CHAPTER 2

The Secondary Economic Sector's Role in Post-pandemic Recovery: Analysis in the Neoliberal Capitalism Context

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Introduction

The recent global health crisis, the pandemic caused by COVID-19, has brought a systemic human development crisis affecting the economic and social dimensions of development (United Nations, 2020). In reference to the concept of systemic crisis (Trichet, 2007), it is established that an economic system enters into crisis when it collapses due to incapacity, saturation, or lack of instruments to solve the problems created by its own

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A. M. López-Fernández and A. Terán-Bustamante (eds.), *Business Recovery in Emerging Markets*, Palgrave Studies in Democracy, Innovation, and Entrepreneurship for Growth,
https://doi.org/10.1007/978-3-030-91532-2_2

dynamics. The global health crisis will probably bring with it the most disruptive economic effects in modern history. Such disruptive economic effects can be seen in political and economic actions witnessed around the world, which demonstrate the uncertainty toward the most relevant operations. Thus, in a global conceptual framework analyzing the economic impact of the pandemic, it is predicted that the economy will enter into recession, which will tend to have negative effects on employment, income, and inequality in the socioeconomic structure of the country. This can be attributed to social-distancing measures adopted globally that have caused limited supply of labor and restricted the ability to operate in many large sectors of the economy such as tourism, entertainment, and commerce (Hevia & Neumeyer, 2020).

The social norms and limited market dynamics mentioned above put pressure on countries' financial and economic variables, and motivate access to financing from international markets. In view of these movements toward alternative financing options, Guillén (2020) discusses that the costs implied during the process of market lockdown are not enough to explain the current economic decline. According to the study conducted by Guillén (2020), the economic decline has other profound causes associated with different triggers originated since the economic-financial crisis of 2007 that affect the systemic contradictions of capitalism. The study also explains that such financing plays a preponderant role evident in the recent behavior of the stock markets, in which an upward trend can be observed despite the collapse of productive activities among various sectors of the market. According to Georgieva (2020), the human costs of the pandemic make it necessary to emphasize three fundamental elements of analysis:

(a) In the global growth prospects, priority should be given to the adoption of fiscal measures aimed at flexible monetary policy for affected workers and companies, with a view to strengthen the healthcare systems around the world.
(b) Concern toward emerging economies with reference to their economic debt and the level of economic impact caused by the pandemic.
(c) The measures that the International Monetary Fund (IMF) will adopt in a multilateral-cooperation framework to support its member countries.

These policies should include emergency financing and replenishment of the Trust Fund for Disaster Relief and Containment with a focus on emerging economies. Within the framework of these economic recovery measures, the IMF (2021) predicts that support for policies and the recent application of vaccines at the international level will project a growth of the world economy of around 5.5% for 2021 and 4.2% for 2022. The projections for 2021 have been revised upwards by 0.3 percentage points with respect to the first forecast (IMF, 2020), attributed to the expectations of a strengthening in economic output and the support for the measures proposed by the IMF. However, these forecasts are projected with some degree of uncertainty due to the new variants of the virus and the lack of knowledge of their impact on the health and socioeconomic systems. It can be foreseen that, as part of the strategic economic reactivation plan for developing countries, a series of public policies should be implemented with the aim of reducing vulnerabilities and fostering the necessary capacities to face the health crisis. Nevertheless, with reference to the secondary sector of the economy, governments have opted for maintaining operations among various associated activities aimed at generating long-term social returns.

In view of the above assumptions, economic activities in different countries slowed down as a result of a series of public-health-safety-led decisions to suspend all those activities that are considered as non-essential. As a result, several manufacturing and service sectors were affected. However, some important sectors such as mining, construction, and the automobile industry were defined as essential activities as they incite basic-necessity activities in society. Therefore, it can be conferred that the demand for goods and services is associated with employment levels in reference to vigorous public investment. Such vision assumes that public spending is a way to ensure the use of factors of production, especially the labor force. Thus, a government investment program would stimulate the economy and invigorate the market from the movement of resources, which may come from different fiscal schemes but also from public debt.

