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# COVID-19: a prelude to a revaluation of the public sector?

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One of the striking features of the COVID crisis is the enormous expenditure that various EU governments have been pumping into their economies to keep troubled companies and the self-employed afloat, to safeguard jobs and to invest in recovery programmes. This massive public spending stands in stark contrast to the years of austerity preceding the pandemic. There are some parallels with the previous economic crisis – the financial crisis – which started in 2008. At that time, governments saved the financial sector with unprecedented monetary injections, contradicting the austerity approach prevailing in the years running up to the crisis. There were widespread expectations that the financial crisis would lead to the demise of the neoliberal-monetarist paradigm in which austerity played a core part. But these expectations were not realised. The financial crisis was soon redefined as a ‘public debt crisis’ and to a considerable extent the public sector was called upon to foot the bill, in the form of further rounds of severe austerity.

Will this time be different? Will the public sector pay the price again in the coming years for the debts governments are currently incurring? It is generally acknowledged that the public sector plays an essential role in combating and getting us through the COVID crisis, although assessments of the extent to which public sectors have managed this vary across countries. This applies first of all to public health care, but other public services, too – ranging from education to rubbish collection – that are considered vital or essential for getting through or overcoming the COVID crisis. Will this crisis usher in a new era in which the public sector will be valued just as much as the private sector or even assume priority? Or will the old mantra that the public sector is a ‘burden’ on the economy take precedence again when the health crisis is over, ushering in a new period of harsh austerity measures aimed at the public sector and its workers?

In this contribution we first briefly look back at the consequences of the previous crisis for the public sector and then we put forward three arguments why this time it might – or should – indeed be different.

## The public sector and the previous crisis

The previous crisis started in 2007–2008 in the financial sector, but quickly turned into a crisis of the public purse, when massive public funds were employed to tackle the problems caused by the crisis: saving banks, paying unemployment benefits, subsidising short-time work schemes or supporting companies. To address the resulting explosion in government deficits and debt, most governments opted for drastic cuts in public spending. This fitted well with the austerity doctrine dominant in the EU and the equally dominant New Public Management ideology that emphasises small government, outsourcing of public services, decentralisation and an emphasis on the market. In countries such as Spain and Greece, drastic cuts in public expenditure were externally imposed by the Troika (the EU, the IMF and the European Central Bank) in return for financial support.

Across Europe, the cutbacks in public budgets negatively affected employment and the quality of work in the public sector, and put great pressure on the provision and quality of public services (Keune et al., 2020). Public sector employment declined in most EU countries over the period 2008–2020, important exceptions being Germany and Czechia. Simultaneously, the quality of jobs declined. Two factors played a major role in this. First, with few exceptions, real wages in the public sector stagnated or even fell as a result of government policy, in some countries prompted by demands from the Troika. Secondly, workloads increased sharply, especially in health care but also in education and other public services following declining employment, population ageing, increasing administrative burdens and more complex tasks (Keune et al., 2020). In this way, much of the burden of the crisis was passed on to workers in the public sector, making work in the sector scarcer, tougher, less rewarding and less attractive. The consequence was a declining quality of public services and rapidly growing discontent among both public sector employees and citizens. Even before the COVID-19 pandemic, austerity policies had reached their own limits.

### **A revaluation of the public sector during the COVID-19 pandemic?**

The COVID crisis is first of all a health crisis and so it is not surprising that the public sector, in particular health care, has received significant support in 2020 and 2021. The real social value of these services has become more visible than ever. Europe has applauded *en masse* for nurses, doctors and other health-care workers, the undisputed heroes of this crisis. There has also been a lot of praise for teachers and the way they turned to online teaching or continued to care for the children of parents with vital professions. And the public relies strongly on governments and other public bodies for information, advice, vaccinations and financial and other support. Indeed, the COVID crisis has clearly demonstrated the importance of the public sector to society: without it, there would be no health care, no education, no income security and no basic necessities.

