

”BUSINESS AS USUAL” IS NO WAY TO REACH THE ”NEW NORMAL”

Napoleon POP¹, Ph.D.
Valeriu IOAN-FRANC², Ph.D.

*“The change can only come from
rewriting economics textbooks”*

Valentin Lazea

Abstract: *The reflection from the motto of the article, more necessary than ever, belongs to a Romanian economist, very active and sometimes controversial, who took the initiative of uttering a truth that can no longer be avoided. A truth that we approach in our article, encouraged by the recent opus of John Komlos "The principle of the economy in a post-crisis world" (Romanian Academy, The National Institute for Economic Research "Costin C. Kirişescu", The Center for Economic Information and Documentation, 2019). It is more and more obvious that the changing world can deny the old approaches, as the success of the "new normal" will, by and large, depend on the liberation from theoretical traps, many of which confirmed by the empirical studies on current realities.*

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¹ *Scientific Director, Institute for World Economy, Romanian Academy, Bucharest, Romania, email: iemnapoleon@gmail.com.*

² *Correspondent Member, Romanian Academy, National Institute for Economic Research “Costin C. Kirişescu”, Deputy General Manager, Bucharest, Romania, e-mail: cide90@gmail.com.*

The Pandemics we witnessed in 2020 has been stimulating a lot of analysis, debates, more or less formal, among economists, academics and policy decisions makers. Online, great seminars and conferences took place, all to grasp the specifics of the times we are going through. More unexplored issues insofar have helped our thinking on how to tackle them, but, more importantly, they have given a sense to our intuition that the world is changing and the present matters should be approached in a completely different manner. Many voices of the *connoisseurs* joined to draw our attention that it was about time the economics books should be re-written. We also agree with such a proposal but let us start with the big words used by notable persons in featuring the present and the future time of our global economy.

Nowadays, we are confronted with a **crisis as no other** induced by an endogenous factor, unexpected and almost uncontrolled at least to begin with. Even if we say that the pandemics was not about a human error, that error comes mainly from the recent past, i.e. our reaction, the bad response we gave to the financial crisis that burst in 2008 and to many other economic and social issues before that. Between 2010-2011, we recollected the effects of the actions we took to recover and rebalanced the economies, later assessed by celebrities in economics as either inadequate or too tough. A lot of public expenditures were cut, including health ones. So, the health systems under financed for years were caught by the pandemics on the wrong side and hardly resisted the pressure in order to treat people and save lives.

The consequences of our traditional endeavors for more austerity when economies suffer of low demands were reflected in statistics, an uneven rate of recover, a fragile and discontinuous in trends, too, with difficulties in reaching the expected macro balances we were accustomed with. The GNP potential lost 2-3 p.p., economic growth halved in the majority of the developed countries, emerging economies partially lost their power of traction on the global economy, the debts increased paralleled by less developments on a

background of growing inequalities and heavy criticism of multilateralism, globalization and everything that no more matched the interests of a new wave of politicians. All of a sudden, the order put in place after the 2nd WW started to shake, generating chaos.

In the background of all these, we have gone through building new institutional architecture and a growing interest in understanding our planet with believing the prosperity and peace will never end. Globalization, among other things, generalized more or less the best economic model based on democracy, market economy and human rights, broke the frontiers of all kinds of isolation. The free movement of goods and services of all kind, of labor force and capital gave the impetus of the Great Moderation followed by the worst contagious financial crisis. The peril of contagious phenomena has been reconfirmed by a global health crisis putting on hold the traditional way the economies can be kept alive.

Overnight, the global and regional economies considered more resilience and prevention as a whole had to be carried on immediately by each country individually until international financial institutions (IMF, World Bank) or other formats of common decisions takers (EU, G-7, G-20, central banks, NATO) came to help with their specific tools. A great deal of financial resources were mobilized to save lives, breaching the fiscal and monetary rules, but now it is the turn of our economies to be recovered. This effort is facing a completely new reality as the social distance and wearing masks are changing the nature of human interaction regarding production, supply of goods and services, and lockdown of the economies is preventing transportation and distribution systems from functioning while nobody knows the end of the story. The story is that the pandemic caused by Covid-19 has shocked the entire world also giving a strong blow to the global economy that was allegedly healing from the latest financial crisis, thus the sanitary crisis interweaved with the economic and social crisis. Today things are more complex, as it is said that exceptional times require exceptional measures.

By exceptional we mean change, i.e. the principle which, in our opinion, gave birth to the intuition that the world is changing. Exceptionality combined with a crisis is strengthening the acknowledged state of facts that we are facing new challenges and opportunity which need our intellectual attention. Exceptionality, meaning the start of a change, brings us to another changing term, i.e. “paradigm”, we have been referring to for at least the last two decades. Accepting such a dynamic leaves us in the face of the reality that is happening day by day. We are witnessing a transition from the current normal to a new normal to which humans have to respond to and work with. The pandemic shows that the work has already started by questioning if business as usual is the proper answer to reaching the new normal.