García and García (2020) explain that the crisis caused by the pandemic is a systemic, economic, health, energy, food, and environmental crisis, which cross-examines the economic development considering the aforementioned dimensions to facilitate economy recovery. Consequently, the stock markets, economy, and the employment sector have been highly vulnerable to such unprecedented health crisis in the modern economic

ambiance. Therefore, the neoliberal orthodoxy of the free market has been adversely affected, leading to the existence of a world recession with a prior origin and the probable need to apply policies directed toward large public investments to reactivate the economy.

Based on the above discussion, this research proposes a conceptual approach for the development of an effective strategy, based on the economic-recovery decisions adopted by governments in emerging economies, aimed at a multidimensional vision that involves political, social, and cultural factors. The study also focuses on the emerging economies whose recovery decisions are aimed at the specialization of labor-intensive activities and government intervention order to promote effective implementation of market policies. Such policy implementation is considered as one of the effective ways to face a crisis and recover economic growth. The conceptual development of this research will make it possible to assess the public policy response, exercised by the government, which will bring positive effects toward economic recovery. Therefore, this study contributes to the existing literature by understanding the impact of the global pandemic in emerging economies, in reference to the political response and its impact on the overall employment rate. The study also discusses strategies that can be implemented to mitigate the economic consequence of the pandemic in emerging economies and the response of the market considering the following questions:

RQ1: What would be the impact of public spending of the secondary sector on the emerging economies?

RQ2: Can the economic recovery strategies implemented by the governments help drive the growth of the countries to their pre-pandemic performance?

Literature Review

According to Stoyanova (2019), supporters of government non-intervention are neoclassicists and liberals. They believe that the market with foreign and outer interference, i.e., a maximum free market and minimum government interference, is perfect; where the market by itself partially maintains balance. On the other hand, supporters of Keynesian theory believe that the market needs government intervention to regulate the demand-supply process. However, the Hayekian approach (Hayek,

1960) assumes that Keynesian policies only contribute to increase inflation, displacement of private investment, and imbalance in public finance. In view of the above discussion, this approach disturbs the functioning of the market, resulting in a total loss of the country's wealth due to failures in government policies. Therefore, encompassing previous arguments, the idea that the secondary economic sector plays an important role in the economies of countries based on directed public spending is not new. The Keynesian model, which insists on government interventionism as the best way to face a crisis, seeks to increase public spending for the construction of social and labor services with an aim to increase productivity and employment (Keynes, 1978).

Keynesian economics is based on the concept of increase in the government spending through socioeconomic variables to improve the production output and employment rate, and attain stability in the inflation rate. Such economic outlook focuses on improving the economy based on short-term strategies implemented by the government through an increase in expenditure and decrease in taxes in order to stimulate demand. Hence, the optimal economic performance attained by implementing strategies tends to increase government spending. Implementation of deficit spending not only encourages consumers to increase their spending capacity, but also compensates for the loss of foreign direct investment within the economy (Asada & Yoshida, 2001). One of the principal causes of economic downturn in any crisis situation is not the lack of knowledge, labor skills, or market inadequacy, but insufficiency of aggregate demand leading to adjusting the impact of consumer-market fluctuations in business cycles. The impact of aggregate variables like income and employment observed in market adjustments explains the fluctuations in the business cycles, as these form a part of intrinsic consumer-market phenomenon taking place during the economic crisis (Gori et al., 2018; Naimzada & Pireddu, 2014).

