

WORLD ECONOMY AFTER COVID-19: PREPARING FOR RECOVERY AND GROWTH

The Bruegel Annual Meetings was opened with Tharman Shanmugaratnam, Senior Minister of Singapore, who spoke on the lasting economic and social challenges following the COVID-19 pandemic, and how the role of the state and design of policies has to evolve in response.

Mr Shanmugaratnam argued that governments are facing a difficult trade-off between responding to the health crisis, supporting struggling businesses and addressing structural changes. States are in the transition and they should not move away too quickly from measures to prevent extreme downside but at the same time, they should not postpone problems of the future economy. Structural problems, like declining productivity and at the same time slow middle-class income growth, hit the vulnerable groups, mainly women and youth, hardest. Worrisome is the fact that the worsening position of those groups is accelerated by COVID-19.

Following that, he underlined the importance of redefining social policies to defy secular stagnation, build a sustainable digital economy. One of the main problems to avoid is high prolonged unemployment, which has not only economic but also social consequences. The solution is to shift to schemes which encourage hiring while continuing social support programmes but also promoting lifelong learning traineeships. In the opinion of Mr Shanmugaratnam defying secular stagnation was not adequately addressed so far. Cost of capital is low, so we need to rise on the expected return on invested capital relative to the cost of capital. The interesting idea he brought in his speech was repurposing fiscal policy. In this regard, we should shift from thinking about capital expenditure on the part of the state toward using the resources to mitigate the risk of investments for private investments. He mentioned Invest EU programme as a good example of introducing this way of thinking. Repurposing fiscal policy means also focus more on public goods, like education and lifelong learning, health care and preparedness for pandemics to make them inclusive for everyone.

During the discussion, the notion of “responsive nationalism” and global inequalities were brought to the debate. Mr Shanmugaratnam noted that global, collective individual actions build the economy and one nation can simultaneously act in its own interest and be involved in global cooperation. There is an intersection between national and global interest because of interconnectedness, and pandemics or spread knowledge is an example. On the issue of global inequalities, he confirmed claim of Maria Demertzis, Deputy Director of Bruegel, that the problem is not the only redistribution but also the model of growth. Underfinanced global institutions are not able to deal with global challenges properly. The lack of adequate resources for regional and global development banks, for example, means that they cannot improve the situation of developing countries.

Finally, our guest also raised the issue of international actions that are critically needed to get the world on track to inclusive and sustainable growth. He noted that the global system is currently uncoordinated and that the state of cooperation is weak. We need to build alliances in a second-best word and keep the world open and an example of Singapore shows that “being open pays off”.

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