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POLICY RESPONSE TO COVID-19 PANDEMIC AND RELATED FUTURE CHALLENGES

Odgovor ekonomske politike na pandemiju kovid 19 i povezane buduće izazove

Abstract

The paper reviews new standard policy response to global COVID-19 pandemic led by the IMF. It identifies new innovative approaches in the design of expansionary fiscal support measures and accommodating monetary policy. Particular attention is paid to the treatment of labor markets, job-retention measures, and worker-reallocation efforts deployed at appropriate stages of continued pandemic, initial post-COVID-19 economic recovery and longer-run investment for sustainable future growth. The paper detects inherent policy limitations in the treatment of local, national and global public goods, excessive globalization, and unregulated financial markets and capital mobility, as well as weak integration between prevailing economic policy paradigm and other social sciences. It seeks a solution in expanding economic policy framework beyond neoliberalism, by harnessing democracy and human well-being consistent with sustainable development goals through balanced conduct of economic policy, efficient and adequately regulated markets (as needed), and responsible and transparent state actions.

Keywords: *COVID-19 pandemic, crisis policy response, job-retention policies, job-reallocation efforts, inclusive prosperity, neoliberalism, great reset, economic policy paradigm*

Sažetak

Cilj ovog rada je pregled odgovora nove standardne ekonomske politike MMF na globalnu pandemiju kovida 19. Rad identifikuje elemente inovativnog pristupa definisanju ekspanzivne fiskalne podrške i prateće akomodirajuće monetarne politike. Posebna pažnja se poklanja tretmanu tržišta rada, merama očuvanja postojećih radnih mesta i podrške realokaciji radnika koji bi mogli biti primenjeni u odgovarajućim fazama krize: nastavku pandemije, inicijalnom ekonomskom oporavku posle pandemije kovida 19 i investicionoj pripremi osnove održivog budućeg rasta. Rad detektuje inherentna ograničenja ekonomske politike u tretmanu lokalnih, nacionalnih i globalnih javnih dobara, preterane globalizacije, neregulisanih finansijskih tržišta i mobilnosti kapitala, kao i slabu povezanost postojeće ekonomsko-političke paradigme i drugih društvenih nauka. Rad traži rešenje u proširenju okvira ekonomske politike van postojećih granica neoliberalizma, podržavajući demokratiju i ljudsko blagostanje konzistentno sa održivim ciljevima razvoja balansiranom primenom ekonomske politike, efikasnim i adekvatno regulisanim tržištima (u neophodnoj meri), i odgovornim i transparentnim intervencijama države.

Ključne reči: *pandemija kovida 19, politika odgovora na krizu, politika očuvanja radnih mesta, podrška realokaciji radnika, inkluzivni prosperitet, neoliberalizam, great reset, ekonomsko-politička paradigma*

Introduction

Due to COVID-19 pandemic, in 2020 alone, global economy GDP fell by 3.3 percent [15, p. 8]. Compared to October 2019 projections, this represented a reduction of GDP level by 6.4 percentage points or value added loss of US $ 5.4 trillion. Despite better growth performance in the second half of the year and more optimistic economic recovery projected for 2021-2022, this still represents the most severe economic contraction since the great depression of the 1930s.

Admittedly, the results would have been much worse in the absence of unprecedented policy support comprising broad based fiscal stimulus measures estimated at over US $16 trillion globally [16, p. 1] and highly accommodative monetary policy [17, p. 3]. This applies particularly to countries and regions with greater reliance on contact industries, limited (fiscal and monetary) policy space, inadequate administrative capacity, and insufficient fiscal/financial resources to respond. During 2020 the pandemic has reversed the decade long declining poverty levels and pushed additional 88 million more people into extreme poverty compared to pre-crisis levels [31]. Learning and education processes have been interrupted around the world with more severe consequences in countries with lower incomes and more limited ability to move to online education.

Global policy response to the pandemic crisis has been led by the IMF both in terms of empirical and analytic work, and conceptually, with a great deal of innovation and realism, albeit within mostly conventional policy framework. Given overwhelming presence of country specific features of the crisis and possible solutions, policy priorities will continue to demand a great deal of custom-tailoring policy responses to the stage of the pandemic, strength of the recovery and structural characteristics of the economy [15, p. xiv]. Until pandemic fully subsides, priority financing and enabling health sector functions will remain top priority, accompanied by increasingly better targeted fiscal and adequately accommodative monetary/financial support (targeted to most affected households and firms).

