

The webinar “Coronavirus: The Response, The Recovery and The Other Side” was given on Thursday, April 23, 2020 by Megan Greene and Adam Tooze as part of M-RCBG’s weekly Business & Government Seminar Series.

John Haigh:

I am John Haigh and I am the co-director of the Mossavar-Rahmani Center for Business and Government here at the Kennedy School and also a lecturer of public policy. We are extremely fortunate today. We have with us, Megan Greene and Adam Tooze. Megan is a research fellow, senior fellow within the Center. She has been doing fantastic work basically on broad macro economic issues. Part of her work right now is on narrowing the gap, theory versus reality for drivers of inequality. We're all looking forward to her book when it comes out. And I'll let her introduce Adam. Adam has been a historian at Columbia, but she can go into more detail. Megan, in particular, focuses on global macro economics. She was the global chief economist at Manulife/John Hancock Asset Management. She's had her own macro economic consulting practice in London. She was in the economist intelligence unit. She writes a monthly column now for the Financial Times and obviously there is a lot of demand right now.

John Haigh:

The title of the talk today is, Coronavirus: A Response to Recovery and the Other Side. I think we all would love to know the answer to that and I'm not sure anybody really has the answer, but I think it's going to be an interesting conversation. I do want to say one little comment. Obviously, these are incredibly unusual times and I don't ever remember anything of this nature and magnitude occurring, even the financial crisis of 2008 does not seem to ... What's happening now seems to pale in that context and most of our Rahmani Center for Business and Government wants to keep our seminar series going, our processes going, make all of our research available. I'm going to make a quick plug, Chris Avery, who is affiliated with the Center, just came out with a paper today in the NBER talking about all the different models and the pros and cons of those different models and we're going to try to build, I think, a capacity within the Center to provide working papers and other kinds of information related to the coronavirus and then put together the coronavirus, the economy, and business.

John Haigh:

With that, I'm going to hand it over to Megan, let her introduce Adam and we'll go from there, but thank you all for joining us. I hope you're all safe and healthy and hopefully taking all of this in stride as best you can.

John Haigh:

Megan, it's all yours.

Megan Greene:

Thanks, John. Let me introduce Adam quickly. Adam is a professor of History at Columbia University and he also runs the European Institute there. He's written the book, Crashed: How a Decade of Financial Crisis Changed the World, and I'm curious to hear how he might update that given this crisis at some point. Adam hails from the UK and also from Heidelberg in Germany, but is now based in the US and he has a real global perspective. Adam and I are both going to give introductory remarks for about 10 minutes each. Adam is going to focus on most of the world and I'll focus on the US and then we'll go ahead and open it up to Q and A.

Megan Greene:

Really quickly, a housekeeping note. The way that you can submit questions is through the Q and A button at the bottom of the Zoom screen, so you can hit that and type in your questions and I'll go ahead and sift through them and try to group them thematically so hopefully we can have a productive discussion over this next hour.

Megan Greene:

Let me go ahead and turn it over to Adam for his comments first.

Adam Tooze:

Thank you, Megan. Thank you, John for that introduction and setting us up so nicely. It's a real pleasure to be here. I hope everyone can hear okay, we've got [inaudible 00:03:55].

Adam Tooze:

As John says, it is difficult to remember anything like this in our experience previously and I think he's right, but in many respects this does dwarf the shock of 2008 that we might talk about the specifics of that. But one of the things that makes this so singular and I think truly unprecedented in history is the aspect of it that French President Macron alluded to in his now well-known interview in the Financial Times last week where he referred to the shock as an anthropological shock. Now, Macron is given to big words and the transcript of the interview is something I recommend everyone who has the time read. It's quite the long read. Very different mode of statesmanship from what we are familiar with on this side of the Atlantic. It's [inaudible 00:04:43]. But I think the real tough and important fact around which that idea of this is an anthropological shock is centered is this truly is as close to a universal and simultaneous experience. Deeply impactful, not like where were you during the World Cup when Maradona shot his goal or in fact when JFK was shot, but what were you doing during this crisis is a meaningful question for us from here, from wherever we are on this Harvard webinar to the streetwalkers of Delhi or the [inaudible 00:05:16] of any African shantytown.

Adam Tooze:

Everyone is confronted with this question simultaneously. The ILO estimates that 81% of the global workforce is currently operating on one or another type of lockdown. That's 2.7 billion people. We think about 1.3 billion young people have been furloughed out of education more or less simultaneously and that's just so generous. We've never had an economic, political, social, cultural shock quite like that before. It had to start somewhere though and I thought what I would start by doing is just actually rolling us back to the beginning because, as Megan said, we've got a division of labor and she's going to talk about the US. I'll talk about ROW.

Adam Tooze:

This crisis did originate, of course, in China. And I think it's interesting to think about that not just from a political and theological point of view because that thinking is going to go on forever. It's also interesting to think about it economically. Because of the markets, if go back over the economic coverage, we're freaked out by this event more or less immediately from the 20th to the 23rd of January when it becomes clear that Beijing is going to be acting. Why are they concerned? I can see Megan humming in high, maybe not freaked out. Why are they concerned? They are concerned because, though for many of us, Wuhan and Hubei weren't exactly top of stack. If you are a watcher of the Chinese economy, this is a powerful and industrial hub and what Beijing was doing was not something that the Chinese regime

does routinely. There is a kind of Orientalism is us imagining that the Chinese regime routinely has the power to confide it's ... nonsense, they've done anything like this before.

Adam Tooze:

No one attempted to stop as large a piece of any economy in its tracks as the Chinese were about to do. It took their advisors by surprise. Xi picked the most radical of three options that he was offered. That's at least the narrative the CCP is spinning right now. And the results were catastrophic for the Chinese economy pretty quickly. And so even if the Chinese had succeeded at containment fully, and everyone else had acted as promptly as some of its neighbors did, it was pretty clear by February that we were facing what, from the point of view of the world economy is very bad news, in other words, a very rapid slowdown in China. And it's worth, I think, remembering that as the beginning. Even under the best case scenario, this was going to be much worse than SARS in 2003.

