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How corona broke the system

The corona crisis sends shockwaves through political, economic and social systems. The status quo simply cannot continue

Read this article in German.

No one knows how long the pandemic will last, how many people will fall ill, how many lives the coronavirus will claim. But the economic and political consequences of the outbreak are already emerging. Measures to contain the pandemic are disrupting public life around the world.

Starting with China, production has come to a standstill in one country after another. Global supply chains are broken. You don't need a lot of imagination to see a wave of bankruptcies approaching in many industries where every last cent counts.

In the past few days, panic buying has dominated media coverage. However, anxious consumers tend to postpone larger purchases. When shortages appear, consumption also drops. These upheavals are likely to cause the already sluggish European economies to slide into recession.

The sudden slump in Chinese demand has shaken the commodity markets. After the Organisation of Petroleum Exporting Countries (OPEC) could not agree with Russia to cut production in order to stabilise prices, Saudi Arabia changed its strategy and flooded the markets with cheap oil. As a result, the oil price plummeted to historic lows. In the short term, this might provide a measure of relief to industry and consumers. However, oil price wars, fears of recession and calamities on the bond markets are causing the stock markets to crash. Only a far-reaching intervention by all major central banks has so far staved off a financial crunch.

The economic response

Some countries, Germany in particular, have quickly launched extensive packages of measures to cushion the impending economic crisis. After

some initial wavering, the United States is also planning a comprehensive economic stimulus, including the unprecedented dispersal of helicopter money. Whether these and other potential immediate measures are sufficient to stop the economic downturn depends on how deeply the crisis eats through the system. After past epidemics, a brief, sharp slump, the economy was usually followed by a quick return to growth. Whether this will also be the case with the corona crisis depends on many factors, not least how long the pandemic lasts.

However, of greater concern are the shock waves that are now running through the ailing financial systems, where they are accelerating worrying longer-term trends. Many American industries and households are over-indebted. In China, shadow banks, real-estate enterprises and state-owned companies, along with the provinces, are all straining under the debt burden. The European banks have not yet recovered from the previous financial crisis. The economic collapse in Italy could cause the euro crisis to flare up all over again. The way in which investors are fleeing for the safety of government bonds indicates the deep fear that these houses of cards will collapse. The corona crisis could set in motion a chain reaction that would end in a global financial crisis.

Unlike the 2008 crisis, however, this time the central banks are not in a position to save the day. To date, interest rates have been at historic lows in all major economies. The US Federal Reserve has therefore started to provide liquidity directly to the markets through repo transactions. The new head of the European Central Bank, Christine Lagarde, initially stumbled on the European crisis response, thereby provoking speculation against the cohesion of the the euro group. By means of a coordinated intervention, however, all major central banks have now shown their determination to take a stand against the panic in the markets. The crucial question, however, is whether the Corona crisis can be overcome with monetary policy instruments at all. That very much depends on the nature of the crisis.

Democracies now have to deliver

This is because the crisis is by no means limited to the economic sphere. The ability of states to protect the life and limb of their own citizens, is also being put to the test – and the stakes are nothing less than the fundamental legitimacy of the Leviathan.

In the authoritarian regimes of Eurasia, the main issue is the legitimacy of the strongmen, whose claim to power is based on the central promise ‘I protect you’. Chinese President Xi Jinping has understood this and, accordingly, is taking drastic measures against the spread of the virus

regardless of the costs. However, his counterparts in Thailand, the Philippines and Brazil have treated control of the disease lightly and are now being lashed out at by their own supporters. The question of whether, in the eyes of his voters, Donald Trump lives up to his central promise to protect America from external threats is likely to have a decisive impact on the outcome of the American elections.

An international pandemic cries out for a coordinated global response. So far, however, each nation has pursued a solo effort.

While the corona crisis may be disenchanting populists in government, it could be just what their counterparts in opposition have been waiting for. In the eyes of many citizens, the democratic states already lost control in the crises of 2008 and 2015. Decades of austerity policies and of health care systems cut back to the absolute minimum have hollowed out state structures; many people worry whether their nations will still be able to cope with major crises. In many countries, the public mood is turning against the free movement of money, goods, and people.