The Keynesian model implies that government expenditure through the implementation of public policies and public equity is an exogenous tool used to significantly influence market dynamics to promote economic growth in the short-term. Keynes (1978) proposes that fiscal stimulus through government expenditure acts as the primary driver for economic growth in the post-crisis era. Developed nations possess economic resources to implement fiscal policies, such as subsidies, tax-cuts, unemployment benefits, and tax holidays among others, to maintain the market dynamics and delay any economic stagnation. However, emerging

economies are very restricted in providing such economic resources that are aimed at delaying the economic downturn, leading to economic recession (Srinivasan, 2013). Hence, the Keynesian model explains that by increasing government spending and maintaining constant consumption and investments, the overall economic output increases. Additionally, an increase in government spending through various economic stimulus packages and subsidies on taxes has been the standard approach of the government expenditure to tackle the economic recession. In view of the above discussion, government expenditure can be determined as one of the most important and effective tools to implement fiscal policies and public expenditure to drive economic growth in the post-crisis era.

The New Keynesian Model is an extension of the "demand-crisis" model, which incorporates the intrinsic factors of employment fluctuation on the labor-intensive market. Fluctuation in business cycles not only affect the asymmetric patterns of the New Keynesian Model, but also explores the interaction among employment opportunities, job rationing, rigidity in increasing wages, lack of regulations to control inflation flux, and labor-capital resource allocations (Casares et al., 2014). The New Keynesian model also discusses the role of public investment through fiscal policies aimed at stimulating short-term market reactivation strategies and long-term economic growth perspectives. Public consumption-expenditure and public-investment strategies act as an effective transition mechanism between the high-growth period prior to the crisis, and the low-growth post-pandemic era. Such outlook allows the governments in the emerging economies to use short-term market reactivation strategies to stabilize the economic impact. The public investment is inversely proportional to the business cycles, i.e., during the high-growth period of the business cycle the public investment is relatively lower than the low-growth period such as post-pandemic economy. In the short-term, public investment has a significant effect on generating employment, whereas the public consumption expenditure has a high impact on the country's Gross Domestic Product leading to an increase in the private spending capacity (Petrović et al., 2021).

Framework of Propositions

It has been argued by some authors that the current global economic decline is a new stage of the capitalistic crisis accentuated by COVID-19.

However, it is complex to evaluate the public policy response exercised by governments for economic reactivation under these conditions. According to García and García (2020), the crisis caused by the pandemic is a systemic crisis with an economic, health, energy, food, and environmental scope that questions economic reproduction in the same dimensions. Consequently, such effects may be present in all countries and, especially in relation to some of the core variables such as the stock markets, economy, and employment rate. The above discussion negatively reveals the neoliberal free market orthodoxy, leading to the recognition of the emergence of a worldwide economic recession and probable need to apply policies toward large public investments to reactivate the economy. According to Esquivel (2020), economic activities slowed down significantly as a result of the decision to suspend all those activities considered non-essential, which affected several manufacturing and service sectors that had to be temporarily closed to guarantee social distancing. However, some important sectors such as mining, construction, and the automotive sector came to be defined as essential activities. This is consistent with the demand for goods and services being associated with employment levels in a context of vigorous public investment. In other words, this vision assumes that public spending is a way to ensure the use of productive factors, especially the labor force.

Guillén (2020) argues that, during economic crisis, the best alternatives for recovery lie in multidimensional vision involving development of economic, political, social, and cultural factors. The study also proposes that a feasible strategy for recovery lies in the specialization of labor-intensive activities that increase its international competitiveness, which would involve a systemic intervention of the government aimed at application of fundamentalist market policies. Therefore, the proposal discussed in the study assumes that the best way to face a crisis lies in an internal strategy aimed at recovering growth, raising employment levels, satisfying the basic needs of the population, and eliminating extreme poverty. In reference to the above discussion, the solution could be analyzed from a technical and political perspective, encompassing a more systemic intervention from the government to promote public initiatives. Taking into consideration both the approaches discussed in this section toward the implementation of public policies aimed at recovering growth, the secondary economic sector becomes highly relevant as it uses inputs from productive sectors such as metals, cement, and wood, among

others. Hence, the secondary economic sector is assumed to be the main economic driver that benefits different branches of society.

