Editorial

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What Post COVID-19? Avoiding a «Twenty-first Century General Crisis»

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The COVID-19 Pandemic: Impact and a Historical Analogy

In the following months, the COVID-19 pandemic¹ hopefully will be under control. In fact, governments worldwide are elaborating plans and strategies to live with this corona virus as long as there is no vaccine and no treatment. Social and economic activities are re-starting cautiously and they will be re-shaped substantially. However, the pandemic is going to evolve also as a major recession on a global scale which will be pervasive and (presumably) long-lasting. At the time this editorial is written some international organizations have released forecasts on the economic downturn which is taking shape. The IMF has predicted that the global economy is projected to contract sharply by -3% in 2020 but the result could be actually even worse.² The WTO has estimated a trade loss between 13% (optimistic scenario) and 32% or even more (worst case scenario). UNCTAD has anticipated that FDI of multinational corporations are to decline between 30 and 40% during

1 COVID-19 has been characterized as a pandemic by WHO on March 11, 2020. Remarks of the WHO Director General are available here www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19—11-march-2020 [retrieved April 19th 2020].

2 The IMF World Economic Outlook, April 2020 is available here <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020> [retrieved April 19th 2020].

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2020–2021.³ In a very short span of time, emerging economies and low-income countries have experienced the largest capital outflow ever recorded.⁴ In brief, the economic shock will be substantial and in particular global linkages (trade, FDI above all) will be broken or severely blunted.

We are all aware that substantial economic shocks are often associated with political turmoil and changes within polities but they also affect relations between states. Therefore, in sum, the question is whether the coming recession would turn into a massive reshuffle of the “rules of the game” in both political and economic spaces. In what follows I am highlighting some points and issues on this. In particular, the following steps are elaborated taking as point of departure a historical analogy. In brief, the question is whether the current shock would turn into a twenty-first century General Crisis so highlighting a resemblance to the «Seventeenth Century General Crisis». The latter definition was coined by Hobsbawm (1954) who analysed the seventeenth century in Europe and highlighted some aspects that he argued were relevant: (1) a substantial contraction of commerce between 1620s and 1650s; (2) a widespread demographic decline; (3) a clustering of violent conflicts and revolutions; (4) the rise of absolutism; (5) the establishment of large state-run armies. Eventually other scholars have emphasized other associated factors: (6) climate change; (7) severe fluctuation of commodity prices and declining interest rates; (8) financial weakness of major powers. In addition, to complete the resemblance, the plague epidemic reappeared intermittently throughout the seventeenth century in Europe.

Surely we all recognize the descriptive power of this list for our world today too. Climate change and declining demography in developed countries are well-known long-run tendencies, but the other factors have emerged with greater intensity in the latest years, more specifically in the aftermath of 2008 global financial crisis. Also major economies have experienced severe fiscal imbalances and debt distress. Then, the outbreak of the 2011 crisis of sovereign debts has forced the central banks to rely on unconventional monetary policies. In addition, since the 2008 crisis protectionist measures have increased and global trade has experienced frequent oscillations in merchandise trade volume growth due also to tensions between major players. Political systems also have been under pressure. In particular, democracy worldwide appears nowadays to be in retreat. In fact,

³ The WTO Press Release *Trade set to plunge as COVID-19 pandemic upends global economy* is available here https://www.wto.org/english/news_e/pres20_e/pr855_e.htm [retrieved April 19th 2020].

⁴ IMF Press Release no. 20/98, March 23, 2020, *The Great Lockdown: Worst Economic Downturn Since the Great Depression* is available here <https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency> [retrieved April 19th 2020].

democracies had to face internal discontents due to increasing inequality and economic stagnation. Instead, authoritarianism appears on the rise. In particular, there is a spread of would-be autocrats that emerge from democratic systems. In these days, such trends are to be strengthened. Besides the severe economic downturn, polities are experiencing in fact political turbulences. Not surprisingly, in the latest days several leaders are claiming broader powers – officially branded as “emergency powers” – with few safeguards to prevent abuses. Associated with the retreat of democracy there is also a growing distrust in international institutions which have been the pillars of the liberal democratic order. In addition, unresolved armed conflicts, a significant portion of which are clustered in the broader Mediterranean region, have global impacts. Relatedly, military expenditures have been increasing for years. In brief, the post WWII liberal order appears to be in crisis (see Ikenberry 2018).

