Is a long depression unavoidable? - Graeme Taylor, July 13, 2020

Unless governments resolve underlying structural problems, the global economic crisis will turn into a long, intractable depression.

The pandemic has caused the largest economic contraction on record. Although most national lockdowns are ending, the virus is still spreading: it will not be possible to fully control the crisis until a vaccine is developed and distributed around the world. At a minimum this will take until mid-2021 and until then global supply and demand will be depressed, international travel will be restricted, and consumer and business confidence will be low.

Moreover, the lockdowns have exhausted the savings of hundreds of millions of unemployed workers, shuttered millions of businesses, and ravaged entire industries, including aviation, oil, hospitality and retail. Many bankrupted businesses will not reopen, and many of the job losses will be permanent. The crisis is hitting developing nations the hardest, where hunger and social instability are rising and many countries are facing insolvency.

The current recession is much worse than the 2008 Global Financial Crisis (GFC), which caused long-term damage—increasing public and private debts, reducing productivity growth, and widening economic, ethnic, gender and generational inequality. For the last decade most advanced economies have only been able to maintain anaemic economic growth through constant fiscal stimulus, and output in many countries had still not recovered to pre-2008 levels by 2020.

The GFC's near financial meltdown shocked policy makers. As a result, at the beginnings of the pandemic governments in the developed world quickly injected trillions to maintain liquidity, prevent the collapse of key banks and corporations, and provide income support for many of the newly unemployed. Unfortunately most governments are also repeating the mistakes of the GFC: rather than correcting structural problems, most programs are focused on shoring up existing institutions and elites.

These top down interventions have helped stabilise the global financial system—stock markets have risen despite unprecedented levels of unemployment and debt—but because they provide insufficient support for the poor and small businesses they are again widening inequality, reducing demand, and deepening economic stagnation. Because they are further increasing unsustainable asset and debt bubbles they are also laying the foundation for another, larger economic crisis. Most dangerously, they are ignoring and worsening perilous global environmental and geopolitical issues.

Until these underlying problems are addressed, the global economic recovery will be uneven, partial and fragile. Consequently the 2020s are likely to be dominated by a protracted economic depression and growing political, economic and environmental crises.

Ultimately, the coronavirus pandemic and recession are the result of failures to accurately assess, price and manage risk. The pandemic was predicted and largely preventable, as were the Global Financial Crisis and the current economic crisis. The failure to understand and manage future risks has enormous—and potentially fatal—costs. Following the GFC, governments wasted enormous amounts of money buttressing dysfunctional institutions, rather than building an equitable and sustainable 21st century economic and political system. Now we have another chance. If this is missed, and vast sums are once more wasted trying to revive an environmentally and socially destructive system, further global crises are inevitable, including catastrophic climate change.