Adam Tooze:

And there's a big question about whether China is going to be able to pull itself out of the slump, which it is, for the first time, entered since they've started publishing quarterly GDP numbers. This is the first quarter where we're actually seeing negative growth across China. And if you look at Hubei, Hubei province, which is, after all, the relevant comparator, not all of the Chinese economy, but Hubei is the relative comparator for Italy, for instance, roughly the same size, roughly the same intensity of epidemic. The numbers for Hubei province show a 40% fall in course of the GDP of the first quarter. That, if you like, is what the epidemic looks like when it's out of control in China. That is [inaudible 00:08:06] thing for us to be thinking about.

Adam Tooze:

It's very misleading, I think, to take any national numbers you see for China and use those as a way of thinking about projectional recovery tracks for the rest of the world. That sugar-coats the pill, basically because that's taking a much larger aggregate. Let's focus in. For a big part of the Chinese economy, the shock was immediate. It was massive. It already sent shock waves through the rest of the world and for Hubei, it remains a catastrophe. That's the opener. The epidemic, of course, and this is where the markets really began to lose and become extremely anxious when it became clear that it had spread very widely and notably to Italy and this becomes clear really in the last week of February and then as we head towards the national shutdown in Italy on the 8th and 9th. It becomes clear it's hit Europe badly and in a big part, the European economy. And by a cruel twist of fate, the most fragile bit of the Euro.

Adam Tooze:

Italy, and Italy's public debt, as everyone who has been following the Eurozone story knows is the accident waiting to happen. Italy is precariously perched on the balance of debt sustainability at 135% of GDP. With very low interest rates, this is manageable. With support for the ECB, this is manageable. If nominal GDP growth picked up a bit, it would be manageable. But what Mattarella reckoned with was a huge real side massive shock to the Italian economy which is suddenly what became apparent in late February, early March. And that has triggered a debate about the govern-ability and the survivability of the Eurozone, which is one of the huge facilities in the global economy. Obviously Europe is not top of the stack for many people, it's not the most fashionable bit of the world economy, but the Eurozone is a very big piece of the puzzle, it's a major trading part and its financial system is large enough to be hugely systemically relevant, not to mention individual banks which are part of that.

Adam Tooze:

The sort of risk, which suddenly was revealed in Italy from late February to early March compounds the already evident sense that, as it were, the Chinese shock is very massive, is going to pull the ground out underneath the growth machine that we take for granted in east Asia. The Eurozone, the spread of the pandemic to the Eurozone points to that fragility ever since all the way down to the present day. The Eurozone has really been struggling over what of its response is going to be. In a nutshell, so we can get onto the debate as quickly as possible, in a nutshell, there are two components, fiscal and monetary. The key one in terms of the immediate stabilization is, monetary kind of underplays it, which is bond market stabilization by the major central bank. The opening up of a very large fiscal capacity for national governments and if necessary, support for fragile banks by way of various types of generous liquidity provision, which all three of which essentially the ECB has been doing on a scale, which is, by its standards, large. Even more importantly, with a speed, which is, by its standards, urgent.

Adam Tooze:

The actual scale, because the ECB has done big QE before, what's really remarkable this time around is that it's actually jumped in very, very quickly. Still modest by comparison to what the Fed's done and Megan will talk about this, but nevertheless, there has been a response and that has been crucial because what it's done, at least for a while, is to take much of the risk out of the sovereign debt market and to enable the Spanish and the Italians to mount very substantial responses to the crisis without worrying about their budgets overly. The bigger question, of course, and the longer term question is out there, which is, if these states do the kind of response that's necessary, if they then subsequently engage in the kind of stimulus that will be necessary to restore their economies to working order. The impact, if the costs redounds onto their national budgets will be dramatic in the order of 10 to 20% of GDP and if you started where Italy started from, this pushes you into nose bleed kind of territory on debt sustainability and forces the question evermore directly of how do you stabilize that? Is this going to end up on the balance sheet of the ECB? Is there some other more comprehensive fiscal solution and that is being debated right now by video conference in Europe amongst the heads of government at the EU level today.

Adam Tooze:

In the long run, the risks here are very considerable because if there is not a common financing mechanism and a common funding mechanism, then the consequences are likely to be that the Italian and Spanish efforts limp behind most of Germany and this will tend to compound the already existing differences within the Zone and make the politics of this complex union more and more difficult. In a nutshell, that is the sketch. And as that sank in and that sinks in pretty quickly in financial market times between the end of February and early March, it became clear how dangerous this was going to be. Spreads began to blow out through Italian sovereign debt and a variety of other shocks began to percolate through the financial system and I'm going to use this as a segue to the final point of my intervention, which is that shock began very widely across the global economy and it's important to understand how quickly this happened because it's well ahead of the actual epidemic.

Adam Tooze:

Whereas in China, the epidemic and the economic shock are kind of coterminous and in the Italian and European case, likewise the epidemic arrives, the lockdown arrives, and the financial pressure builds immediately on the heels of that. What we see in the emerging market world is huge pressure beginning to come down through the financial markets already in February, for many of them, with [inaudible]

00:13:30] gradual depreciation of their currencies but then extremely intensely in March. The headline instances of this were of course the commodity producers, the oil exporters notably, which include several very fragile emerging markets, states, which were hit by the China shock because China is the main driver of global oil to [inaudible 00:13:50] and so it was clear that China was having this slow down. And then the emerging market oil producers were going to be in the front line of a shock. And this is what triggers the famous blowup in OPEC, which happens over the same weekend as Italy moves towards a comprehensive national lockdown.

