The rebirth of Keynes during the COVID-19 pandemics - a theoretical approach

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Abstract

The global COVID-19 pandemic caused a severe blow to the world economy, bringing the biggest economic downturn since the Great Depression. This economic downturn was accompanied by various controversies regarding the role of the state in the economy. To withstand these shocks, most of the states started to use fiscal stimulus measures. The main purpose of this paper is to present the effects that COVID-19 caused on the world economy, as well as to review Keynes's ideas regarding the need for state intervention in the economy. The results of the study show that many countries have used monetary and fiscal stimulus measures to cope with the negative effects caused by the COVID-19 pandemic. Thus, Keynes's ideas for state intervention in the economy are still relevant and necessary in today's economy, until the number of people infected with COVID-19 decreases and the economy reopens completely as it was before.

Keywords: fiscal policy, monetary policy, COVID-19, state intervention, economy

Introduction

On December 31, 2019, China informed the World Health Organization office regarding the first cases of pneumonia of an unknown etiology. In four days, forty-four new cases of this pneumonia appeared (WHO, 2020). Global concern was growing over the fact that China as a country and East Asia as a region are the most populated areas in the world. On January 7, 2020, Chinese authorities announced that the virus first appeared in the seafood market in Wuhan, Hubei province of China, and became known as COVID-19 (Kumar *et al.*, 2020, pp. 8–25). The COVID-19 virus has not only caused loss of lifes but also an economic crisis that will prevail in a long run. The high uncertainty on both the demand and supply side, could cause a greater socio-economic crisis than the two world wars of the last century (Ali, 2020, p.25). Since March 2020, the virus has begun to spread rapidly to other parts of the world, transforming both social life and the global economy. Therefore, the year

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2020 has been an "extremely difficult" one for the economy. The COVID-19 pandemic brought a major shock to all sectors of the economy and millions of people around the world have been isolated due to lockdown measures taken by states, flights have been canceled, borders, gastronomy, schools, universities, and other businesses have been closed, creating a difficult situation for the global economy. Whenever such an economic crisis occurs it brings the ideas of John Maynard Keynes back to life. Keynes is known as the one who found the 'formula' of economic recovery from the great depression crisis of 1929–1933 through state intervention in the economy. According to Keynes, people are unpredictable and so is the economy, that’s why a state intervention is necessary to control it.

Even in the past, the world has faced pandemics that in terms of the number of deaths were even more severe than COVID-19. Let’s take the Great Influenza Pandemic also known as Spanish Flu as an example. This pandemic that occurred in 1918 and was present till 1920 caused over 40 million victims which at that time was equal to 2.1% of the wolrd population. In the US it caused for the unemployment to rise and many businesses to close. In November 1921, Warren Harding became the President of the United States. The 29-th US President immediately began implementing his plans to repair the economy by subsidizing the agricultural sector, he also proposed significant tax cuts in other sectors. In fact, it was the combination of technology and intellectual, physical and financial capital that caused an economic boom known as the ‘roaring twenties’ until the Great Depression of 1929-33.

However, an economic crisis caused by the pandemic is very different from the Great Depression crisis in the way it started, but the need for state intervention in the economy in order for it to revive is still the same. Although there is a great risk of increasing public debt, most world governments have used monetary and fiscal stimulus measures, which increased their budgets and created a burden for future generations. The aim of this paper is to review Keynes's economic ideas for state intervention in the economy, his controversies with Frederich Hayek, the review of fiscal and monetary policies, the emergence of the COVID-19 pandemic and its impact on the global economy, the return of Keynes's ideas to today's economy, Biden administration employment plan, and the increasing global deficit.

1. Theoretical Background

The name of John Maynard Keynes became known from his book “The Economic Consequences of Peace”, where he opposed the Treaty of Versailles, especially the point that forced Germany to pay the repercussions of the war. According to Keynes, it was better to allow Germany's economic strength and stability than to force it to pay immediately because this could bring hyperinflation and the outbreak of a new world war, which it did. However, he achieved his greatest fame during the crisis of the Great Depression 1929-1933 as the originator of the idea that helped United States get out of the crisis. The economic downturn that began in 1929 without a doubt was the worst in the history of the American economy. The winter of 1932-1933 was a very difficult period for millions of American workers. A lot of them lost their jobs and their lifetime savings when the local banks began to close. The crisis was so severe that some American parents began looking for food scraps for their children (Burgan, 2002, pp. 2-5). The end of the First World War known as the “Roaring Twenties” seemed to bring peace and economic prosperity to both Western Europe and America and made it seem that everything was going to be working perfectly. During this period productivity increased, wages began to rise at a very high pace, the automobile and electronics industry had begun to flourish causing an economic boom, and no one except Keynes imagined that a major economic crisis would follow. In this period, the economic view that prevailed was the classic one that presumed that the market can be adapted automatically and with flexible wages, unemployment is impossible. However, the sharp increase in production made it impossible for the market to absorb the goods as the demand was low and supply too high, thus triggering the beginning of a major economic crisis. While classical economists believed that the economy would recover on its own, Keynesians believed that the state should intervene. Given that the economy is a social science, Keynes in his study analyzed the relationship between uncertainty and investments. He stressed that the marginal efficiency of capital is depended only on what he called the 'state of long-term expectations', where the concern of investors regarding market performance, stock markets and the difficult economic situation would lead to widespread destabilization in the economy.

When it comes to investing, everyone knows the importance of interest rates. Keynes introduced the idea that money is not only sought and used to conduct transactions, but also is very important as a deposit of value. When we have an uncertain economic situation, people tend to save money because of the expectations that they will get a better return and postpone the planned investments depending on the economic situation (Backhouse, 2002, p. 263).

