

# What Will Happen to Neoliberalism after the COVID-19 Crisis? Will It Survive?

## The Destruction of Small and Medium Sized Enterprises

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*For the last forty years, neo-liberalism has dominated economic thinking and the formulation of economic policies Worldwide.*

*But the corona virus crisis has exposed, in a dramatic way, its internal contradictions, its incapacity to deal with the corona crisis and its incompetence to restore the real economy ruined by the crisis.*

In this article, we will focus on the relationship between Neoliberalism and the Corona Crisis:

Neoliberalism has prevented the governments from controlling effectively the initial outbreak of the corona virus.

Neoliberalism has made the wave of virus propagation higher and wider, especially in the U.S.

Neoliberalism can shake the foundations of the U.S. economy.

Neoliberalism may not survive the corona virus crisis in the U.S.

To save democracy and the global economy, We need a new economic model which supports the future of humanity, which sustains human livelihood Worldwide.

### 1. Neoliberalism and the initial Outbreak of the Corona Virus

The most important part of neoliberalism is the relation -often of a corrupt nature- between the government and large corporations. By corruption, we mean illegal or immoral human activities designed to maximize profit at the expense of people's welfare. In this relation, the government may not be able to control and govern the large corporations. In fact, in the present context, the corporations govern and oversee national governments.

Hence, when the corona virus broke out, it was difficult for the government to take immediate actions to control the virus break-out to save human lives; It was quite possible that the price of stocks and large corporations' profit had the priority.

The theory known as neoliberalism distinguishes itself from the old liberalism prevailing before the Great Depression.



It became widely accepted mainly because of its adoption, in the 1970s and 1980s, by Ronald Reagan, president of the U.S. and Margaret Thatcher, prime minister of Great Britain as an economic policy agenda applied nationally and internationally.

The justification of neoliberalism is the belief that the best way to ensure economic growth is to encourage “supply activities” of private sector enterprises.

Now, the proponents of neoliberalism argue that public goods (including health and education) can be produced with greater efficiency by private companies than by the State. Therefore, “it is better” to let the private enterprises produce public goods.

In other words, the production of public goods should be “privatized”. Neoliberals put profit as the best measure of efficiency and success. And profit can be sustained with government support. In turn, the private companies’ policy is that of reducing the labour costs of production.

Government assistance includes reduction of corporate taxes, subsidies and anti-labour policies such as the prohibition of labour unionization and the abolition of the minimum wage.

Reduction of labour cost can be obtained by the automation of the production of goods

Under such circumstances, close cooperation between the government and the private corporations is inevitable; even it may be necessary.

But, such cooperation is bound to lead to government-business collusion in which the business receives legal and illegal government support in exchange of illicit money such as kick-backs and bribes given to influential politicians and the people close to the power.

As the collusion becomes wider and deeper, an oligarchy is formed; it is composed of corporations, politicians and civil servants. This oligarchy’s *raison d’être* is to make money even at the expense of the interests of the people.

Now, in order to protect its vested interests, the oligarchy expands its network and creates tight-knit political community which shares the wealth and privileges obtained.

In this way, the government-business cooperation can be evolved by stage to give birth to the corruption culture.

Some of the neoliberal countries may be at the stage of the collusion; some of them may find themselves at the stage of oligarchy; some of them may be at the stage of corruption culture.

South Korea

When the progressive government of Moon Jae-in took over power in 2017, South Korea under the 60-year neo-liberal rule by the conservatives was at the stage of corruption culture.

The progressive government of Moon Jae-in has declared a total war against the corruption culture, but it is a very long way to go before eliminating corruption.

In South Korea, of six presidents of the conservative government, four presidents were or are in prison for corruption and abuse of power. This shows how deeply the corruption has penetrated into the fabrics of the Korea society

In Japan, since 1957, there were twenty-one prime ministers of whom 75% were one-year or two-year prime ministers despite the four-year term of prime ministers. The short life span of Japanese prime ministers is essentially due to the short term interest pursued by the corrupted golden triangle composed of big business, bureaucrats and politicians. Unless, Japan uproots the corruption culture, it will be difficult to save the Japanese economy from perpetual stagnation.