Many Italians have long feared to be among the losers of globalisation and the euro. Now come the emergency measures, the economic shock and yet another refugee crisis. The Lombard right-wing populist Matteo Salvini is not the only one who knows how to use the ingredients of 'open borders, dangerous foreigners, corrupt elites, and defenceless states' to mix a toxic brew. Make no mistake, the liberal democracies of Western Europe are under scrutiny. In the midst of a right-wing populist revolt, democrats must now prove that they can and will protect the lives of all citizens.

But how far can individual liberties be restricted? How long should the state of emergency last? Would Western societies tolerate drastic measures like those in China? Should they, like the East Asians, give priority to the collective over the individual? How can the rate at which the disease is spreading be slowed down if citizens do not adhere to the recommendations on 'social distancing'? And what does solidarity with others mean when the only thing we can do is to isolate ourselves?

Each nation on its own

An international pandemic cries out for a coordinated global response. So far, however, each nation has pursued a solo effort. Even within Europe there is a lack of solidarity. As in the euro crisis and the refugee crisis, Italy in particular feels that its partners have let it down. China

cleverly took advantage of the lack of European solidarity and sent a plane to Italy, its Belt and Road partner country, loaded with medical supplies. In the meantime, Berlin has recognised the geopolitical dimension of the dual crises – coronavirus and refugees – and is concerned about the attempts by external powers to divide Europe. The export ban on medical protective equipment was eased again and Italy was assured of emergency aid in the form of one million face masks. More importantly, the European Stability Pact was suspended to give Italy enough fscal breathing room to save its economy.

The crisis is another stress test for the already heavily burdened transatlantic partnership. President Trump's decision to isolate the United States from its European allies without consulting them has sent a clear signal. The American attempt to take over CureVac, a company based in Tübingen, to secure the vaccine exclusively for the United States, even escalated into a heated dispute with Berlin. Any joint, coordinated crisis response is hardly conceivable under these conditions. In the West, the byword so far has been 'Every man for himself.'

At the global level, the new conflicts between major powers are fuelling the crisis even more. The oil price war in particular is driven by geo-economic motives. The conflict between Saudi Arabia and Russia raises questions about the survival of the OPEC cartel. The big loser in the historic drop in prices could ultimately be the heavily indebted American shale oil industry. So if cheaper prices at the petrol pumps are really a blessing, as the US President promised, depends on who can endure this war of attrition the longest. In any case, Russia and Saudi Arabia have a key interest in knocking out their debt-financed American competitor.

Whatever the outcome of the oil price war, the balance of power in the oil markets will be readjusted. The debate about 'peak oil', which has been raging for decades, should also experience an interesting turn. In the end, it might not be a dwindling supply of fossil fuels that will seal the decline of the oil industry. With permanently low prices, it might simply be no longer economically viable to exploit the remanining reserves. Could a geo-economic conflict unintentionally herald the end of the fossil age?

The crisis is also fuelling the US-China hegemony conflict. For some time now, there is a bipartisan consensus in Washington to decouple the American from the Chinese economy so as not to strengthen the competitor for global supremacy by supplying Beijing with its money and technology. Globally positioned companies now need to re-assemble their supply chains overnight. Will all of these corporations return to China when the immediate crisis is over? Corporate executives would

then have to think twice whether to willingly ignore the geopolitical marching orders from Washington.

And how will Europe's companies reposition themselves after the crisis, after the costs of being overly dependent on Chinese supply chains have become all too clear? In the debate over whether the Chinese company Huawei should be excluded from the expansion of the European 5G infrastructure, Europeans already had a taste of how great American pressure can be. The corona crisis could then accelerate a development that has been going on for some time: deglobalisation. As a result, the global division of labour could disintegrate into competing economic blocs.

Overnight, the age of neoliberalism is coming to an end

Suddenly everything is happening very quickly. Within hours, such large sums are being pumped into the markets that make the 'radical' promises of Democratic presidential candidate Bernie Sanders seem like pocket money in comparison. German politicians, who yesterday had gotten heated up by the intellectual musings of young socialist Kevin Kühnert, are now seriously considering the nationalisation of corporations. What was dismissed in the climate debate as the naive dreams of children is now a sad reality: global air traffic is coming to a standstill. Borders that were considered unclosable in the refugee crisis are now indeed closed. And along the way, conservative governor of Bavaria, Markus Söder has abandoned the German fetish of balanced budgets, announcing, 'We will not be guided by accounting issues, but by what Germany needs.'

