

How Covid-19 will change the world

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Martin Wolf, *The Financial Times*, June 16, 2020



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In less than six months, Covid-19 has transformed the world. But what might its impact ultimately be? Our ignorance on this is quite comprehensive. But it is far from absolute. So let us take stock.

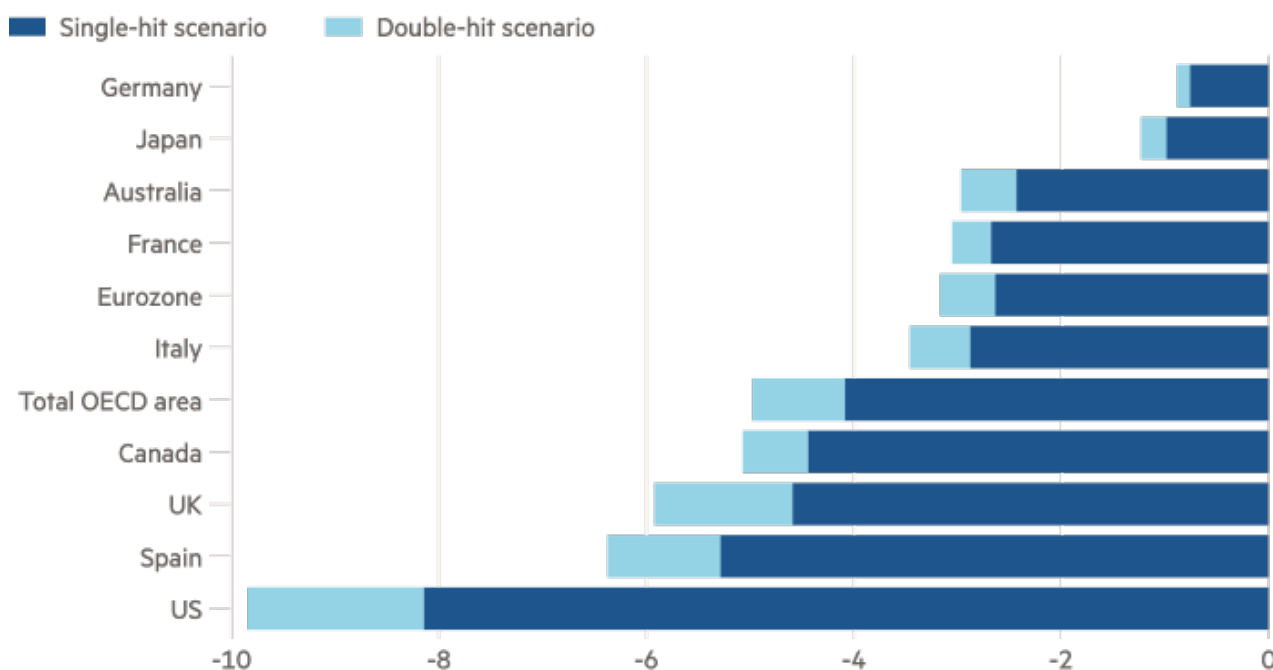
The world was, we must remember, troubled even before the pandemic. Only 12 years ago, the biggest financial crisis since the 1930s shook the global economy. Affected by how that was handled, the subsequent economic malaise and the perception that capitalism was rigged against them, the public in a number of high-income countries became angry.

This anger revealed itself in the UK's Brexit referendum and the election of Donald Trump as US president in 2016. The latter, in turn, shifted the US in favour of protectionism. This change in the American view of the world was accelerated by the transformation of China into an assertive superpower. What many have dubbed "a new cold war" began.

Then Covid-19 erupted. So what do we already know about it?

Policy differences explain the huge divergence in employment declines

Forecast employment growth in 2020 (%)



Source: OECD
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We know that we are in the midst of the deepest recession in peacetime history over the past 150 years. As the World Bank's *Global Economic Prospects* and the latest *Economic Outlook* from the OECD demonstrate, the impact is devastating, across the world. (See charts.)