### Lobbying and “Corruption Culture”

Many of the developed countries in the West are also the victims of corruption culture. In the U.K. the City (London’s Wall Street) is the global center of money laundry.

In the U.S. the big companies are spending a year no less than \$2.6 billion lobbying money for the promotion of their interests, while the Congress spends \$ 2.9 billion and the Senate, \$860 million for their respective annual operation. Some of the big companies deploy as many as 100 lobbyists.

It is unbelievable that the amount of lobbying is as much as 70% of the annual budget of the whole legislative of the U.S.

True, in the U.S., lobbying is not illegal, but it may not be morally justified. It is a system where the law makers give privileges to those who spend more money, which can be considered as bribes

Under such lobbying system, each group should deploy lobbyists to promote their interests. The immigrants, the native Indians, the Afro Americans, the alienated white people and other marginal groups cannot afford lobbyists and they are often excluded from fair treatment in the process of making laws and policies

Some of the developed European countries are also very corrupted. The international Transparency Index rank, in 2019, was 23 for France, 30 for Spain and 51 for Italy.

In the case of the U.S. its rank increased from 18 in 2016 to 22 in 2019. Thus in three years, the degree of corruption increase by 22.2%

What is alarming is that, in the corruption culture, national policies are liable to be dictated by big businesses.

In South Korea, under the conservative government, it was suspected that the national policies were determined by the Chaebols (large industrial conglomerates), not by the government.

As matter of fact, during the MERS crisis in 2015, the anti-virus policy was dictated by the Samsung Group. In order to save its profit, Samsung Hospital in Seoul hid the infected so that the number of non-MERS patients would not decrease.

In Japan, the Abe government made the declaration of public health emergency as late as April 6, 2020 despite the fact that the infections were detected as early as January, 2020.

This decision was, most likely, dictated by Keiretsu members (grouping of large enterprises) in order to save investments in the July Olympics. Nobody knows how many Japanese had been infected for more than three months.

Similarly, Trump was well aware of the sure propagation of the virus right from January, but he waited until March 13, 2020 before he declared the state of effective public health emergency. The obvious reason was the possible fear of free fall of stock price and the possible loss of big companies' profits.

The interesting question is: "The delayed declaration of public health emergency, was it Trump's decision or that of his corporate friends?" It doesn't matter whose decision it was, because the government under neoliberal system is controlled the big businesses.

So, as in Japan, Italy, Spain, France and especially, the U.K, Trump lost the golden time to save human lives to keep profit of enterprises.

God knows how many American lives were sacrificed to save stock price and company profit!

Thus, the neoliberal governments have lost the golden chance to prevent the initial outbreak of the dreadful virus.

## 2. Neo-liberalism and the Propagation of Corona-Virus

We saw that the initial outbreak of the virus was not properly controlled leading to the loss to golden time of saving human lives, most likely because of the priority given to business and political interests.

The initial outbreak of the virus was transformed into never-ending propagation and, even now, in many states in the U.S. the wave of the virus is getting higher and wider.

This tragic reality can be explained by four factors:

1. people's mistrust in the government,
2. unbounded competition,
3. inequitable income distribution,
4. the absence of public health system.

These four factors (above) are all the legacies of neoliberalism.

The people know well that the corrupted neoliberal government's concern is not the welfare of the people but the interest of a few powerful and the rich. The inevitable outcome is the loss of people's trust in the unreliable government.

This is demonstrated by Trump's indecision, his efforts of ignoring the warning of the

professionals, his fabricates stories and above all, his perception of who should be given the right to receive life-saving medical care at the hospital.

Under such circumstances, Americans do not trust the government directives and guidelines, allegedly implemented to protect people from the virus.



The guideline of the CDC (Centers for Disease Control) for self quarantine, social distancing and wearing face masks has little effect. There is another product of neoliberalism which is troublesome. I mean its credo of unbounded competition.