Adam Tooze:

Then as the IIF, the Association of Global Banking and Finance has been tracking its states are in real time. Basically there has been an avalanche of ... not the quite word, the reverse, a huge draining sound as money is being sucked out of the emerging market economies and their currencies began to plunge. Much of the action in global political economy in March and April was about cushioning this impact. That ranges from highly sophisticated interventions by actors like the Fed, which we have counterparties like the Mexican Central Bank or the South Korean Central Bank engage in essentially advance the economy style interactions by way of swap lines to, at the bottom end, as was discussed in the spring week of the INF and the World Bank last week, immediate debt moratorium for the lowest income countries. We're talking the Mali's of this world, the Tanzania's, the low income countries which are scrambling their way onto the ladder of the global economy and have now seen that torn away by the collapse of tourism, the collapse of export demand and a panic driven shock to emerging market finance.

Adam Tooze:

What we are scrambling together is some sort of safety net for those weakest actors within the system because the shock exposes profound inequalities in the system. I'll end by saying, the outlook, particularly for those actors, is as grim as it is the advanced economies. I think it's really grievous and for marginal large population, young population, high unemployment, commodity exporters notably, I'm thinking of the Algerias, the Nigerias, the Angolas of this world, we're talking about existential risks from this crisis because it's really just not obvious where they go. They earn 80% plus of their export revenue from oil and gas. Huge slices of their government revenue comes from that, therefore Algeria is being forced into 30% budget cuts right now in a country which is still in a sense in the aftermath of the Arab spring so huge risks there. And their recovery, what does it depend on? Well, it depends on the recovery of the advanced economies.

Adam Tooze:

It depends on the stabilization of their funding, but it also crucially depends on China for their growth prospects because China is the great engine of growth and to conclude and to conclude where I began, the dog in a sense has not barked in this story so far is the China stimulus, because we saw the China shutdown, we saw the massive Chinese efforts to control the epidemic, we've seen the huge macro economic hit that [inaudible 00:16:32], but what we haven't seen from Beijing yet is anything like 2008. We've not seen the no holds barred pedal to the metal amount of fiscal stimulus. And the question I think has got to be, why not, what does that point to? And I think that points to the really critical kind of, I'm with Michael Pettus here, fragility in the Chinese financial system with regards to the sustainability of debt in China, key weaknesses in sectors like real estate and then also the memory of the 2015, 2016 crisis when China saw huge exodus, which even from China's position of enormous financial strength was a real shock. A trillion dollars basically drained out of their foreign exchange reserves.

Adam Tooze:

In the background, I think, apart from the wait and see attitude that Beijing would be very wise to adopt in any case, are a series of fragilities that mean that it's not clear where the growth locomotive is this time and I'll end on that note.

Megan Greene:

Okay, thank you, Adam. I'll focus a little bit more on the US. The data that we've gotten out of the US is farce at best since this crisis started. We do know that we've had jobless claims for four weeks in a row, which have just been eye-watering. The charts look like someone hard coded the wrong number into the end of them because it's just off the charts. We have lost about 26 and a half million jobs in four weeks. Just to put that into perspective, that's more jobs that we created since the global financial crisis combined. We've wiped all of that out in just four weeks. It's hard to overstate how big the impact of this forced shutdown, this deliberate shutdown has been on the labor market.

Megan Greene:

We've also gotten some PMI data. Companies are asked how they are feeling about output and employment and new orders, input prices. We've seen the worst results that we've ever had on record from that as well, so that's a gauge of activity but also confidence. And we have specific confidence indicators that have come out for consumers and businesses and those have also just seen the bottom fall out of them.

Megan Greene:

If you look at professional forecasts, Bloomberg puts together a survey of professional forecasters asking them what US growth should be in the second quarter of this year and they range from growth of .4% annualized to a contraction of 65%. Now I spent a lifetime trying to forecast various economies. I have never seen such a huge range. Honestly, I think .4% growth, that's viably optimistic. With anything between a contraction of 10% and 65%, you could really imagine and that's already still a huge range so I would say that as economists, we're all looking at this and we're all kind of on quicksand. We don't know exactly where the bottom will be. We just know that we haven't found it yet and that we're certainly not there yet.

Megan Greene:

This is also echoed on the corporate side, lots of companies have just canceled their guidance. Usually they offer guidance on what they expect will happen with profits and other things and they've just said, you know what, we don't know, so we're just not going to offer any, anymore. It's just to highlight how much uncertainty we've had with this downturn. The policy response has been really impressive, I will say, in the US in some ways. The Fed acted really quickly. Someone said to me, "Thank God, we had the 2008 crisis." And I thought, what a weird thing to say. The global financial crisis was awful and he said it helped the Fed figure out exactly what they needed to do much more quickly this time around, which I guess is fair enough.

Megan Greene:

It's hard to overstate the distance that the Fed traveled in a really short period of time in announcing programs to buy corporate debt and immunity bonds for example, high yield ETFs. By way of example, I asked some Fed officials at the last Boston Fed Conference a couple of months ago about buying

corporate debt and they just looked at me like I had 40 heads. It was absolutely just not even on the table and now they are already doing it. So the Fed stepped in really quickly.

Megan Greene:

The fiscal response has been a lot slower, it's been huge to say, as a percentage of GDP, if you leverage it up with Fed money, it's the biggest response we've seen actually anywhere globally, but it has taken a while to get through. We've passed three rounds of physical stimulus measures. We have passed a fourth one and it should be passed later this week. But that being said, I think it's probably not big enough and for what it's worth, we've got really top down tools to get money to the pieces of the economy that desperately need it. It's not easy to do, and particularly when it comes to the small businesses, I think there's been a lot left to be desired. We've created this small business lending program that turns into grants if companies agree to keep people on their payroll so that's an incentive to not lay people off. But first of all, we've already run out of the money. We've talked it up, but all that money has been pledged as well.