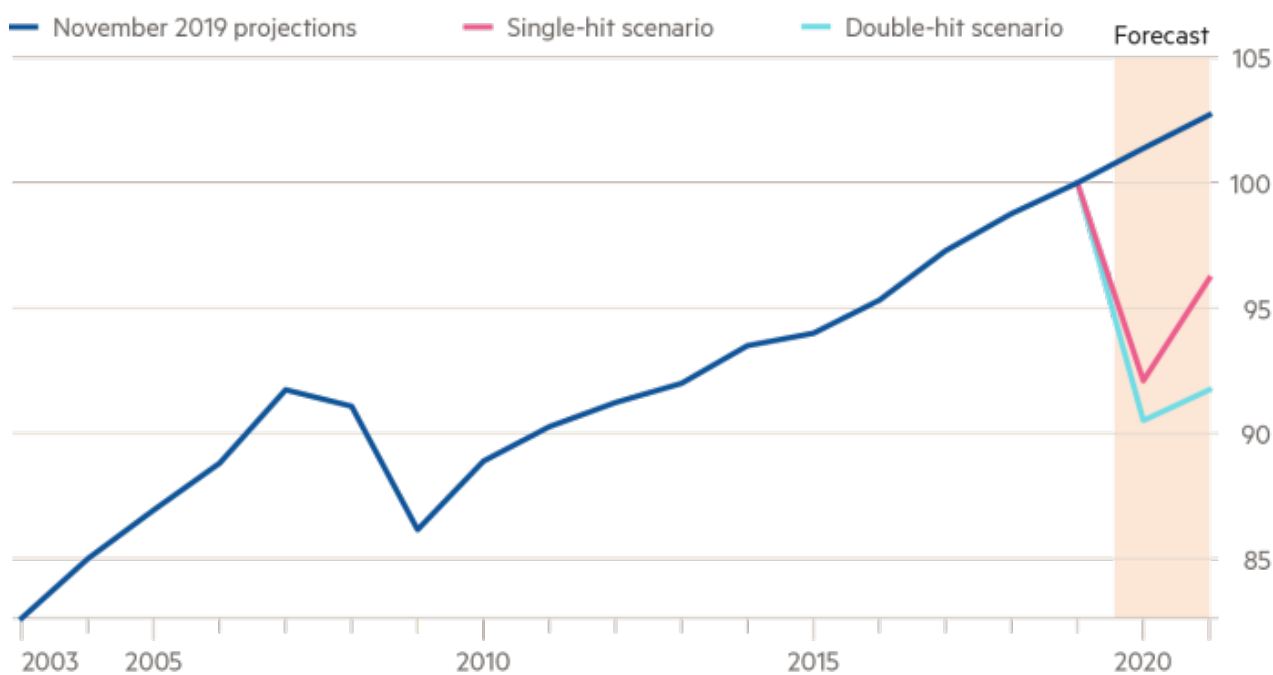
The effect has not been equal, however. Some countries have been hit far more powerfully by Covid-19 than others, whether because of incompetence, indifference or ill luck. Some businesses and people have also been hit far harder than others, because their activities depend on close physical contact or because of their age or skills. This is far from the same crisis for all.

We know now that pandemics can indeed happen. We know that states at least try to take charge when they do. We know, not least, that mustering a concerted and effective global response is nigh on impossible in a world of blustering demagogues and self-confident autocrats.

We know, too that there will be economic scarring, in the form of collapsed businesses, outmoded capital and lost skills, and therefore long-term losses in output and productivity. We know, not least, that many countries will emerge from the pandemic with much higher deficits and debts than previously expected and that central banks will own huge proportions of that debt.

Covid-19 will cause another massive hit to real incomes per head

Real income per head in the median OECD economy (2019 = 100)



