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# **Fighting the COVID-19 pandemic: social and economic dilemmas and choices**

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# What do we know after 11 months of pandemic?

- Very little – examples:
  - Number of infections, fatality rate
  - Why some countries are less affected than others?
  - Channels and factors of contagion
  - Effectiveness of vaccine?
  - How long the pandemic will last?
  - Its impact on various economic and social indicators
- ⇒ Trial-and-error policy responses
- ⇒ Huge uncertainty, which additionally depresses consumption and investment



# Three dilemmas discussed in this presentation:

1. Limiting contagion or protecting economy?
2. Economic characteristic of the crisis  
(demand shock vs. supply shock)
3. Whom to rescue – enterprises or individuals?

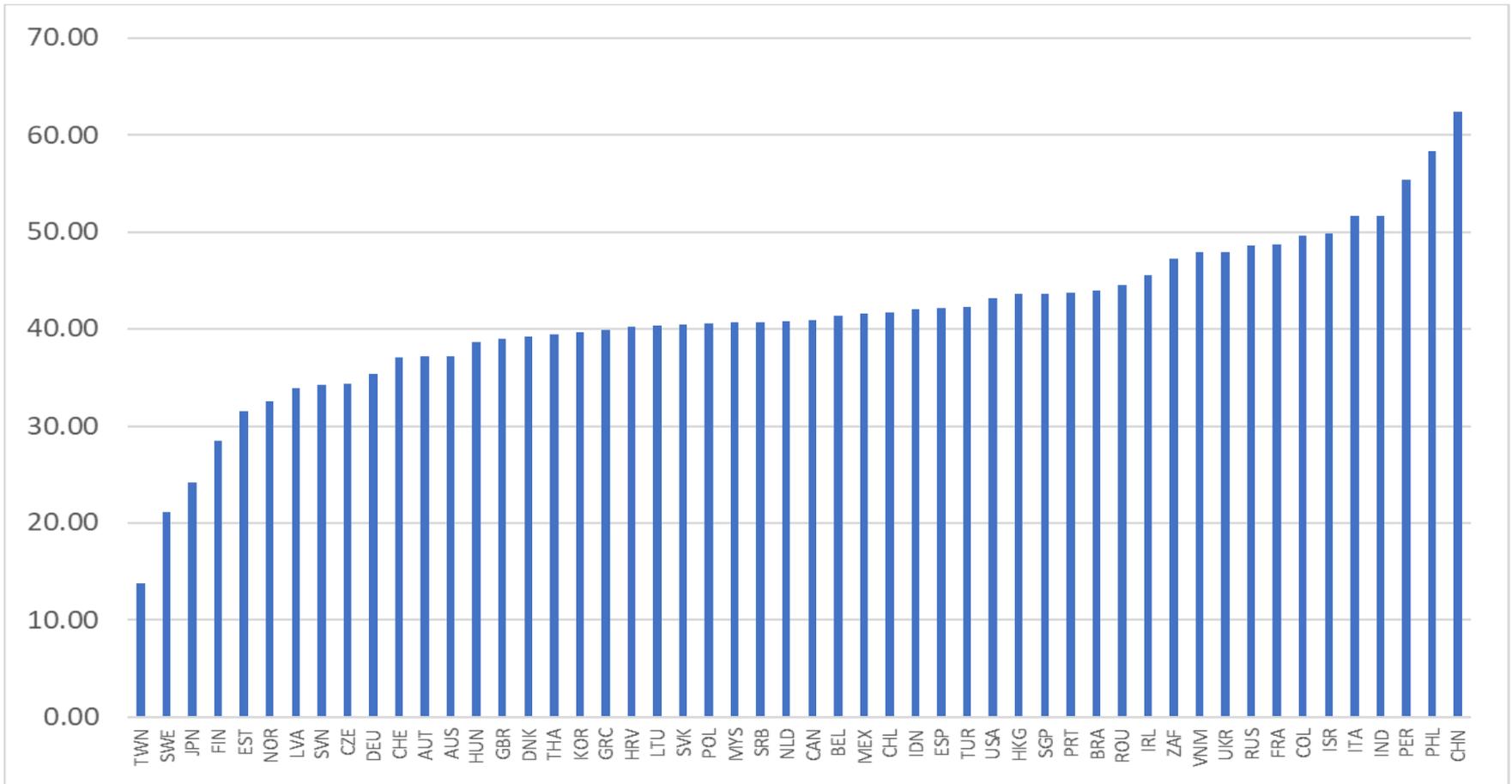


# Protecting people's health and life by containment measures or protecting economic activity?

- Dramatic choice, especially in less developed countries
- In Q1 2020 most countries in the Northern Cone chose containment measures even if they were reluctant to do so (actual strictness of lockdown often differed from the declared policies)
- Heavy economic price and fiscal constraints
- Relaxation since May-June 2020