While classical economists believed that supply determines demand, Keynes said it was the opposite. He believed that when the economy was in recession, then only the state through expansionary fiscal policy by increasing spending could recover it. In his work "The General Theory of Employment, Interest, and Money”, he pointed out that the decline in total demand was the cause for the great depression crisis. This decline in demand would lead to long periods of unemployment, workers would be left without wages, which would mean lower consumption and a further decline in demand, firms would reduce production due to the continuing decline and this would continue with job losses and supply fall. Therefore, according to Keynes, government intervention through increased spending would be decisive to revitalize the country's economy, because as he put it, "*in the long run we are all dead*". When economic agents cut spending, the recession begins and the economy collapses Keynes emphasized. In this case, the Government would have to create new jobs for peoples, people would pay more by increasing demand, self-confidence would increase and the economy would recover.

A concrete example of this policy is the Hoover Dam, built in Nevada as a stimulus package by US president Franklin D. Roosevelt. The cost of building this dam was millions but the benefits are billions, even today, it attracts a large number of visitors and is considered as one of the wonders of the world. The built of the Hoover Dam brought about an increase in employment (tens of thousands of workers) and even the creation of a new town near the dam by the same workers of the dam (Flanders, 2012).

1.1. Keynes vs Hayek

The biggest opponent of Keynes's ideas was undoubtedly the Austrian economist Friedrich Hayek with his book “The Road to Serfdom”. The only point where Keynes and Hayek's economic views matched is at capitalism, they both agreed that capitalism is a good economic system. However, their views differed on the “freedom of capitalism”. Unlike Keynes, Hayek had a classical economic view and relied on the “laissez-faire” idea that the “hand of the state” should not be present in the economy as the economy can recover automatically and full employment will be achieved. According to him, the main cause of inflation is government control of the money supply. The more services the government provides, the more it will get into debt (Spencer, 1975, pp. 06-10).

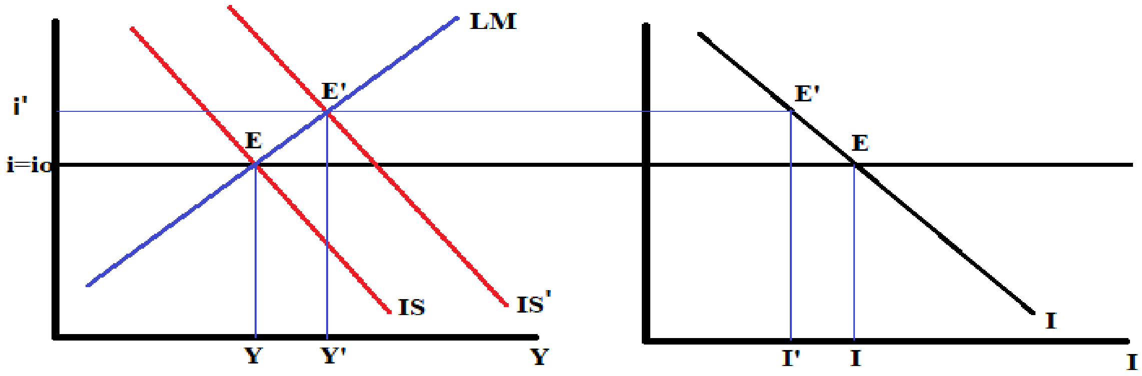
According to Hayek, when the government intervenes in the economy, the money and bank loans will cause economic imbalance. For example, with expansive monetary policy, Central Banks increase the amount of money in circulation, which enables Commercial Banks to increase loans and set lower interest rates. Reducing interest rates will attract investment activity by businesses but will not increase consumption as money that is supposed to be spent on consumption goes to investments. In an economic crisis most of the borrowers would be reluctant to spend their money due to uncertainty for the future, and this situation would lead to enforced savings and declining demand for consumption. An increase in capital production will lead to an increase in income, which in the future will be followed by an increase in demand for consumption but the supply will be small and this would cause inflation. Further investment will be needed to further increase consumer production, Commercial Banks will raise interest rates and this will cause lower investment levels, leading the country into recession (Lisý, 2002, pp. 20-22). According to Hayek, the government's intervention by affecting interest rates was the main cause of the imbalance and it was what caused the crisis of the Great Depression.

The 1960s marked a decline in Keynesian economic ideas. Although at the beginning of his mandate the US President John Fitzgerald Kennedy had aimed for full employment with Keynesian policies, things changed with the start of the Vietnam War, which led to a significant increase in US military spending. The rest of the world was hit hard by the collapse of the Bretton Woods system and the rise in oil prices as a result of the Yom Kippur war between Israel and the Arab world. This led to a global economic downturn and a massive balance of payments deficit. The coexistence of unemployment with inflation was present as never before, thus hitting the ideas of Keynesian policies as on one hand the increase in unemployment required an increase in government spending, but the on the other hand the high level of inflation required the opposite. Thus, the ideas of the Philips curve that unemployment and inflation are inversely related fell down (Backhouse, 2002, p. 364). During this period, the ideas of Hayek for a free economy and the non-involvement of the state in it began to prevail.