At the same time, a fair amount of criticism has been voiced about how the public sector has handled the crisis. Governments have been criticised for lacking clear crisis strategies and for being too cautious – or not cautious enough. Health service providers have been criticised for being inefficient, bureaucratic and underperforming in quality and service. Schools are sometimes accused of being insufficiently flexible and lacking the competence to provide high-quality online education. This criticism should probably not be interpreted as a negative attitude toward the public sector in general, but as disappointment about its capacity to provide the necessary answers and services in a time of crisis. This lack of capacity can at least partly be traced back to years of cutbacks and prioritising (cost) efficiency.

Does this mean that the COVID-19 crisis is really a prelude to a structural revaluation of the public sector? Or is this only a temporary phenomenon? After all, when the public health crisis is over, most governments will be left with huge budget deficits and a public debt that has skyrocketed. If the Stability and Growth Pact (SGP) comes into force again, almost all governments will respond by cutting their budgets in ways likely to dwarf the austerity policies of the previous crisis. It is probable that they will either lower public sector pay or reduce the workforce radically, but probably both.

### **A resilient society requires a strong public sector**

We believe that this pessimistic scenario is not inevitable. There are convincing reasons why this crisis might in fact usher in a structural revaluation of the public sector. Here we want to highlight three arguments that, from rather different perspectives, make a case *for* a stronger public sector after the COVID crisis and *against* the public sector having to pay the price for this crisis as well.

The *first argument* is that there seems to be increasing awareness that today's economies and societies are predisposed to suffer from regular crises. After the financial crisis, which at the time was the deepest crisis since the Great Depression of the 1930s, the current crisis seems to be even more severe, with the largest drop in GDP ever measured. Taking into account also the relatively mild dotcom crisis of the early 2000s, we are now experiencing the third economic crisis in only two decades. The fact that the present crisis started out as a global health emergency has also broadened our awareness of possible sources of future crises. Apart from purely economic crises, which are inherent to a capitalist economic system, future crises may increasingly be triggered by 'external' causes, such as a pandemic, climate change, depletion of vital resources, technological breakdowns or massive migration. Dealing with such recurrent and diverse crises requires a resilient society, including a vital public sector. This entails using the public sector as a buffer, because it is less sensitive to external shocks than the private sector, and also as a cushion, because it can partly absorb or mitigate the unfavourable impact of such shocks on society. The COVID crisis has underlined this need but has also shown the weakness of the current public sector as a consequence of years of austerity policies. For example, a resilient society requires a health system that has excess capacity in normal times in order to be able to absorb the influx of patients during a pandemic. As a consequence of the strong emphasis on cost efficiency, however, this excess capacity has been reduced to a minimum in many countries. Reacting swiftly and adequately to a health emergency also requires clear protocols for coordination and cooperation between all health service providers, but this has become more complex because of privatisation, outsourcing and marketisation in the health-care sector (see also Crouch, 2022).

Other branches of the public sector are also essential for making society more resilient for future crises, but their capacity to play this role has again been diminished by budget cuts, the increasing emphasis on efficiency and the intertwining with private actors and the resulting dependency on market forces. In order to increase resilience, it is essential to maintain a public sector that is largely independent of the private sector. This entails that essential societal functions, such as education, health, public transport and energy, should not be dependent on private suppliers and (global) market forces. More concretely, this means that the public sector should be assessed not only by its current performance and current costs, but also by its potential to function independently of market forces and its capacity to perform adequately in a crisis situation. Put differently, the public sector's short-term cost efficiency must be subordinated to its sustainability and resilience in the long run.

## **A vital public sector is essential for a thriving market economy**

Our *second argument* is that a thriving private market economy also depends crucially on a strong and vital public sector. For a long time, in standard (neoclassical) economic reasoning the public sector was presented as a 'burden' on the economy. The public sector was assumed to be unproductive and therefore had to be financially and economically supported by the private sector through taxation. The larger the public sector, the higher the required taxes and, consequently, the stronger the drag on the market economy. For those for whom this reasoning had not been exposed as a fallacy, the COVID crisis has made it clear once more that, without a strong and high-quality public sector, the private market simply cannot function well. First of all, the massive state financial support for companies and employment demonstrated the public sector's essential role in overcoming this crisis. Without this public support EU economies would certainly have fallen into chaos. Next, the unprecedented rapid development of vaccines by private pharmaceutical companies was made possible only by the billions of euros invested by governments. This underlines an argument that has been made before and that has recently been voiced most forcefully and convincingly by