Megan Greene:

Secondly, the average small business has about 27 days of cash buffer. We've actually already been doing this for 27 days. For a lot of these small businesses and for employees as well, it's just a bit too late. I do think the idea has been with our policy response to freeze the economy for two months, roughly, and then contain the virus and defrost the economy. The hope was that we would have a whole bunch of pent up demand, everyone would go out and spend and a year from now would have hardly remembered that this even exists. What we're finding increasingly is it's going to take a lot longer to go ahead and contain this virus and also freezing the economy might not work particularly if you have to do it for a lot longer than we thought.

Megan Greene:

In terms of how we get out of this, there are a few proposals certainly. One is that we just go ahead and reopen the economy. We've heard a lot about that, certainly from the President. CBS just put out a poll though, asking people, if we opened up the economy tomorrow, would you feel comfortable doing a bunch of things. They asked, "Would you feel comfortable going to a bar or a restaurant?" 71% of respondents said no. "Would you feel comfortable getting on a plane?" 85% of respondents said no. "Would you feel comfortable going to a large event?" 87% of respondents said no. Can you imagine passing a hotdog down a row to a stranger in the bleachers at a baseball game? It's unfathomable now, so we can reopen the economy, but the reality is, lots of people won't feel comfortable going back out and I do think there is a question about how our behaviors have fundamentally changed as a result of this.

Megan Greene:

If you are used to getting takeout now because you've been doing for the past month and you can all of a sudden go out, you might think, maybe I'll just get takeout again, because I'm used to it. And you might go to restaurants, but not as frequently as you did before. If you used to go to the movie theater, you might think, I love going to the cinema, but I'm pretty used to Netflix now, so you might not go as often and if you've got just a 10% drop off in all those different areas, the long lasting impact on the economy would be huge and so I think that we need to think about that and also think about what industries just aren't ever coming back.

Megan Greene:

Retail might be one of them. We've been calling for the death of retail for the past 10 years and it hasn't happened yet, but it might happen now. I can imagine a lot of these department stores might actually end up going under. So reopening the economy is one option, but I have big questions about how much that would work. I'm not sure people would really go out and if they did, you would probably have a new surge in cases so there's a human toll that you need to think about and we might have intermittent lock downs going further down the line. I think a V-shaped recovery is very unlikely. A Nike swoosh with a zig zag on the end as we intermittently lock down, open up the economy, lock it down, open up again. I think that's pretty likely. That's not the best option though.

Megan Greene:

I think a much better option is testing everyone every two weeks. This is the proposal put forth by Paul Rumor, an economist, and he said, "If you test everyone every two weeks, you'll know if they have it or not for sure given the incubation period." And so anyone who has it, they are going to have to isolate and everyone else can go back to life as normal and we'll all feel confident about that. The problem with that is you'd have to test 150 million people per week. Right now we can hardly test one million people per week, so unless we can vastly improve our testing capacity, it just seems implausible.

Megan Greene:

There's another issue with that in that you would have to police that. For people that feel confident that everyone whose out has been tested and doesn't have it, you'd need to know that people have been tested and I don't think anyone is just going to trust that everyone is doing it so you would need to police that and that opens the door to a much larger role for the state in our lives that I'm not sure people are really willing to accept at this point.

Megan Greene:

I do think there is some long lasting implications of this. I mentioned some industries that are just never coming back. I think digitization will happen a lot more. We'll probably continue to have a lot of Zoom seminars even once we can actually get together in a room together. And they work better in some cases than meeting up in person as well. I think that physical globalization might fall, but digital globalization should increase quite a lot. Just on a positive note to finish with, I also think that maybe our concerns for immediate communities might remain once this pandemic is over as well so that's a bit of a silver lining.

Megan Greene:

I will finish it there, but I wanted to go ahead and start asking questions. I've gotten some through the Q and A chat, so thank you for submitting them. Again, to ask a question, you just hit the Q and A button at the bottom of the Zoom screen and type it in and I'll sift through them and pose them to Adam and answer them myself. I wanted to start off though by asking Adam a question that I alluded to in my introduction to him, because he has looked at financial crisis a lot and I think generally, we economists tend to think, central banks have stepped in and done a great job and so we probably don't need to worry about a crisis like the last one we saw. We probably won't need to worry about a financial crisis with the banking sector having wholesale bailouts. Is that a correct assumption, Adam, or do you see there might be some potential for another financial crisis off the back of this given all the losses that we'll see in bank loan books?

Megan Greene:

You're still on mute.

Adam Tooze:

That will be different from what we've seen so far. We saw symptoms of crisis in March, which, because they triggered huge central bank reactions and because markets like commercial paper, for instance, were shutting down, set off all of the 2008 scar tissue. This is ... okay. But of course the origin of that was completely different so, in 2007, 8, it was driven by a downturn in real estate, which we're familiar with the story and then rebounded by way of big bank balance sheets which turned out to be entirely tied up with this into the question about [inaudible 00:27:58] and so on.

Adam Tooze:

We haven't seen that line of causation running through currently. The banks have even spun the story and said, if only we'd had bigger balance sheets. Some of the turbulence in the treasuries market that you are so worried about might not have happened because we could have been market makers and so you wouldn't have had to have stepped in and altogether all of that regulation you put in place after last time was misguided because you created liquidity problems. Frankly, I think we'll take our current risk balance because they are individual banks which came through 08 okay, just about, the JP Morgan's of this world, but they compete in an ecosystem in which there will be bad players whose balance sheets are huge and over enriched and dangerous and they then create a set of problems that we haven't had so far.