The age of neoliberalism, in terms of the primacy of market interests over all other social interests, is coming to an end. Of course, all of these measures are due to the state of emergency. However, citizens will remember them when they soon again are told 'There is no alternative.' With the crisis, long-dormant sphere of politics has been set into motion. After four decades of neoliberal scepticism about the state, a long forgotten fact is coming to the light: that nation states still have enormous creative power, if only they are willing to use it.

The corona crisis amounts to an enormous field test. Millions of people are experimenting with new ways to organise their

Like a spotlight, the corona crisis is illuminating the geopolitical, economic, ideological and cultural fault lines of our time. Might this crack in the edifice even signal an epochal break? Does the age of turbo-globalisation end with the decoupling of the major economic blocs? Are

the oil price wars heralding the end of fossil industrial economies? Is the global financial system changing into a new regime? Is the system guarantor's baton going from the United States to China, or are we experiencing the breakthrough of the multipolar world?

What is certain is that the Coronavirus could lead to a breakthrough of a number of trends that have long been hidden. All of these developments are mutually influencing each other at breathtaking speed. This complexity suggests that this crisis will go deeper than the 2008 recession. The pandemic could be the burning fuse on the powder keg of a global system crisis.

The window to the future is wide open

The corona crisis amounts to an enormous field test. Millions of people are experimenting with new ways to organise their everyday lives. Business travellers are switching from flights to video conferences. University teachers are holding webinars. Employees are working from home. Some will return to their old patterns after the crisis. But many now know from personal experience that the new way of operating not only works, but is also more environmentally and family-friendly. We have to use this moment of disruption, the immediate experience of deceleration, to generate long-term behavioural changes in the fight against climate change.

British journalist Jeremy Warner cynically sums up the neoliberal view of the crisis: 'From an entirely disinterested economic perspective, the COVID-19 might even prove mildly beneficial in the long term by disproportionately culling elderly dependents [sic!].' In stark contrast to the lack of solidarity shown by its governments, people are experiencing a wave of solidarity in their neighbourhoods, at work, and within their circles of friends. When was the last time the capitalist machine was halted in order to protect the old and the sick? We can build on this experience of solidarity to make society as a whole more cohesive again. If we manage to overcome the crisis together, we are creating a symbol at at the dawn of a new era: a community that stays together can meet any challenge.

However, reacting to the crisis also poses dangers. Borders are being closed around the globe, visas are cancelled, and entry bans are imposed on foreigners. The record number of orders for industrial robots indicates that the production chains will be made more resilient to breakdowns through a decisive step towards greater automation. Both

trends threaten to accelerate the spiral of job losses, fear of social exclusion, resentment of immigrants, and political revolts against the liberal establishment.

Liberal economist Philippe Legrain rightly warns: 'The Coronavirus crisis is a political gift for nativist nationalists and protectionists. It has heightened perceptions that foreigners are a threat. It underscores that countries in crisis can't always count on their neighbours and close allies for help.' We must not leave the right to interpret the crisis to right-wing populists. The answer to global challenges must not be isolation and national selfishness, but rather solidarity and international cooperation. As opposed to 2008, progressives cannot afford again to lose the battle over interpreting what is happening, and what needs to be done. Over the next weeks, the groundwork of the new world order will be laid. We must make sure we will shape the debates over how it will look like.

A stronger democratic state can emerge

Many, especially young people, are for the first time experiencing a national emergency. Within days, their freedoms are restricted to an unimaginable extent. Not only in China, but in the middle of Europe, technologies are being used on a large scale to monitor and regulate the behaviour of citizens. As the 'fight against terrorism' taught us, many of the emergency regulations now enacted will remain in force after the crisis has ended. One does not need to sense a hidden agenda behind the normalisation of the state of emergency, the way Giorgio Agamben and Naomi Klein do, which is to make individuals docile for disaster capitalism. However, we must prevent our fundamental rights from being permanently eroded.