It is true that competition promotes efficiency and better quality of products. However, as competition continues, the number of winners decreases, while that of losers rises. The economy ends up being ruled by a handful of powerful winners. This leads to the segregation of losers and leads to the discrimination of people by income level, religion, race and colour of skin.

In the present context, largely as a result of government policy, there is little to no social solidarity; each individual has to solve his or her own problems. I was sad when I saw on TV a young lady in California saying:

“To be killed by the COVID-19 or starve to death is the same to me. I open my shop to eat!”

This shows how American citizens are left alone to fight the coronavirus. Furthermore, neoliberalism has another unhappy legacy; it is the widening and deepening income inequality.

The U.S. is the richest country in the world, but it is also a country where income inequality is the most pronounced. I will come back to this issue in the next section. In relation to the corona virus crisis, income inequality means an army of those who are most likely to be infected and who are unable to follow CDC guidelines of testing, self quarantine and social distancing. Finally, the privatization of public health services has made the whole country unprepared for the onslaught of the virus.

In fact, in the U.S. there is no public health system. For three months after the first breakout of the virus, the country lacked everything needed to fight the virus.

- There was shortage of testing kits and PPE (personal protective equipment);
- there were not enough rooms to accommodate the infected;
- there was shortage of qualified medical staff;
- there was lack of face masks.

Thus, neoliberalism has made the U.S not only to lose the golden time to prevent the initial

breakout but also it has let the wave of virus to continue. Nobody knows when it will calm down. As a matter of fact, on July 4, there were 2.9 million infected and 132,000 deaths; this gives a death rate of 4.6%. Given U.S. population of 328 million, we have 402.44 deaths per million inhabitants which is one of highest among the developed countries. The trouble is that the wave of virus is still going higher and wider. On July 4, the confirmed cases increased by 50% in two weeks in 12 states and increased 10% to 50% in 22 states.

### 3. Neo-liberalism and the very Foundation of the U.S. Economy

The message of this section is this. The foundation of the American economy is the purchasing power of the consumers and the job creation by small-and medium-sized enterprises (SMEs). The consumer demand is 70% of the GDP, the SMEs create 66% of jobs. Unfortunately, because of neoliberalism, the consumers have become very poorer and the SMEs have been neglected in the pro-big-company government policies. The COVID-19 has destroyed the SMEs and impoverished the consumers. Nobody would deny the contribution of neo-liberalism to globalization of finance, the creation of the global value chain and, especially the free trade agreement.

All these activities have allowed GDP to grow in developed countries and some of new industrial countries. However, the wealth created by the growth of GDP has gone to countries already developed, some developing countries and a small number of multinational enterprises (MNE). The rich produced by GDP growth has led to the concentration of wealth in the hands of a few privileged. What is more serious is this. If the skewed income distribution in favour of a decreasing number of people continues for long, the GDP will stop growing and decades-long deflation is quite possible, as it has happened in Japan.

According to the OECD data, in the period, 1975-2011, the GDP share of labour income in OECD countries fell by 13.8% from 65% to 56%. In the case of the U.S., in the same period, 1970-2014, it fell by 11%. The falling labour-income share is necessarily translated into unequal household income distribution. There are two popular ways of measuring income distribution: the decile ratio and the Gini coefficient.

The decile ratio is obtained by dividing the income earned by the top 10% income earners by the income earned by the bottom 10% income earners . The decile ratio in 2019 was 18.5 in the U.S. as compared to 5.6 in Finland. The decile ratio of the U.S. was the highest among the developed countries. Thus, in the U.S. the top 10 % has an income 19 times more than the bottom 10%, while, in Finland, the corresponding ratio is only 6 times. This shows how serious the income gap is in the country of Uncle Sam.