Adam Tooze:

What we've had so far is stress on basically various types of fund based, so people describe this is a financial markets crisis rather than a banking crisis. Some of the real damage there may still be working its way through the stories today about massive downgrades to slices to CLO, which are collectualized loan obligations, they are, as it were, a close cousin of the things which blew up in 2007, 8, which in some sense is directly the same type of product. There were stresses in the mortgage backed securities market this time around as well, which the Fed stepped in rapidly to try and fix.

Adam Tooze:

I agree, Megan, if we see a truly deep, fundamental macro economic recession, a comprehensive unemployment crisis, then of course, you would expect that to feed through to bad loans and there has been a remarkable surge in lost provisioning by almost all of the big American banks to, I think, allow precisely for that. So I would expect there to be pressure on people who've invested in banks. I would expect the dividends to be minimal or nonexistent. I'm not sure right now, in the US I see a 07, 08 type dynamic, but obviously this is very early days. The drama has been so intense, so quickly and there is an incredibly powerful correlation between debt delinquency and unemployment and the unemployment numbers have shot up. We haven't seen the debt [inaudible 00:30:06] and numbers yet, though there are signs that lots of mortgages are essentially in abeyance right now.

Adam Tooze:

In Europe, I think that might even be a more serious issue going forward because we know the bank balance sheets in Europe are very weak. The absolutely last thing they needed was a new surge of non-performing loans and the absolutely last place they needed them was Italy. That's precisely the scenario we're looking at so there could be, again, I don't expect it necessarily to turn into the rolling,

uncontrollable crisis of 07, 08, but working through the balance sheets of crippled banks could very well be a problem that Europe is talking about. The ECB has already launched a proposal and rapidly had pushback. The ECB is clearly thinking that it might need to bad bank to deal with this.

Adam Tooze:

It is significantly different in its shape and that has in part to do with the way in which we squeeze some of the risk out of bank balance sheets and then shows up somewhere else and has to be handled with a new set of instruments.

Megan Greene:

There. Sorry, I was muted. Thanks.

Adam Tooze:

The world stops, Megan.

John Haigh:

We just thought you were being quiet, Megan. It was not that you had nothing to say.

Megan Greene:

No, no. We've gotten a couple of questions about an exit strategy, both for the US, but also for other economies and I kind of laid out two. One is the intermittent shut downs. Another is the testing idea with some significant government intervention in our lives. I guess there is the, introduce this serious police state to make sure that everyone who is sick is staying at home. That's another option, but I'm curious to hear what you think the most likely options are and also, you spoke to how unsynchronized this entire crisis has been globally. Is that a problem? Should we consider that in terms of how we exit?

Adam Tooze:

It's been unsynchronized because in a sense everything is. Historically speaking, the rapidity with which everyone has been hit, has been the dramatic thing, but even in that three month interval between Wuhan and where we are now, there is in deed a phased pattern. The point that I thought that you made was incredibly powerful and I think it is likely to shape as we move forward from here is that we shouldn't think of the shutdown as necessarily government driven either. Even in the Chinese case, because the events coincided with their annual New Year's holiday and so in a sense, the Chinese economy slides into a spontaneous shutdown in the last weeks of January and early February. And in that space, the government declared the shutdown because in a sense, the economy was shutting itself down for the holiday.

Adam Tooze:

If you look at, as you were saying, in Europe and the United States, the sectors which were most vulnerable were shutting down spontaneously. The restaurant bookings, the hotel bookings were collapsing before governments declared official shutdowns. I've been looking back over the reporting of the auto industry, it's very interesting because the trade unions play a very powerful role in saying to manufacturers, "Look, we've got to shut because you can't keep our members safe." And then the manufacturers look at each other and go, "Well, you know what, my supply chain is broken down anyway because other plants have shut and in case no ones buying any cars so why go on making them

when your workforce is saying it's dangerous to be here." The model of the shutdown and therefore also exactly as you say, the model from the exit of the shutdown should not be thought of as in too state centered terms.

Adam Tooze:

In New York, it's spectacularly obvious that they never had any capacity to enforce the shutdown at all. Nothing would happen to you, even today, if you walked up and down the street and went up to people and coughed in their faces without a face mask. I mean, people would treat you as an antisocial idiot, but there would be no enforcement. There's a real sense in which we should not think ... there is a clearly deliberate element and the pressure was there and governments were pushing, but has to be thought of as a sort of spontaneous social and economic adjustment to a new type of risk. The implication of that, I think, can cut two ways.

Adam Tooze:

One is there is the extreme caution model, but I think there is also a very powerful, let's blow caution to the winds, in the end I'm not going to die from this, the Florida beach scene, which is a more optimistic one, which is people can't wait to get ... at some point we're all going to say to ourselves, "I'm going to fancy my chances. I actually don't think I'll end up in hospital. This could just be a really bad cough." Damn it, I have to resume. It's a play. It's an extraordinarily fascinating natural test of the balance of those forces for certain sectors which are highly dependent upon high risk groups like opera, for instance. I don't expect the opera to be full. The audience for teen movies, I don't know, relatively speaking, I would bet on a release of a teen movie this fall.

Megan Greene:

Sorry, I muted again. I think what you're saying is right, that we've all kind of shut down on our own spontaneously before governments told us to. The policy response, the economic policy response has been overwhelming, I think we can say. In the US, also in many European countries, Germany has gone through all kinds of orthodoxies in terms of having a balanced budget, it turns out the Germans are very happy to spend as long as they save their bacon with it. Not quite as willing when it comes to other countries.

Megan Greene:

In EM, we've seen some extraordinary moves as well, though maybe a bit less overwhelming. What has been lost in all of this at the national level, I think, has been concerns about debt burdens and deficits and I know in 2008, 2009 when we tried to come up with a package to bail out workers and companies and banks, in particular, we thought we could pass a lot and get it passed quickly and then we'll do more later. By the time later came, there was no political capital left to do more. Do you think we're going to see political capital and support for this kind of rescue wane as time goes on and even worse, do you think at some point we're going to be talking about austerity measures again to try to dig ourselves out of this debt burden that we're all building up?

