

The first attitude is *a call to arms*. It is easy to observe that the situation produced by the pandemic is unprecedented, that never will be the same again and that policies to tackle the emergency must also be completely new. As for the unseen situation, many articles of the first weeks depicted this attitude: for instance: "The coronavirus shutdown of 2020 is perhaps the most remarkable interruption to ordinary life in modern history"[62] and more generally "It's the end of the world economy as we know it"[63] also for prices: "We're in a deflationary moment that surpasses anything seen in most people's lifetimes"[64]. This extraordinary situation is going to have consequences also on the policy front. In a nutshell the situation is the following: "The era of Ronald Reagan, that said

[60] Action to Protect the Economy Puts the Bank's Independence in Danger", *Times*, April 28, 2020.
[61] L. Elliott, "The Coronavirus Crisis May Lead to a New Way of Economic Thinking", *Guardian*, March 23, 2020.
[62] A. Tooze, "Coronavirus Has Shattered the Myth that the Economy Must Come First", *The Guardian*, March 20, 2020.
[63] I. Neil, "It's the End of the World Economy as We Know It", *New York Times*, April 17, 2020.
[64] I. Neil, "What the Negative Price of Oil Is Telling Us", *New York Times*, April 22, 2020.

basically the government is the enemy, is over", said Rahm Emanuel, a moderate Democrat who served as mayor of Chicago, a member of Congress and President Obama's first White House chief of staff"[65], and for sure "coronavirus is dispelling any doubts that ultimately the state, not business, is in charge[66]. Economic policies will be transformed. For instance: "The Federal Reserve is redefining central banking. By lending widely to businesses, states and cities in its effort to insulate the U.S. economy from the coronavirus pandemic, it is breaking century-old taboos about who gets money from the central bank in a crisis, on what terms, and what risks it will take about getting that money back"[67]. This attitude was the justification of an all-out pragmatism: everything is new, hence we are justified to do whatever it is necessary to tackle the problem. There were commentators that put some resistance to this "everything must change" syndrome. For instance, the idea to close down the financial markets, that were considered in the first weeks, has been put aside for good reasons: "markets are not acting dysfunctionally. Violent securities price movements can sap economic confidence but are not in themselves signs that markets are not working. While price discovery is difficult, it should be allowed to continue. It is not better for the economy to have no public prices at all. Closing exchanges could create the very problems it is intended to prevent, as investors are shut out but struggle"[68]. It is true that, sometimes, these policies are bordering the forbidden: "To put it bluntly, the Fed isn't allowed to do any of this. The central bank is only allowed to purchase or lend against securities that have government guarantee"[69], but a strict compliance to statutes when the world is collapsing should not be a high priority.

b) There will be change but not too much/ At the end, everything will be basically the same

A second attitude is a *vigilant downplaying*. No one can deny that the pandemic will have consequences, but not overwhelming. Optimism was not uncommon at the beginning: "A recession is unlikely but not impossible. With luck the slump will end once the virus stops spreading"[70], "I would expect that GDP would get back to its fourth-quarter 2019 level by mid-2021"[71]. The situation seemed not frightening also because the global financial system was "better placed to sustain financing to the real economy as a result of the G20 regulatory reforms in the aftermath of the 2008 global financial crisis"[72]. Moreover, debt-led inflation was considered a problem: "Without limits, allowing a government to finance itself by creating money can lead to hyperinflation. But these

[65] G.F. Seib, J. McCormick, "Coronavirus Means the Era of Big Government Is…Back", *Wall Street Journal*, April 26, 2020.

[66] J. Guthrie, "Get Ready for the $ 4.5tn Takeover", *Financial Times*, March 26, 2020.

[67] N. Timiraos, J. Hilsenrath, "FED Breaks Its Taboos to Prop Up Economy", *Wall Street Journal*, April 28, 2020.

[68] "Closing Markets Is Not the Way to Stop the Slide", *Financial Times*, March 17, 2020.

[69] J. Bianco, "The Fed's Cure Risks Being Worse Than the Disease", *Bloomberg.com*, March 27, 2020. Accessed March 7, 2024. https://www.bloomberg.com/view/articles/2020-03-27/federal-reserve-s-financial-cure-risks-being-worse-than-disease.

[70] "A Recession is Unlikely but not Impossible", *The Economist*, March 6, 2020.

[71] L. Summer quoted by W.D. Cohan, "Grim As It Is Now, Larry Summers Guesses Recovery Could Be Faster Than Anticipated", *Vanity Fair*, April 2, 2020.