The Gini coefficient varies from zero to 100. As the value of the Gini increases, the income distribution becomes favourable to the high-income households. Conversely, as the value of the Gini decreases, the income distribution becomes favourable to low-income households. There are two types of Gini: the gross Gini and the net Gini. The former refers to Gini before taxes and transfer payment, while the latter refers to Gini after taxes and transfer payment. The difference between the gross and the net Gini shows the government efforts to improve the equality and fairness of income distribution The gross U.S.- Gini coefficient in 2019 was 48.6, one of the highest among the developed countries.

Its net Gini was 38.0 so that the difference between the gross and the net Gini was 12.3%. In other words, the U.S. income distribution improved only by 12.3% by government efforts



as against, for example, an improvement of 42.9% in the case of Germany, where the gross Gini was 49.9 while the net Gini was 28.5. The net Gini of the U.S. was the highest among the developed countries. The implication is clear. The income distribution in the U.S. was the most unequal. To make the matter worse, the government's effort to improve the unequal income distribution was the poorest among the developed countries. There are countless signs of unfortunate impacts of the inequitable income distribution in the country called the U.S. which Koreans used to admire describing it as "mi-gook-미국 - Beautiful Country". Now, one wonders if it is still a "mi-gook".

The following data indicates the seriousness of poverty in the U.S. (data below prior to the Coronavirus crisis).

- In the U.S. the richest 1% of the population has 40% of all household wealth. (2017 data)
- More than 20% of the population cannot pay monthly bills.
- About 40% do not have savings.
- 31% of private sector worker do not have medical benefits.
- 57% of the workers in the service sector have no medical benefits.
- [30% have to get loans to pay unexpected expenditure of \\$ 400.](#) (2019 data)
- [78% live from pay-check to pay-check.](#) (2017)

These data give us an idea on how so many people have to suffer from poverty in a country where per capita GDP is \$65,000 (2019 estimate), the richest country in the world. Most of the Americans work for small- and medium-sized companies (SMEs). In the U.S., there are 30 million SMEs. They create 66% of jobs in the private sector. The SMEs are more severely hit than big companies by the coronavirus.

In fact, 66% of SMEs are adversely affected by the virus against 40% for big firms. As much as 20% of SMEs may be shut down for good within three months, because of the virus. Under the forty years of neoliberal pro-big corporation policies, available financial resources and the best human resources have been allocated to big firms at the expense of the development of SMEs.

The most damaging by-product of neoliberalism is no doubt the widening and deepening unequal income distribution for the benefit of the big corporations and the uprooting of SMEs. This trend means the shrinking domestic demand and the disappearance of jobs for ordinary people.

The destruction of the domestic market caused by the shrinking consumer demand and the disappearance of SMEs can mean the uprooting of the very foundation of the economy.

The experience of Japan shows how this can happen. The economic depression after the bubble burst of 1989, Japan had to endure 30-year deflation. The government of Japan has flooded the country with money to restore the economy, but the money was used for the bail-out of big corporations neglecting the healthy development of the SMEs and impoverishing the ordinary Japanese people. South Korea could have experienced the Japanese-type economic stagnation, if the conservative government ruled the country ten more years.

The neoliberal pro-big company policy of Washington has greatly depleted consumer demand and SMEs even before the onslaught of the coronavirus. But, the COVID-19 has

given a coup de grâce to consumer demand and SMEs To better understand the issue, let us go back to the ABC of economics. Looking at the national economy from the demand side, the economy consists of private consumer demand (C), the private investment demand (I), the government demand (G) and Foreign demand represented by exports of domestic products (X) minus domestic demand for imported foreign products (M).

$$\text{GDP} = C + I + G + (X - M)$$

In 2019, the consumer expenditure (C) in the U.S. was 70% of GDP, whereas the government's spending (G) was 17%. The investments demand (I) was 18%. The net exports demand (X-M) was -5%.

In 2019 the composition of Canadian GDP was: C=57%; I=23 %; G=21 %; X-M=-1%.