In brief, it seems that all factors listed above which have been associated with the general crisis of the seventeenth century are taking shape nowadays too. In this perspective the 2008 financial crisis, the 2011 crisis of sovereign debts and the Covid-19 recession would be considered nothing but parts of a «general crisis» which is not the summation of independent short-term shocks but rather a long-lasting movement. The question is crucial indeed. In fact, the seventeenth century (until the early 18th) has been characterized by violent and deadly conflicts and by a reshuffling of political and economic systems. If this is to happen now, the welfare of developed countries will be at risk, but the worst consequence will be for the developing, transitioning and low income countries where human rights, democracy and inclusive institutions are less resilient.

What Ought to be Done?

What ought to be done to avoid a «Twenty-first Century General Crisis»? In these days, all governments are focused mainly on internal affairs and are elaborating policy packages to limit the impact of the pandemic. Regional and international organizations are also strengthening their support through additional funds and other measures. However, in such a case unconventional monetary policies (QE) and expansive fiscal stimuli on a national or regional basis could not suffice. My argument here is that economies can only be rescued indubitably by international cooperation mediated by international institutions. Therefore, international institutions must be reformed and strengthened to maintain a rule-based environment which can help states remain on a democratic path.

Under this perspective, on the one hand, no government is capable to act alone. Rather, governments have to commit themselves more intensely to

international cooperation. In particular, western democracies have to invest much more again into international institutions and international economic agreements not only in the next weeks but mainly in the years to come. By “investing” I mean that they have to commit themselves to “re-write” some “rules of the game”. In fact, keeping the institutions as they are now would be simply unthinkable. Upon this general premise, I highlight five possible – if not desirable – priorities: (1) re-shaping the UN system with particular regard to security council and peacekeeping; (2) Relaunching multilateralism and WTO; (3) Reforming the IMF conditionality; (4) an international price control mechanism; (5) a global Emergency Buyback of weapons.

Without a doubt, the first objective should be surely a commitment to reinvigorate United Nations system, in particular, regarding its role on peace, international security and peacekeeping. The most difficult task would be that of reforming the UN security council. There is a need to make the council more depictive of the current global power balances and thereby enable it to intervene more effectively in armed conflicts worldwide. The humanitarian tragedies of unresolved conflicts in Syria, Yemen and Libya mark the urgent need of opening a dialogue to re-shape the security council. It would be a long path requiring years of negotiations and efforts but it eventually would tie countries more closely. In a shorter term, a simpler but desirable task would be that of providing more financial support to peacekeeping operations. In fact, in spite of several issues and failures, UN peacekeeping operations have contributed effectively to peace also avoiding post-war violence and to enhancement of welfare within societies (see among others Bara 2020; Beber et al. 2019; Bove and Ruggeri 2016; Caruso et al. 2017; Di Salvatore 2019; Di Salvatore and Ruggeri 2017; Dorussen 2014).

In the light of the predicted collapse of trade linkages and global value chains, the WTO has to gain a major centrality in the international economic system. This should also be a part of a broader effort to maintain peace between states in the long-run given the linkages between trade, FDI and peace (see among others Gartzke and Westerwinter 2016; Martin et al. 2008; Martin et al. 2012; Polachek et al. 1999; Polachek et al. 2011). As mentioned above, in the aftermath of the 2008 crisis protectionism has risen – in particular through non-tariff barriers – and therefore the Doha Round stalled. Moreover, the scepticism of Trump administration on multilateralism has been a severe obstacle to any other major multilateral agreement. However, re-launching multilateralism ought to be in the agenda associated also with further regional integration. In addition, among WTO roles specific attention has to paid to the dispute resolution mechanism. Recent research has shown that the WTO Dispute Settlement System (DSS) has proven to be successful not only for complainants but also for all members by providing further market access (see among others Bechtel and Sattler 2015; Bown and

Reynolds 2017; Shin and Ahn 2019; Yildirim et al. 2018). Trade disputes are expected to increase during an economic downturn, thus, it is crucial to have an efficient system that encompasses the largest possible number of countries. In fact, it is well known that there is a great disproportion between developed countries and developing countries in participation. The most active users of the DSS are the developed countries. The developing countries account for significantly less activity, whereas LDCs practically do not use it at all. The accepted ideas about such lack of participation are financial constraints and lack of legal capacity. In any case, member states have to agree to implement certain measures and financial provisions to secure participation of the developing and the least developed countries in order to derive the global benefits that are associated with such wide participation. The WTO can also be the actor to implement another unconventional desirable policy, namely an international price control mechanism for commodities and agricultural products. This would provide a greater stability to the global economy avoiding excessive fluctuations and volatility of prices that are detrimental for both consumers and producers. Implementing international price controls would break almost a taboo nowadays even though similar ideas have already been explored in the past in the aftermath of WWII (see Rosselli 2017; Zaglits 1946). It is even more urgent nowadays in the presence of a rising protectionism and economic introversion because as shown in Sacks O'Rourke and Williamson 2011 volatility decreases in the presence of world market integration are associated with peace. Particularly with regard to food prices, the benefits of price controls outstrip the costs as explained in Dawe and Timmer (2012).

