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"People", "Goods", "Money" and Economic Crisis

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There are questions that are ignored in a normal economic situation but inevitably attract much attention in an abnormal or critical economic situation. They include what normal or smooth economic activities are and why an economic slump or crisis has come. In a bid to tide over a slump and overcome a crisis, we try to find out answers to the questions.

The world is now exposed to a very serious economic deceleration risk. The risk is attributable directly to the continuing expansion of new coronavirus infection. The infection originated from China's Wuhan late last year and has expanded throughout the world. The World Health Organization has declared the infection expansion as a pandemic, which means a global infection. By March 15, the new coronavirus infected 154,000 people and killed 5,735 in the world, according to the WHO. Although China has been hardest hit, with the number of infected people reaching 81,000 including 3,204 who died, the infection has rapidly and globally expanded and been confirmed in 143 countries. The WHO said that Europe was becoming the center of the pandemic. In Europe, Italy features the largest number of infected people above 20,000. The infection has rapidly expanded in Spain, France and Germany as well. In the United States, more than 1,600 people have been confirmed to be infected with the new coronavirus. As a result, many countries have declared an emergency to restrict citizens' actions and various economic activities to prevent the pandemic from expanding further.

The new coronavirus pandemic has led the global economy to run into extremely unfavorable conditions, with a serious economic deceleration risk coming true. On March 2, the Organization for Economic Cooperation and Development revised a 2020 global economic growth projection down by 0.5 percentage points to 2.4%. Since then, however, the situation has worsened even further, indicating that the OECD could announce another downward revision. Stock markets that mirror the future course of the global economy have spiraled down. The Dow Jones industrial average on the New York stock exchange posted a steep fall of 8,351 points or 28% from a record high of 29,551 on February 12 to 21,201 on March 12. In the March 9-13 week, three days saw daily falls above 1,000 points, including a record single-day decline of 2,353 on March 12. Major countries were forced to announce monetary easing and other emergency economic measures, prompting stock markets to stage a sharp rally. Stock markets have thus fluctuated wildly.

In such critical situation, the flow of "people", "goods" and "money" that attracts little attention in a normal situation has been highlighted as significant. The three elements amount to blood supporting a normal economy. When problems emerge with any of these elements, an economic slump comes. Depending the seriousness of problems, the slump may develop into a crisis. When the flow of the three elements stagnates, the economy fails to work. When the flow stops, the economy plunges into a crisis.

Among past economic crises or slumps, the 2008 global financial crisis came as a serious slump emerged in the flow of "money" in the United States. The failure of U.S. investment bank Lehman Brothers shook the global financial system, hitting the global real economy hard. Then, countries in the world attempted to overcome the crisis by implementing comprehensive economic measures, including interest rate cuts and other monetary easing actions to counter the "money" problem and stabilize the financial system in response to credit contraction. The world took much time and costs to overcome the crisis that was very serious.

The U.S.-China trade war, which may seem to be difficult to describe as a crisis, had been viewed as one of the largest global economic risk factors until recently. The United States and China had been feared to escalate their reciprocal tariff hikes, which could affect global trade to risk global economic slowdown. As a matter of course, it is pointed out that the U.S.-China trade war involves a bilateral battle for technological supremacy and other background factors as well as the tariff issue. As far as tariffs and trade are concerned, however, the stagnation of the flow of "goods" can be expected to cause an economic slump. Problems regarding "goods" had been positioned to spill over to the global economy. Therefore, the two countries have chosen to stop reciprocal tariff hikes and gradually normalize tariffs and trade through comprehensive trade negotiations.

In contrast to the above two cases, the serious global economic risk regarding the expanding new coronavirus pandemic has apparently emerged from the serious stagnation of the flow of "people" and "goods". To protect public health and safety, governments have restricted the movement of people and taken immigration control enhancement measures including entry denial, affecting the normal domestic or international flow of "people". As top priority is given to preventing the infection expansion, with people's movement restricted, it is difficult for manufacturers to operate their plants, causing bottlenecks in international supply chains or the stagnation of the flow of "goods". In the face of the direct risk of infectious diseases for human health, the real economy has quickly suffered losses, leading to "money" or financial problems.

In response, governments offered comprehensive economic stimulus measures including interest rate cuts and other monetary easing actions as mentioned above. They are designed to support the flow of "money" to stimulate the economy. As far as the problem essentially regards "people" and "goods", however, effective solutions may be the prevention of the pandemic expansion and other stabilization measures. As a matter of course, these measures may include the development of effective treatments and a vaccine. However, they may take some time to produce effects, exerting a great burden on the global economy and a great impact on international energy markets. Energy demand could decline sharply due to the stagnation of the flow of "people" and "goods" or the real economy's deterioration.

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