1.2. Fiscal and monetary policy review

The two main policies which the state uses to intervene in the economy are fiscal and monetary ones. This paper will present these two policies through the IS-LM model that was created based on Keynes's general theory and shows the effects of policies on the economy. IS represents the market of goods and services in which government can intervene through fiscal policies while LM represents the money market where the central bank can intervene with monetary policy. Usually, the classic response to an economic crisis is to lower interest rates. However, this does not mean that it is always effective as Commercial Banks are often reluctant to lend to consumers at interest rates set by the Central Bank (Skidelsky, 2009). The effects of the crisis will also hit Commercial Banks, which could maneuver with interest rates. For example, if they increase interest rates people would not be able to repay existing loans and would be reluctant to take out new loans. Usually, in times of economic recession, fiscal policy is considered the main tool for economic recovery in the long run. Fiscal policy can be restrictive and expansive.

Figure 1. Expansive fiscal policy and its impact on the balance of payments and investments

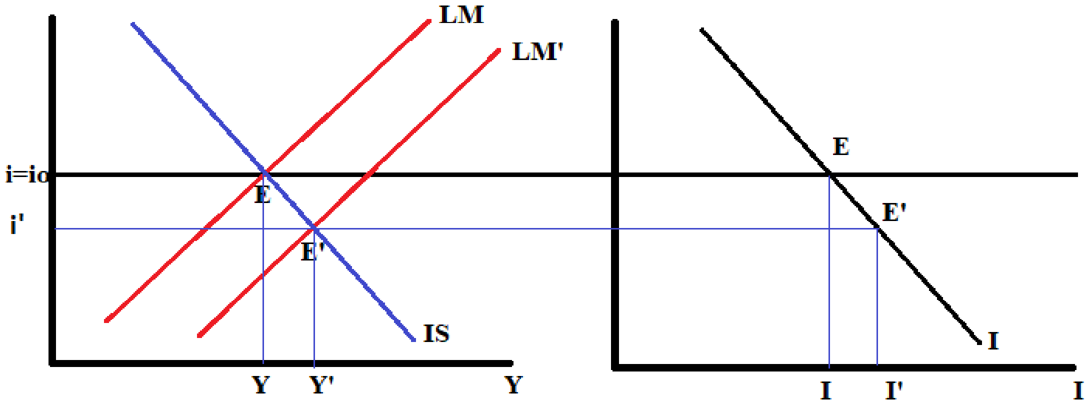


Source: own representation

In Figure 1, the point i = io represents the local interest rates equal to global ones on a balance of payments equal to zero, I represents investments and Y represents income or output. An expansive fiscal policy would lead to an increase in interest rates at i' and the amount of money in circulation at Y', which would be accompanied by the appreciation of a country's national currency (Dornbusch, *et al.*, 1994 p. 168). This appreciation of the national currency would increase the demand for imports, since with the same amount of national currency we could buy more foreign products while exports would be more expensive. This means that in the short run, the expansive fiscal policy associated with an increase in interest rates would harm the level of investment as the domestic investment would decline from I to I', exports would decline and imports would increase due to currency appreciation. However, knowing that the price of capital is the interest rate, in the long run, expansive fiscal policy would bring foreign capital within the country. The opposite would happen with restrictive fiscal policies that would lead to lower interest rates, increased domestic investment, but, in the long run, the outflow of capital from the country would be high due to lower-interest rates.

Monetary policy is the policy pursued by the Central Bank of a country to control the level of prices, interest rates, and the amount of money in circulation. Expansive monetary policy would bring domestic interest rates lower than world interest rates and increase the amount of money in circulation from Y to Y' and that would be accompanied by the devaluation of the national currency (Dornbusch, *et al.,* 1994, p.173). This can be considered effective in the short run as it increases investment, encourages consumers to borrow, and can also increase the level of exports due to the devaluation of national currency.

Figure 2. Expansive monetary policy and its impact on the balance of payments and investments



Source: own representation

However, even if consumers take loans from commercial banks there is no guarantee that they will spend the money and increase demand, as fear for the future emerge when there is a crisis and the level of savings increases which can lead to the paradox of savings within a country. Inflation will also rise and the only way for Central Bank to control it again is to raise local interest rates equal to global rates i=io (see Figure 2). In the long run, lower interest rates would lead to capital outflows from the country, while a return to normality or an increase in interest rates would make it harder for borrowers to repay. Therefore, both the fiscal and monetary expansive policies will increase the level of output from point Y to Y'. However, looking at the effects mentioned above expansive fiscal policy is considered more favorable for long-term economic growth than monetary policy.

2. Spread of COVID-19 and its impact on the global economy

The COVID-19 Pandemic is continuing to spread around the world rapidly, infecting millions of people and no state has been left untouched except for a few small and isolated states. As of May 22, 2021, the number of COVID-19 cases in the world is 166 million, and the number of deaths stands at 3.44 million. The US is the most affected country by the COVID-19 pandemic followed by India, Brazil, France, and Turkey (Figure 3).

With the onset of the pandemic, there were four possible scenarios for how long the economic crisis would last. Various analysts assumed that the economic recession would take the form of V, U, L, or W. The letter V - represents a short economic downturn and rapid economic recovery, the letter U - represents an economic downturn that lasts longer than V until the recovery, L - indicates a major economic crisis, which is still ongoing, while W - represents an economic downturn that is followed by a rapid recovery and then another downturn until the final recovery. As the world was going through a pandemic situation and fears of a second wave of infection, the W shaped was seen as the most likely scenario of economic recession.