Megan Greene:

Now you're muted.

Adam Tooze:

There we go. We're negotiating the limits of control here.

Adam Tooze:

Yes, debt. There's a glib answer to that on the American side and in that glibness there is a real truth which it depends crucially on who wins the presidency in November because when you say the momentum broke down, it's kind of a bit of a euphemism. Let's face it, when you say political capital was exhausted, how was it exhausted and by whom and in the struggle over what.

Adam Tooze:

And if we just come straight out, in the US it's crisply evident what the answer to this is, right. The GOP, if it puts its mind to it, is perfectly willing to publicly say that the main purpose of their function in Congress is to ensure that the democratic incumbent has a one term presidency. Mitch McConnell's words in 2009. And that's what they did to the democratic administration. They voted, I think, to a man or woman against stimulus in January 2009 and voted almost unanimously for stimulus, much larger stimulus this time around and I think that's a very important lesson.

Adam Tooze:

If Joe Biden wins the presidency, expect all hell to break loose the very next day. Expect Fox's coverage and there is a fantastic graph which shows this operating in November 2016. It looks at the frequency of Fox's mention of the word deficit and debt up to November '16 and it's one of our graphs. Now it just stops. Fox doesn't care about the deficit or debt anymore. And I assume if and when Joe Biden wins the presidency, expect them to care a great deal and for the GOP to make this into a life and death issue on which they will crucify a democratic presidency.

Adam Tooze:

I really do think it's as simple as that and why 2010 is the pivot is that they won control of Congress and that's the moment from which onwards it becomes a dominating issue. And twice, we should remember after all, they pushed America to the brink of shutdown and were threatening technical default and that's after all how Jerome Powell won his spurs. He's in the Fed right now because he was one of the few brave centrist republicans who went to the people, the crazies in the House and explained to them how serious this was and it was that which caught the eye of Tim Geithner and that's why he was put forward because they were also blocking the appointment of Diamond to the Fed board because he wasn't properly qualified and Geithner said, "Damn it, let's find a decent, sensible republican that they might actually pass." And that's how Jerome Powell found his way into the Fed.

Adam Tooze:

There are legacies of this and I expect that tough as nails partisan politics to resume from the republican side if they lose the presidency. In the background, of course, there are real fundamental issues of doctrine. There are people who are devoutly convinced that government debt above a certain level is dangerous, that it creates hazards of various types, that it's an obstacle to democratic functioning and then there are various other shades of conservatism, not as extraordinarily partisan and bare knuckles as the GOP variety, but nevertheless very serious in their intent to squeeze the welfare state and entitlements and so on. And that's the kind of politics that operates in a very straight forward way in Germany as well. And q Bank has already said, "Fine. Spend now, but remember, folks, we're going to have to reconsolidate later." And it's precisely that awareness which drives the urgency of the debate in the Eurozone right now.

Adam Tooze:

Because let's be clear, if that is what happens, if we do tend towards that direction, if we do, do a pivot towards [inaudible 00:40:56], it will be crippling because the IMF's fiscal monitor protections are remarkable. They expect the average advanced economy to have a debt level of 120% of GDP. In a sense, in talking about Italy all the time, we're treating this as though it were going to be an exceptional case whereas in fact, the condition of the average advanced economy and of course making averages out of a small group is always, in a sense, deceptive because Italy is in that number. But nevertheless, what that's telling us is that everyone is going to be dealing with really high levels of debt.

Adam Tooze:

America's debt will be higher than since World War II. The UK's debt will surge as well. And so then the question is really a fundamental questions that are posed that I think we have to find ways of talking about imaginative ways of neutralizing this as a burden, as much in our politics as on our economies. Because, really, it's such a mutual with regards to the economy, as long as it continues to be serviced, it's just a set above [inaudible 00:41:54] claims, which were on the balance sheets of lots of people as opposed to another lot of people. And it translates into a vehicle for crushing fiscal policy then it becomes a real drag on economic growth.

Adam Tooze:

What I'm trying to avoid saying is the word, MMT.

Megan Greene:

I think I got that.

Adam Tooze:

But why I'm trying to avoid saying that is because I think that politically talking, no one in their right mind who advocates an MMT position should ever say those words out loud because the next thing anyone says is Zimbabwe and it's a discursive track that no one should play who's actually serious about neutralizing this as an issue. Don't make it into some great intellectual point that you want to be righteously intellectually correct about. Bury it. Because that's the functional upshot of that way of thinking, is it doesn't matter and we shouldn't argue and care about it because there are lots of different ways of neutralizing this. And the GOP, in its cynical, pragmatic soul knows that. If Trump is reelected, they will go on and they will not make a big deal out of it and it won't be a catastrophe.

Megan Greene:

Yeah, and I think you bring up an important point when you talk about debt servicing. That's what matters is the debt servicing costs more than the debt burden. And now central banks globally have said, look, rates are going to be incredibly low for the foreseeable future. I guess, if we were to get inflation off the back of this and central banks were going to go ahead and respond to that, then debt servicing costs might end up being a problem.

Adam Tooze:

Well, no. We should bow down before the Monetary Gods and say, thank you. No, if we could have inflation of four or five percent, it would be the solution to all of our problems because it would be what we had in the 50s and 60s, a little more, but it would help us to burn off these nominal claims. If you can stabilize it in that band, that of course is the real issue. Can you hold it there? But then we don't have the flywheels of an inflationary wage price spiral we used to have in the west.

Adam Tooze:

There was a great exchange on Twitter recently where Eric Loneragan, I think, came out and said, "If you still got a wage price spiral, you were the merging market." If your wage rate responds positively in some obvious way to your price level, you've still got the fabric of billet and trade unions, which we no longer have. We might be in a position of a kind of a technocratic nirvana where we can run a moderate inflation level, which would be a tax. It's just a general tax on everyone holding a nominal claim. And if the question is, how do we deal with this debt burden, that is the question. Either we keep postponing it by holding them on the central bank balance sheet, or we decide to pay so an inflation tax is not an unreasonable way of doing it.