[72] FSB, "Implementation and Effects of the G20 Financial Regulatory Reforms"; 2020 Annual Report, Basel: Bank for International Settlement, November 13, 2020.

risks can be manageable"[73]. Overall, the economy will adjust to the new situation[74]. The logic is that these developments are manageable and necessary. This is particularly clear in a now famous article by Draghi: "We face a war against coronavirus and must mobilise accordingly. Higher public debt levels will become an economic feature and be accompanied by private debt cancellation… The key question is not whether but how the state should put its balance sheet to good use"[75]. This attitude also included reassuring on the consequences of these policies, for instance as far as monetization is concerned: "In short, there are obviously some reasons to worry, but we see no reason to panic. The central banks are doing the right thing. Their actions are sustainable"[76]. The problem of debt is there and a modest inflation could even help: "Debt may be high, but what matters is the cost of servicing it and, as long as interest rates are low, this is still cheap"[77]. The manageability of the changes implies that we should resist the too heavy handed changes, for instance, banks' nationalization[78] and "there is also a risk that policymakers leave the stimulus in place for too long"[79]. Sooner or later we must go back to central bank's independence[80] and even now the help should be given with string attached[81].

c) The road is the same but we will run faster

An attitude that is somewhat in between the first two we exposed concerns commentators observing that, yes, things will change and strongly, but going in the direction they were already headed: *this is not an about-turn*. Most of the comments of this type concerned global value chains: a retrenchment from the peaks of globalization was almost inevitable, especially in some sector, as drug production, but not a real deglobalization[82] so "What the pandemic has done is highlight some of the ways that globalization may have gone a bit too far"[83]. With the help of digitalization[84] the globalization reversal will be weaker[85] but new technologies could also shorten the supply chain[86]. For sure, the

[73] "Printing Money Is Valid Response to Coronavirus Crisis", *Financial Times*, April 6, 2020.

[74] "After the Disease, the Debt", *The Economist*, April 23, 2020.

[75] Draghi, "We Face a War Against Coronavirus and Must Mobilise Accordingly".

[76] O. Blanchard, J. Pisani-Ferry, "Monetisation: Do Not Panic", *VoxEU*, April 10, 2020. Accessed March 7, 2024. https://cepr.org/voxeu/columns/monetisation-do-not-panic.

[77] "The Price Isn't Right. The Impossibility of Measuring Inflation in a Pandemic", *The Economist*, April 24, 2020.

[78] R. Ruozi, "Nazionalizzare le banche? Ecco perché è meglio non cadere in questa tentazione", *Milano Finanza*, April 17, 2020.

[79] K. Ward, "Crisis Will Awaken Inflationary Forces Within a Year", *Financial Times*, April 17, 2020.

[80] "Action to Protect the Economy Puts the Bank's Independence in Danger", *Times*, April 28, 2020.

[81] "Bail Out the States?", *Wall Street Journal*, April 23, 2020.

[82] J. Beata, "The Pandemic Will Change the Way the World Does Business", *Financial Times*, April 3, 2020.

[83] J.M. Schlesinger, "How the Coronavirus Will Reshape World Trade", *Wall Street Journal*, June 19, 2020.

[84] G. Leopold, "Will COVID Revive Regional Manufacturing?", *EnterpriseAI*, May 7, 2020.

[85] A. Seric, D. Winkler, "COVID-19 Could Spur Automation and Reverse Globalisation – To Some Extent", *VOXeu.org*, April 28, 2020. Accessed March 7, 2024. https://cepr.org/voxeu/columns/COVID-19-could-spur-automation-and-reverse-globalisation-some-extent.

[86] A. Coveri, C. Cozza, L. Nascia, "Catene globali del contagio e politica industriale", sbilanciamoci.it, March, 26 2020. Accessed March 7, 2024. https://sbilanciamoci.info/catene-globali-del-contagio-e-politica-industriale/.

pandemic "may also accelerate technological change through artificial intelligence and automation"[87].

Here and there, reshoring will come out[88], but deglobalization was under way at least since after the 2007-2008 crisis. Although the pandemic has given more arguments to populist leaders so that "Even well-established democracies are displaying symptoms of strongman syndrome"[89] and when "Trade policy is getting grimmer by the moment"[90]; this in stark contrast with the EU "creeping irrelevance"[91]. However, barriers to trade and immigration were already on the rise[92]. These choices could even create problem to food production, according to the UN[93], but they did not materialize. An over-reliance on China and India for medicines is anyway a problem in Europe[94].