Mazzucato (2018, 2021): the private sector depends strongly on the public sector for its capacity to innovate and increase its productivity. What is more, much of what we generally see as private sector innovations in fact emerge from public universities and research centres, and/or from publicly financed research that is appropriated and commercialised by private companies. Without the state investing in (basic) research and making the results available to the private sector, much of the innovations of recent decades would not have happened. This applies, to name only a few examples, to the internet, GPS and touch-screens. Similar arguments can be made for investments in infrastructure, ecological sustainability, safety, health and education. These are all essential for a well-functioning private sector, but are not produced by the market.

Indeed, the most pressing societal needs and wants cannot be solved by making companies more profitable or by offering citizens more private spending options but require the expansion and improvement of public services. This lays bare the bankruptcy of the neoliberal dogma that ‘the market’ must be given priority by pushing back the public sector – through austerity policies, privatisation and outsourcing – and reducing the tax burden. It also means that structurally a greater proportion of our productive potential should be allocated to public services and, consequently, a smaller proportion to profits and private consumption. It is now more evident than ever that the provision of better health care and better education are far more important than higher dividends or a second holiday.

This reasoning also has moral implications. The income and wealth of those who prosper in the private sector – including the top incomes and huge wealth of CEOs and large shareholders of multinational companies – cannot be justified as the result of their own merit. They are made possible only by the societal context in which they work and live, including a high-quality public sector. The failure of the dominant meritocratic ideology is that often it narrows down its notion of a person’s success in society to their individual ‘merit’, instead of acknowledging the tremendous role of society (Sandel, 2020). High progressive taxes, which may be needed to finance a large public sector (but see below), can thus be justified as the price that prosperous citizens and companies pay for the contribution of society – more specifically, public services – to their success.

## **Funding the public sector is not the problem**

According to conventional monetary theory, a large public sector requires a high tax burden to fund public services and prevent the budget deficit from getting out of hand, resulting in an ever-increasing public debt. In the end, such a debt is supposed to be unsustainable, because, the theory goes, it undermines the financial markets’ ‘confidence’ in the state’s ability to repay it. As a consequence, interest rates on government bonds would rise, resulting in a further increase of the public deficit, *ad infinitum*. In their much-cited paper ‘Growth in a Time of Debt’, Reinhart and Rogoff (2010) claimed that a public debt of over 90 per cent of GDP was not sustainable. According to their estimates, such a large debt would – roughly – cut GDP growth by half and therefore cause a major retrenchment in a country’s prosperity. Even though the empirical evidence for their claim was soon disputed, their proposition that large government deficits are detrimental to economic performance is still widely supported. It also forms the basic premise of the Stability and Growth Pact of the Economic and Monetary Union (EMU). Moreover, the financial markets’ loss of confidence in Greece, Portugal and Ireland during the Eurocrisis appeared to confirm the unsustainability of (too) high government debt.

In view of the still broad consensus about the deleterious effects of high budget deficits, it is remarkable how smoothly the EU Member States and the European Commission have abandoned this position during the COVID-19 crisis. Whereas during the Eurocrisis the prevailing view was that the problems could be solved only by imposing austerity measures, in response to the

pandemic government leaders started to embrace a new paradigm, that of ‘investing our way out of the crisis’. At the EU level, programmes such as the temporary Support to mitigate Unemployment Risks in an Emergency (SURE), which provides loans of up to €100bn, and Next Generation EU, consisting of some €750bn – roughly half in loans and half in grants – are intended to support Member States in overcoming the damage wreaked by the pandemic and investing in the green transition, digitalisation, health care and resilience. In line with this, for example, the Italian government has presented an investment package of no less than €248bn for the coming years. Even though they are considered to be only temporary, such EU and national programmes represent a clear break with the prevailing responses to the financial crisis. Politicians and government officials now seem to worry less about debt and deficits and more about upgrading their societies and economies, preparing them for the future as a function of their needs rather than their balance sheets.