Figure 3. COVID-19 Global Cases (as of May 22, 2021)

Cases	Recovered	Deaths
166M	-	3.44M

Location	Cases↓	Recovered	Deaths
United States	33.1M	-	588K
India	26.3M +257K	23.1M +358K	296K +4,194
Brazil	16M +76,855	14.1M +23,711	446K +2,215
France	5.92M	361K	108K
Turkey	5.17M +9,528	5M	45,840 +214

Source: Google Statistics, 2021

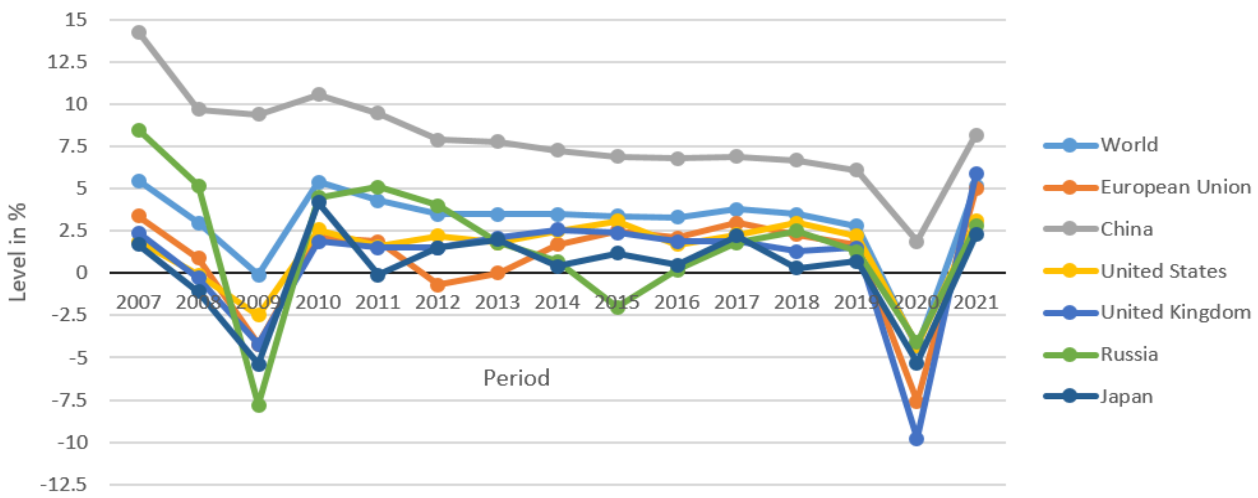
The pandemic experience proved that the V scenario did not come true, since the crisis has been going on for more than a year and the economy has not yet fully recovered. Also, the L scenario, also proved to be inexact, since the economic recovery has begun. However, without the stimulus packages used by the countries, the L-shaped recession scenario could most likely have occurred.

Governments had two choices: save millions of lives and close the economy or leave the economy open and let millions of people die. They found it more reasonable to shut down economic activity to slow the spread of the pandemic, which would be less harmful than doing nothing about the disease that would eventually affect the economy. However, this shut down of the economy was not an efficient solution as the economic agents faced many challenges and constraints that slowed down their economic activity. Undoubtedly, a more efficient solution would be mass testing and quarantine of infected persons but not closing the economy as a whole.

The emergence of the COVID-19 pandemic and the subsequent restrictive measures brought a major blow to the global economy, causing one of the largest economic recessions ever to occur. Components of GDP such as consumption, investment, government spending, and net exports fluctuated widely, hitting hard the GDP of countries.

The ensuing economic crisis brought a resurgence of Keynesian economic thought. It was these thoughts where all the foundations of all world government economic policies in response to the crisis were laid. The only hope for economic recovery returned to state intervention in the economy since most of the world governments used fiscal and monetary stimulus packages to cope with the effects of the crisis caused by the COVID-19 pandemic.

Figure 4. Annual GDP growth rate



Source: International Monetary Fund , 2020

The effects of COVID-19 on the world economy have been far more severe than the 2007-09 mortgage crisis. While in 2009 mortgage crisis marked a decline of 0.1% in world GDP, the situation during the pandemic was much worse, causing the largest decline in world GDP since the time of the Great Depression, with a decrease by -4.4% (see Figure 4). However, according to the IMF projections, the world economy is expected to grow again by 5.2% in 2021 due to the fiscal and monetary incentives undertaken by the countries and also by the discovery of vaccines, which has sparked optimism that life will return to normality.

The economic recession of 2020 hit all the largest global economies such as the European Union, China, USA, United Kingdom, Russia, and Japan wherein all these countries except China the annual percentage of GDP growth took negative values. The biggest GDP blow to these countries seems to have been in Great Britain, with a -9.8% annual decreased rate, a decline where Brexit also is seemed to have played its role. European Union had an -7.6% GDP decline, while Japan had a decline of -5.3%, the US as the biggest economy in the world -4.3%, and Russia with -4.1%.

A decrease in the annual growth rate of GDP compared to previous periods was also present in China but it did not go to negative values, as the annual growth rate of GDP in China in 2020 was

1.9%. The second-largest economy in the world and, the country where COVID-19 was first discovered, already seems to be overcoming the worst and based on the IMF projections for 2021, is expected to have the highest economic growth of 8.2%. In terms of its population, China is considered to have made the best use of the blockade measures, thus stopping the spread of the virus within the country and opening up the economy earlier than any other country. This is considered as the main reason for its expected economic success during 2021.

2.1. Impact on Industries

Restrictive measures taken by world governments to prevent the spread of the virus have dealt a major blow to the industry as a whole. These restrictive measures, not only reduced the level of industrial production, but also significantly increased the level of unemployment. The COVID-19 impact on primary, secondary, and tertiary industry is discussed below.

Primary industry

The primary industry suffered a major blow due to restrictive measures that prevented workers to go to work especially in agricultural production. Restrictive measures prevented farmers from going to markets to sell their product, to buy food, seeds, or supplies needed for production. Although the contribution of agriculture to the GDP of countries has declined over the years, it remains very important as it ensures the survival of over 1 billion people in the world who receive direct income from it and it is the main source of income for developing countries with about 60.4% of employees (ILO, 2020a).

