

An Invisible Global Revolution

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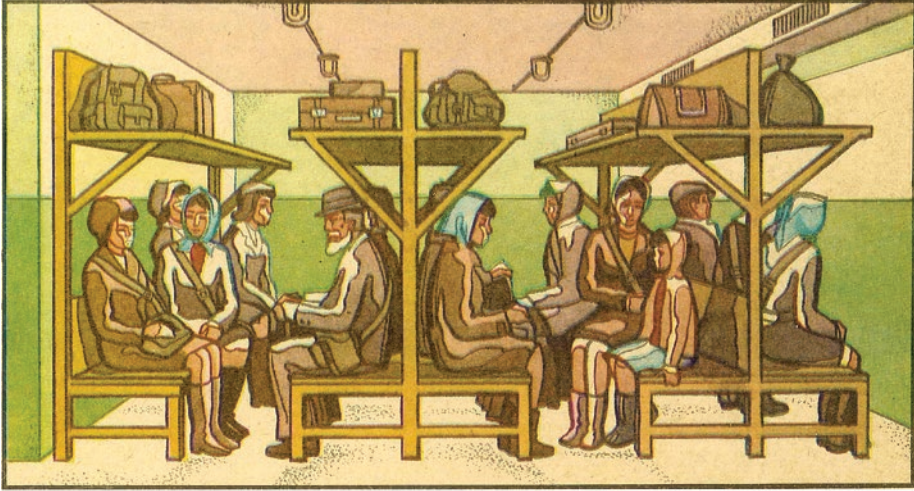
Today, as the world is feverishly looking for means to cope with the economic and social havoc caused by the coronavirus crisis, potentially more important, but barely noticed, processes have started around the globe. The germs for these processes were seeded when the powers fought valiantly the Great Recession 2008; that is, the germination took almost twelve years.

In retrospect, what happened in 2008 was an instinctive desire of the global capitalist system to adapt itself to the emerging economic realities that did not fit into the political order of the day. But the “old guard,” fearful of potentially harmful repercussions provoked by the worldwide redistribution of wealth, quashed the instinct by printing millions of U.S. dollars, euros, yens, etc., which still serve as global reserve currencies. Unfortunately for the administrators of the monetary drug, the magic wand of “monetary easing” has a limited time span, and when it fails—sooner or later—to work a miracle, the last bastion of the Ancien Régime will have to hang out the white flag and its remaining defenders will have to learn the meaning of the Latin phrase *Vae victis* (Woe to the conquered).

Each day the news brings us ample evidence for several conclusions. For ease of reference let me classify them into three groups: political, economic, and social.

On the political front, the news leads us to conclude that:

- The established international structures—the UN, the G7, the EU, the OECD, etc.—have proved inefficient because none of them has risen



to tackle global issues, which require multilateral action. In fact, while individuals embrace the reality through “social distancing” and reduction of contact within their surroundings, national governments are distancing themselves too, reluctant to put their fate in the wrong (global) hands.

- The Western concept of solidarity has cracked further. Today, when access to relevant medical supplies has become urgent, the countries that have a surplus of them pretend not to hear the distress calls coming from their less fortunate partners suffering from COVID-19. Figuratively speaking, such indifference may be interpreted as the *Sauve qui peut* (Save yourself if you can) signal that was used in the old French navy to indicate that a ship could not be saved through collective effort and had to be abandoned.
- Many governmental bodies in democratic countries have revealed their political impotence. Left without the staff due to the lockdown, they have failed to instill the sense of security in society, raising doubts about their ability to act. Watching television images of their leaders “working from home” or, worse still, staying sick in bed—like, for example, Canada’s Justin Trudeau or the UK’s Boris Johnson—makes people question whether they can rely on such authorities in the first place. Episodes showing medical and support staff’s walkouts from nursing homes in Spain and Canada indicate

that public faith in the integrity of the social system is approaching the point of no return.

- Traditional mass media are losing their lead in forming the political agenda. Increased social restrictions have interrupted the normal channels of transmitting information from closed sources to mass media. Amid the evaporating public trust in traditional sources of information and the growing importance of social media, some bloggers have become as efficient political agenda setters as professional journalists are.

From the economic point of view, it is hard to ignore the following:

- The Western governments' disregard for budgetary discipline is again on the rise. Last year, the U.S. government suspended the requirement to observe the national debt ceiling for two more years. Last March the Canadian government failed to release its annual budget, which traditionally serves as a vote of confidence in parliament. So far the EU has resisted the calls to implement extraordinary borrowing measures—the so-called “coronabonds”—that could cover the support programs of some of its “southern” member-states where the economic situation is deteriorating because of nationwide lockouts. However, the sources of funding for the affected industries need to be found anyway.
- The central banks of developed countries have introduced significantly stronger financial measures than in 2008-2009 to prop up the economy. Yet this supposedly potent counterattack in defense of the “old order” may prove suicidal as it prompts the collapse of the social welfare systems in the participating countries.
- Recent jolts of stock indices, which go out of line with the macroeconomic developments provoked by the interference of large institutional players—such as central banks or treasuries—that intervene to support national “economic flagships,” indicate that the news of additional financial support do not convince other market players.