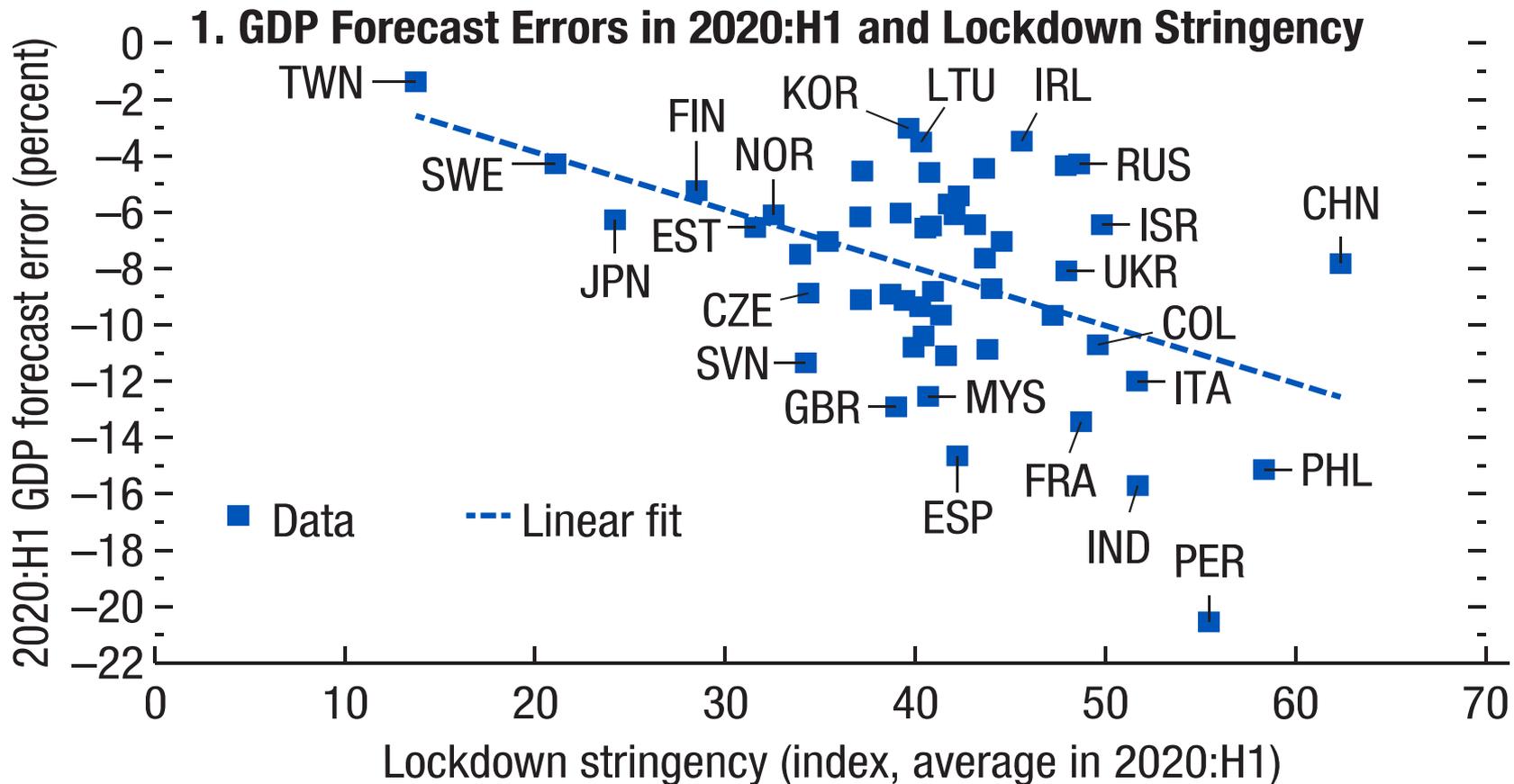


# Lockdown stringency (0-100), average of the H1 2020



Source: <https://www.imf.org/~/media/Files/Publications/WEO/2020/October/English/data/WEOOctober-2020Ch2.ashx?la=en>, Figure 2.1