In addition to agriculture, there was a major blow to the forestry sector. The International Labour Organization estimates that this sector employs over 54.2 million people worldwide, mainly in the informal economy, while for 1.5 billion people, forests are essential for generating income, food, jobs, and energy. The COVID-19 pandemic in this sector has also disrupted production chains, marking a decline in imports and exports across the globe of wood products with the exception of products such as toilet paper and masks that marked an increase in global demand for them (ILO, 2020b). The agricultural and forestry supply chain is large so the impact of COVID-19 has also spread to other industries such as secondary and tertiary one.

Secondary industry

The secondary industry with and its manufacturing sectors such as energy, mining, automobiles, textiles, and food production was also hit hard by the pandemic. For example, in the textile, clothing, and footwear industries, restrictive measures such as lockdowns, shop closures, and wage cuts have led to a declining supply. This sector is also highly globalized and dependent on supply chains that were affected heavily by the COVID-19 pandemic. Sportswear giant Adidas recorded a drop in sales in China by about 80 percent between January and February 2020, and forecast a loss of 1.3 billion $ in the first quarter of 2020. Also, US fashion company Ralph Lauren forecast a global loss of about 70mln $ (ILO, 2020c).

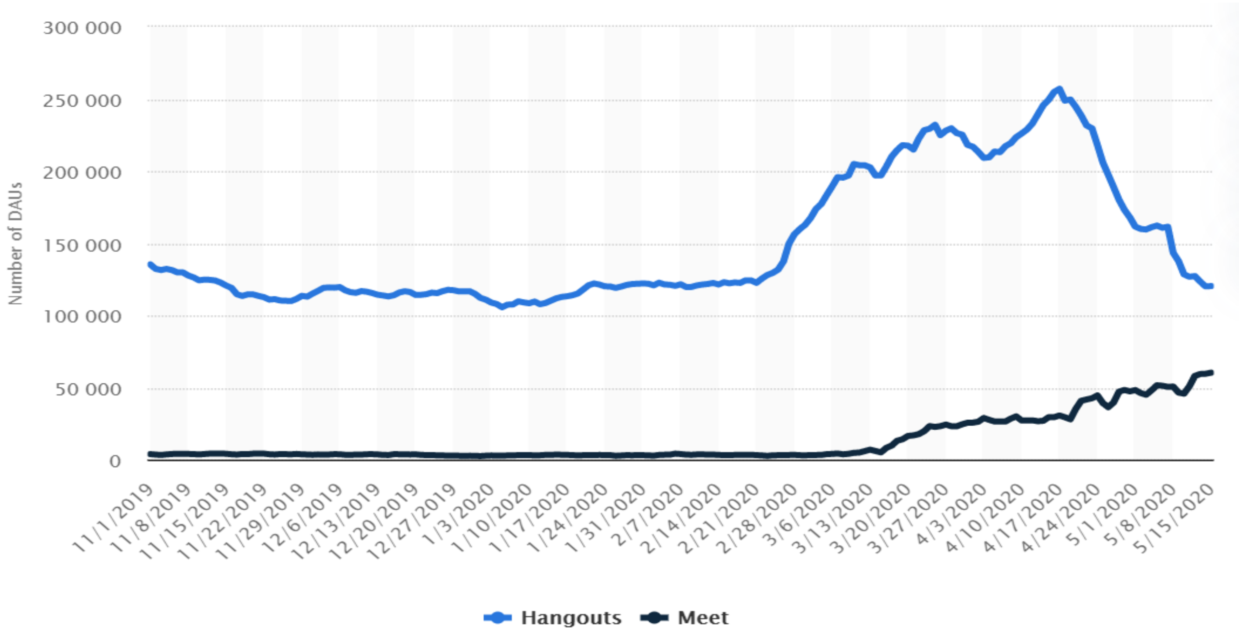
The automotive industry was also hit hard. Wuhan, the epicenter of the COVID-19 pandemic in China, is also known as the "city of motors". There, the major car-makers such as General Motors, Nissan Motors, Peugeot Group, Renault, and Toyota were forced to suspend their production due to pandemic. The same situation was later reported in the automotive industry in Europe (ILO, 2020d). The dire situation was also in construction, where the pandemic has broken its global chains by suspending the production and distribution of necessary building materials. In addition, there has been an increase in the cost of raw materials such as steel, coils, and tiles as many factories have closed due to restrictive measures. Limited transportation and a shortage of workers have also severely damaged this sector (ILO, 2020e).

Tertiary industry

Tertiary or service industries such as trade, tourism, transport, education, culture, and film have had much larger fluctuations in the pandemic than primary and secondary industries. Tourism, transport, hospitality, culture, education, and film have suffered big blows due to restrictive measures. With the outbreak of the pandemic and the imposition of restrictive measures, millions of world flights were canceled, schools were closed to pass online, film events were closed and tourism was made impossible. While the Air Transport Association (IATA) estimates that passenger revenue in this industry could fall by about $ 252 billion, or 44 percent less than 2019 revenue (ILO, 2020f). However, there has been the opposite effect in online services especially in the field of education and cinematography, which marked an increase in profit.

Figure 5 shows the number of daily active users of the online video communication platforms Google Hangouts and Google Meet, where it is observed that with the closure of schools in March 2020, the number of daily active users of these platforms for online learning, communication, and work has marked a rapid growth in the United Kingdom.