Once recovery takes stronger hold, both in terms of empirically confirmed performance indicators and positive expectations of all stakeholders, the emphasis should shift to limiting and ameliorating long-term economic scaring to the economy caused by the prolonged crisis and stimulating both consumer and investment demand. It is important to emphasize that widespread confidence that the pandemic is over and the virus has been defeated globally represents a critical ingredient of permanent demand recovery.

Finally, in the third stage of recovery, after the health crisis is clearly over, the IMF policy advice shifts "focus more on building resilient, inclusive, and greener economies, both to bolster the recovery and to raise potential output. The priorities should include investing in green infrastructure to help mitigate climate change, strengthening social assistance and social insurance to arrest rising inequality, introducing initiatives to boost productive capacity and adapt to a more digitalized economy, and resolving debt overhangs." [15, p. xiv].

The new standard policy framework underpinning the present IMF-led mainstream policy advice has had many welcome new features regarding the post-pandemic revival of the supply side, normalization of the labor market in the short run (through job-retention schemes) and the longer run (through worker reallocation and retraining schemes) with an eye on challenges posed by the ensuing Fourth Industrial Revolution (4IR) in general and automation in particular. It also envisages longer-term concerns regarding adverse impact on the environment and climate change, need for selectivity in supporting only economically viable firms (i.e. avoiding/phasing out extensive support to zombie firms), growing inequality issues and a dire need for international cooperation on vaccinations and public health issues in general.

Going beyond these enhanced and empirically enriched recommendations, IMF policy framework largely stays shy of explicitly addressing other critical issues that are linked to or go beyond the present conventional, still neoliberal dominated mantra in such areas as social assistance and social protection, unemployment benefits/insurance, health care (especially free health care and public health at the heart of future pandemic threats), education in general and especially early childhood development, etc.). Likewise, the new policy agenda recognizes the consequences of excessive financial sector deregulation, overly easy movement of capital and profit shifting practices, the need for improved international taxation and tighter control of safe heavens and AML-CFT practices.

The main objective of this paper is to review the present standard policy response and policy innovations contained in the mainstream response to pandemic crisis thus far (section 1) and rate them against multiple calls for deeper theoretical and policy reform of economics. Hence, section 2, looks at the rise and fall of neoliberal policy paradigm, while section 3 reviews selected proposals seeking to understand the future and shape of underlying values and policy propositions of economics "beyond-neoliberalism", including the proposals advanced by leading economists (Harvard, MIT, Berkeley) towards "inclusive prosperity framework" seeking a new policy paradigm by balancing efficient markets and transparent active state. Section 4 reviews the Davos Economic Forum comprehensive "great reset proposal" towards reformed "inclusive stakeholder capitalism", and section 5 concludes.

New standard policy response to COVID-19 pandemic

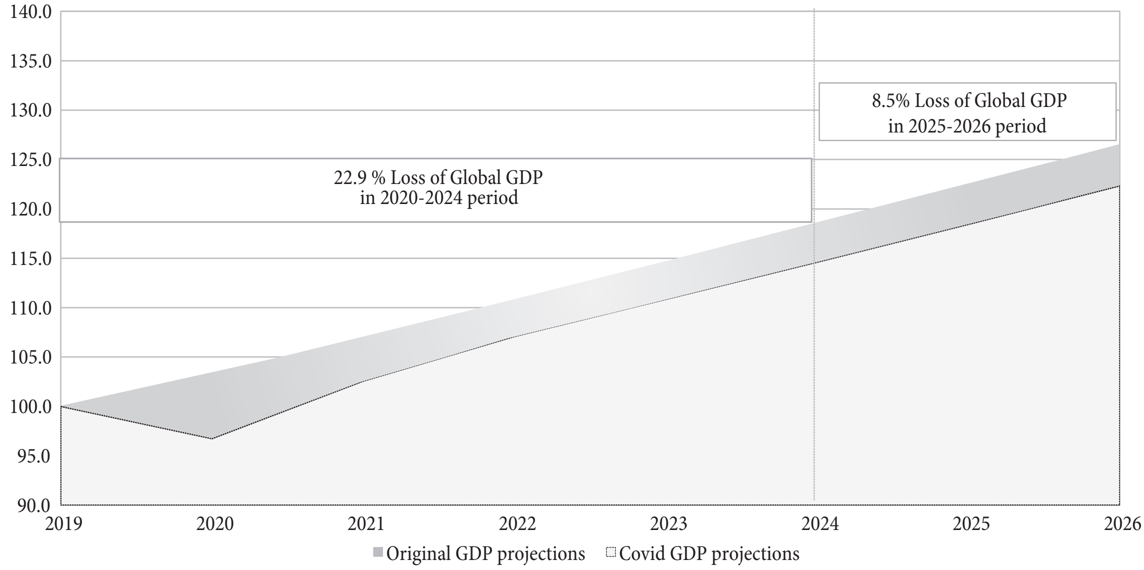
The COVID-19 pandemic reduced global GDP by 6.4 percentage points and pushed it down to a lower trajectory associated with a huge loss of global value added. Compared to latest GDP projections before the crisis (October 2019), GDP loss would amount to 22.9 percent over the five-year period. As indicated in Figure 1, after taking into account delayed slower growth effects in the 2025-2026 period, the combined 2020-2026 value added losses attributable to the pandemic are likely to reach almost one third (i.e. 31.4 percent) of the global 2019 GDP.

