**Sketching the post-pandemic socio-economic agenda**

**Pertinent challenges in demanding new clothes**

Obviously, the Covid-19 pandemic is more than a health crisis requesting hitherto unseen levels of spatial and social distancing. It has caused havoc in an already fragile global economy, touching the core of our socio-economic models. However, this core has arguably started drifting well-before the pandemic hit, not least in view of widely discredited unfettered market-first growth strategies of the recent decades. Thus, mapping out the post-pandemic social-economic agenda calls for triangulating afresh the pertinent challenges of going grey, green and digital in view of the possibly accelerant impact of the pandemic. Two broad areas for re-triangulating the socio-economic landscape in a post-Covid world may be distinguished:

- The future of globalisation in a more fragmented world
- New modes of production, consumption and distribution

<u>The future of globalisation in a more fragmented world</u>

Geo-political tensions have been rising in recent years, increasingly affecting regions in the EU's immediate neighbourhood, with peace dividends fading away and reverting into real and/or perceived defense cost pressures. The tensions clearly extend into the economic sphere with growing fragmentation and disintegration of global markets. The pandemic is acting as an accelerant; it caused a major setback to global trade and disrupted the functioning of global production networks. In consequence, calls for less reliance on global markets for essential supplies, reshoring and localisation of production nearer-to-home have become louder. While this may indeed foster the long-term resilience of our economies, it is also associated with shorter-term efficiency losses. The jury is still out how much of trade fragmentation and GVC restructuring will take place, but undoubtedly, higher economic autonomy (less integrated global and internal markets) will come at a cost. Adding in higher defense cost, including dealing with migration pressures, a ballpark cost estimate (say a loss of one fifth of the average consumer benefits from globalisation, one tenth of single market benefits, and an additional 1.5% of GDP for defense in the wider sense) could easily run up to costs of 4-5% in terms of consumption levels per capita.

<u>New modes of production, consumption and distribution</u>

The socio-economic transition challenges of going grey, green and digital will remain on top of the internal socio-economic political agenda in a medium-term macroeconomic environment most likely characterised by low growth, low interest rates and high public debt. Maintaining and raising inclusive productivity, i.e. the ability of the economy to generate high-levels of well-being in an equitable and sustainable manner, is key for living up to these challenges. The pandemic may have an impact on the transition paths and the travelling speed along the road, perhaps altering interim destinations, but it will not change the ultimate objective. EU Member States and regions are embarking from different starting points and with different legacies, but eventually convergence to this common goal will have to set in. Fundamental deficiencies and inconsistencies in macro-structural and institutional policies challenge balanced and sustained prosperity; and drifting too far apart can create negative spillovers putting social and political cohesion in the Union at risk.

The following non-exhaustive list of areas for re-triangulation of the post-pandemic socio-economic challenges stand out:

- A macro-economic environment characterised by low growth, low interest rates and high public debt: will the pandemic and its impact affect the medium-term neutral rate by altering its traditional drivers? The various possible channels include changes in investment and savings behaviour induced by the pandemic, the impact on inequality, productivity growth, changing risk-premia and the supply of safe assets. Pre-pandemic reasoning has been for only moderate upward pressures on neutral rates stemming from reduced savings of older cohorts, higher investment needs due to environmental and digital transformation, and some restoration of productivity growth. At this stage and place, it is probably better to stay away from informed speculation whether the pandemic should fundamentally alter a perspective of low for long regarding growth and interest rates; still, an assumption of low for even longer carries some plausibility. While this should make the cost of high public debt affordable, public investment needs and the restoration of fiscal room for manoeuvre will require a carefully balanced trajectory of expenditures and revenues, which may well imply an additional drag on household consumption possibilities over the medium-term.

- Structural shifts in production, including the way of working, and consumption: the initial hit to production from the lockdown has been concentrated on (i) the sectors highly integrated in global value chains (GVCs), and (ii) the "personal contact-intensive" sectors where physical proximity is hardly avoidable. Understandably and unavoidably, mitigating measures have exhibited a return to status-quo-ante bias to support firms and workers operating within established production and consumption patterns. However, it is important to avoid short-term solutions in order to recover from the Covid- crisis, which will further reinforce the current dependency on fossil fuels and other natural resources, and thereby make the transition even more difficult. As we cannot self-isolate from climate change, investment and "cleansing" towards green and digital should not be unnecessarily postponed or indefinitely delayed. However, rapidly depreciating "brown" and "virus-prone" capital and replacing it with green and digital capital will come with short run cost in terms of productivity and employment on top of the immediate hit by the pandemic.

- Regional and sectoral reallocation requirements and its associated costs: if anything, the pandemic is likely to act as a strong accelerant to industrial turbulence in a broad sense affecting both capital and labour. It will probably persistently impact upon (physical) mobility and economies of scale/proximity/agglomeration in both production and consumption. Moreover, it will speed up ongoing digital technologies adoption in labour markets with the risk of further accentuating job polarisation. Whatever future patterns may emerge, the required reallocation processes will generate significant frictions and associated costs of adjustment. Against that background, forecasting increasing distributional tensions appears to be an easy bet.

- The risk of rising inequalities if left unattended: If we had not known it before, the Covid-crisis has further exposed blatant inequalities in our societies, going far beyond income inequalities, obviously including health systems, education issues, working and housing conditions and many more. Failing to tackle the inequality challenge in the recovery and transition head–on will lead to resistance and erode democratic support, in particular in a situation where the traditional remedy of growing the overall cake is increasingly unlikely to do the trick.

- Macro-economic policy settings in turbulent times: in many areas, we are faced with fundamental uncertainty in the Knightian sense where no probability distribution can be attached to future events. This calls for flexibility and learning along the road. However, macro-economic policy settings should still deliver a strong anchor for fundamental expectations regarding stability and sustainability. Monetary and fiscal authorities have to play their respective role, complemented by structural and distributional policies geared towards supporting transition and adjustment. In general, the overall balance and task assignment between the state, the market, and community actors will have to be constantly recalibrated to react optimally to the known and unknown challenges ahead.