Figure 5. Number of daily active users in Google Hangouts and Google Meet in the UK



Source: Statista database, 2020

Video conference company 'Zoom' is another online platform that marked a record increase in new users during the pandemic where on the last Saturday of March 2020 over 3 million people downloaded it. That day COVID-19 pandemic made the 'Zoom' platform the most downloaded app in the App Store, leaving behind WhatsApp, Google, and other social networks (Konard, 2020). There was also a huge increase in online services of the cinematography industry. For example, Netflix added 15.8 million new users in the first quarter of 2020, compared to 8.8 and 9.6 million users in the third and fourth quarter of 2019 (Speetjens *et al.*, 2020, p.5).

3. How can Keynes theories be applied to today's economy?

As mentioned above, it was President Warren Harding's vision that revived the US economy from the economic crisis caused by the Spanish flu of 1918-1920, although it did not take long until the orientation of the economy towards production and technology brought the crisis of the Great Depression where supply exceeded demand. The economic crisis of the Great Depression was arguably the worst in US history. It was Keynes's ideas that brought the solution to the recovery of the economy through the expansive fiscal policies implemented by the administration of the 32nd US President, Franklin D. Roosevelt.

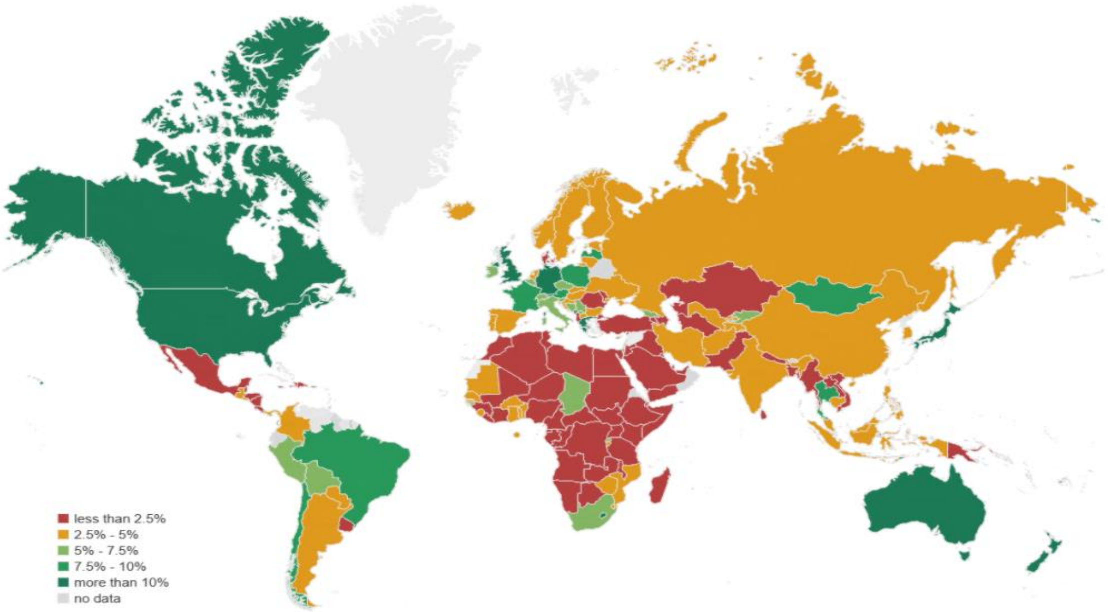
With the onset of the COVID-19 pandemic and its impact on the economy, the need for government intervention in the economy was greater than ever and a return to Keynes's idea for state intervention in the economy became more apparent than ever. With the start of the lockdown and restrictive measures, the US, as the largest economy in the world, immediately began taking measures to mitigate at least some of the economic damage that the COVID-19 pandemic would cause.

In March 2020, to protect the local economy from the impact of the pandemic, the Federal Reserve System - FED cut interest rates to near zero and announced an asset purchase program of about 750 billion $. In an interview with CNBC, renowned economist Joseph Stigliz said: *"This is a kind of crisis different from normal crises. Aggregate demand is not the only problem"*. The initial expansionary monetary policy measures did not seem to have the expected effects on the US economy as stocks experienced the biggest drop since the "Black Monday". He acknowledged that the situation would be much worse without this intervention, but the expansionary monetary policy would not be able to stabilize markets, even if the demand increases more, the problem of closing shops and restaurants will not be solved. He said *"the crisis would not save the banks either, as people would not have the money to pay off existing loans and would be reluctant to take out new loans"*. Stigliz stressed that fiscal policy is what it should've been used, as monetary policy has more limited efficiency. He knew that strengthening health capacity, social distancing, and encouraging patients not to show up for work will have their costs. According to him, it would take a "Helicopter of Money" to spend to fulfill all the needs, which of course will bring the deficit and debt that the US will face in the future. He argued how much effective the introduction of the deficit was by saying, *"When we went to World War II, we did not ask if we could afford it"* (Tan, 2020). One thing is clear, after the end of the COVID-19 pandemic, the public debt of the countries will increase, but not intervening would be fatal for the economy.

With the introduction of restrictions and the implementation of measures, the national governments increase their public spending, especially on health programs and mitigating the lockdown shocks that led to the closure of businesses and rising unemployment. This intervention significantly increased the level of debt of countries creating a concern for the future of these countries.

The figure above taken from the International Monetary Fund shows the fiscal support through additional spending and forgone revenue as a percentage of GDP that countries have taken to respond to the pandemic by 31 December 2020. From this figure, we see that most world governments are committed to fiscal budget support for firms and workers.

