

Indo-Canadian Community Centre – Speakers Forum

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TOPIC: LIFE AFTER COVID

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I should start by saying that Covid-19 is still very much here and getting stronger in much of the world while weakening in some places, happily, including Canada. The impact of this pandemic will be deeper and more profound, the longer it takes to control it. And it is increasingly believed that this pandemic is likely to last years, not quarters. So, our medium-term new normal is going to be living with the virus while waiting for the longer term normal when the war against the virus is finally won.

A second warning I would like to make is that we economists are pretty good at explaining what happened but no better than weather forecasters when making long term predictions. For example, any forecasts made six months ago should now be thrown in the dustbin.

With these caveats, let me outline some of the changes that are likely to happen in the post-covid19 world. It is a vast subject and I will only touch on a few topics.

Acceleration towards Digital Economy

The world has been moving towards a digital economy since the launch of the commercial Internet and especially since the invention of smart mobile phones. This Pandemic will only accelerate this change.

Let me start with an example: I know someone who applied for a competition for a job in the federal government a few months ago. As most of us know, it takes months in the govt. from the time of application for a job and the actual results. Last week, he was told that he won the competition. In the meantime, he had decided to move to Montreal. When he made this fact known to the concerned department, they said that he did not have to stay in Ottawa and could work from Montreal. Now, this fact becomes significant as this department does not have a regional office in Montreal and he would be working from his home. Now, if he can work from Montreal, he can as easily work from Florida or Bengaluru or Nairobi or Timbuktu; in fact, anywhere in the world where there is a reliable Internet service.

Working remotely is not new. The technology has been there for some time, even for virtual meetings like the one we are having now. But the Pandemic has familiarized more and more people with the possibilities of the new technology and the various and innovative ways in which it can be used. So, it is unlikely that everyone will go back to the old brick and mortar office after the Pandemic. Most of you have probably read or heard that one of Canada's largest company and Ottawa's largest, Shopify, has announced that it would move to a permanent remote-work model. Its CEO tweeted that "As of today, Shopify is a digital by

default company,” Similar announcements have been made by a large bank in New York and even by the President of the Treasury Board.

I personally don't think that remote work alone will work. People would want to have social contact for team building and synergy that comes only from real, not virtual meetings. So, some form of hybrid office would emerge where people can come to office once or twice a week and work remotely most of the time. New types of office configurations, something along the line of 'We Work' will emerge. As someone has said, "Office attendance will become a memory for some, a daily delight for others and a movable feast for most".

The consequences of this shift out of the downtown office will be huge. It will adversely affect the downtown commercial real estate. Office workers are generally better paid and there are several ancillary services such as restaurants, coffee houses, bars, transportation that depend upon these workers.

At the same time, the emptying out of office buildings will make it possible to repurpose these buildings for residential and public purposes.

But not every old job done remotely will continue. In fact, many of the lost jobs - both remote and physical – will not come back . It has been estimated that two-fifths of those laid off or furloughed workers will lose their jobs permanently. Every great recession results in bankruptcies. This pandemic induced recession will be no different. Many companies have already announced bankruptcies or are in the process of doing so. They include large companies like Hertz Car Rental company and small ones like restaurants and retailers who may not be able to survive sustained loss of business. Starbucks has announced the closure of several shops in Canada. At the same time new jobs will come up. Generally speaking, companies in the digital economy, like Amazon and Google, and those who can successfully migrate to digital platform will succeed. This has been happening already and will only accelerate.

Remote Learning

Just like remote work, the concept of remote learning is not new. Prof. Humar will tell you that Universities have been offering on-line courses and even awarding on-line diplomas for quite some time. The current Pandemic has made it a necessity not only for universities but also for school education. When Ontario's provincial government proposed some online courses last year, they were bitterly opposed as unworkable by teachers and their unions. But Pandemic has forced school boards to provide education via virtual classrooms. The effect of this shift has yet to be assessed but it seems clear that some online courses will now be introduced when schools open for the next academic year.

Just like office work, brick and mortar educational institutions are not going to disappear anytime soon. There will always be a need for physical classrooms, especially for subjects like science and engineering. So, some hybrid form of education, combining elements of physical

and online learning are likely to emerge, especially for junior and high school students. In addition to universities and colleges. [Perhaps, Prof Humar can enlighten us about these directions later]

Macro-Economic Implications

For the next topic, I will like you to watch a one-minute video clip.