The lower trajectory is based on quite optimistic projected robust economic recovery in 2021 (6 percent growth), and more modest growth of 4.4 percent in 2022. It is also associated with multiple risks related to the duration and severity of the crisis, speed and stability of recovery, and ability to address future structural constraints to growth coming from the changes in the structure of production and challenges posed by the continuing fourth industrial revolution.

According to the IMF, the very first policy priority is related to escaping the pandemic crisis [15, p. 17] by:

- focusing on the priority spending in the health sector, focusing in particular on national and global vaccination effort;
- sustaining strong fiscal effort and transforming it from undifferentiated blanket interventions to increasingly targeted support for most affected households and businesses that will drive future quality employment and growth;
- providing continued ample monetary accommodation through central banks; and

Figure 1: Global GDP loss due to COVID-19 pandemic (in percent of 2019 global GDP)



Source: WEO April 2021 data base and author calculations

- supplementing this comprehensive effort with well-designed macro-prudential policies aimed at containing possible financial risks and securing financial stability.

The second policy priority is to enable, support and safeguard economic recovery once the health crisis has subsided [15, p. 18] by:

- identifying and addressing permanent economic consequences (scaring) caused by the crisis in terms of eroding or destroying firm-specific employment and value-chain matches;
- adjusting labor market policies and fiscal support that would enhance job-retention efforts and prevent longer-term unemployment;
- compensating for breaks in schooling, vocational training and learning during the crisis;
- maintaining reasonable efficiency of the fiscal support by focusing on viable companies and away from so called zombie companies; and
- adjusting sectoral allocation of resources in line with needs and economic cost caused by the crisis.

Finally, the IMF identifies the third policy priority to invest in the future and prepare for new challenges posed by the climate crisis, needed reforms of the policy framework and improved international cooperation [15, p. 19] by:

- securing continued access to liquidity, including financial facilities made available through official international sources (IFIs) for balance of payments support and debt relief;
- boosting domestic productivity growth which "… had been sluggish for several decades" due to insufficient investment in education and infrastructure, and ability to properly harness the emerging artificial intelligence (AI) and automation;
- improving policy frameworks and creating new policy space through
    - efficient debt restructuring (if and as needed) relying on low cost financing presently available,
    - enhancing fiscal space by sustaining revenue at the necessary level, including through greater progressivity and expanded taxation of affluent individuals based on "strong international cooperation to limit profit shifting and tax evasion and avoidance" [15, p. 20];
    - supportive monetary framework presently under exceptionally low interest rates, including through "continued unconventional policies, including asset purchases, forward guidance, and even negative interest rates" to provide scope to expand policy space;
- addressing climate change challenges which may hamper economic growth and income convergence in the absence of effective and transparent global cooperation on
    - carbon pricing;
    - green infrastructure investment;
    - subsidies for green research; and
    - targeted compensatory transfers to countries "… hit hardest by climate change mitigation policies" [15, p. 21].

Medium term policy response will depend on the size and nature of permanent output damages (scars) from the COVID-19 crisis. Based on data and research done as of March 2021, the IMF concludes that [15, p. 53]:

- expected medium-term losses from the pandemic are sizeable but typically much smaller (for advanced and emerging market economies) than from the Global Financial Crisis of 2008, with the exception of low income countries where output losses due to COVID-19 pandemic are expected to be greater;
- scaring (permanent economic damages) varies with economic structure (including the ability to efficiently move to new ways of online work from "home office") and size and scope of policy response to the crisis;
- uncertainty remains high and depends on pandemic path and characteristics following the large scale global vaccination effort; and
- best policy response to limit, reverse and ameliorate persistent economic damage from the pandemic is to:
    - reverse setback in human capital accumulation through healthcare, early childhood development, education and (re)training;
    - pursue policies that encourage employment and productivity growth, including in the areas of automation and AI application; and

- boost investment in infrastructure, focusing "… particularly (on) a green infrastructure push (which) can help crowd-in private investment" [15, p. 56].