Pandemic has accelerated also other trends. The most obvious one is the growth of debt, public and private[95]. This growth was sometimes connected to a stronger direct role of the government in the economy though public firms, once again, a trend already under going: "Over the past decade, state-owned enterprises (SOEs) have doubled in importance among the world's largest corporations"[96]. Moreover, big techs were already emerging as the dominant force of a digitalized world economy but the emergency has speeded up the process[97], in particular Netflix and Amazon[98].

d) I told you so/ seizing the opportunity

A fourth attitude that is often connected to the last one we presented, but sometimes to the others, emerged when commentators used the emergency to restate old analysis on a particular danger ("I told you so!"), or they simply seized *the pandemic as an opportunity* to propose bold ideas. For instance, we have had many observations that the COVID-19 exposed a long-term trend towards inequality and misery[99] towards a fragmented labour market[100], the fragility in the financial system[101] and the consequent

[87] ILO, "The Effects of COVID-19 on Trade and Global Supply Chains", *Research Brief*, Genève: International Labour Organization, 2020.

[88] A. Sharma, "Re-Shoring, Robotics, Automation and Globalisation. Likely Impacts on Industrial Strategies of the COVID-19 Pandemic", *Interactanalysis*, April 6, 2020.

[89] G. Rachman, "How Strongman Leaders Exploit Coronavirus", *Financial Times*, April 21, 2020.

[90] A.S. Posen, "Containing the Economic Nationalist Virus through Global Coordination", in *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, 208.

[91] A. Kluth, "Coronavirus Has Exposed the EU's Creeping Irrelevance", *Bloomberg*, April 25, 2020.

[92] G. Ip, "Globalization Is Down, but It's Not Out Yet", *Wall Street Journal*, April 29, 2020.

[93] J. Yeung, "The Coronavirus Pandemic Could Threaten Global Food Ssupply, UN Warns", *CNN.com*, April 13, 2020. Accessed March 7, 2024. https://edition.cnn.com/2020/04/10/asia/coronavirus-food-supply-asia-intl-hnk/index.html.

[94] J. Brunsden, "EU Warned Over Reliance on India and China Drug Imports", *Financial Times*, April 21, 2020.

[95] J. Hilsenrath, "Pandemic to Test Limits of How Much Debt U.S Can Bear", *Wall Street Journal*, March 19, 2020.

[96] IMF, "Fiscal Monitor, Policies to Support People During the COVID-19 Pandemic", Washington: International Monetary Fund, April, 2020.

[97] W. Daisuke *et al*., "Big Tech Could Emerge from Coronavirus Crisis Stronger Than Ever", *New York Times*, March, 23, 2020.

[98] P. Robin, "The World's Tech Giants Could Come Out of This Rather Well", *Daily Telefigure*, March 26, 2020.

[99] P. Mason, "Will Coronavirus Signal the End of Capitalism?", *Al Jazeera*, April 3, 2020; M. Mazzonis in A. Kluth, "This Pandemic Will Lead to Social Revolutions", *Bloomberg*, April 11, 2020.

[100] M. Mazzucato, "Capitalism's Triple Crisis", *Project Syndicate*, March 30, 2020.

[101] M. Wolf, "The Crisis Lays Bare the Risks of Leverage", *Financial Times*, April 29, 2020.

addiction of US economy from asset bubbles[102], the damages of strong pollution[103], risks of a too loose monetary policy[104], and, finally, the deterioration of the health system, that transformed the virus into a social and economic catastrophe[105]. We also find "I told you so" observations on the policy side; for instance: the need for more nationalization[106], to rebuild the welfare state[107], for a public health system in the US[108] also to rein in on Big Pharma[109], for a more expansive fiscal policy, for debt monetization especially in the Euro Area[110] but also in the US[111], for shorter global value chains[112]. Although most of the comments were in favour of a stronger public intervention with the aim of a bigger social fairness, some commentators seized the opportunity for re-proposing laissez faire solutions. For instance, Laffer proposed, not surprisingly, to reduce taxes[113], others proposed to minimize welfare state protection[114]. In a sense, this attitude, linking the present emergency to an older proposal, is the most interesting as far as the future of economics is concerned: if the pandemic has really vindicated those ideas, they should be the starting point of the post-pandemic economic theory.

e) Searching for a scapegoat/ Euroscepticism

A last attitude we detected is a peculiar application of the "I told you so" attitude: pointing at *someone to take the responsibility for the mayhem*, someone that was already the enemy in the previous storytelling. In the US, the two usual suspects have been China and immigrants. Since the beginning, US government have branded the COVID-19 as a Chinese virus. "Senator Lindsey Graham suggested that the United States should punish China for failing to contain the virus by canceling debt the Chinese government owns"[115]. In the same way, Trump administration and right wing commentators blamed immigrants for unemployment, low wages and even the spread of the disease[116]. This storytelling also serves to propose a "strong man" to solve the crisis: government like Orban, Bolsonaro, Duterte but also Trump took this road, with uneven success[117].

[102] F. Rana, "A Dangerous Dependence on Wall Street", *Financial Times*, March 9, 2020.