Video Clip of Euro Rain [Youtube Video: Money Heist season 3 Money Rain]

<https://youtu.be/6Lb4KGXlt0g>



The scene you just saw was from a popular Netflix series 'Money Heist.' In this series, a gang of bandits take over the Spanish Mint and print two billion Euros. They portray themselves as fighting the capital system and to win popular support, they rain money in Madrid from a helicopter.

I was reminded of this scene when I saw our prime minister coming on TV every morning and announcing generous giveaways of money to one section of the society or another. What will be the consequences of the humungous relief packages of three trillion dollars by the US, hundreds of billions of dollars by Canada and several other countries in Europe and even developing countries like India? And these measures are not over yet. Prime Minister Trudeau has announced that the government will do **whatever it takes** to meet the needs of Canadians. Other governments are likely to do the same – both in other countries and in Canada by the provincial governments.

What are the likely long-term consequences of these actions?

This rain of dollars has been supported by almost all economists whether of left or right bend. A longstanding radical policy which has the support both among Keynesian and neoliberal economists is that of a Universal Basic Income. Under this policy, every citizen should be given a guaranteed minimum income regardless of their labor force status. Pilot test projects of such policies have been undertaken in places such as New Jersey in the US and in Manitoba in Canada going back to 1980s. However, the only two countries I am aware of which have such programs are Iran and Finland. The current crisis in which almost everyone received a minimum amount has restarted the talk of a universal guaranteed income in at least some European countries.

In the same vein, the last four decades had seen the dominance of neoliberal economists of the Chicago School of economics associated with the likes of Milton Friedman and Gary Becker. They believed that governments should intervene only minimally in the market place. These ideas were embraced by the likes of Ronald Reagan and Margaret Thatcher in 1980s and even by India when it launched its economic reforms under Dr Manmohan Singh in 1990s. But during the current crisis, there has been no opposition to the massive intervention by governments, not only in the form of direct stimulus but also in bailing out large and small firms by guaranteeing loans and subsidies to struggling companies. Ten years ago, when the US and Canada bailed out General Motors and the Chrysler Corporation with direct support, there was much opposition from some quarters; there has been virtually none this time. In some cases, it has taken the form of potential direct equity ownership. One can also see it in the clamor for the government takeover of long-term care facilities. In places like the US, there has also been a realization of the needs for a universal healthcare as the inequality of their health services became so obvious during the Corona crisis.

Neoliberal economics is also associated with free trade, lowering of tariffs and trade barriers among nations, and strengthening of international organizations, such as WTO. The last twenty years have been an era of globalization. Now, the globalists are in retreat. Like remote work and learning, the process of deglobalization had already started before the Pandemic. The resentment against globalization had started in the US even before Donald Trump became the US President. Americans believed that China was taking advantage of their liberal policies through currency manipulation, theft of Intellectual Property and denying equal playing field to its corporations in the Chinese market, the so-called Great Firewall of China. The process gained speed in the US after the election of Trump. Now, the Pandemic has brought to other nations the need for self-sufficiency as global supply chains got disrupted and countries scrambled to seek access to limited supplies of face masks and Personal Protective Equipments. The Indian Prime Minister, Narendra Modi, has also given a call for Atmanirbharta or self-reliance. The next few years are likely to see a deceleration of global trade and a decline of multilateral organizations such as the WTO. Ironically this may also see a supposedly communist China replace the US as a champion of free trade.

The question has been raised, will there be inflation?

Massive government spendings result in increased money supply if the governments do not collect enough revenues to incur these expenditures, as is currently the case in both the US and Canada. This increase in money supply is through measures variously called quantitative easing or deficit financing with the central bank purchasing government or corporate bonds. The result is, in effect, printing money. Will this massive infusion of money in both Canada and elsewhere in the world cause inflation?

This is a legitimate question. Basic economic rationale dictates that increased money supply will result in inflation as there is more money chasing the same supply of goods and services.