- The existing laissez faire trade system is under heavy strain that may tear it apart. A supposedly minor disagreement between Saudi Arabia and Russia on the crude oil quotas rapidly degenerated into a major issue that hit hard the interests of main powers. The national governments of non-OPEC+ oil producers—notably, Mexico and Brazil—had to join unwillingly the discussions on supply cuts whereas other countries, such as the U.S. and Canada, have tacitly supported “a new cartel” agreement. The latter fact contradicts their self-professed principles of free market, exposing their moral corruption, in the least.
- Gold prices are on the rise, which indicates yet another bout of public doubt in fiat currencies. Worse still, the stock of physical gold appears to be dwindling when online retailers like Kitco claim to be “out of stock” or offer a “very low quantity of product.”

Finally, the COVID-19 crisis has further stressed the social fabric that was already under strain because:

- Lavish wage subsidy programs announced by the governments to support displaced workers undermine the importance of trade unions, churches and other social institutions as vehicles through which professional organizations and communities advance their social agendas. Why do people need intermediaries if their needs are addressed directly by the government?
- Strict quarantine rules have given an additional impetus to the breakdown of family ties that are already weak in Western societies. Teleconferencing, being promoted now as an alternative to family reunions, weddings, birthday parties and even funerals, may become an entrenched cultural habit.
- The increasing atomization of society coincides with the opposite trend—shrinking private space. It has become technically feasible to use personal communication devices to monitor the movement of their owners or to control their actions. Since some countries already employ face recognition tools to detect transgressors of the quarantine rules, the users of these devices are at risk of being followed relentlessly in real time if such measures become legal under emergency laws.

Put together, these factors indicate that the role of the government as a guarantor of social security will grow. It looks that the U.S. has already assumed the role of a stalwart supporter of personal liberty as a result of the ongoing erosion of community ties aggravated by the current rules of “social distancing.” More startling, at least for English-speaking countries, is the trend towards the government’s functioning as an economic planner. The trend is novel given the earlier reluctance of the U.S. authorities to interfere in supposedly private economic activities. However, the vitality of private enterprises is contingent on predictable future earnings that become blurred in the absence of price stability, which, given a lax monetary policy, can be restored only if adequate sinks become available to neutralize the impact of excessive money supply on prices.

Today such sinks are found in various national “wealth funds” and private savings outside Western countries, but whether they have an extra capacity to accommodate future, more generous, rounds of monetary easing is unclear. Another channel of money neutralization may be speculative buying by the government of the stock when it is cheap and selling it dearly when private investors stop panicking. Such “re-privatization” implemented after the emergency measures are lifted—the way it was done with the GM stock ten years ago—is feasible, but if the investors sense the trick this time, they may not return to the market. Considering that the U.S. authorities failed to tackle the public finance issues before, finding a working remedy today looks an even more insurmountable task.

The analysis of specific developments expected in the near future brings us to the following conclusions.

First, as the cost of maintaining horizontally structured organizations grows due to logistic problems, such business practices as outsourcing will decline. With vertically integrated holdings supported by the government, the cost of their maintaining will become relatively smaller. In an adverse environment, a new normal for them will have to be devised—that of a walled medieval town rather than an open-space horizontal network.

Second, the current outburst of financial generosity on the part of national governments will eventually lead to the depletion of the stock of previously accumulated physical resources. Those nations that ensure a continuous inflow of essential products will gain at the expense of countries

which previously specialized in selling semi-finished goods. Also, the departure of domestic companies from the market—due to the quarantine measures—will show their irrelevance for social welfare.

Third, the ensuing simplification of organizational structures makes economies less productive, at least in the short term, until new trade patterns emerge. As resources become scarcer, social welfare expenses will have to be reduced, resulting in a greater income inequality, which will prompt societies to search for new forms of cooperative agreements.

Fourth, the private space will be eroded further. Asian-style societies with loyalty and respect for hierarchy will prove to be more suitable for a new normal, while modern libertarians will find themselves devoid of the means to practice their beliefs. Living on personal savings will be unrealistic as the precarious monetary systems built on fiat money will reduce the importance of money as a delayed consumption instrument. The possibility of immigration to new lands, more favorable to libertarianism, is similarly unfeasible because the essentially completed globalization has left no refuge for escapists.

In short, the steady state of the global economic system that existed in 2009-2019 has been upset again and significant changes are underway. They will benefit the countries and organizations that are more accustomed to paternalistic modes of governance, more self-sufficient in resources and less dependent on international exchange, as well as where popular cultures are receptive to hierarchical structures and do not shy away from the public way of life.