Most of the new normal will consist in what is called today an accepted temporary deviation from the mainstream economic rules and structure of public policies we have elaborated on and improved after the 2nd WW. Irrespective of how we call it, tradition or conservative, we have to agree that the instruments of our governance need to be, at least from time to time, re-harmonized with the changing realities. All which happened to be featured as unorthodox today will become the normal way of action in the immediate future as it is the dialectical law of accumulation of bad things which cannot be anymore tackled with solutions of the past. The pandemic is precisely this kind of a moment in our contemporary history when the so much discussed (during the last two decades) hypotheses of the paradigm change are getting the real meaning and consistency.

We need not forget that a paradigm is not something separate from the human being. The definition of paradigm in Latin is a model, example or lesson, and they are emerging from the human nature and not from the materiality of the world (economic system) the human kind built. It is the reason why we concede human emotions as “market feelings”, when they are in fact an expression of the investors` behavior or response to the decisions taken by humans. The measures taken to fight the pandemic seem to negate the old approaches

and the successes we are proud of confirm that, in spite of pretending to only temporarily breach fiscal, budgetary or debt rules, we started to free ourselves from the theoretical traps considered taboos so far. The present empirical studies analyzing the economic realities we all live with are confirming more and more that old restrictions or alert thresholds are no more appropriate to manage the derail of the global economy on one side, or national economies on other side. Our mistakes come from the unwavering faith that the positive thinking in economics is equal to the continuing, endless expanding of the economic growth overemphasizing its material benefits.

We have to part with the Keynesian paradigm of extensive consumptions in terms of capital, labor force, productivity for an economy freed of the constraints whose importance has been only recently acknowledged, such as morality and respect for nature (Lazea, V.: “Agenda ecologică a Băncii Centrale Europene: plusuri și minusuri”, September, 2020). The morality of the system says that the social status of humans cannot consist only in wealth and consumption. As far as the natural environment is concerned, as well as the resources of the planet, it seems that the new concentration of our efforts for a green economy as a salvation of our future lives from the disaster produced by the present double crisis – health and economic – is just a delayed understanding of the misdoings we have always avoided to discuss seriously.

The way we explain our deeds during the crisis time serves only to amend the lowest level of the business cycle, when in fact the rule of symmetry is obliging us to manage any excessive up and down deviation from what we consider the sustainability trend. The new faith of our time that the intensive development of technology can always overcome the growth rate of population and the consumption. It is our part of wrong thinking as the structure of population by age and location and its habits to consume is changing with the pandemics and all these mean we have to re-organization our work in every domain, counting on digital technology.

Regarding benefits, of course many of them were the results of the traditional/conservative normal, but they are fading away and this has to be explained. The limits of growth were subject of warning almost 50 years ago in a special report issued by the Club of Rome in 1972, but we got quickly over such a “horror”- shock (supported, by the way, by a group of scientists, many of them Nobel Prize winners) and went about our business in the traditional normal fashion. Jay Forrester, a pioneer in digital computers and magnetic data storage, made a prophesy at that time regarding the question of when a continuous growth of more than 100 years in population, productions, incomes, capitals, garbage and pollution will stop and by what means. The alternative solutions were thought of either considering the help of wise governments and the good sense of the people or imagined as a natural process equivalent to a total collapse, decline and finally a disaster. It seems that we are living the second solution as we were not prepared to understand and to act in good times. In many of his speeches, Claude Juncker referred to the need to fix the roof when the sun is shining, but messages like that were never heard by those in charge so as to fix something before it was too late.

The pandemic overwhelmed us by making it obvious that if humans lose the life sustainability to a biological enemy the entire civilization may collapse. In this context we have to reflect upon many things. Why the so many financial resources spent during the financial crisis did not restore the economic growth and social unrest before the crisis? Why is there a growing consensus that economic recovery will be more difficult and lengthier? Why can't we stop the growing present uncertainties in spite of having so much computing power? The answers are pressing us to admit that we need a new normal and its sense is given by many factors already in place: the high concentration of wealth versus rapid growth of poverty; the restructuring of traditional and emerging economic powers, deglobalization and its impact, realizing the need for a peaceful transition to a new global order, too much fear and panic, loss of confidence and social calm etc. Meanwhile, the high political responsibility is still moving too

slowly in taking decisions and forging the international cooperation and coordination, as positions of different countries, let alone with their own financial difficulties, diverge.

The signs of the new normal are multiplying from what was considered temporary relaxation measures as an immediate response to the pandemics and the effect of locking the economy to more decisions steamed from uncertainties. To a heavy and prolonged recovering new thoughts have been added. Nobody knows yet if the bulk of financial measures is enough and when they will stop. On the contrary, financial and monetary relaxation is announced to continue and the dead ends are only new stages of analyses in order to decide what to do next. In the meantime, the entire economic and social life has to be reorganized aiming first at protecting the people, the workforce, the students and the pupils, the public and private sector. Thus, central banks and the financial sector began to “think green”, IMF, World Bank or EU are opening talks to improve the governance in need of a deep reform etc. Thinking green is considered the salvation of mankind as carbon blacked the breathing air. Digital technology will contribute to reforming the way we relate to the state or employees as social distance will become permanent. Some economic branches will disappear, other are lucky to become important, so the much avoided restructure of the economies is taking place forcefully and must be helped in the good direction. All these changes are yet connected with the unknown manifestation of the pandemic as the second wave seems to be more dangerous than the first one and this is the terrible source of uncertainty.