Accordingly, under such a directed spending scheme caused by the pandemic, governments in emerging countries have implemented large plans for discretionary spending and/or tax-cuts that seek to mitigate the fall of the economic activity. Consequently, central banks of different countries have facilitated the financing of these government policies with purchases of assets in the secondary market, encouraging the predominant use of credit channels. However, such strategy could cause a part of the invested money to get stuck in the asset markets, which would not become real investment impeding economic growth. This particular concept is called "liquidity trap."

Moreno-Brid (2020) proposes a monetary policy in strong coordination with the fiscal policy that considers an enormous support from the central- and development banks with an aim to channel funds to the private sector. Such policy is directed toward emerging countries that lack significant automatic stabilizers such as unemployment insurance. The study also indicates that the pandemic should motivate a reflection about public finances in a countercyclical manner, on the priorities of the central bank and the monetary policy with a focus on long-term economic gains. In view of the above discussion, the following proposition has been framed:

> P_1: The negative effects caused by systemic crisis in emerging economies can be solved by public policies directed towards investment in the secondary economic sector.

As discussed above, it is clear that the aim of the governments is to resolve the economic crisis originated by the pandemic. However, according to Mendoza (2016), the profitability for large companies does not only come from their productive activity, but also from financial rating. In view of the previous argument, financial rating affects the actions and strategies of the business growth, because large corporations seek the participation of external capital in their economic decisions, especially for those located in a very dynamic and strategic economic sector, as in the case of the secondary sector.

In view of the above discussion, government intervention can be referred to discretionary acts by government to intervene in the market dynamics and the economy. According to Stoyanova (2019), the concept of government intervention was put in place long-time ago, but during

the 1940s, it became one of the most attractive concepts within the scientific community, as it was provoked by the first commercial crises. Government interference has its supporters and opponents in several schools over the years that continue in the present. Marinova (2015) assumes that governments can create buffer stocks of production by buying it from the saturated market and thus preventing or mitigating the development of crisis, while the private market cannot afford such action. In this perspective, government functions influence market relations toward an increase or a decrease of aggregate production in industrial sector and thus tend to restore market equilibrium.

It should be noted that, according to Stiglitz (2013), government intervention is often used in emerging countries, where the market defects are larger and the government's ability to cope with them is relatively smaller. The study by Stiglitz (2013) identifies five key components of the government intervention as explained below:

(a) Education
(b) Technologies supporting the financial sector
(c) Investing in infrastructure
(d) Preventing environmental degradation
(e) Creating and maintaining a social security network.

In accordance with the above elements considered for the emerging economies, the government intervention is applied with greater intensity in the secondary sector than other sectors of the economy. The primary reason behind this is foundations of the Keynesian school, where scientists are inclined toward more active government intervention in relation to the financial attributes. It should be emphasized that the main intention of the government intervention is to create a positive economic environment in order to provide the necessary financial resources for the activities in the secondary sector. However, such government intervention aids in the process of employment generation among the other sectors of the economy. Taking into account the previous points, it can be considered that the government intervention seeks the balance incomes in different sectors of the economy. According to Stoyanova (2019), another reason for government interference is the possibility of eliminating part of the price shocks resulting from the conditions of international markets by protecting the internal market. In reference to the above discussion, according to Rodríguez-Moreno (2015), the financial markets by themselves do not always work properly, as they present faults like any other

market. Therefore, these failures justify the presence of the government through the use of regulation and supervision processes, thus allowing markets to behave properly generating not only efficiency, but also equity. On the other hand, emerging government investments encourage the growth of the secondary sector and, consequently, of the production chain. This would lead to an increase in the rate of exploitation of workers, as well as stagnation or decline in their current wages, as a result of the detriment of a real economic recovery. Based on the above arguments, the following proposition has been derived:

> P_2: Investment in the secondary sector translates into economic sectoral interdependence due to the stimulation of factors of production, especially the labor force.