A separate chapter of the April 2021 World Economic Outlook [15, pp. 63-78] is devoted to the analysis of labor markets based on a specialized model calibrated on past recessions and recoveries mostly from advanced economies. The purpose of the analysis is to better understand labor dislocations caused by recessions/crises and patterns followed during recoveries. The analysis recognizes "the asymmetric, sectoral, and occupational nature of the COVID-19 shock, with less-skill-intensive sectors tending to be hit harder" as well as the acceleration of "preexisting employment trends, hastening a shift away from sectors that are more vulnerable to automation" [15, p. 63]. It confirms that:

- job retention policies are effective in reducing permanent damage (scaring), mitigating unequal impact of the pandemic across workers, protecting real wages, and support subsequent job searches within larger companies; while
- job/worker reallocation policies aimed at supporting creation of new jobs can ease medium-term transition to more permanent and sustainable labor market structure can start as soon as the crisis abates, albeit with significant fiscal (re)training costs and an inevitable initial loss of real wages.

In practice, fiscal space permitting, job retention policies are best used during the crisis and followed by job/worker reallocation policies soon after crisis subsides, knowing that structural effects of the COVID-19 pandemic and continuing 4IR (especially Automation and use of AI) may cause [15, p. 66]:

- permanent job losses in some sectors and occupations, and creation of new jobs in others; and
- may require quite some time given the likely skill mismatches in moving workers to sectors/occupations less vulnerable to COVID-19-like shocks and the impact of Automation and AI.

In summary, the IMF proposed policy responses to COVID-19 pandemic considerably broaden the conventional policy agenda both in terms of the size and scope of fiscal interventions supplemented with monetary easing and the use of unconventional instruments (such as asset purchasing). The new standard IMF-led mainstream policy advice has many welcome new features regarding the post-pandemic revival of the supply side, normalization of the labor market in the short run (through job-retention schemes) and the longer run (through worker reallocation and retraining schemes), with an eye on challenges posed by the ensuing fourth industrial revolution (4IR) in general and automation in particular. It also envisages longer term concerns regarding adverse impact on the environment and climate change, need for selectivity in supporting only economically viable firms (i.e. avoiding/phasing out extensive support to zombie firms), growing inequality issues and a dire need for international cooperation on vaccinations and public health issues in general.

But it stops short of addressing the systemic consequences of financialization and excessive globalization and unregulated capital mobility globally, local national and global public goods, and linkages between economics and other social sciences in harnessing democracy and human well-being at the center of sustainable development goals concept and economics beyond-neoliberalism. These issues will be discussed in the remainder of the paper.

Economics beyond neoliberalism: Fundamental changes in policy paradigms

Policy paradigms in economics changed infrequently and, almost always, as a result of three factors:

- creation of a strong academic theoretical paradigm (often school of thought at leading universities) in response to gaps and/or weaknesses in existing theories;
- real life crisis that has not been predicted and could not be addressed within existing theoretical and policy paradigm or, simply, a need to address an apparent new and emerging economic problem (industrialization, urbanization, economic growth etc.); and, most importantly,
- political support embracing the new theoretical justification and, even more, its ability to mount a consistent and, at least seemingly aligned, policy intervention.

Liberal view of the World and associated Liberal economic policy paradigm dominated the design of policy in the period 1870-1930 pivoted on [see 10, pp. 14-15]:

- *laissez-faire* industrial policies at home;
- low (or no) barriers on international flows of goods, capital and labor;
- national and international macroeconomic stability based and guaranteed by the Gold Standard; and
- balanced general government budgets.

The period of claimed (and much less empirically proven) prosperity followed until the Great War (WWI) and the aftermath marked by political instability and the reintroduction of trade barriers and, possibly related, start of the Great Depression in the 1930s. Before that, the Liberal policy view was challenged from within neoclassical school by welfare economics. The final blow came from the realization that markets will not self-correct in response to the depression and opened the way for Keynes policy paradigm based on active role of the state in reaching full employment through (exclusively) macroeconomic aggregate demand management.