[103] A. Donati, "La pessima aria che alimenta il coronavirus", in *L'epidemia che ferma il mondo*, edited by A. Mastroandrea and D. Zola, www. Sbilanciamoci.it.

[104] J. Plender, "The Seeds of the Next Crisis", *Financial Times*, March 5, 2020.

[105] G. Giraud, "Per ripartire dopo l'emergenza COVID-19", *La Civiltà Cattolica*, April 4, 2020.

[106] M. Mazzucato, H.L. Li, A. Darzi, "Is It Time to Nationalise the Pharmaceutical Industry?", *BMJ*, 368 (2020).

[107] A. Sen, "A Better Society Can Emerge from the Pandemic", *Financial Times*, April 16, 2020.

[108] B. Sanders, "The Foundations of American Society Are Failing Us", *New York Times*, April 20, 2020.

[109] M. Valsania, "Coronavirus, scienziati Usa: vaccini rallentati dai profitti delle Big Pharma e austerità pubblica", *Il Sole 24 Ore*, March 15, 2020.

[110] A. Bonetti, "Eurobond o finanziamento monetario? Intervista a Massimo Amato e Gennaro Zezza", *KriticaEconomica*, April 22, 2020.

[111] Y. Nersisyan, L.R. Wray, "Coronavirus Has Destroyed the Myth of the Deficit", *Guardian*, April 17, 2020.

[112] A. Bimpizas, A. Genovese, "COVID-19: The End of Global Sourcing?, *Retrace-itn.eu*, May 26, 2020. Accessed March 7, 2024. https://www.retrace-itn.eu/2020/05/19/the-end-of-global-sourcing/.

[113] A. Sapir, J. Manson, "Cut Salaries, Taxes to Reopen U.S. Economy Says Laffer, Conservative Fave", *Reuters.com*, April 8, 2020. Accessed March 7, 2024. https://www.reuters.com/article/us-health-coronavirus-usa-laffer/cut-salaries-taxes-to-reopen-u-s-economy-says-laffer-conservative-fave-idUSKCN21Q3AT/.

[114] D. Herringer, "Bring Back Laissez-Faire Capitalism", *Wall Street Journal*, April 17, 2020.

[115] I. Neil, "It's the End of the World Economy as We Know It", *New York Times*, April 17, 2020.

[116] "Trump's Immigration Distraction", *Wall Street Journal*, April 22, 2020.

[117] C. Stelzenmüller, "Coronavirus Is Also a Threat to Democratic Constitutions", *Financial Times*, April 16, 2020.

In Europe the confrontation was about the EU itself. Already the Brexit had shown that the popularity of EU was declining. In the first weeks, the debate followed the usual pattern with a symmetric scapegoat: German politicians and commentators attacked the Mediterranean profligacy; Southern States attacked the stubbornness of colder members[118]. Germany and its allies were against any European fiscal action and the ECB was left to face the pandemic alone[119]. This even if proposals from Southern EU members were considered "irrefutable"[120] and their government behaving responsibly[121]. The rejection of Eurobond in March and April[122] risked the very existence of the EU[123] also because the first heavily hit countries were also those more fiscally vulnerable[124]. This pushed for a turn with the Recovery Fund that was anticipated by commentators that sometimes seized the opportunity and sometimes proposed a new course[125].

[118] M. Nienaber, "German Minister Rejects Euro Bonds. 'It's a Phantom Debate'", *Reuters.com*, March 23, 2020. Accessed March 7, 2024. https://www.reuters.com/article/idUSL8N2BG8RK/; M. Johnson, S. Fleming, G. Chazan, "Coronavirus: Is Europe Losing Italy?", *Financial Times*, April 6, 2020.

[119] P. De Grauwe, "The ECB Must Finance COVID-19 Deficits", *Project Syndicate*, March 18, 2020; M. Wolf, "Why the ECB Can Save the Eurozone", *Financial Times*, April 22, 2020.

[120] M. Sandbu, "The Merits of Spain's Proposed Recovery Fund Are Irrefutable", *Financial Times*, April 22, 2020.

[121] O. Blanchard, "Italy, the ECB, and the Need to Avoid Another Euro Crisis", *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*.

[122] I. Waltenberger, "The Range of Different Opinions and Moods in Germany on Collective 'Corona Bonds'", SUERF Policy Note, Issue No 155, 2020.

[123] M. Amato, "L'eurozona fra il pericolo della dissoluzione e l'occasione di un ripensamento", *Economia e Politica*, April 11, 2020.

[124] K. Moritz, "Eurozone at Risk of Debt Crisis worse than previous one", *Financial Times*, April 10, 2020.

[125] F. Giavazzi, G. Tabellini, "Eurobond perpetui contro il COVID-19", *La Voce Info*, March 27, 2020.