The most obviously necessary intervention is a reformulation of IMF conditionality. In particular, it is well-known that there is a long-lasting debate about the IMF conditionality (with its policy packages) and its influence on the development path of countries. On the one hand, evidence suggest that economic growth can be negatively influenced (see Dreher 2006). In addition, the IMF conditionality has been scrutinized because of its negative impact on welfare spending and therefore on health, education and human rights (on these issues see Abouharb and Cingranelli 2009; Daoud et al. 2017; Detraz and Peksen 2016; Forster et al. 2019; Stubbs et al. 2017). In current circumstances, conditionality has to be necessarily relaxed and eventually reformed. The economic downturn is expected to be so pervasive and long-lasting so that many countries will not be able to meet the IMF requirements in the future. So far, the IMF has rapidly provided financial assistance for several developing countries but apparently there is no relaxing of conditionality.

Finally, to support the efforts to prevent armed conflicts worldwide, it is necessary to find a way to disarmament and to limit the global arms market which is now – *de facto* – weakly regulated. As mentioned above, the military expenditures have been rising for years. The current fiscal imbalances surely will decrease

military expenditure in the very short-run but in the medium term – if instability and authoritarianism will keep rising – they will increase again. The current situation can provide an opportunity for disarmament. An **Emergency Buyback** (EB) in the form of a global emergency fund created to finance a general buyback of conventional weapons and small arms can be a feasible proposal. This fund would buy conventional weapons and SALWs from governments, presumably developing and LDCs, to eventually destroy them. This general global buyback of conventional weapons and SALWs can be created through a multilateral agreement and eventually managed by a special agency or commission at the United Nations. The purpose would be two-fold: on the one hand disarmament is a public good, and on the other, countries can benefit from additional liquidity. In fact, governments could receive direct payments in return or create a special reserve to be drawn upon to face an emergency like this one. Benefits for governments would be clear-cut. First of all, they would attain monetary payments and financing without being subject to IMF-like heavy conditionality. Secondly, such monetary payoff could also create an incentive to enforce ceasefires and peace treaties.

Needless to say, such an agreement would be questioned because of the enforcement mechanism to be implemented. In fact, opportunistic governments would have incentives to “sell” weapons to the EB agency and eventually buy new weapons. In order to avoid such a result, it is necessary to agree on monitoring and certain mechanisms for providing liquidity which would “tie the hands” of recipients. For example, in order to increase the payoffs for countries, the EB could be linked to a debt relief programme too. In any case, even though there is evidence on limits and risks of self-enforcing mechanisms, a self-enforcing mechanism is the only feasible option. A coercive authority would be incoherent with the spirit of such an agreement. Moreover, it would also limit the sovereignty of countries. One might question the actual benefits of a global general buyback arguing that military expenditures and acquisition of weapons are small for many countries. But note that, only in 2014, arms imports of the countries in the fifth quintile in terms of GDP per capita – namely the poorest countries – have amounted almost to \$9 billion (source: WMEAT). This amount far exceeds the \$2 billion global humanitarian response plan launched by the United Nations Secretary-General António Guterres for the world’s poorest countries few days ago.⁵

⁵ The United Nations Department of Global Communications “*Funding the fight against COVID-19 in the world’s poorest countries*” available here <https://www.un.org/en/un-coronavirus-communications-team/funding-fight-against-covid-19-world%E2%80%99s-poorest-countries> [retrieved April 19th, 2020].

A Final Remark

The seventeenth century general crisis has been a long period of retrogression which eventually re-shaped the world at a very high cost for humankind. Avoiding a «Twenty-first Century General Crisis» ought to be the imperative for policy-makers. The degree of the historical resemblance can be debated, however, it is certain that the current situation is an unpredictable shock that highlights the need for reform in the global system. It must be emphasized that, albeit vital, economic measures are not going to suffice to accomplish those reforms. Cooperation to prevent recrudescence of existing armed conflicts must be on the agenda and political coordination between democracies have to be enhanced to keep a global rule-based system alive. Further introversion of states would undermine the (already) fragile production mechanisms of the most important global public good, namely the global Peace.

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