Keynesian policy paradigm shift gained further acceptance and support throughout the 1930s embraced by the New Deal policies, and came to dominate the economic policy making during WWII. It became the central ingredient of the post-WWII consensus on creating international financial institutions, rebuilding the world economy in the 1950s, and addressing the postcolonial economic development legacy in the 1960s and 1970s.

Brief history of paradigm shifts: The rise and near-fall of neoliberal paradigm

The dominance of Keynesian policy paradigm gradually ran out of steam after the 1972 collapse of the original Bretton Woods system of fixed exchange rates guaranteed by the Gold Standard, slower economic growth, and stagflation triggered, *inter alia*, by the US Vietnam war related budget deficits and increased protectionism in developing countries. More state intervention in the economy (and through redistribution) could not correct for external energy shocks or weakening markets.

This provided a unique opportunity for the return of liberal policies and market fundamentalism, first as a dormant theory and, yes, staunch ideology led by Hayek and the Pelerin society between 1947 and early 1960s when it became an increasingly influential academic school at Chicago, see [8], [18], [30].

The credibility of Keynesian policy advice based on "overly active state" weakened over time. As it started showing declining macroeconomic performance both in advanced economies and developing countries (i.e. slower economic growth, fiscal deficits and growing inflation pressures, high level of protectionism, trade deficits and balance of payments problems) during the 1970s, the Keynesian policy paradigm has become increasingly challenged both in academia and in turbulent real politics of the time. The conservative victories of M. Thatcher in the UK and R. Regan in the US opened the door for the new Neoliberal policy paradigm. Already deeply rooted in conservative academia, Neoliberalism was ready to be embraced and implemented to enter the economic policy arena.

This paradigm shift in economic theory and, even more so, economic policy followed a known pattern [see 19]. The trinity of (applied) policy paradigm shifts has three distinct ingredients:

- changed real economic circumstances (either crisis or ensuing problems demanding new solutions) – first necessary condition;
- body of alternative theoretical and policy knowledge (new paradigm) which can help address the problem, partially or fully – second necessary condition; and
- political and institutional support to legitimize the policy change *ex ante* and defend the results/ outcomes *ex post* – sufficient condition.

The identifiable process usually starts with real life crisis which demands a solution or adequate response. It is followed by a set of "dominant group of ideas as a [new] politico-economic paradigm" seeking to "encompass political/economic goals, analytical/theoretical frameworks for understanding the functioning of economies and societies" under changed circumstances. In doing that, the new ideas can either adopt an already developed and academically well-established policy paradigm, such as Neoliberalism. Or, if the need be, "exert a powerful influence over academic and media debates, as well as on policymaking institutions, both national and international" [19, p. 113].

Chang [10] defines neoliberalism as an academic attempt at reconstructing economic and policy conditions prevailing between 1870 and 1930. The idea of Golden age of capitalism was based on a stylized view of the world characterized by:

- Unlimited entrepreneurship;
- Completely unregulated and flexible labor market;
- Absolute macroeconomic stability anchored in Gold Standard;
- Completely free international trade (i.e. free flow of labor, goods and capital);
- Absence of significant state ownership;
- Absence of regulation (of markets, including financial markets); and
- Absence of economic and financial sector strategy, and of industrial policy.

Economic reality during the late 19-th and pre-Big Depression 20-th century was often very different.

- Foreign trade was not free for all countries. Many countries who could afford protection had high tariffs: US had tariffs of 45-55% from independence till modern times. A. Hamilton, one of the founding fathers and first minister of finance argued for high level of "infant industry protection" from more developed UK. Some countries in colonial position were not in a position to impose tariffs without the consent of their respective metropolis, or due to restrictive clauses in their trade contracts.
- Despite relatively low share of state ownership of commercial enterprises, the state often owned substantial land and natural resources, infrastructure, real and financial assets.
- The state actively used its ownership to advance education, health, and infrastructure, as well as create conditions for private sector commercial investment (crowd-in).

Prevailing social conditions were also very different. Widespread entrepreneurial drive and desire to participate in a unique march of the second industrial revolution suppressed all reservations and expectations in the realm of social safety or even labor protection. Predatory and monopolistic behavior of commercial enterprises was not effectively controlled by the laws or moral norms.

The dark side of the liberal world view that underpinned the march of the second industrial revolution, almost completely faded over time. Modern neoliberals have retained a highly selective memory of economic conditions that supported the second industrial revolution which recorded unprecedented global progress in industrialization, urbanization and modernization.