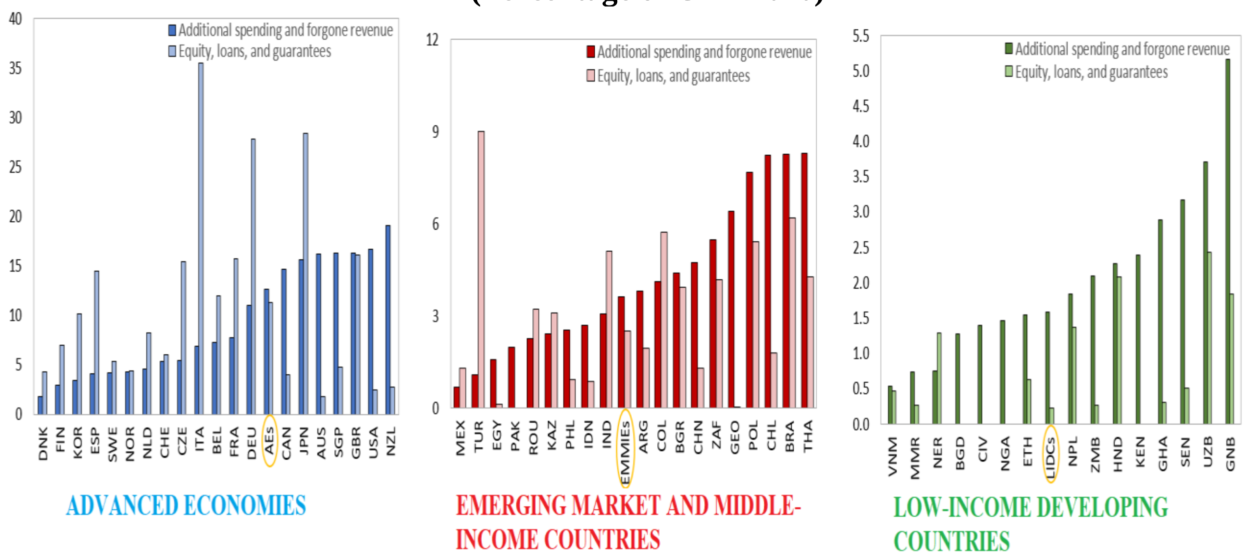
Figure 6. Fiscal support through additional expenditures and foregone revenues as an aid concerning the GDP of countries by the end of the year 2020.



Source: International Monetary Fund, 2020

These fiscal measures in some countries such as the United States, United Kingdom, Canada, Greece, Japan, New Zealand, and Australia were more than 10% of their GDP, most Asian countries had fiscal support of 2.5-5% of GDP, while in African countries it is observed that in most of them, fiscal support through additional expenditures and foregone revenues is lower than 2.5% of GDP.

Figure 7. Discretionary fiscal response to the COVID-19 crisis in selected economies (Percentage of GDP 2020)



Source: International Monetary Fund, 2020

Figure 7 shows the discretionary fiscal response to the crisis caused by COVID-19 in advanced economies, middle-income countries with increasing engagement in international markets, and low-income developing countries. We can see a global inequality in the ability of countries to help their economy. The fiscal measures taken by the Governments were divided into two groups: additional expenditures or forgone revenue and inequity, loans and guarantees. In additional spending, it is understood that most Governments were focused on increasing spending on improving health capacity to better cope with the effects of the pandemic (IMF, 2020). Forgone revenue is distributed in the form of incentives and tax exemptions for corporations to make it easier for them to cope with the difficult economic situation they are going through as a result of the pandemic and lockdown measures, while equity, loans, and guarantees are provided mainly through Government programs. For example, the European Union gives loans for developments in the field of R&D[1] and innovation, provides guarantees to borrowers of banks or other lending institutions, and can participate in capital projects through co-investment (European Commission, 2020). This fiscal response has saved lives by supporting peoples and firms in need and mitigating the effects of COVID-19 on economic activity (IMF, 2020). Looking at the figure above, we see a huge difference between global economies in their ability to deliver these fiscal measures. In most countries with advanced economies, fiscal measures with additional spending and forgone revenue have gone from 5% to 10% of their GDP, while with equity, loans, and guarantees as a form of aid there have been countries like Germany and Japan that have used close to 30% of their GDP as well Italy with over 35% of GDP.

In countries with increasing engagement in international markets and average incomes, these measures have been lower than in advanced countries with an average of additional spending and forgone revenues of 3% while equity, loans, and guarantees as a form of assistance with an average of around 2.8%. Turkey is the middle-income country that has provided the most equity, loans, and guarantees as a form of aid with about 9% of GDP, while Chile, Brazil, and Thailand are more focused on additional spending and forgone revenue reaching over 8% of GDP. Of big concern is the provision of these fiscal measures to low-income developing countries where on average additional spending and forgone revenue were 1.5% of their GDP, while equity, loans, and guarantees as a form of assistance were lower than 0.5% of GDP. Except for Uzbekistan and Guinea-Bissau, in no other developing country, these fiscal measures were not above 3.5% of their GDP. Given this, countries with increasing engagement in international markets and low-income developing countries will find it difficult to overcome the economic crisis because they do not have the necessary financial capacity to take adequate fiscal measures to support their economy. Also, one of the reasons that will widen

[1] Research & Development

this divergence is the inequality in access to vaccines between those countries. Therefore, the chances are very high that the gap that exists in the standard of living between advanced countries and other countries will widen even more than it was before.