Megan Greene:

So you're not worried about inflation, I'm not either.

Adam Tooze:

What happened, this is the other thing. If only, because we know how stupid the central banks entered this crisis, all of them having deep internal soul searching conversations about their monetary policy framework, because none of them were able to hit a 2% inflation target and the Blanshards and so on of this world, our chief columnist was saying we should target for and to which the realistic response was always, "Well, that's a lovely idea, but how do we get there?"

Megan Greene:

Great.

Megan Greene:

John, I know you have a question so why don't you jump in here.

John Haigh:

Thank you, Megan. I won't comment on inflation. Megan and I just had that conversation earlier today. She knows I'm not particularly concerned about inflation. But I do want to go through a couple of points you made and then get your perspective on how this will play out in the future. In particular, you pointed out correctly, Adam, that this is a universal global problem. It cuts across every asset of the world. It cuts across geographies, it cuts across income classes and so it's universal.

John Haigh:

The second thing is, we're also seeing, as you pointed out, a break down in global supply chains and you're seeing problematic linkages. And the third thing I would say is I'm hearing people say this is likely to be in waves and it will be in waves both in geography and in time. If you go back and look at the 1918 Spanish Pandemic and things admittedly are very different today. The first wave was now in the spring, the second wave came in the winter and the third wave was again in the spring and it was the third wave that was the most problematic from a fatality/mortality perspective so you've got to figure it's going to come in waves.

John Haigh:

What that does, I think, is push the world to become very nationalistic and to your point, at one level, if we could actually act in a more integrated way and global governance mechanisms that would enable

that, we could have a more coherent and systemic response. But all of the pressures of pushing to nationalism, and it's not just nationalism at a federal level, you see it in the United States with the pressures between states and the federal government and you see it to your point, in Europe, Italy and the EU and can the EU hold together. So where does this leave us in terms of the governance mechanisms to really address these problems in a more systematic way? Maybe we just can't expect that to happen.

Adam Tooze:

I thought Governor Newsome in California's comment about California being a modernizing nation-state of 40 million people was one of the more remarkable punchlines to come out of this entire crisis. It made you feel terrible to be left adrift amongst the 280 million stuck in the decaying wreck of a failed federal project. No, I agree. That kind of centrifugal force is very considerable. I'm by no means a supply chains expert, but I would have thought that one of the things that comes out of this, is sort of modular regionalization. I've been looking, like I've said, at the car industry because it is the driver, the motor vehicle industry is the most sophisticated and most large scale employer of complicated value chains and the average modern car apparently involved 30,000 separate parts which all have to be sourced from the different channels so you can imagine the complexity of doing that over asynchronist shocks running across the system. But the fact of the matter is that VW, the largest [inaudible 00:48:25] car producer, its only factories which are currently producing and selling cars are in China.

Adam Tooze:

It actually does have production up and running again in China.

John Haigh:

Interesting.

Adam Tooze:

And so it remains a global company centered in Germany of course, subject to funding pressures that run through European capital markets that apparently VW is a major petitioner with the ECB, and the ECB's policy of stabilizing corporate debt markets in Europe so there's a very interesting connection, but ultimately the factories that are going and the showrooms that are open, are in China. So if that's possible, it points to new multiples in which you would have corporate control, R & D, and perhaps capital markets and funding operating at a truly global level and then manufacturing being essentially regional, macro regional, which I think is, broadly speaking, the model it operates within after as well. So you have these clusters with car parts operating either on the Canadian or Mexican border of the US. I think that's probably, it seems like a likely response.

Adam Tooze:

I'm not sure if it points, obviously for political entrepreneurs, I always want to stress agency here, this is a shock, unlike climate change, it appears to have a national solution, if you like, a small scale regional solution. It creates an opportunity for nationalist entrepreneurship, but that's what it is. It's an opportunity for people to engage in that kind of politics. It's not a structurally forced move. We've seen with Trump, whatever it is, he's banning green card applications. It's a total irrelevance, but hell, it makes for good politics at that moment. And that kind of exploitation, I think, is something that we clearly have to guard against.

Adam Tooze:

You see that in Italy right now with the struggles over the years. It goes down in the technicalities. The Italian right wing have basically made the only immediately available crisis punishment mechanism politically toxic and so you have the Prime Minister struggling back and forth, committing himself then backing away. Centrists are saying, "No, don't be stupid. Look, this is a good mechanism. Let's use it." But Salvini has really made it poisonous so there's very, very complex politics to be played out case by case around each one of these instances.

Adam Tooze:

To my mind, everyone who has a stake, and I'm going to be unabashed in my normative position in a cosmopolitanism, we should surely embrace this the other way around as an expression of a human totality that's unprecedented today. And we should honor the fact that no life essentially is too cheap right now in the world for national governments not to feel that they have to respond in a very dramatic way. I mean, historically, Modi's decisions are [inaudible 00:51:02], as ramshackle as it may have been, it's nevertheless, that's a historical turning point.

Adam Tooze:

Life in India has traditionally been at a discount whether it was ruled by the Brits or the Moguls or after Indian independence. And for Modi to say and to apologize in the way that he did, and I'm no great fan of Modi's politics, but nevertheless, that speech where he says, "You poor people must hate me now. What kind of a prime minister would do this to me?" That kind of discourse is really historically surprising and we should embrace that as a symptom and as a sign of our collective ... this is a collective ... the Chinese use this phrase a lot ... a community of fate. And that's what we are being exposed to.