Step by step, we see that transition to the new normal is no more “business as usual”. Christine Lagarde, the president of ECB, Kristalina Georgieva, the managing director of IMF, Jerome Powell, chairman of FED, many other governors of central banks expressed the optimistic side of the response to the pandemic in recent public meetings. Lagarde said while the statistics is suggesting a strong recovery in the third trimester of this year, the strength of it remains uncertain, uneven and incomplete. Everybody is insisting that more

fiscal help is needed as the changed world will be nothing of what it was. The conclusion is clear, business as usual no longer works or, at most, it is not enough, which means the same thing.

IMF has taught us that any restructuring needs first to “stabilize the patient”, and after that one can proceed to the difficult surgery. Our patient – the global economy or national economies – is far from being stabilized. At this point let us forget about the huge amount of money we have spent and consider the socio-philosophical meaning of the words uncertain, uneven and incomplete. These meanings are saying, in our opinion, that in the new paradigm we must free ourselves of the present fears that we are departing from mainstream economics, while one of the greatest fear is of an upcoming pile of debts, but no economic growth or real development. The departing point towards the new paradigm shows us, in fact, “the skeletons in the closet”, the trap of our non-normality as effects of an overflowing of politicizing the public policies, so that the truth seems to belong exclusively to politicians who are using a more and more personalized, egotist, aggressive, emphatic, even dictatorial discourse.

Deciphering those three words has to be done not by statistical data (all being a convention deploying the use and abuse of statistics), but seeing the human action behind them. Let us start with the *uncertain evolutions*. The uncertainty of the world is only proved by statistics when it comes from the quality of the governance, rejecting the dynamic of the knowledge (it was a bothering question why the politicians no more need good economists) and being too confident in what we call good or best practice. The changing world forced the development of new models of business in almost all areas of human activity as the good practice started lacking precision, accuracy, consistency and simplicity in implementation. The overregulation looking for clarity was opening a labyrinth in search of prevention and resilience difficult to achieve when we see notable commercial banks in world (*nomina odiosasunt!*) finned with billions dollars for suspicious financial transactions or money laundering or addressing the constitutional courts. The more we overregulate, the more the

implementation becomes difficult as we have forgotten the principle “one shop stop” developed to achieve efficacy in spending our irreversible time. The source of uncertainty is our deeds in the process of decisions making, too much time consuming difficulty in reaching a consensus and in several cases bypassing the legislation in force (EU can be a good example if we refer at least to tensions before reaching the creation of the Next Generation Fund, but how will be disbursed is subject of new discussions but not before the end of the next year, 2021).

What is uncertain does not come from the materiality of the economy but from how we act with responsibility. We have good news. ECB proposes to reduce reporting burden for banks and increase data quality and it is ready for a policy response if shocks that compress demand pose additional threats to price stability. IMF declares the need to “up our game”. FED remains committed to use its full range of tools to support US economy, promoting maximum employment and price stability, as the ongoing public health crisis will continue to weight on the economic activity (a truth valid for all economies!). As EU MS are worried about the moment when all the stimuli come to an end, France is opposing to the return to the before-crisis rules and budgetary discipline imposed by Stability and Growth Pact. New thresholds are needed for budgetary and debt deficits, there is a proposal for 90% of GNP of public debt. The governor of Banque de France is proposing that the mandate of national central banks to be extended in view of uncertainties we face. In European Parliament and European Commission, the idea of taking decisions by majority versus consensus is catching roots. The bloc should do away with the unanimity requirement, Ursula von der Leyen has said recently. There are only some examples the economics book and rules of taking decisions, at least in UE, must be changed if we want, in the changing world, to return to a sustainability growth living with pandemics.

Looking again at the meaning of those three words, their order suggests the determinism existing among them. The uncertainty is the great enemy of

coherence in human thinking. It is responsible for the chain of inequalities we produce as well as for the fact our decisions are incomplete. The economy as it is, is reflecting the quality of human interaction. The taboos are our creation based on our empirical studies and continuing to believe in them is subject to nowadays disturbances between previous normal and new normal. There are signs that the consistency of public policies has to be changed but not completely repudiated, so business as usual needs a new level of knowledge, the change in structure that our life calls for. What we call now non-orthodoxy (state aid, QE, common bonds or direct monetization of public deficits, etc.) will become the new normal. The magnitude of present crisis reached the compromise never expected to happen. The temporary suspension of the rules we followed so far explains the changes we need in our thinking on how to manage the economy by giving up its aim for profit that leads to the destruction of our natural environment, aim that, unfortunately, we are still trying to reach. Strange enough, by taking care of the destroyed environment we are actually heading to what is presumed to be **economy of care** for all of us, humans.