

DON'T WASTE A CRISIS

(PART ONE)

By Josef Konvitz

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When there is great suffering and uncertainty, people are conflicted between a desire to return to normality (which, after all, is familiar) and a desire to redeem the loss of life and wealth that accompanies a meta-catastrophe by making things better. Both responses are rational and understandable, and probably most of us do not want to choose one over the other. The problem is to find a workable balance.



Let me make this less abstract. *What impact will the investment in infrastructure that will surely follow the COVID-19 pandemic have on the future of cities?* There are already clamors to use the opportunity to accelerate the transition to cope with climate change. That option, however, would disrupt the return to normality because it would open up possibilities for ongoing, perhaps radical change, adopting untested solutions. A climate change agenda was always going to look like that. But will a society exhausted by the pandemic embrace it?

Meanwhile, others argue that it is too soon to know what the post-crisis recovery package will look like when we do not know how long the emergency will last, nor what the prospect for economies will be. But this is not a cost-free option either.

It sounds logical to separate the emergency from a post-crisis recovery, but they are only sequential on organizational charts and budgets. This is what happened during the 2008 financial crisis, with results that help explain why the recovery was slow in coming, and weak at that. What happens *during* a crisis to plan for what happens *after* makes all the difference. We do not need pious sermonizers, but practical strategists. The post-disaster period has already begun, but we do not know it, so absorbed are we in the life-and-death struggle going on in cities around the world.

I. CITIES ARE AT THE EPICENTER OF THE CRISIS

Wuhan, New York, Milan, but also Brescia, Mulhouse... The pandemic has raised a number of questions about cities and the post-crisis era.

Density: Social behavior and economic life are interdependent, shaping the mix of services and their distribution. Many global cities – both big and small – feature amenities for daily living, culture and entertainment, and mobility. What will be the demand for these facilities? And if the demand is not there, what can be done with the spaces they used? What will happen to the workforce that may face long-term structural unemployment in sectors ranging from culture and sport to bars, fast food, and gourmet dining? What will be the appropriate mix on different scales?

Regulation: Zoning and other rules have shaped our cities to respond to air pollution and the threat of diseases such as cholera and tuberculosis, and to social problems such as prostitution and addiction. The distribution of schools and medical facilities has helped shape where people live and work. What new regulations will help guide behavior in the future?

Work-Life Relationship: Most dwellings were not designed for tele-working, which in any case shifts certain costs from employers to employees. Who will pay for what? What will be the demand for office space?

Data: We have already begun to see the positive and perverse effects of using big data in cities for safety, environmental quality, traffic management, fiscal management and much else. What could be the scope for data in a society preoccupied by health? And what are the acceptable limits to the collection and use of personal data in democratic societies?

These post-pandemic issues are the same as the issues that appear on the climate-change agenda (with the addition of energy). Until we accept that these and other questions have to be on the table and discussed now, there will be no long-term benefit from a post-crisis infrastructure stimulus package.

Most of the money for infrastructure is spent in cities, to be amortized over a life cycle measured in decades. Now is not the time to reopen sterile debates on the size of cities or the density of urban regions. I happen to believe that the problems of big cities have little to do with their size, and that dense urban regions have huge advantages. In any case, we must start where we are and with what we have.

II. COSTLY LESSONS OF THE POST-2008 INFRASTRUCTURE INVESTMENT STRATEGY

The infrastructure stimulus that followed the 2008 financial crisis may give us some clues for the future because *costly mistakes were made*:

What happened?

- The funding came after it became apparent that the economy was not self-correcting;
- Much of it went unspent;
- There was a shortage of projects that went beyond bridge and road repairs, projects in other words that *restructure* urban regions, *reduce* future economic cost and environmental risks, and *renew* public goods.

Why?

- National governments do not give urban affairs high priority;
- Lack of planning capacity at central and local levels;
- Regulatory requirements delayed many projects;
- Assumption that markets can allocate resources best, but
- Given the high level of uncertainty, the private sector was reluctant to invest; the public sector waited for business to take the lead.
- Someone writing on Twitter would put: it failure of communication and a clash of expectations!

With what results?

