International Journal of Ecosystems and Ecology Science (IJEES) **Vol. 12 (4):** 367-372 (2022)
https://doi.org/10.31407/ijees **ISSN: 2224-4980** https://doi.org/10.31407/ijees12.4

COVID-19 AND THE ECONOMIC CHALLENGES

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Received June 2021; Accepted July 2022; Published September 2022;

DOI: https://doi.org/10.31407/ijees12.446

ABSTRACT

Every day more and more it is accepted the idea that the Covid-19 pandemic is the biggest historical event of the last 30 years that is bringing socio-economic change all over the world. This situation is bringing concepts transformation of the theoretical bases, as well as economic policies which are undergoing radical transformations, changes that are the subject of this paper. In the article is analyzed in theoretical and practical terms, the expected effects of policies used in this situation, to overcome it. Special place has taken the changes in the economic relations of the world powers, the change of development models in general and economic systems in particular. In terms of study methodology, the paper tries to prove statistically the consequences of using economic leverage in economies of developed countries, changes in the labor market, the effects of the local economic situation of each country, as well as the role of economic groups and international organizations in overcoming the consequences of pandemics. It identifies macroeconomic forecast targets, new forms of development risk assessment, the role of digitalization in economy, health market restructuring, etc. As the conclusions I have been trying to give answers questions: Are we facing unthinkable changes? Is the role of Central Banks changing? What is going to be with debt, deficit or inflation? How it will be resolved unemployment problem and what are the changes in the labor market? Is it going to change the economic model, or social inequality?

Keywords: "Economic Globalism", "Economics Model Development", "Digital Economy", "Opening of the health market", "Multiplication of development "etc.

INTRODUCTION

The spread of Coronavirus cannot be economically classified just as a shock to the supply demand, or both at the same time, but also a radical restructuring in the way of economic conception. The impact of the Coronavirus on the economy is enormous, considering the extent of the spread of this pandemic and the weakness of the economic structure of each state (Kickbusch & Leung 2020)[1]. Recession, virtualization of the communication and the growing needs, may force states and international organizations to strengthen cooperation at the global, regional and local levels.

[1] *Covid-19: how a virus is turning the world upside down. Editorial BMJ. 2020 Apr.*

On the other hand, de-globalization trends which despite that may be in their initial stages are conditioning factors that reshape economic cooperation, international cooperation and free movement of people. (Kozlov & Sokolova, 2020)[2]. Many authors are calling these elements "post-normal" to show that the ways to solve the riddles of normal science are no longer as appropriate as before. This cause new consumer behaviors, due to virtual conception of reality, artificial intelligence, etc., but above all because of the natural and existential uncertainties of the human race (Funtowicz & Ravetz, 1995)[3].

Maybe it's still too soon to give recipes and formulas for economic policies and their effects, as well as the assessment of the risks of this crisis in economic terms. This situation can make us aware for the essentials of daily life and at the same time with help us review our production and consumption model ruled until today.

Brief historical overview and theoretical framework

The Covid-19 pandemic and the economic crisis that has swept the world, have sparked the debate of economic thought. Many basic issues are being questioned. Crises have been accompanied by change and evolution of economic thought, especially of macroeconomic models. Macroeconomics its reached to the full concept in 1936 with the publication "The General Theory of Employment, Interest and Money" by John Maynard Keynes. The story that followed back can be divided into three eras.

The era of strategy, guided by Keynes ideas, began in the 1940s (major role of the state in the economy).

The second era began in the 1970s and was characterized from problems of development and increase of work productivity characterized from, "The Keynesian Model Crashed" in early 1970s. Increasing inflation and high unemployment of that decade, known as 'stagflation', confused rational economists, who thought that both variables moved almost always in opposite directions.

The third era began in the 1980s and was called Monetarist epoch. This was closely related to the theory of Milton Friedman the transition from Keynesianism to Monetarism. The essence of Friedman's theory is that he argued for free trade, smaller government, and a slow, steady increase of the money supply in a growing economy. His emphasis on monetary policy and the quantity theory of money became known as monetarism. Monetarist ideas of the 1980s inspired Paul Volcker, that was at the time the head of the Federal Reserve Bank, who decided to control inflation through interest rates to reach one "natural equilibrium of the capital market". This caused a review of the Fed policy, which fought inflation and over time the U.S. began to realize fiscal compactness and government debt control. Immediately after that began a period of economic growth with the so-called Reagan's economic policy (the four pillars: reduce the growth of government spending, reduce the federal income tax and capital gains tax, reduce government regulation, and tighten the money supply in order to reduce inflation. The results of Reaganomics are still debated.

