Economic effects of pandemic to last a decade

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The US Congressional Budget Office (CBO), a nonpartisan body, has put paid to claims by President Trump that the American economy will come “roaring back” once lockdowns and other restrictions to deal with the COVID-19 pandemic are lifted.

In a report issued earlier this week, it reduced its forecast for growth over the next decade by a cumulative $7.9 trillion, equivalent to 3 percent of gross domestic product, compared to the forecast it made in January. GDP growth will not catch up to its previous forecast until the last quarter of 2029, the CBO predicted.

The report was issued amid reports from organisations around the world that show that the impact of the pandemic will be long-lasting, even on the highly unlikely assumption that there are no further disruptions to the global economy.

Commenting on the CBO report, Michelle Meyer, chief US economist at Bank of America Merrill Lynch, told the *Wall Street Journal*: “After you get the initial bounce of economic activity from simply removing the lockdowns, I think we’ll see an economy that is running at a level of activity notably below where we were prior to COVID. It’s going to take a long time to heal. There will be scars as a result of such a painful shock to the economy.”

The CBO said it expected the US economy to shrink by 5.6 percent in the fourth quarter of this year compared to a year earlier. At the end of 2019, it had forecast growth of 2.2 percent.

Surveys conducted by the data firm IHS Markit, which tracks global trends through its purchasing managers’ indexes, have indicated some recovery from the plunge in April, but the longer term is another question.

“Whether growth can achieve any serious momentum remains highly uncertain, however, as demand looks set to remain subdued by social-distancing measures, high unemployment and falling corporate profits for some time to some,” Chris Williamson, the chief business economist at IHS Markit, said.

Falling demand in the major economies is hitting manufacturing production around the world. For example, South Korea has reported that exports in May were down by 23.7 percent from a year earlier.

Last month, a report by the International Labour Organisation (ILO) detailed both the extent of job losses and their severe impact on young people around the world. It found that one in six people surveyed aged 18 to 29 who had been employed before the pandemic struck said they had stopped working. Reporting on the data, the *Financial Times* estimated this amounted to 200 million people.

The ILO said the total number of hours worked by people of all ages would fall by 10.7 percent in the second quarter of this year, equivalent to the loss of 305 million full-time jobs.

It concluded that the economic effects of the pandemic were delivering a “triple shock” to young people. “Not only is it destroying their employment, but it is also disrupting their education and training, and placing major obstacles in the way of those seeking to enter the labour market or move between jobs,” it wrote.

Its grim warning was that the pandemic risked creating a “lockdown generation” of young people, with the effects lasting a decade.

“If we do not take significant and immediate action to improve their situation, the legacy of the virus could be with us for decades,” Guy Ryder, the director-general of the ILO said. But there is no sign of any such action.

Ryder warned that if the talent and energy of young people is sidelined, either by lack of opportunity or skills, then “it will damage all our futures and make it much more difficult to rebuild a better, post-COVID economy.”

The ILO has said the Americas, now the epicentre of the pandemic, would incur the largest hit in terms of job losses.

Writing in the *Financial Times* this week, Andrés Velasco, dean of the School of Public Policy at the London School of Economics, warned that Latin America was heading for a repeat of the Great Depression, when it was rocked by a collapse in commodity prices, a slowdown in world trade and a massive capital outflow.

The same shocks were hitting the region today, with the added impact of a halt in remittances and a productivity freeze because of the lockdown.

Velasco noted that under the mildest scenario, Latin America's economy would contract by 6.3 percent between 2020 and 2022, but under a more extreme case, "the cumulative contraction reaches 14.4 percent—not too different from what the region experienced in the Depression."

The reports on the state of the US and global economy, indicating that there is no V-shaped recovery or anything remotely resembling it, underscore the widening divorce between the financial markets and the underlying real economy.

Yesterday, Wall Street's Dow Jones index recorded another 500-point gain. The three major indexes, the Dow, the S&P 500 and the Nasdaq, have all recorded a 40 percent increase since their lows in the midst of the crisis in mid-March, when markets in all financial assets froze.

This prompted a massive intervention by the Fed. Over a few days it stepped in to act as the backstop for every financial market—an intervention the likes of which had never been seen in history.

The subsequent rise in the markets does not reflect a healthy US economy, but rather its diseased character. The boom is being fuelled by the flood of money coming from the government in the form of corporate bailouts and the trillions of dollars pumped out by the Fed.

The mountain of fictitious capital has no intrinsic value. In the final analysis, it is a claim on the future surplus value to be extracted from the working class. This process must be intensified while the trillions of dollars of government debt are paid down through the slashing of spending on social services.

This means a major restructuring of class and social relations, carried out through measures even more brutal than those implemented in the wake of the 2008 crisis. In the face of mass opposition, such measures can be carried out only by the development of authoritarian forms of rule. This is a driving force behind the extra-constitutional measures initiated this week by Trump, the representative of the financial oligarchy.