This explains why Neoliberal reform program strongly argues for massive and unselective privatization of commercial enterprises and banks, price liberalization, radical deregulation, total liberalization of foreign trade and capital flows, along with tight macro-monetary and fiscal policies as a basis of market based economic revival of advanced and developing countries alike.

Obviously, such academically pure and radical concept of policy reforms would not have been endorsed and accepted in leading G7 countries and IFIs had it not been forcefully pushed as a part of a political critique of strong state, protectionism, and anti-market bias. As already mentioned, the turning point came with the win of conservative parties in the UK, US and other major countries. In the span of few years there was a sweeping change in the professional staff in economic ministries and central banks, research institutes and think tanks, universities and international financial institutions. Neoliberalism hit the policy arena in the UK and the US with a vengeance. Washington Consensus summarized the new policy agenda that came to dominate economic policy in the coming two decades.

Between 1980 and mid-1990s, policy and reform programs inspired by Neoliberalism delivered on all their promises including:

- Price liberalizations (with few or no exceptions irrespective of prevailing market conditions and possible imperfections);
- Total liberalization of foreign exchange rate, foreign trade, and capital flows;
- Massive sweeping privatizations of state owned commercial enterprises and banks, with rarely

stated privatization rationale and often benefiting new owners;
- Deregulation of labor markets;
- Relaxation of environmental standards;
- Under-provision of public goods (health, education) and social services; and
- Radical deregulation of the banking and financial sector, relaxation of supervisory and fiduciary controls, and interest rate liberalization.

In terms of macro-policies, the Neoliberal approach replaced Keynesian commitment to achieving full employment through top-down aggregate demand management with strong emphasis on price stability. The relevance of Philips curve trade-off between unemployment and inflation vanished. Neoliberalism paid strong lip service to tight macro-monetary and fiscal policies, but in reality retained a typical conservative fiscal model based on lower taxes and relatively large (and rigid) government spending leading to fiscal deficits and public debt build-up.

Many achievements of Neoliberalism at the national and global level are commendable including: improved price stability; free trade and globalization of economic activities; and free movement of capital. But it also created:
- huge income and wealth inequalities within and across countries as shown by Acemoglu [1], Ostry [22] and Kramer [18]; and
- deep labor market disruptions caused by Automation [3] and real income stagnation [2].

It also caused the 2007 Global financial crisis due to a deliberate lack of policy, regulatory and supervisory effort to control open and hidden risks of the increasingly complex financial sector.

New policy paradigm: Balancing efficient markets and transparent state

With a relatively long delay after the Global financial crisis, the economic profession, as well as other social scientist have come to question and critique the failed performance of Neoliberal policy paradigm. A collection of papers presented at 2019 symposium "Beyond Neoliberalism: A New Economic Paradigm" makes a strong argument in favor of a major theoretical and policy paradigm shift in economics to better respond to the present needs and challenges through greater orientation to experimental data and reliance on behavioral economics [8] and use of empirical results in measuring inequality and other economic outcomes [22].

Economists' response: Inclusive prosperity framework

Three leading mid-career economists from top US universities (Naidu (Columbia University), Rodrik (Harvard University), and Zucman (UC Berkeley)) have recently expressed genuine concern with the status and ability of economics to address today's most relevant problems.

"We live in an age of astonishing inequality, together with volatile and oligarchic politics. We also confront seemingly intractable inefficiencies in key sectors like education, finance, health, and media, and a spectacular ongoing climate crisis." [21, p. 366]

They suggest a concept of "inclusive prosperity" to improve the quality of policy recommendations across a wide range of important economic issues (including labor markets, public finance, international trade and finance) and "provide an overall vision for economic policy that stands as a genuine alternative to the market fundamentalism that is often – and wrongly—identified with economics." [21, p. 366]

After decades of disappointing results it is now clear that Neoliberal policy framework has failed economists and all social scientists, and, more importantly, has failed the society. As an example, Neoliberal policies have forcefully pushed a view that there is a steep trade-off between efficiency and equality, i.e. the need to sacrifice equality for growth (efficiency). Another example is a claim that minimum wages reduce employment. And neither is supported by evidence. Moreover, many policy ideas generated over the past few decades were not based on good economics nor good empirical evidence [21, p. 367].

The inclusive prosperity concept is expected to generate a growing body of new theoretical and empirically tested proposals that would address real life policy problems without resorting to theoretical stereotypes with predictable recommendations which may or may not offer plausible and defendable solutions.