From the 1990s to the 2000s, a synthesis of the model emerged Keynesian and Friedman. Main goal of these policies combined was the achievement of a low and stable inflation, to establish a new equilibrium in the labor market and simultaneously developing an internationalization of the economy in terms capital movement. The main lever of economic policy was increase and decrease of short-term interest rates, increase in the number of economic transactions with financial market developments and over all massive privatizations of public property. Central Bank Independence from governments ensured that they did not fall into the traps of inflation, of which Friedman had warned. Fiscal Policy, as a way to manage the business cycle, revenues were offset by privatizations. The task of politics was to keep public debt low and redistribute the income to that extent and in such a way as to provide a sustainable dynamics of social peace. It was the time of privatization of public property and liberalization of financial transactions. The world economy had a stimulating development period from low interest rates, from the growth of the financial market and financial transactions, and above all from a unbridled lending for consumption and real-estate. People started living on their opportunities, through lending, and slowly development was turning into a financial bubble. It seemed on the horizon that this model, the dominant economy, had reached its limits. Financial crisis of 2007-2009 proved that the lack of control over financial institutions, human tendencies to live above the level of personal opportunity, liberalism and financial extremism, created large bubbles in credit systems. This condition put the policymakers face two major problems:

The first problem had to do with the level of demand in the economy. To avoid bankruptcy of commercial banks, Central Banks lowered interest rates, increasing the amount of money to buy government bonds in bank portfolios and consequently increasing the liquidity in the economy. But even with special monetary policies, the recovered of

[2]DE globalization: the impact of the external environment on Russian economic development. Norwegian Journal of Development of the International Science, May 2020.

[3]Planning and decision-making in an uncertain world: the challenge of post-normal Science. S0 Funtowicz, JR Ravetz - Natural risk and civil protection, 1995.

2008 crisis it was slow and took a long time. GDP growth was weak and the end of 2010 questioned the knowledge associated with the manner of using financial leverage in the direction of the economy.
"Quantitative Mitigation Measures" were an alternative policy tool for overcoming problems, but its effectiveness became the object discussions especially on the impact of output growth. Direct consequences of this crisis was that, interest rates went below zero and did not had the most effect on credit growth and economic development.
The second problem, after the financial crisis of 2008 is related to income redistribution and population consumption. Concerns related to the costs of globalization, and automation, helped support populist policies. Economists asked that, for whose interests was capitalism working lately? Increasing of American inequality, the suddenness was put at the center of economic studies because the large firms had become extremely powerful and even ruled by policymakers. Others they feared that a globalized society would be overly dominant and increasing social differentiation to unprecedented proportions.
World War II was a threat to the development of capitalism. Thus emerged the arguments and statistics that economic growth was structurally weak, misdistribution of activity, perturbations of economy, were leading to a very large polarization of society and consequently changing consumer policies. It was proved that the rich were more inclined to save than to spend, i.e. if income distribution increases along with social polarization, then even overall savings increase but consumption does not increase, decline in consumption did not stimulate production and consequently lending requirements are also declining. This phenomenon coincided in time with policies to avoid state bankruptcies as a result of the crisis that public debt in four European countries, but also in Brazil and Argentina. When these problems were being faced by the policies of most important international institutions, in the years 2018-2019 the other problem of the war trade between the US and China arose, and furthermore it's also started the pandemic. There were never before in the world economy, so many factors acting simultaneously. Chaos and ignorance began to dominate the market and economic risk took on social dimensions. The economy thus entered to the period of epochal changes, which to the humanities were brought before only from wars and crises after them. Pandemic is such economic, social and political crises that humanity will need to solve for the three years 2020-2023.

MATERIAL AND METHOD

Research questions and methodology

- Basically, this paper focuses on some of the most important common questions that many scholars are laying out in economic wind conditions at the pandemic period. These questions are the subject of theoretical discussion but also of economic policies, in order to identify the problematic of future developments. Thus, questions such as: Are we ahead epoch-making changes? Is the role of Central Banks changing? Debt and deficit or inflation? How will the unemployment problem be solved and what are labor market changes? Will the economic development model change? etc. that are the subject of discussion in this paper.