Thus, we see that the U.S. economy heavily depends on the private domestic consumption, which represents as much as 70% of GDP compared to 57% in Canada. The government's contribution to the national demand is 17% as against 21% in Canada. In the U.S. a small government is a virtue according to neoliberals. In the U.S. the private investments account for only 18% of GDP as compared to as much as 23% in Canada. In the U.S., off-shoring of manufacturing jobs and the global value chain under neo-liberalism have decreased the need for business investments at home. It is obvious then that to save the American economy, we have to boost the consumers' income. But, the consumer income comes mainly from SMEs. We must remember that the SMEs create 66% of all jobs in the U.S. Therefore, if consumer demand falls and if SMEs do not create jobs, the US economy may have to face the same destiny as the Japanese economy. This is happening in the U.S. The corona virus crisis is destroying SMEs and taking away the income of the people.

The coronavirus crisis is about to demolish the very foundation of the American economy.

#### 4. Corona Virus Crisis and the Survival of Neoliberalism

The interesting question is this. Will neo-liberalism as economic system survive the corona virus crisis in the U.S.?

There are at least four indications suggesting that it will not survive.

First, to overcome major crisis such as the corona virus invasion, we need strong central government and people-loving leader. One of the reasons for the successful anti-virus policy in South Korea, Taiwan and Singapore was the strong central government's role of determining and coordinating the anti-virus policies. As we saw, the gospel of neo-liberalism is the minimization of the central government's role. Having little role in economic policies, the U.S. federal government has proved itself as the most incompetent entity to fight the crisis. It is more than possible that the U.S. and all the neoliberal countries will try to get away from the traditional neoliberal governance in which the government is almost a simple errand boy of big business.

Second, the people's trust in the neoliberal leaders has fallen on the ground. It will be difficult for the neoliberal leaders to be able to lead the country in the post-corona virus era.

Third, the corona virus crisis has made the people aware of the abuse of power by the



big companies; the people now know that these companies are interested only in making money. So, it may be more difficult for them to exploit the people in the era of post-COVID-19.

Fourth, the U.S. economy is shaken up so much that the neoliberal regime will not be able to recover the economy. Thus, the survival of neo-liberalism looks uncertain. But, if the coronavirus crisis continues and destroys SMEs and if only the big corporations survive owing to bailout money, neo-liberalism may survive and we may end up with authoritarian governance ruled by the business-politics oligarchy.

## 5. Search for a New Economic Regime: Just-Liberalism

One thing which the corona-virus crisis has demonstrated is the fact that the American neo-liberalism has failed as a sustainable regime capable of stopping the virus crisis, restoring the economy and saving the democracy. Hence, we have to look for a new regime capable of saving the U.S. economy and democracy. We would call this new regime as “Just-liberalism” mission of which is the sustainable economic development and, at the same time, the just distribution of the benefits of economic development. Before we get into the discussion of the main feature of the new regime, there is one thing we should discuss. It is the popular perception of large corporations. Many believe that they make GDP grow and create jobs. It is also the popular view that the success of these large corporations is due to the innovative managing skills of their founders or their CEOs. Therefore, they deserve annual salaries of millions of dollars. This is the popular perception of Chaebols in South Korea.

But, a great part of Chaebols' income is attributable to the public goods such as national defence, police protection, social infrastructures, the education system, enormous sacrifice of workers and, especially tax allowances, subsidies and privileges. In other words, a great part of the Chaebols' income belongs to the society, not the Chaebols. Many believe that the Chaebols create jobs, but, in reality, they create less than 10% of jobs in Korea. We may say the same thing about large corporations in the U.S. In other words, much of the company's income is due to public goods. Hence, the company should equitably share its income with the rest of the society. But do they?

The high ranking managers get astronomical salaries; some of them are hiding billions of dollars in tax haven islands.

We ask. Are large corporations sharing equitably their income with the society? Are the corporate tax allowances they get too much? Is the wage they pay too low? Is CEO's income too high?

It is difficult to answer these questions.

But we should throw away the mysticism surrounding the merits of large corporations; we should closely watch them so that they do not misuse their power and wealth to dictate national policies for their own benefit at the expense of the welfare of the people. The new regime, just-liberalism, should have the following eight features.