However, this is not likely to happen in the next one or two years for the following reasons:

- The relationship between money supply and inflation has proved to be weaker in the recent past than earlier thought. When the US Federal Reserve resorted to massive quantitative easing in the wake of the financial disaster of 2008-2009, most economists expected a spike in prices. However, inflation has remained remarkably low since then. The central banks have kept interest rates low while the economies boomed and the unemployment rates fell to their lowest levels in the recent past, especially in the United States. So, what happened? The prices remained low because the increasing globalization provided cheap phones, computers, TVs as well as textiles and shoes from countries with cheap labour. One might ask then what happened to the excess money supply? The answer is that it led to the inflation of assets such as stocks and real estate and investment overseas by the multinational corporations. This also led to increased inequalities in incomes and wealth.
- **Moreover:**
 1. The Pandemic relief packages replace labour incomes lost by people who have lost their jobs.
 2. In the next year or two, the economy is likely to remain in deep recession. Many of the jobs will not come back soon or not come back at all. New jobs, especially in the digital economy will come but they will take time to fully compensate for the massive job losses that have taken place.
 3. Having gone through the crisis, people will tend to be savers rather than spenders initially when they return to jobs.
 4. There seems to have been structural changes in the oil market; energy prices are unlikely to rise much. This is important as energy is an important input in most production costs. Its direct use by householders also has a significant weight in the consumer price index.
 5. There are unlikely to be upward wage pressure as long as there is a high level of unemployment.

The risk to inflation, in my opinion, comes from a disruption in supply chain if the trend towards deglobalization picks up.

Eventually, when the economy is functioning at full capacity and the unemployment rates come down, Federal Reserve and other central banks will have to resort to higher interest rates and a tighter monetary policy which could lead to inflation but this is not on the horizon yet.

National Debt

Canada and other OECD countries had been struggling with rising national debt even before the Pandemic. The situation has only become worse since the Pandemic. Much worse!

Governments can deal with the debt by

- (a) Raising taxes
- (b) Reducing expenditures
- (c) Passing it on to the next generations

Going by the past record, the governments are likely to take the path of least resistance, i.e., pass it on to the next generation. However, they would be able to do so only as long as the interest rates are low; if interest rates rise, they will have to raise taxes to finance servicing that debt.

Impact on Taxes

I will start here with the lowest level of government, i.e., municipalities.

The financial situation of municipalities is quite bleak following the Pandemic. Their major sources of revenues, such as public transportation, rental of recreational facilities or parking tickets have been severely affected by the Pandemic. Moreover, if people start working from their homes instead of coming to their downtown offices, this will affect their commercial property tax base.

Municipalities in Canada are required to balance their budgets every year and do not have the option to go for public borrowing. Therefore, their only choices are to raise taxes, cut services or go cap-in-hand to the provincial and federal governments. I expect them to do all three.

Provincial Governments

Health expenditures of provincial governments have gone up substantially to fight the Pandemic in testing, procuring protective equipment and dealing with the long-term care facilities. The Ontario government's commitment to cut taxes and balance budget will be put under severe test. Expect further cuts in services and rise in the cost of services provided such as driver's license and vehicle registration even if direct taxes are kept low.

Federal Government

The federal government has more tools available to it in dealing with its increased debt and deficits than the other levels of government. It does not have to worry about servicing debt as long as interest rates remain low. Canadian dollar may face pressure if oil prices keep low in face of high debt and deficits. However, Canada's debt to GDP ratio is low relative to other industrialized countries, which will provide some cushion to our currency vis a vis the currencies other than the US dollar.

Developing Countries

The impact of the Pandemic on developing countries, especially of South Asia and Africa will be devastating in both short and medium term.

These countries, especially their cities, have very high population density with multiple families living in a single dwelling and sometimes even in a single room. It is impossible for them to observe social or physical distance. Many people in these cities do not have enough water even for their daily minimum needs, let alone frequent 22 second handwashes. They do not have the health infrastructure to deal with the resulting health crisis. I am sure you have heard of the stories of converting schools, banquet halls and even railway coaches into hospital beds in India. They have to compete with rich countries for scarce supplies of face masks and PPEs and ventilators and will have to compete for the vaccine when it becomes available. If deglobalization takes hold, these countries will lose many of the gains made in reducing poverty in the past 2-3 decades.

These countries also do not have the capacity for supporting relief measures on the scale being provided by rich countries.

To make matters worse, many international organizations have suspended aid to developing countries since the corona crisis started.

Conclusion

In conclusion, Corona induced Pandemonium will transform our lives profoundly and in ways which we cannot predict with certainty. We have pointed some of the directions they might take. I will end with a line from a famous song of Sahir Ludhyanavi, "Raat jitni bhi sangeen hogi, subah utni hi rangeen hogi" (the darker the night, the brighter will be the dawn). We can use this occasion to reimagine our world; reimagine an economy and a lifestyle which is environmentally sustainable with less reliance on fossil fuels and single use plastic goods.

Thank you