Source: OECD
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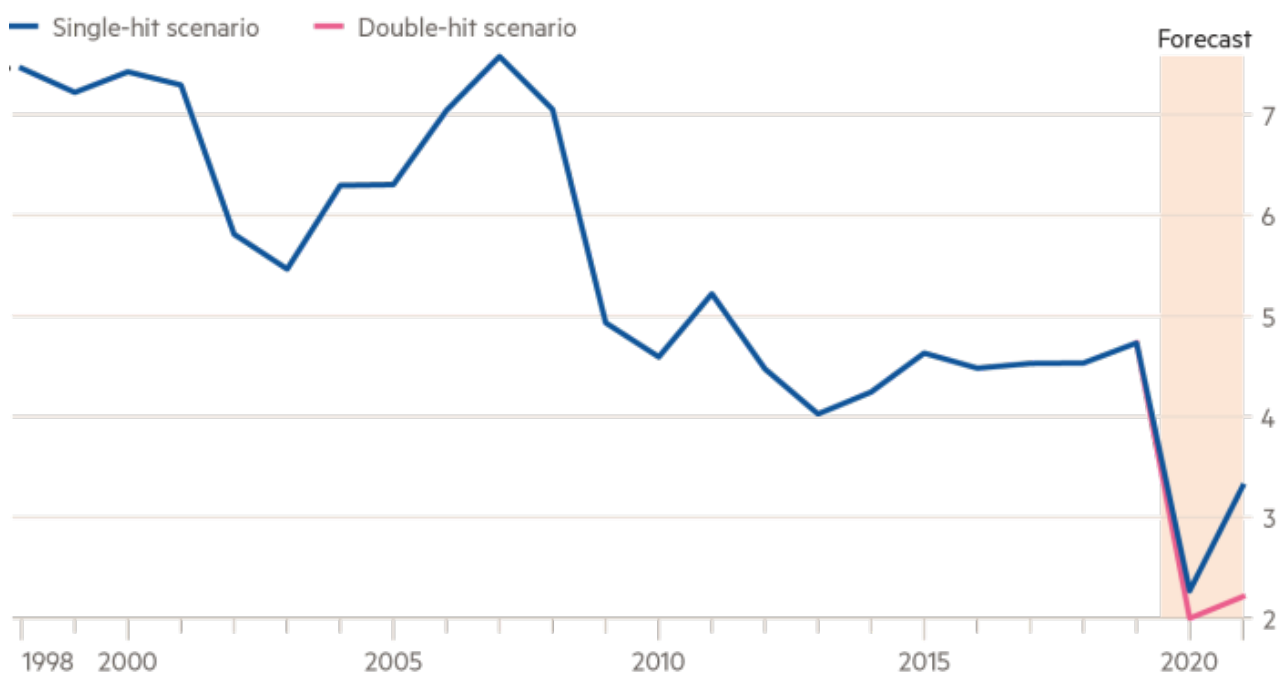
Yet there is also much we do not know.

We do not know when, how or even whether a vaccine or some other solution will bring the pandemic under full control. We do not know what the path of economic recovery is going to look like. We do not know how bad the impact of the pandemic will ultimately be on trade, trade policy and international relations.

What might the world after the pandemic be like? On this we know least. But a few things seem plausible.

The fall is likely to lower the investment rate, again

Real net productive investment in the median OECD economy (% of GDP)



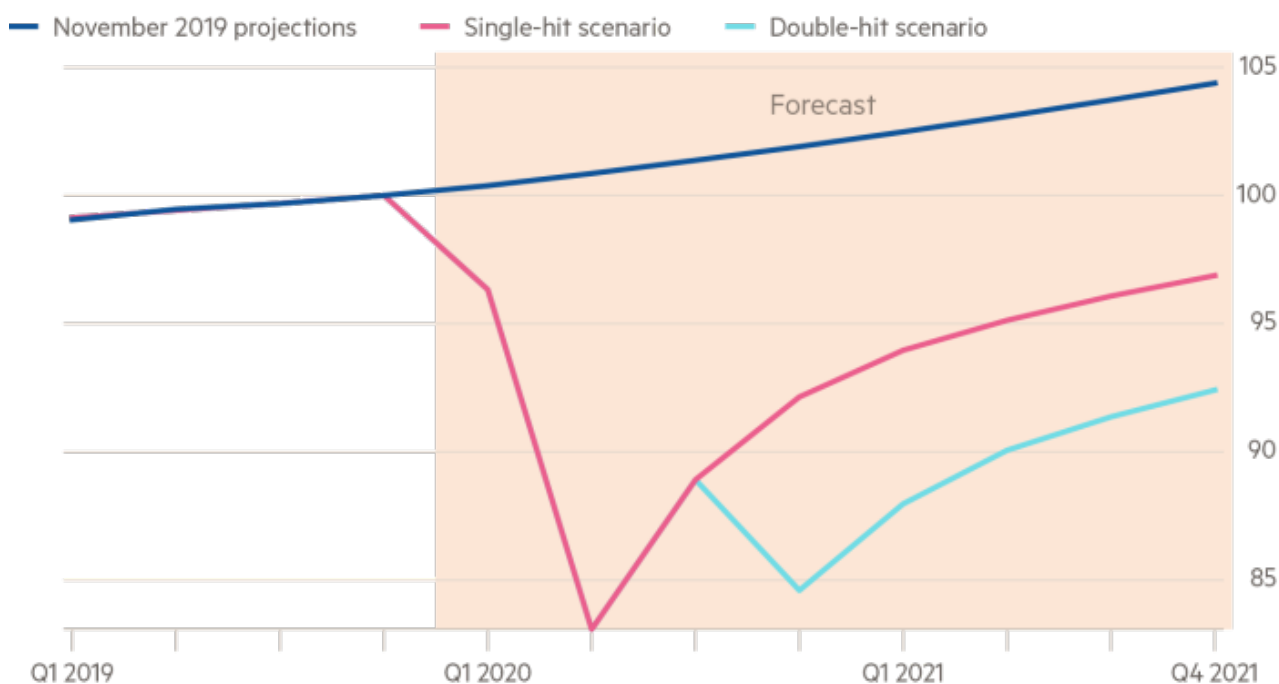
Source: OECD
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A first probable development is a shift away from the globalisation of things, in favour of more (though also contested) virtual globalisation. The integration of supply chains was declining before the pandemic. Now policy is moving more strongly in that direction.