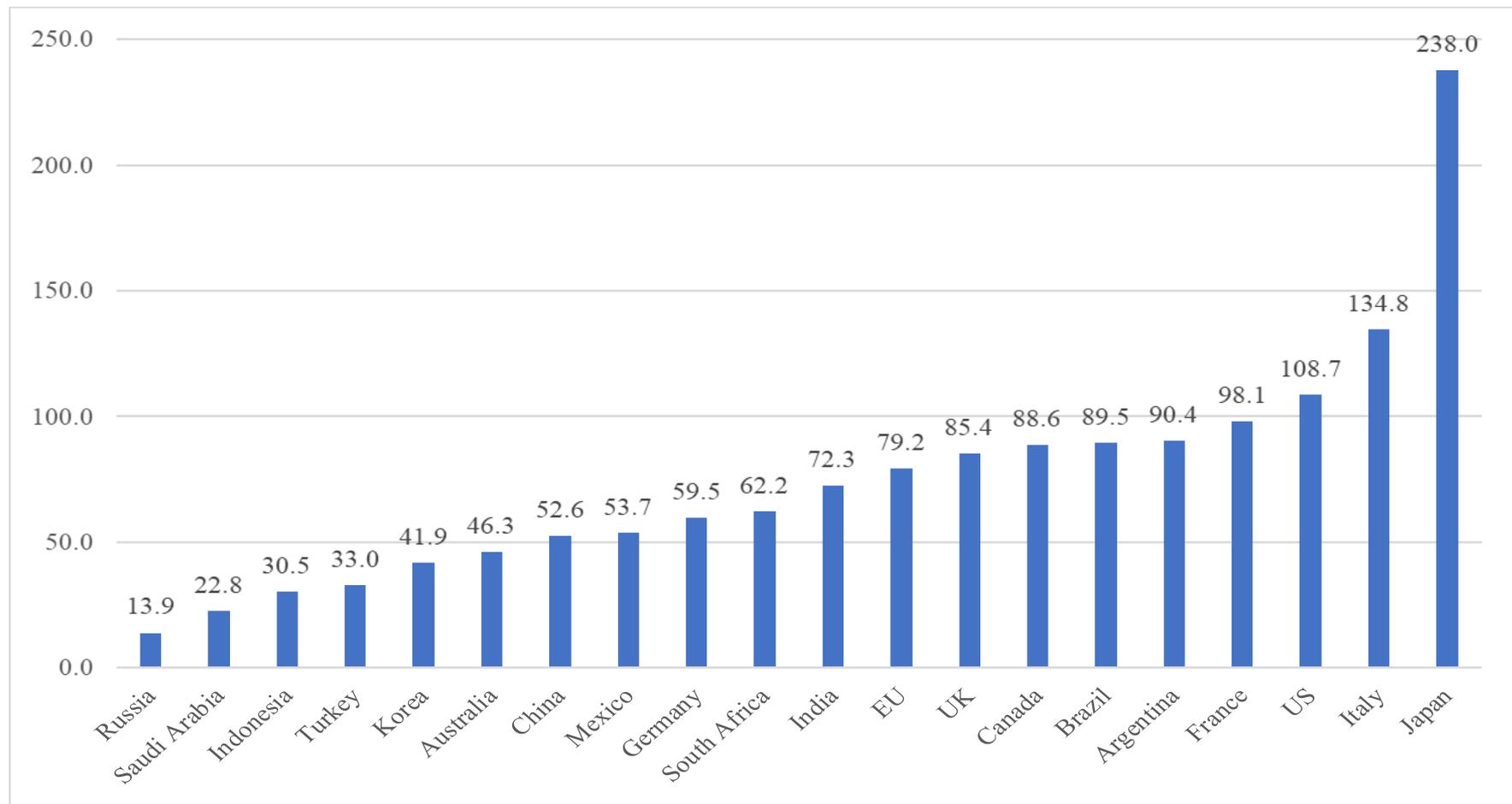




Source: <https://www.imf.org/~media/Files/Publications/WEO/2020/October/English/data/WEOOctober-2020Ch2.ashx?la=en>, Figure 2.1



# General government gross public debt in G20 economies, % GDP, 2019



Source: IMF World Economic Outlook database, October 2020



# The second wave of pandemic (Fall 2020)

- Again the surprise to many governments
- More selective (sector specific) lockdown measures against still incomplete knowledge on contagion channels, limited government capacity of fine tuning and strong sectoral lobbying
- $\Rightarrow$  Stop-go approach
- Decreasing social patience and self-discipline



# The nature of the COVID-19 crisis (1)

- Monetary and fiscal policy responses to COVID-19 have copied the responses to the GFC of 2007-2009 while the both crises are different
- The essence of the GFC was implosion of the financial sector in advanced economies that led to financial disintermediation and deflationary shock  $\Rightarrow$  it required expansionary monetary policies (QE) and, to some extent, accommodative fiscal policies in AEs
- The COVID-19 is a mix of demand- and supply-side shocks (consequences of lockdown)