- Europe and the United States both have one problem in common which Asia does not (or at least not to the same extent): NEET, the millions of young people who, after 2008, were not in education or employment or training, and face a greater risk of hysteresis, a labor market phenomenon of above-average periods of unemployment (and also of diminished lifetime earnings). This generation, now several years older, has not been absorbed into the mainstream economy as we knew it (delayed first child, lower rate of home ownership).
- In the post-crisis era if another wave of people in NEET joins them, the long-term growth trend line will remain depressed. What then are the prospects for illicit and illegal commerce? An opioid epidemic? Suicides?
- Adding to the indictment of the post-2008 recovery are the phenomena of widening regional disparities within countries, as well as widening income inequality in many but not all developed countries.

III. WHY INFRASTRUCTURE MATTERS

Am I putting too much emphasis on infrastructure? France and Italy both have significant regional disparities, but the French economy has grown in recent decades whereas the Italian economy remains at the same level from 1990. Italy has a huge housing surplus, as does France. People in Northern Italy are dispersed over a wide region, and the mortality rate has been the highest in the world. At least a million people left Paris for their country houses in the provinces, mainly to the west of France. However, the epidemic has yet not taken off in the receiving regions. Instead, this out-migration has been positive because it has reduced pressure on the intensive care units in Paris which are overpopulated with people needing respirators. Now 2 or 3 TGV trains have been adapted to take 20 patients on ventilators from eastern France and the greater Paris region to places in France where there are hospitals with spare capacity. No surprise: the Johns Hopkins Global Health Security Index for 2019 covering 195 countries ranked France first for infrastructure capacity, Italy 66th.

Infrastructure matters – for energy, water, transport. Infrastructure investment will be part of any sound strategy to reduce the impact of any future pandemic. The cost of preparing a transition to a safer future – low carbon, better prepared for natural disasters and pandemics – will be huge. How much? In 2006, the OECD estimated that global investment in these sectors by 2030 could reach \$71 trillion, or 3.5% of global GDP. In 2013, McKinsey (an American management consulting firm) increased that estimate to \$57 trillion for the period 2013-2030, without taking climate change into account. The underspend then was on the order of 60%. Global GDP has now shrunk, yet the need is greater.

Moreover, so much comes down to governance, the interface between the public and the private sectors, between local, regional and national authorities, and among sectors that are not used to cooperating, such as health and education.

Take education, critical to confront regional disparities and the NEET generation. We have not yet adequately addressed the social and economic costs of the post-2008 recovery, but face the prospect that the post-pandemic recovery will further depress living standards for some, and opportunities for many. We already know what the political consequences could be.

There is perhaps just enough time to act before the next crisis erupts. What is in the toolkit?

- Adult and lifelong education;
- Education and employment in remote places, either places that are physically far from urban cores, or places within metropolitan regions that are cut off from their surroundings.
- Universities in medium-size or intermediate cities that can connect with the people and firms around them.

Success depends on staying the course for years. Setting priorities and protecting budgets will be hard because democratically elected governments like to change priorities, and because short-term fiscal pressures will impose budget cuts.

IV. COOPERATION AND LEADERSHIP: EUROPE MUST STEP FORWARD

Will things be better this time because the loss of life is so high, and because the crisis is global? Think of what is different now:

- The U.S. has already returned to the default position of isolation;
- Opinion surveys in the U.S. that show that as many Democrats as Republicans see China as a rival to the U.S. (64% versus 65%)¹;
- The U.S., absorbed with the economic and social costs of the crisis, lacks the resources to lead as it did after World War II. (The Marshall Plan is often invoked by people who do not know the first thing about how it worked!)
- The Spanish flu and pneumonia killed about 550,000 people in ten months in the U.S. *who would have lived* (Against this conservative figure, the combined battle deaths of American armed forces in World War I, World War II, and the Korean and Vietnamese conflicts was 423,000). After the pandemic of 1918, what did the United States do differently? Historian Alfred W. Crosby² has the answer: nothing. It was soon forgotten except in the medical profession. “On the level of organizations and institutions – the level of collectivities – the Spanish flu had little impact. It did not spur great changes in the structure and procedures of governments, armies, corporations, or universities.”³

One reaches the sobering conclusion that the global dimension of the current pandemic will not lead to global solutions to global problems. My next essay will be about the challenges of managing cross-border risks when some countries cooperate and others try to go it alone, and why this is Europe’s moment.

1. Ankit Panda, “Poll: Majority of Americans See US and China as Rivals”, *The Diplomat*, June 28th, 2019, <https://thediplomat.com/2019/06/poll-majority-of-americans-see-us-and-china-as-rivals/>.

2. Alfred W. Crosby, *America’s Forgotten Pandemic: The Influenza of 1918*, Cambridge University Press, 2003.

3. *Ibid.*, page 323.