Good example of this type of research is Acemoglu analysis of labor markets, productivity growth, and wages (see [1], [2], [3]) that reveals true wage dynamics based on skill/education levels. It turns out that in the US, real wages for men at all skill levels followed the same trend during the 1963-1980 period and strongly diverged thereafter: employees with graduate degrees enjoyed strong real wage growth, those with bachelor's degree had modest real growth, while all others had negative real wage growth in the longer run (1981-2017). More importantly, his analysis showed that automation will not have a linear impact on jobs lost [1] and strongly advocates active government policy which can promote the creation of "good, well-paying jobs" [2].

Great Reset economic policy and social response: Stakeholder capitalism

Ever since the world economy stumbled into a global financial crisis there was a crescendo of voices from professional economists and concerned social scientists for thorough examination of market institutions and economic policy in terms of slower growth performance, declining real incomes, and increasing inequality. The COVID-19 pandemic triggered another crisis of monumental proportions manifested in widespread economic disruptions, concerns about environment, technology and common goods, and mounting risks and uncertainty for businesses and individuals [25]. It revealed underlying volatile social, political and geopolitical situation, and many fault-lines in international cooperation and coordination including social divides, lack of fairness and the absence of global governance and leadership.

Schwab and Malleret claim that return to pre-crisis "normal" is no longer possible. "Coronavirus pandemic marks a fundamental inflection point in our global trajectory." [25, p. 12] A new normal will eventually emerge but it may/will be very different from our past, and our expectations. They remind us that bacteria have been around for billions of years, viruses for 300 million years, and humans only 200,000 years. Pandemics were the rule during the last 2,000 years, not the exception. Pandemics often caused wars, clashes, chaos. But also triggered technological innovations and social change.

This pandemic will also accelerate many processes and bring about systemic changes including:

- Rising nationalism and fear of immigration;
- Partial retreat from commitment to globalization;
- Growing power of tech and accelerated automation;
- Stronger online presence of businesses;
- Growing appeal of well-being policies and reconsideration social priorities;
- Augmented search for common goods;
- Improved political appreciation of fairness;
- More radical welfare and taxation measures, including coordinated international taxation; and
- Visible geographical (and possibly geopolitical) realignments.

How will these complex changes play out is hard to predict. And it is impossible to tell will post-pandemic societies evolve to be more egalitarian (with more social welfare and solidarity), or more authoritarian, or individualistic.

The authors rather focus on five specific macro areas where the great reset is needed due to increasing risks and limited capacity of existing institutions and available policies to address them. These include:

- Economic risks including
  - Growth and employment: Structural long-run unemployment issues
  - Declining real incomes
  - Growing inequality and poverty
  - Fiscal crises
  - Monetary crisis
  - Illicit trade
  - Protectionism/trade wars
  - Energy price shocks
  - Price instability (inflation) and/or deflation
  - Asset bubbles
  - Excessive financialization/financial sector failure
  - Physical infrastructure failure
  - Social infrastructure failure
- Societal risks including
  - Social instability
  - Involuntary migration

    - Water crisis
    - Food crisis
    - Failure of urban planning (development)
    - Infectious diseases
- Technological risks including
    - Cyberattacks
    - Data fraud
    - Info infrastructure breakdown
    - Adverse tech advances
- Geopolitical risks including
    - Global governance failure
    - National governance failure
    - Interstate conflict / wars
    - State collapse
    - Terrorist attacks
    - Weapons of mass destruction
- Environmental risks including
    - Climate change
    - Extreme weather
    - Natural disasters
    - Human made natural / environmental disasters
    - Biodiversity loss

In treating economic risks the authors emphasize the following new points:

- Addressing the health sector needs during pandemic has no alternative. There is no trade-off between health and the economy. Deciding not to save lives because of the economy will not improve welfare.
- Critical change in expectations (and behavior – in consumer demand and investment) will happen when there is confidence that the pandemic is over and the virus is defeated globally.
- Impact on growth and employment will depend on
    - the duration and severity of the outbreak,
    - country success in containing the epidemic,
    - social cohesiveness in dealing with measures (during and post-crisis).
- The widespread decision to deliberately shut down the economy in 2020 caused
    - a fundamental shift in the way national and global economy operates,
    - promoted selective return to autarky and self-sufficiency (typical of past pandemics), and
    - caused a huge reduction in national and global output.
- Service industries suffered the greatest impact with lasting impact due to bankruptcies, lost trained labor force, lost and/or changed demand.
- Secondary impact is visible through collapse of investment in many sectors due to elevated risk perceptions.
- The economic impact of the crisis critically depends on the duration: based on a Dutch institute analysis, one month of lockdown reduced GDP by 2%.
- The pandemic caused a record job loss: EU used fiscal measures to support job-retention, while the US provided support to those who already lost jobs.
- The Great Reset book claims that unemployment can improve only with full, sustainable post-crisis economic recovery.
- Automation and AI are seen as a cause of concern:
    - unlike Acemoglu who appeals to government to moderate the impact of automation on jobs [1],
    - Schwab and Malleret [25] believe that despite short-run job losses, automation exerts positive economic effect in the longer run since it increases productivity and incomes, which in turn increase demand for goods and services and, eventually new jobs to supply them.