First, we need a strong government which is autonomous from big businesses; there should be no business-politics collusion; there should be no self-interest oligarchy or corruption.

Second, it is the time we should reconsider the notion of human rights violation. There

are several types of human right violation in developed countries including the U.S. For example, the racial discrimination, the inequality before the law, the violation of the right of social security and the violation of the right of social service are some cases of violation of human rights defined by the U.N. The Western media have been criticizing human right violation in “non-democratic countries”, but, in the future, they should pay more attention to human right violation in “democratic countries.”

Third, the criterion of successful economy should not be limited to the GDP growth; the equitable distribution of the benefits of GDP growth should also be a criterion; proper balance between the growth and the distribution of growth fruits should be maintained.

Fourth, market should not be governed by “efficiency” alone; it must be also “equitable”. Efficiency may lead to the concentration of resources and power in the hands of the few at the expense of social benefit; it must be also equitable. As an example, we may refer to the Chaebols (big Korean industrial conglomerates) which kill the traditional village markets which provide livelihood to a great number of poor people. The Chaebols may make the market efficient but not equitable. The Korean government has limited Chaebols’ penetration into these markets to make them more equitable.

Fifth, we need a partial direct democracy. The legislative translates people’s wish into laws and the executive makes policies on the basis of laws. But, in reality, the legislative and the executive may pass laws and policies for the benefit of big companies or specific group of individuals and institutions close to the power. Therefore, it is important to provide a mechanism through which the people – the real master of the country – should be allowed to intervene all times. In South Korea, if more than 200,000 people send a request to the Blue house (Korean White House) to intervene in matters judged unfair or unjust, the government must intervene.

Sixth, those goods and services which are essential for every citizen must be nationalized. For example, social infrastructure such as parks, roads, railways, harbours, supply of electricity should not be privatized. Education including higher education should be made public goods so that low income people should get higher education as do high income group.

This is the best way to maximize the mass of innovative minds and creative energy to develop the society. Above all, the health service should be nationalized. It is just unbelievable to see that, in a country where the per capita GDP is \$63,000, more than 30 million citizens have no medical insurance, just because it is too expensive. Politicians know quite well that big companies related to insurance, pharmaceutical products and medical professions are preventing the nationalization of medical service in the U.S. But, the politicians don’t seem to dare go over these vested interests groups and nationalize the public health system. Remember this. There are countries which are much poorer than the U.S. But, they have accessible universal health care insurance system.

Seventh, the economy should allow the system of multi- generational technologies in which not only high-level technologies but also mid-level technologies should be promoted in such a way that both high- tech large corporations and middle-tech SMEs can grow. This is perhaps only way to insure GDP growth and create jobs.

Eighth, in the area of international relations, it is about the time to stop wasteful ideological conflict. The difference among ideologies is narrowing; the number of countries which have abandoned the U.S. imposed democracy has been rising; the ideological basis of socialism is weakening. According to the Economist Intelligence Unit, 48% of countries are democratic, while 52% are not. According to Freedom House, in 2005, 83 countries had net gain in democracy, while 52 countries had net loss in democracy.

But in 2019, only 37 countries had net gain while 64 countries had net loss. Between 2005 and 2018, the number of countries which were not free increased by 26%, while those which were free fell by 44%. On the other hand, it is becoming more and more difficult to find authentic socialism. For example, Chinese regime has lost its pure socialism long time ago. Thus, the world is becoming non-ideological; the world is embracing ideology-neutral pragmatism.

To conclude, the corona virus pandemic has given us the opportunity to look at ourselves; it has given us the opportunity to realize how vulnerable we are in front of the corona virus attack.

Many more pandemics will come and challenge us. We need a world better prepared to fight the coming pandemics. It is high time that we slow down our greedy pursuit for GDP growth; it is about the time to stop a wasteful international ideological conflict in support of multibillion dollar interests behind Big Money and the Military industrial complex.

It is therefore timely to find a system where we care for each other and where we share what we have.

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