Conceptual Model

One of the major contributions of government participation in overcoming any systemic crisis is through strict enforcement of capital controls on all public and private sector contracts. Such strategy not only maintains the traditional diversification strategies, but also stimulated an intra-asset correlation leading to a decrease in the short-term impact of the crisis in the emerging economies. The countries with economic stability contribute positively to the systemic crisis as compared to the emerging economies, which mainly withhold negative effects such as increase in unemployment rate, income disparity leading to an increase in the gaps among social structures, and socio-cultural inequality. Such risky terrain needs careful navigation by implementation of public policies and government investment programs in order to decrease the probability of long-term economic downturn (Steinkamp & Westermann, 2018). Hence, public policies directed toward investment in the secondary economic sector tend to mitigate the negative effects caused by systemic crisis in emerging economies (P_1) as illustrated in the Fig. 2.1.

The primary sector of the economy provides raw materials and other supplies to the secondary sector for its production process. However, during the economic recovery process, the secondary industrial sector detonates the industrial activity and involves the primary sector in the economic reinitiating process. The support provided by the secondary sector to the primary and tertiary industrial sectors generates more

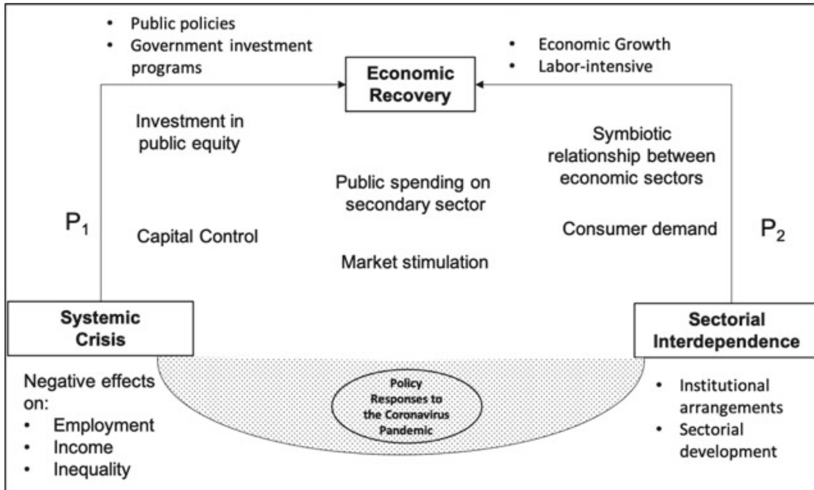

Fig. 2.1 Multidimensional economic recovery decision model (*Source* Authors)

employment opportunities, reduces income barriers within the marketplace, and promotes institutional alliances. Labor-intensive industries in alliance with sociopolitical support tend to improve the business cycle leading to economic recovery. Therefore, investment in the secondary sector translates into economic sectoral interdependence due to the stimulation of productive factors, especially the labor force (P_2). The symbiotic dynamics between production and marketability optimizes the production capacity, reinforces employee skills, and maximizes productivity. The adoption of analytical perspectives promotes the secondary sectors toward effective management of risks-opportunities, competition-demand, and competitive advantage-supply chain management (Alamá-Sabater et al., 2016).

Emerging markets are based on the support from public equity, which is aimed to support the social structure to acquire equity, trade equity, and promote participation of private firms to raise substantial capital from many small market players. However, such practice has been evolved from individuals to institutions, paving the way for increased public participation in order to increase economic growth (Kalcheva et al., 2020). However, such government support stimulates consumer-market relationship boosting the market dynamics and promoting growth prospects in

the recession-led economy. Such market stimulation reverts the negative effects of the systemic crisis through an increase in employment rate, enhanced social governance, and promotes mutual interdependence among primary and secondary industrial sectors. Accordingly, the process of rebooting the economy strengthens the labor-intensive production process through effective management of labor competences, knowledge-based production process, and skills management process (Llorente-González & Vence, 2020).

