For the G-20 Riyadh Summit
To appear at: g7g20summits.org
(University of Toronto, Research Group on G-20 activities)

Pietro Maffettone – Chiara Oldani

KEY QUESTIONS ADDRESSED

• How has the proliferating COVID-19 pandemic and its financial and economic consequences threatened G20 members and global financial stability this year?
• How have G20 members responded, individually and collectively, and what results have they achieved?
• What challenges lie ahead?
• How can G20 leaders at their Riyadh Summit in November best help meet them, and preserve financial stability, as a distinctive foundational mission of the G20 institution?

G-20 member countries have reacted promptly and decisively to the adverse economic effects of the COVID-19 pandemic. Yet they have done so in a non-coordinated way; the temporary lockdowns of many G-20 countries after March 2020 have generated a government-led fall in supply accompanied by strong slowdowns in demand and rapidly rising unemployment. These circumstances have engendered the deepest recession in the recent history; GDP is expected to grow at -7% in the EU and -2% in emerging countries. Economic fundamentals are pushing down asset prices and the threat of financial instability has loomed large in past months. According to most forecasts, the recovery will be gradual rather than 'V-shaped', output and employment levels are likely to return to pre-pandemic levels in about two years. The European Union, Japan and the U.S. have promptly acted to avoid a hard landing of their economies, they responded with unprecedented public resources to fund public insurance mechanisms (i.e., unemployment benefits, health care and research spending), and prop-up large parts of the private sector. Eurozone governance *openly* smoothed its longstanding penchant for fiscal austerity by publicly allowing significant flexibility on debt and deficits. Central Banks have injected large amounts of liquidity; after May 2020 financial markets have reacted positively and asset prices have recovered. However, the public system of several G-20 countries, such as Brazil, India and Indonesia, seem unable to carry out the twin tasks of managing the health crisis and finance the recovery.

Economists and policy makers are clearly worried about the here and now, but most of all they are concerned about potential adverse structural changes caused by the pandemic. Some concern the structure of the economy. Will some sectors fully recover or will the damage be long lasting (e.g. tourism)? Some concern employment. Will we see higher structural unemployment? Will new emerging employment opportunities match the skills of currently displaced workers? Some concern global market integration. Will the complex organisation of supply chains across the globe remain intact? Some concern investor confidence. Despite large public interventions, will the private sector resume investment given that medium term prospects are linked to haphazard processes of developing effective therapies and vaccines? Some concern government revenues. Given the shift of economic activities to on-line platforms, and given the current lack of a credible system to levy taxes from these activities, will we witness a structural reduction in the tax intake of developed countries? Some concern poverty and inequality. Will countries making steady progress in reducing the number of poor households be able to continue doing so? Given that the pandemic seems to aggravate the rise in within country inequality we have witnessed since the 1980s, will this prove to be sustainable? Higher inequality will affect the economic structure of some countries, but most of all it might fuel future outbreaks of populist movements, thus threatening political stability. Economic growth requires social peace and political stability. Higher inequality is potentially damaging to both. One of the main challenges for G-20 countries in the coming years will be to reduce poverty and inequality in a way that is compatible with market efficiency and thus produce equitable and sustainable growth.

In order to meet these challenges, G-20 countries should adopt the following measures. First, tackle the health crisis head on providing reassurances to the public that their health is a key priority. Countries that have opted for a laxer stance are paying a higher price in terms of human lives and might very well see their recoveries delayed[1] (see Maffettone and Oldani, 2020). Second, think unconventionally when it comes to the nature and purpose of public interventions. Direct cash payments to citizens, and large infrastructural investments come to mind. For some countries, higher levels of borrowing might be justifiable given the extremely low level of interest rates. The prospects of inflation rising quickly being extremely low, tightly controlled monetization could also be used when borrowing does not seem sustainable. Third, pay particular attention to social equity. A productive way of doing so would be to massively increase investments in human capital. Finally, work on policy coordination. Given the structural ineffectiveness of the IMF or the WHO as global political facilitators, the G-20 could cease the opportunity and effectively become the sole global policy forum left on the playing field. It should act so as to avert individual national interests from prevailing and eventually producing collectively sub-optimal results in the long-run.

[1] Maffettone P., Oldani C. (2020) COVID-19: A Make or Break Moment for Global Policy Making. GLOBAL POLICY, ISSN: 1758-5899, doi: 10.1111/1758-5899.12860