John Haigh:

I'm going to follow up this real quickly, I'll just make one quick point. What I find a little bit ironic and I agree with you, is that part of global governance is going to be derived from the private sector protecting its global supply chains its established. In some ways they have more at stake, or as much at stake in many ways, as governments do. And the centrifugal forces pushing governments to be more nationalistic versus businesses that need to protect their businesses and therefore protect their supply chains.

Adam Tooze:

It's an absolutely classic liberal trope. I mean, it's absolutely ... it's totally naïve and it's an absolutely classic claim on the part of [inaudible 00:52:34]. And this goes back to the struggles of liberals with absolutist regimes in the 18th century, if only selfish dynasties could get out of the way then the pleasant interchange of commerce, which is in some sense, you can see where liberal ideology picks up on this, but yes, of course, that's at some level true.

Megan Greene:

We're running out of time, but let me finish up with a forward looking question and that's to say, who is going to pay for this war and how is it going to change the role that the state plays? We know that the NHS came out of a war. We know that Social Security came out of a war. Is it crazy to think that something might come out of this war, so to speak? What's going to happen to taxes? Might we get a carbon tax? Might there be some opportunity for sustainability in here as well?

Adam Tooze:

Well, we've talked about the debt analogy so my answer is, for heaven's sake, let's not start that question that way because if you do, I think it's politically toxic. The force of your point is, of course, is very important. What clearly we have discovered, our dependence on public infrastructure and how ruinous it is if we don't have good public infrastructure and how we need more of it and we need reserve capacity and to subject it constantly to the test of that's an efficient use of resources. It is lethal when you are suddenly exposed to an unexpected shock for which you have no redundancy. All of those arguments end up becoming incredibly compelling and we have seen also just the huge premium, and I'm not thinking of China so much as the South Koreas and the Taiwans of this world, the huge premium to be put on the ability of authorities to mobilize new technology in an efficient way.

Adam Tooze:

Nothing about the South Korean response should surprise us if you look more broadly at indicators of modernity. That just looks like the quintessence of what an increasingly rich society should do with its resources. Spend enormously on research and development, spend on education, spend on infrastructure. It's kind of like at this point all of those arguments become no-brainers and this is just a demonstration of that fact. And that by itself isn't enough because America had great epidemiologists and was quite well prepared by any metric. Then of course you also need a politics that actually listens and you need an administration that's alert. We will have had the shock this time, but surely ... I'm predisposed, my problem is I know how strongly I am biased towards this opinion anyway.

Adam Tooze:

But I would have thought this becomes compelling even to people over other different political persuasion. It seems to me the right thinking centrist republican at this point should be easily persuaded of the need to have reserve capacity, stockpiles. It's not going to reach everyone, that argument, but it surely will reach a substantial fraction of the people who come through this cutting edge. People who had responsibility at different levels. Some of them, of course, will hue to a crazy denialist kind of line, but there are going to be folks that come out of here with credit, having run, especially at the state level, reasonable operations to try and stabilize them, and that should, to my mind, should leave them feeling that something positive might come out of this experience in that respect. But otherwise, yes, clearly, it's a call for more public infrastructure and for more capacity on the part of government.

Megan Greene:

So before this all happened a lot of us were out banging the drum on sustainability questions, you most of all, I think. Is anyone going to care about that now? Is that just going to fall by the wayside or is it going to become even more important? A lot of students are asking.

Adam Tooze:

If we don't care about that, it's going to kick us in the butt hard. We're just setting ourselves up. It was never a moralistic case for me. It was never about normatives. Just look up the predictions and they are telling us that catastrophic things will happen and catastrophic things in many parts of the world are already happening. Again, it's not futuristic, it's already in the present.

Adam Tooze:

Three points really quickly. I think I'm very loath for this to be exploited. I don't like the ambulance chasing rhetoric which says this is an opportunity. If you're in the travel sector, if you're in service, this

doesn't feel like an opportunity. This is a catastrophe and you want your life back and you want your life back quickly. And that is a completely reasonable position. It's small, conservative but given the shock, you could possibly argue with that so I'm extremely loath to engage in that. Here's my idea. This is a great moment to realize my idea. Enough already, let's see whether we can't restore. However, this is giving us an x-ray of what a society which did suddenly shut down would look like and what would happen if we rapidly decarbonized and we should sit up, smell coffee and learn very serious lessons about the structural changes and their costs. And I'm thinking not just about rich societies, but about the fragile emerging market economies that don't have a place in a high carbon tax regime.

Adam Tooze:

Algeria might be shipping gas, but you know, the Venezuelas, the Columbias of this world, the high cost producers with fragile social systems, they don't have a role. They are not going to be the people pumping the last barrel of oil. We need a plan and they need a plan for that scenario and anyone who advocates decarbonization needs to take that seriously. And the third point is a very general one, which is at the beginning of this year, centrists, reformists, climate folks like I would describe myself as, dismissed extinction rebellion. We thought those people were crazy. The people who said we should shut down the economy right now to deal with the catastrophe. What is our odds now?

Adam Tooze:

Faced with this challenge, society itself shut down and then governments ratified that decision. We have absorbed an absolutely huge macro economic hit the depths of which we're not even aware of yet. For, what is, historically speaking, a walk in the ordinary path of death. This is fall dead in the street plague style death, this is a relatively minor perturbation in the demography. Tragic and serious and that's why we've taken the action that we have. In the future, what we will not be able to do when somebody comes along with a radical proposal is say, "We can't do that. Think of the economy, stupid." That is not going to be an adequate answer. We will be able to say, "Look, last time we tried this, the costs were this. They seem excessive." That kind of answer will work, but that blanket, that's unrealistic. All of that's gone out the window because our parameters of what's realistic have just been completely blown out of the water.

Megan Greene:

Thank you so much, Adam. I can't thank you enough for your comments and to John for hosting. We are almost staying on time in terms of ending. Thank you to everyone who dialed in as well.