General Discussion

The crisis caused by COVID-19 accentuated a systemic crisis, origin of which can be seen in the inconsistencies of neoliberalism. As Guillén (2020) said, the pandemic is associated with different triggers that affect the contradictions of capitalism in the context of the increasing tensions of disagreements between elites. In this context, the intervention of the government to stabilize the economy points to support the large companies in the secondary sector without taking help from other important sectors like agriculture, transportation, commerce, etc. Therefore, the decisions made by governments to control the pandemic lie in social distancing and shrinking of the production capacity resulting in a negative impact to the economy. Such decisions were implemented in view of the unforeseen impact on the associated costs of a prolonged crisis. For these reasons, the intervention by the government to support the secondary sector is a kind of emergent Keynesianism to sustain the economy, particularly to support the large companies of these sectors by slightly altering the neoliberal model. However, it will be interesting to see the strategies taken up by the governments to maintain the production chains of the economy, particularly the stability of the working class, as the current decisions made by the government has had a direct impact to the accumulation of capital.

As Antentas (2020) said, if the neoliberal theses prevail, this second wave of massive bailouts to sustain the economy, after the first one in 2008 oriented toward the financial system, may simply be the prelude to a more virulent phase where a crises of legitimacy, social reproduction, and of the global forms of governance of neoliberalism are interwoven. The study indicates that such policies would imply a strengthened neoliberalism toward increasing authoritarian interventions in domestic politics in the midst of greater geopolitical tensions. Such outlook explains the

growing fractures between different fractions of the political and financial conglomerates. Probably, this means that we are facing the main structural contradictions of neoliberalism and the beginning of a new kind of economic model similar to Keynesianism arguments.

Conclusions

To separate the economy from the government is ineffective, as the relationship between government and economy is a dialectic process of interdependence. In such interdependence, the debate between neoliberalism and statism in the global economy under said health crisis is difficult to solve because such political and social crisis has never been seen before. The discussions in the chapter indicate that specific policies pursued by governments will vary according to countries' political and social contexts. For emerging economies, the public support is exclusively directed to the secondary sector, generally limited toward large and consolidated enterprises due to their high public spending capacity.

Taking into account the global uncertainty, the only thing that appears to be clear is that one era is running out and another with high ambiguity is yet to come. The post-crisis world will be the result of the balance of forces in an international dimension, between the various sociopolitical projects in play. Every crisis starts with the application of misguided policies and ends with a process of economic reorganization, which results in a social and political collision. The current situation shows a crisis of legitimacy of capitalism and the contradictions of the neoliberal model, which highlights its flaws in terms of the efficiency of public health systems, dependency on inputs, reduction of government financing for social systems (health, education, etc.), and the economic instability created from the above-mentioned flaws. In accordance with the above, it is not certain that supporting the secondary sector is the correct solution. Hence, this chapter suggests that the right policies to confront the pandemic involve that the public spending can be assigned not only to the secondary sector, but also to the primary sector of the economy in order to drive government efforts toward quick and sustainable economic recovery. The characteristic of the present systemic crisis is based on the assumptions that current government regulations are heading to overcoming the pandemic by increasing the profitability based on public spending in the secondary sector. Also, it is important to

contrast the sources of income for large companies in terms of compatibility with the assumptions of previously discussed economic reactivation plans. However, this perspective can be explored with the scope of future research.

The study highlights the basic assumptions of the Keynesian economic model and its role in bridging the socioeconomic gaps in the market due to the recent global health crisis. In view of this premise, future studies may focus on the imperfect nature of the market competition and the imperative role of public funding to coordinate the socioeconomic variables, driving them toward economic growth. Also, the rigidity of prices aimed at reducing the impact on the profit margins of the financial and industrial conglomerates can be explored. Such inflexibility is based on the assumptions of consumer expectations adapted to the convenience of the market players, leading to an economic downturn rather than uplifting the local economy. The imperfection in the capitalistic market drives asymmetries of information leading to limitations or rationing of public equity. Such risk-averse nature of the capitalistic market leads to credit-rationing policies by financial institutions and public funds. Therefore, future research may also tend to understand the limitations faced by the market players, which puts them in a position of risk. Also, the symbiotic relationship of interdependence between public investment and private participation may affect the equilibrium level of various variables outlined within the theory of business fluctuations, which can be explored in other research studies.

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