- The research methodology used in this publication, in addition to the facts, reflects a review of the literature on the subject, uses statistical processing of many data for most western developed countries. To this analysis are added the study of macroeconomic data for Albania, analyzing expected developments of the country, based on domestic economic aggregates, taking always in consideration that, assessing the impact of these economic policy is a function of uncertainties.

- The material is based on a large processing of quality & quantitative data. It relies on official figures tested by world prestigious bodies, with calculation systems and theoretical of protocol indicators. It also summarizes an ongoing monitoring of Information published by organizations such as the IMF, WB, EU, etc. and at the same time it reflects an analytical search of analysis, deduction, induction and what cause consequence. The study has its limitations that are not only in the accuracy of predictions, with the unverified opinions of many authors, but even with the changes that may exist as a result of the unexpected of possible third wave of Coronavirus.

RESULT AND CONCLUSIONS

Results of the paper and discussion topics

Answering the research questions posed in this paper on the basis of analyzed materials and compared estimates, the following conclusions and discussions are reached:

a) Are we facing epochal changes?

Coronavirus suddenly hits the whole world and the desire for investment has dropped significantly. The people of rich countries, today, are saving most of their income. Investments are very low. Simultaneous decline in supply and demand it is accepted because the one affects the other. Thus, demand theory and market supply began to be replaced by that of the transaction. The main economic lesson of the pandemic is that nothing will be like before, because we had never had such a big drop. In the picture below, on the left wing, we are seeing the global economic downturn starting from the world crisis of 1974 ending to the right hand with economic forces in the world market, by the end of 2024.

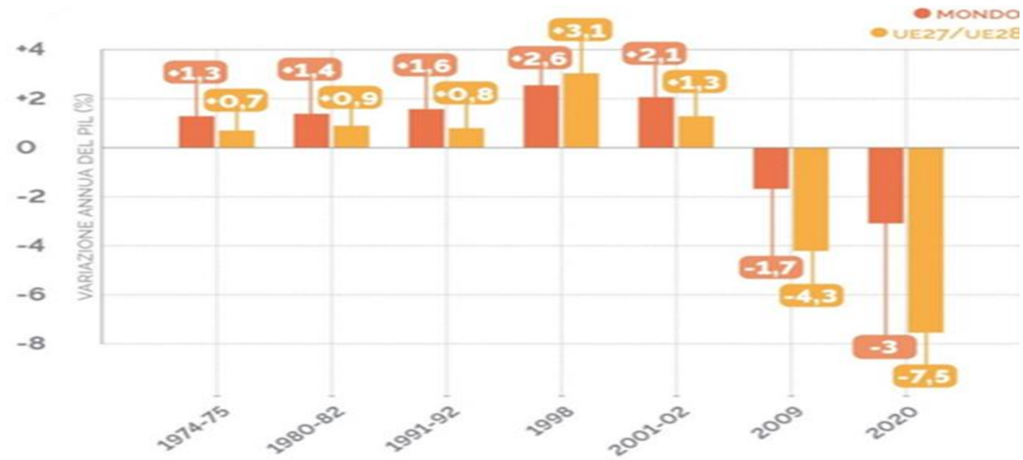

Figure 1. The level of world crises since 1974[4]-

GDP changes in major countries since 1992[5]

In this context, the analysis of the functioning of the economy changes, and it is no longer relies on supply and demand, but on the concept of economic transaction. The transaction is nothing but an act of sale and purchase in the market, which meets the needs of both parties. A transaction, like the ones happened in a pandemic situation of todays, will be constantly accompanied by bankruptcies, restructurings, changes in business models, and the difficult birth of new businesses. The basis of any transaction is the fulfillment of new needs with new products. In order for the economy to grow, transactions must increase, and in order for transactions to grow, enterprises must grow. Thus, the relationship between labor and capital is being completely replaced by the relationship between enterprise and labor product. This will have indisputable consequences in the labor market, capital markets and, above all, in human relations.

The second lesson the pandemic brought is the ration between *wealth on the one hand and security and existential tranquility on the other hand*. At some point in history money as capital and money as an element of wealth will be totally replaced by the function of money as a means of payment. Despite being utopian, many countries with "centralized market economies" are setting examples in this regard.