Slavoj Žižek hits the nail on the head when he warns that people rightly consider state power to be responsible: 'you have the power, now show what you can do! The challenge for Europe is to show that what China has done can be done in a more transparent and democratic way.' The East Asian democracies of South Korea, Taiwan and Japan have so far impressively demonstrated how to do this without unduly restricting citizens' freedoms. Their approach seems more compatible with Western democracies than the draconian Chinese way. Still, successful management of the crisis would also strengthen confidence in the democratic state. In a crisis, people tend to rally around competent, hard-working and protective governments.

The global crisis has raised awareness of how

After years of austerity programmes have cut health care systems back to a bare minimum, now every effort must be made to enable the

vulnerable hyperglobalisation has made us. In a globally networked world, pandemics can and do spread across borders at high speed.

system to cope with the many sick people. The closure of municipal clinics, the chronic undersupply of nursing staff and the pitiful state of technical equipment are now taking their toll. Seldom has the demand to reverse the privatisation of health care received greater public support. In the crisis, Spain has quickly nationalised all of its private clinics and health services. In France, the President openly questions the wisdom of neoliberal privatisation and vows to shift course. In Germany, too, the debate has begun as to whether it was really prudent to subject our social life to the dictates of the market. In future, it must no longer be the individual's interest in profit, but the common good of all that will be the central focus of public services.

The reconstruction of public services requires investments in the order of billions. Chancellor Merkel has affirmed that the constitutional debt brake does not apply in exceptional situations like these: 'What the budget balance will look like in the end of the year is not the issue for us.' In the current situation, the German government is opening a historically unprecedented rescue umbrella for the economy, covering everyone from small self-employed and freelancers to large corporations. 'We will do everything possible,' assured Federal Finance Minister Scholz. The framework for providing guarantees, in a total amount of half a trillion euros, is only the beginning, states Federal Minister of Economics Altmaier.

Thus, in the crisis we are all Keynesians again. Unlike after the 2008 recession, we must not return to austerity after the crisis. After decades of austerity policies, many services are exhausted: health and education, local government, transport infrastructure, the German armed forces, and the police. In order to counter widespread fears of losing control, to prepare the economy and society for the digital revolution and, last but not least, to combat climate change, investments of historic proportions are necessary.

Social democracy can save us from the crisis

The global crisis has raised awareness of how vulnerable hyperglobalisation has made us. In a globally networked world,

pandemics can and do spread across borders at high speed. Global supply chains are all too easily cut. The financial markets are vulnerable. Right-wing populists want to close the borders and isolate themselves from the world – but that is the wrong answer to the global challenges of epidemics, wars, migration, trade and climate change. Rather, our goal should be to address the root causes of these crises. To do this, the global economy must be placed on a more resilient foundation.

In the wake of the Corona crisis, global supply chains are already reorganising. Shorter supply chains, for example, with American production facilities in Mexico and European facilities in Eastern Europe, create more stability. Technologically, Europe must become sovereign again. To do this, we need to cooperate much more closely in research and development. The global financial system, which is held together by not more more than duct tape, urgently needs re-ordering. For over a decade, central banks have not been able to counter deflationary trends through monetary policies. In the crisis, governments with expansionary fiscal policies are jumping aside. Politically, this means a return to the the founding logic of parliamentarianism, the principle of 'No taxation without representation'. In other words, the financial systems must be put back under democratic control.

Conflicts arise from excessive interdependence. These conflicts must be cushioned by international norms and multilateral cooperation. The World Health Organization's competent crisis management demonstrates the effectiveness of multilateral cooperation in combating the pandemic. Unlike the 2008 financial crisis, however, this time there is no coordinated response from the twenty largest economies. The geopolitical rivalry of the great powers on the one hand and the right-wing populist call for isolation on the other hand stand in the way of greater international cooperation. The existing elements of multilateral governance need to be strengthened with concrete contributions. This can begin by providing more solid funding to the World Health Organization and continuing with a G20 meeting to coordinate economic crisis management. Here the Alliance of Multilateralists can prove its value added.

The crisis has made it drastically clear to the populace that the status quo cannot continue. The desire for a fundamental reorganisation of our economic activity and collective life has never been greater. At the same time, existential dangers must be fended off without disproportionately restricting democracy and freedoms. Which political power can negotiate the necessary social compromises to pull this off? The American political scientist Sheri Berman has posed an anxious question: 'Can social democrats save the world (again)?' Let's get it done.



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