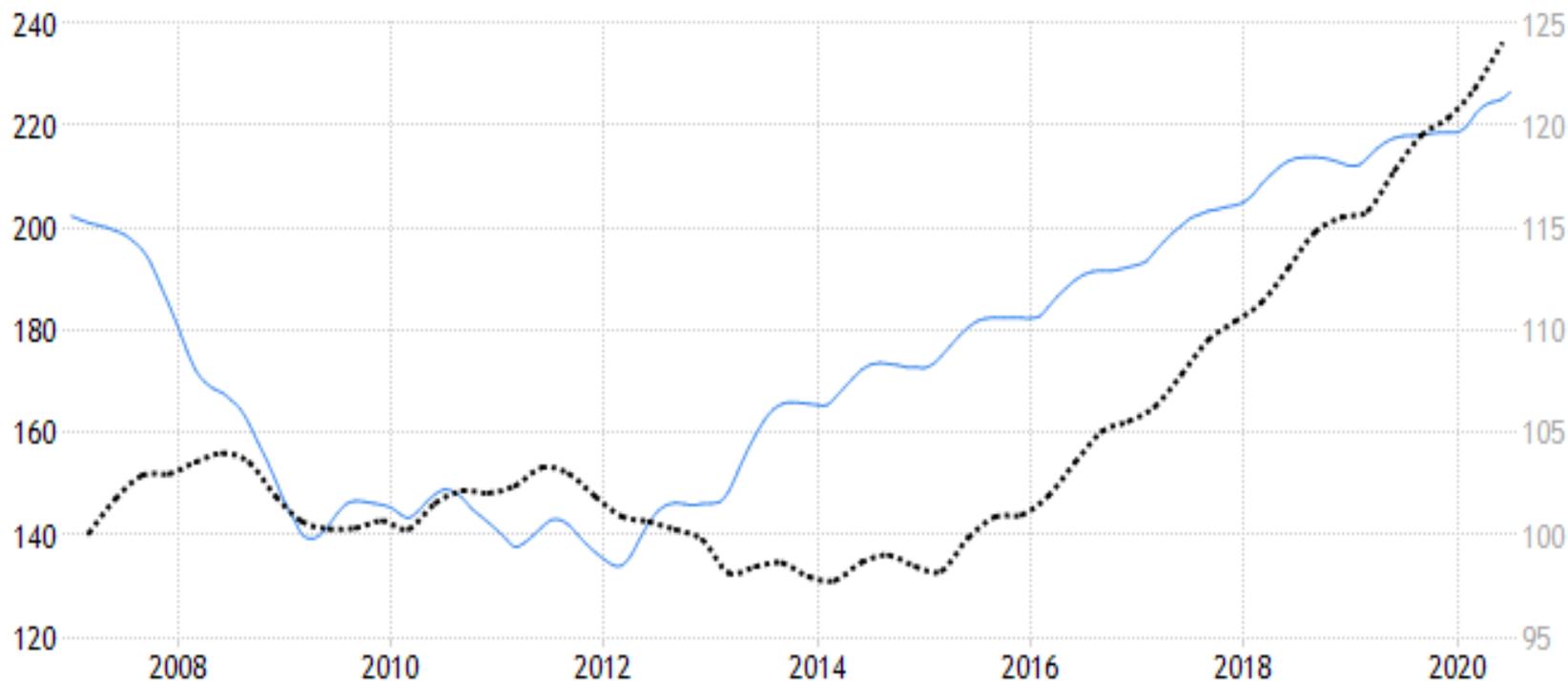
# The nature of the COVID-19 crisis (2)

- Deflationary trends in short-term because of temporarily depressed demand (by fear of pandemics, lockdown measures, and uncertainty)  $\Rightarrow$  forced saving and monetary overhang [the phenomena known from centrally planned economies]
- When and how quickly this monetary overhang will be unfrozen? Potential inflationary consequences
- Deterioration of fiscal balances (effect of recession, additional health spending and support to business and population) vs. available fiscal space
- When to launch fiscal stimulus if at all?



# US (left-hand scale) and EA (right-hand scale) Nominal Home Prices Indexes, 2007-2020

— US S&P CASE-SHILLER HOM.    ..... EU HOUSE PRICE INDEX



SOURCE: TRADINGECONOMICS.COM



# Changes in stock market indexes: US S&P 500 (right-hand scale) and Euro Stoxx 50 (left-hand scale), % change since 20.10.2010, 20.10.2010-20.10.2020

S&P 500 | Euro Stoxx 50



SOURCE: TRADINGECONOMICS.COM



# Whom to rescue?

- Protecting people directly (US) or protecting enterprises, in which they are employed (Europe)?
- The answer depends on labor market flexibility (higher in the US than in Europe) and assumption regarding the crisis length (more pessimistic now than in Spring 2020)
- Unknown long-term structural impact of the crisis (whether structural changes observed during crisis have temporary or durable character)



# Pros and cons of protecting enterprises

- Advantage: protecting entrepreneur capacity, facilitating fast recovery once pandemic ends
- Risk: slowing ‘creative destruction’ and structural changes (e.g., e-services), creating ‘zombie’ firms
- $\Rightarrow$  better to allow market allocation to work and help people to accommodate to structural changes
- In practice both approaches may be needed



# Conclusions

- Pandemic and related containment measures will take longer than originally expected
- Perspective of recovery is delayed
- Cumulative economic and social impact of pandemic will be substantial but still hard to predict in details (for example increase in poverty and inequality)
- Economic and social policy must respect fiscal sustainability constraints and inflation risk
- The COVID-19 crisis will accelerate structural changes; economic and social policy should enable them