NB. In the absence of active government policies to direct and tame automation and link it to enhancing labor productivity rather than replacing labor, humans will likely be replaced by robots and intelligent machines which will produce lasting structural changes in the labor market. Polarization of jobs – between good high paid jobs and low paid dull jobs – is also seen as a danger.

- Quality of future growth matters a great deal: everyone agrees that investment must be directed to support smart, green investment for future sustainable growth.
- GDP as a measure of economic growth and prosperity (well-being) must be updated and refined to
    - better reflect the value added (VA) created in the digital economy,
    - recognize VA contribution of unpaid work, and
    - identify VA destroyed through some activities.

NB. Some financial sector activities have been captured by the national accounts as value creating activities although they only shift VA from one place to another (i.e. extract or even destroy value in the process).

- GDP measure of economic performance should be supplemented with income and wealth distribution measures to better capture the impact of growth on citizens.
- The Great Reset book recognizes the decisive, massive, and swift use of fiscal and monetary policies to respond to the crisis and notes that this will generate large fiscal deficits which will need to be addressed in the years to come.
- The joint use of fiscal and monetary policies has brought back the old question of central bank independence, especially in the light of massive asset purchases by central banks in advanced countries to support infrastructure projects and green investment.
- It has also revived the discussion of the economic role of the state: the new perception that governments can now intervene to
    - preserve jobs and incomes and
    - protect companies from going bankrupt

  may endure the present crisis and contribute to the discussion of policies "beyond neoliberalism" discussed above.

NB. Joint conduct of fiscal and monetary policy under conditions of near-zero or negative interest rates has limited the scope for expansionary monetary policy based on lowering policy rates. Alternatively, many countries have resorted to operations in which central banks buy government bonds but never sell them back. This is equivalent to directly monetizing deficits and governments can use money as they see fit (for investment, or fiscal stimulus). This raises issues of social expectations and political control once the crisis subsides and the "polity" finds out that free money can be found under this "new magic money tree". Inevitably, this will lead to demands for more free money followed by inflation.

NB. Another revelation from the conduct of expansionary fiscal policy under pandemic is the return of government intervention through fiscal stimulus programs to support the households and companies. Continuation of these policies beyond the crisis is likely to happen, but it should be based on rational health and unemployment insurance schemes and clear social contracts on the size and scope of government expenditures on health, unemployment benefits, education and other public goods.

Conclusion

The paper reviewed new standard policy response to global COVID-19 pandemic designed and led by the IMF. It identified new innovative approaches in the design of expansionary fiscal support measures and accommodating monetary policy, a joint and coordinated policy effort which clearly went outside the traditional policy framework demanding: a clear separation of fiscal and monetary policy, and full independence of the central bank. This was explicitly seen in the subordination of central bank monetary expansion to the fiscal support extended to households and companies, as well as the use of government asset (permanent) purchasing actions to provide free monetization of fiscal deficit.

Particular attention was paid to the novel treatment of labor markets: fiscally supported job-retention measures to be deployed during the stages of continued pandemic; worker(jobs)-reallocation efforts to be launched during initial post-COVID-19 economic recovery; and longer-run investment in sustainable future growth.

The paper detected inherent policy limitations of the mainstream policy responses in the treatment of: local, national and global public goods; excessive globalization; and unregulated financial markets and full (unconditional) capital mobility. It identifies weak integration between prevailing economic policy paradigm and other social sciences, especially in the coherent treatment of poverty, inequality and other consequences of proposed economic policy interventions.

The paper recognized the theoretical and empirical advances within the economic profession achieved under the Inclusive Prosperity Framework initiative and the comprehensive Great Reset proposals. It proposes a solution by substantively expanding economic policy framework beyond neoliberalism, by harnessing principles of democracy and human well-being fully consistent with sustainable development goals through balanced conduct of economic policy, efficient and adequately regulated markets (as needed), and responsible and transparent state actions.

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