A second is the accelerated adoption of technologies that promise enhanced safety along with opportunities for greater social control. China is taking the lead. But other states are likely to feel entitled, perhaps even expected, to follow suit.

Covid-19 is set to inflict a step change in world trade

World trade volumes (Q4 2019 = 100)



Source: OECD
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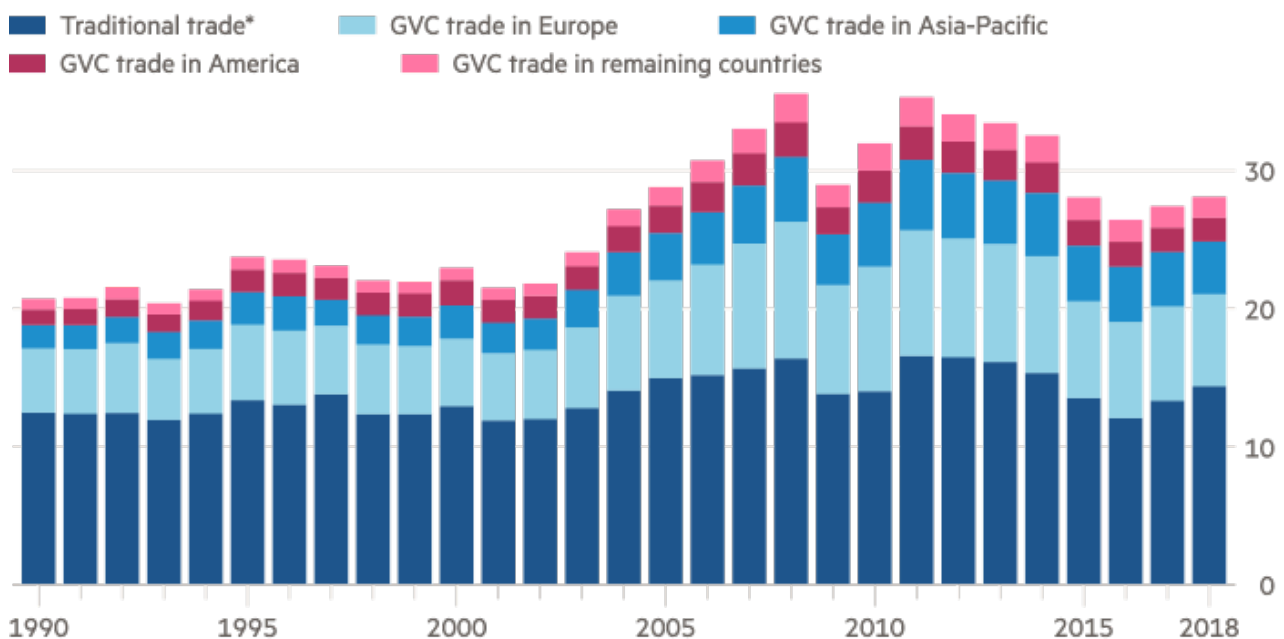
A third is more polarised politics. The already established conflict between a more nationalist and protectionist right and a more socialist and “progressive” left seems likely to be exacerbated, at least in high-income democracies. These sides will fight over what a more assertive state should be doing.