[4] *The pandemic and the devastating consequences for the economy. The main measures of European countries - Valigia Blu. Valigiablu.it Sources FMI*

[5] *https://www.infodata.ilsole24ore.com/2020/07/26/2024-sorpasso-della-cina-sugli-stati-uniti-la-rivincita-della-classe-media-asiatica/.*

b) Is the debt, deficit or inflation and the role of Central Banks changing?

One of the biggest change brought about by the pandemic is the risk of homogenization. This means that any assessment of economic development, with parameters known to date such as: debt level, ability to meet fiscal obligation, the cost of the budget deficit, etc., no longer have value before a catastrophic economic downturn.

The idea of releasing the fiscal tap at the end and putting the Central Bank at the service of fulfilling this goal resembles the Modern Monetary Theory. This is a heterodox economic theory that calls on countries that expect their own currency (like America and Britain) to "temporarily ignore public debt" and rely on the Central Bank to help business, employment, etc. without thinking about inflation, until the economy returns to its normal state. Is there a similarity between this school of thought and Modern Monetary Theory,[6] Yes, when interest rates are zero, there is no difference between taking out a debt and producing banknotes. When the interest rate is zero, "it no longer matters whether the financing is done in cash or through debt," because financing and issuance have equal effects, Mr. Blanchard said during a meeting "All those who support this theory[7] want the Central Bank to keep interest rates at zero, but many economists think that even if it eliminated the problem of the cost of money, it would lead to outstanding liabilities in the future , but still, it will create a financing bubble for non-competitive activities in the market and consequently mass bankruptcies. Fiscal economic policy theorists at governments think, that it would be better for the government to increase spending or cut taxes with budget deficits by financing them with surplus savings provided by the private sector and the population. How well commercial banks would be able to finance governments for large debts, would depend on interest rates and possibly the political prospects in each country. Fact is that in Europe and the US debt financing has become the dominant policy. Here we return to the relationship between short-term lending (financing) and long-term lending. Short-term lending / financing if it does not increase production and GDP will lead to the collapse of the government as well, in order to achieve fiscal compactness in the future because it will not be able to collect taxes. The pandemic is once again shifting the temporal and structural ratios between short-term of second-tier bank financing for business and long-term state financing for the economy. Below, we have the economic performance forecasts for European countries[8], and the debt forecast for them[9].

c) How will the problem of unemployment be solved and what are the changes in the labor market?

The pandemic has also highlighted and further deepened inequalities in the labor market as well. "White collars" can best do their work from home, while "field workers" [10], should either interrupt it temporarily or continue their field work. In this way they are the most risk posed by Covid-19 exposed people and consequently will require that this risk be offset or eliminated. Finding new ways to enable full employment again has once again become a top priority for economists. Closely related to labor market transformations, very important question will be about new forms of employment and above all to the value of labor time, value of labor product and the ratios between them. Another concern is that in the coming decades, governments will face with more pressure on the budget, due to the costs that will come from pension payments and the cost of health care, which are related to the aging of the population. The best way to boost economies today and tomorrow is by not creating countless bills to be paid at the moment interest rates rise again. The best way is to keep interest rates at negative levels. Low interest rates can boost investment, and consequently they will be the main tool for reducing unemployment. The evolution of the labor market as a result of investments in new branches such as digitalization, green economy, distance health, or scientific research, will require a requalification of market and business entities.

d) Will the economic model of development change?

The last lesson of the pandemic is that after this situation, nothing will be the same as before. So most economist's representatives agree that fundamental changes will be made to business models. What can be said with certainty is that the old economic model seems weak and the old forms of doing business is outdated. If 10 years ago the focus was on startups, today, more and more the focus is on the elements of 4.0 industry, artificial intelligence technologies, digitalization systems and companies with rapid recapitalization of economic assets. In one way or another, change will come, along with new business models. Our task is to be prepared as soon as possible for what is to come.

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[6] *Reynold F. Nesiba, Do Institutionalists and post - Keynesians share a common approach to Modern Monetary Theory (MMT)? European Journal of Economics and Economic Policies: Intervention, Vol. 10 No. 1, 2013, pp. 44-60.*

[7] *Modern Monetary Theory.*

[8] *http://www.consob.it/web/investor-education/crisi-sanitaria-economica*

[9] *https://aspeniaonline.it/dopo-il-covid-lunica-certezza-e- un-enorme-debito pubblico /*

[10] *They are the ones who can not carry out activities outside the workplace.*

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