3.1. Biden Administration and American Jobs Plan – 2.3 trillion $ investments

The epidemiological situation of COVID-19 that is still going on around the world seems to turn 2021 into a year of experiments and government interventions in the economy, or in other words the year of the revival of the economic theories of John Maynard Keynes. During a visit to Pittsburgh on March 31, 2021, US President Joe Biden presented his administration's fiscal plan for 2.3 trillion $ investments in infrastructure aimed at modernizing the transportation network and creating millions of jobs. He said that the plan to create new jobs will be funded by tax increases for large companies and the rich people. According to President Biden, the plan would focus on four aspects:

- Improving the infrastructure in transport would facilitate the movement of citizens. Destined: 621 billion $.
- Improvement of physical infrastructure (water supply, electricity supply, improvement of infrastructure in schools, etc.). Destined: 652 billion $.
- Home care services and workforce. Destined: 400 billion $.
- Increased focus on production including innovation, R&D, and workforce development. Destined: 580 billion $.

Another plan “The Made in America Tax Plan” was created to show how the costs of the “American Jobs Plan” would be covered. This plan proposes the increase of the corporates tax rate from 21% to 28%. According to the Biden administration, the changes that will come with “The Made in America Tax Plan” would raise 2 trillion $ over 15 years. (Kirkland *et al.*, 2021).

As mentioned above, a similar plan which turned out to be successful was used by US President Franklin D. Roosevelt, fueled by John Maynard Keynes's ideas for investing in infrastructure and creating new jobs. Given this, Keynes's concept that governments can and should intervene to prevent economic depressions and recover the economy is still valid today.

3.2. Record growth of global debt – was Hayek right?

The increase in spending by governments and companies in response to the coronavirus pandemic has seen global debt rise from a record high of 255 trillion $ in 2019 to a record high of

272 trillion $ in the third quarter of 2020. According to the International Finance Institute projections by the end of 2020, global debt will hit 277 trillion $ (Tiftik *et al.,* 2020).

The huge increase in public debt came as a result of restrictive measures and lockdowns that led to the cessation of economic activity and led many businesses to seek alternative funding. As a result, borrowing increased and brought in more debt, increasing the debt burden for the next generations. So, Hayek's ideas that government intervention in the economy will increase debt are real. Debt growth is another negative signal that governments may increase taxes in the future to cover it and this would have a negative impact by deterring potential investments. Moreover, the "hand of the state" in the economy accompanied by an increase in public debt will also be able to increase and widen inequalities between developed and developing countries as seen above in Figure 7. The possibility of misuse of funds remains another concern, especially in those countries where the quality of institutions is poor.

Although these concerns of classical economists remain real, it is still clear that without government intervention through increased public spending to minimize the effects of COVID-19 on the economy, the situation for firms and businesses would have been much worse. With the closure of businesses and restrictive measures, businesses would reduce production, workers would be laid off, wages would fall, demand would fall due to lower incomes, unemployment would rise and this situation would cause a deep economic recession for which will take years to recover. Therefore, the only way to boost the economy will be to increase government spending, which is what led countries to this record increase in public debt, although this debt will be a burden for future generations.

Conclusions

The outbreak of the COVID-19 pandemic has sparked an economic crisis across the globe where world GDP has plummeted, unemployment has risen sharply and millions of businesses have been shut down as a result of government measures to stop the spread of the virus. Also, given that we are dealing with a global crisis, the need for global coordination in both health and economic terms has never been more necessary.

Seeing the economic situation that the world went through during the first decade of XXI century with the mortgage crisis caused by the 'free hand' of bankers, but even today with the great economic recession caused by the COVID-19 pandemic, as never before, turned the attention to English economist John Maynard Keynes ideas for intervention in the economy, prompting all governments to adopt a Keynesian approach to coping with the effects of the economic crisis caused by the pandemic COVID-19.

The national governments of countries to mitigate the impact of the pandemic and revive their economies have begun to use monetary and fiscal policies en masse, overthrowing the classic and neo-liberal idea that the “state's hand” in the economy should not be present. Expansionary monetary policy has been used by many countries, but since the fiscal policy has more effective impacts in the long run the main focus of governments has been on expansionary fiscal policies. Discretionary fiscal measures taken by governments today were divided into two groups: additional spending & forgone revenue in equity, loans, and guarantees as forms of assistance. Inequalities between countries in the ability to deliver these measures were enormous and world public debt rose to a record high of over 270 trillion $. In response to this economic crisis the administration of US President Joe Biden unveiled their plan to invest in infrastructure and create millions of new jobs through a 2.3 trillion $ expansionary fiscal policy. Most classical economists today are still convinced that this state intervention in the economy will have negative effects in the future due to rising inequalities between countries and world public debt, but without these measures and state intervention, it is clear that the world economy would suffer even more. So, even today, 86 years after “The General Theory of Employment, Interest, and Money”, Keynes's economic ideas on the need for state intervention in the economy are still active and considered the main way to save the world and national economies of countries whenever any economic crisis appears.

State intervention through monetary and fiscal economic policies would reduce market uncertainties and increase the optimism of economic agents in the markets. Otherwise, the ‘free hand’ and non-supervision of the state in the economy would make economic recovery impossible and only complicate it where many firms would go bankrupt and workers would be laid off. As some of restrictive measures along with the pandemic are still ongoing, the need for state intervention with fiscal and monetary stimulus packages will be necessary until full immunity of people through vaccination is gained and till life returns to normality, only then it the recovery would be enabled and the economy would be opened. In conclusion, through this paper we can confirm that the fiscal and monetary policies undertaken by the national governments of the advanced countries, middle income and low-income countries have been necessary in mitigating some of the negative economic effects of the COVID-19 pandemic.

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