A fourth reality is that public debt and deficits will be far greater. There will also be little tolerance for another round of “austerity” or reductions in the level or growth of public spending. A greater likelihood is higher taxes, especially on the more prosperous, and persistent deficits, financed, either explicitly or implicitly, by central banks.

The final and most important reality is dreadful international relations. China has had a surprisingly good crisis, given that this is where the virus emerged. But China is also openly autocratic and internationally assertive. Friction with a divided and enfeebled US seems set to become worse, for the indefinite future.

The rise and fall of trade in global value chains

Trade as a % of global GDP



* Traditional trade includes products entirely produced in one country and consumed in another

Source: OECD

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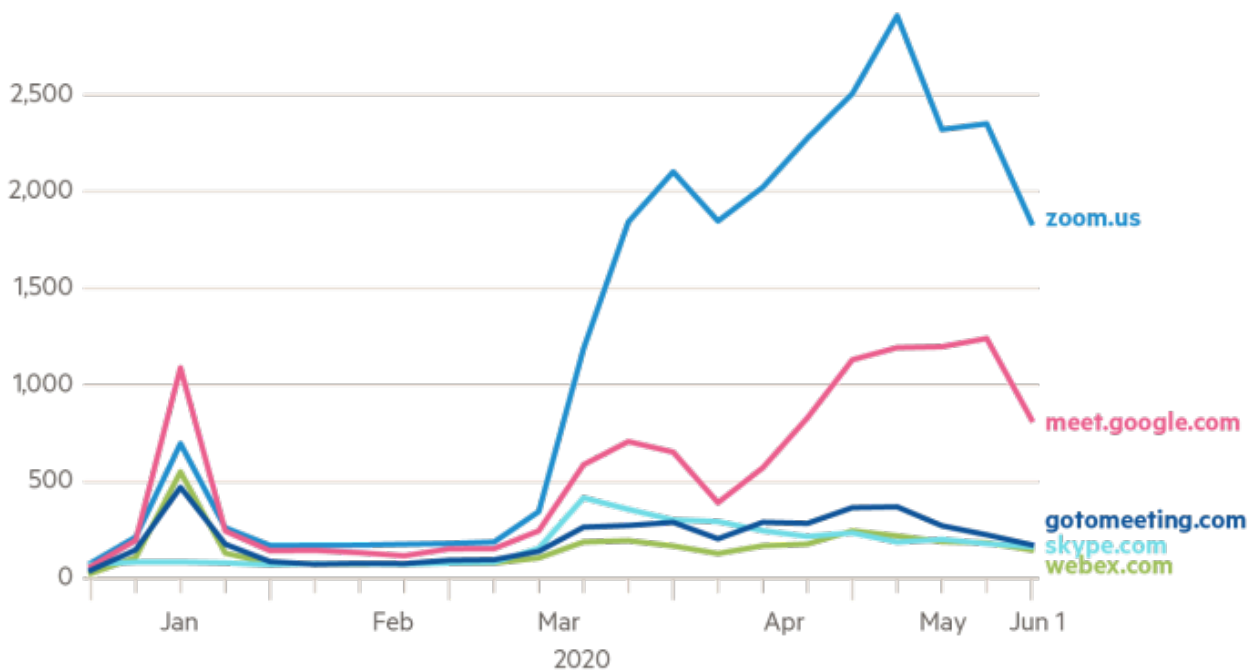
In other areas, however, we are relatively ignorant. Will people go back to the lives they led before, once the disease has been brought fully under control? My guess is that they will return to restaurants, shops, offices and international travel, but not entirely. We have experienced working at home and some of it works.

Another open question is what will be done about the role and influence of the tech giants. My guess is that Facebook, Google, Amazon and the like will be brought under political control: states do not like such concentrations of private power.

And how far will the breakdown of international relations go? Will there be pervasive and systematic hostility or occasionally co-operative relations between China and the US? Where will Europe fit in?

The early winners in the era of 'working from home'

% change in weekly unique visitors from previous year



Source: Similarweb
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Finally, how much of the integrated global economy will survive? And will the crisis accelerate, retard, or leave much as it was the world's inadequate progress towards managing the climate and other global environmental challenges?

The pandemic is creating enormous economic and political turmoil. Unless there is an early cure, the world that will emerge seems likely to be different, in important ways, and even less co-operative and effective than the one that went into it. Yet this need not be the case. We have choices. We can always make the right ones.

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