Interestingly, this position is supported by more heterodox ways of thinking about government deficits and public debt that have recently resurfaced in the academic realm. Although still quite controversial, the claim of Modern Monetary Theory (MMT) that incurring public debt may be economically sound and can be beneficial for society is receiving growing support. As Stephanie Kelton argues forcefully in her book *The Deficit Myth* (Kelton, 2020), a budget deficit and a large government debt need not cause any economic harm for a country that issues its own currency (a so-called ‘monetary sovereign’). Basically, Kelton argues that a government can simply finance public services without limit through its issue of money through the central bank. Similarly, if the government ‘borrows’ massive amounts of money on the financial markets by issuing government bonds, it can never run into trouble paying off the debt and making interest payments because it can simply issue the money needed. The conventional critique that this will cause accelerating inflation and undermine trust in the currency is refuted by MMT with the argument that this will happen only if the country’s productive resources are fully employed. As long as there is involuntary unemployment and idle means of production (slack), more government spending will proportionally increase production and therefore will not lead to inflation. The collection of taxes is not for spending, but – among other things – to re-allocate productive resources from private to public goals. By taxing citizens or companies, the government reduces their ability to spend resources on private consumption or investment and thus creates more room for expansion of public services.

Additionally, MMT convincingly argues that the government can act as an employer of last resort by introducing a job guarantee. If unemployment rises because of an economic downturn, the government can employ the redundant workforce by creating public sector jobs. This would not only significantly reduce the hardship experienced by workers who have lost their jobs, but also increase the provision of valuable social services and contribute to maintaining effective demand, thus mitigating the recession.

As already mentioned, in her book Kelton (2020) limits her analysis to countries that are sovereign regarding their own currency, in particular the United States. Thus, the theory does not apply to individual EMU Member States. It could be applied just as well to the EMU as a whole, however. In fact, the European Central Bank’s (ECB) ‘quantitative easing’ policy, which involves massively buying assets from banks and thus injecting money in national economies, is a variant of what MMT advocates. The main and crucial difference is that formally the ECB is still not allowed to buy government bonds directly and thus finance government deficits. Nevertheless, since 2015 the ECB has in fact purchased public sector securities on secondary markets, and as part of the pandemic emergency purchase programme (PEPP) introduced in March 2020, the ECB has even directly bought Greek government bonds. If MMT were officially adopted by the EMU, this would greatly enlarge the potential for increasing expenditure on public services. Of course, this would raise complicated issues regarding the distribution of monetary resources between the Member States, and the division of responsibilities for funding public services between national

governments and the ECB. One complex issue would be the changes that would be needed in the EU Treaties and the ECB's mandate. This mandate would have to be broadened from price stability to promoting (full) employment, similar to the US Federal Reserve. Another complex issue concerns how the governments of the EMU Member States could still be forced to act prudently if they were no longer dependent on private suppliers of capital and thus no longer subject to market rules. The question arises whether there might be a need for global regulation of financial markets, comparable to the Bretton Woods agreement of the past. It is beyond the scope of this article to discuss these issues here, however. Suffice it to say that MMT may open up completely new horizons for reforming the SGP and reshaping the EMU in such a way that it could support the expansion of the public sector to address the most pressing societal needs instead of being a drag on the public sector and an excuse for politicians to resort to austerity policies again when the COVID pandemic is over.

## Conclusion

In this short contribution we have argued that there are convincing reasons why the public sector – and hence public sector workers – should not once more pay the price for the economic crisis, as happened a decade ago in the wake of the financial and euro crisis. The COVID-19 pandemic should instead usher in a recognition and revaluation of the public sector's essential role in creating a thriving economy and promoting a resilient society that is better able to cope with future crises. Furthermore, the insights of Modern Monetary Theory show that the funding of a large public sector does not have to cause problems, but may instead help to stabilise the economy and safeguard full employment.

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