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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?

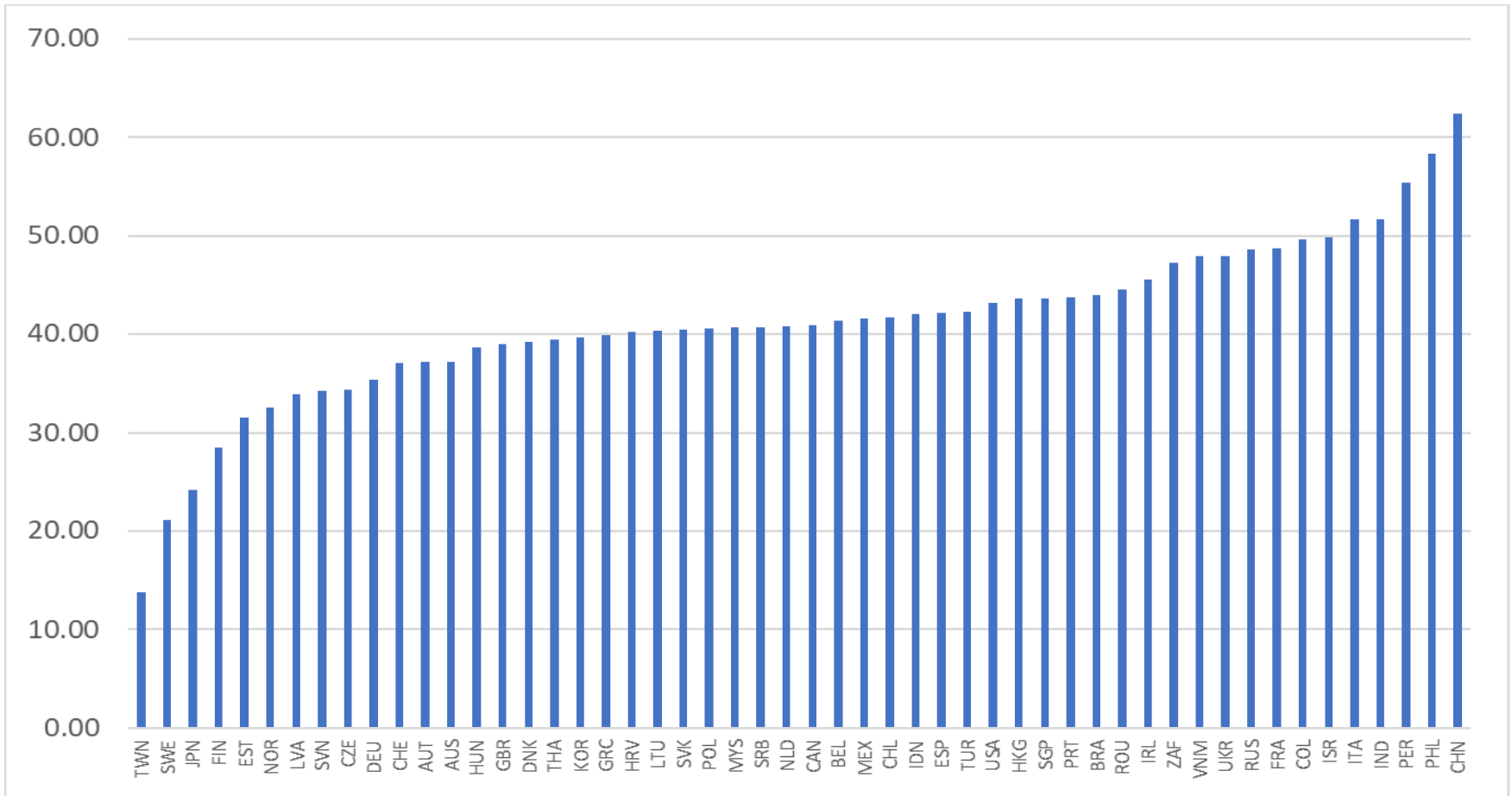


Protecting people's health and life by containment measures or protecting economic activity?

- 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

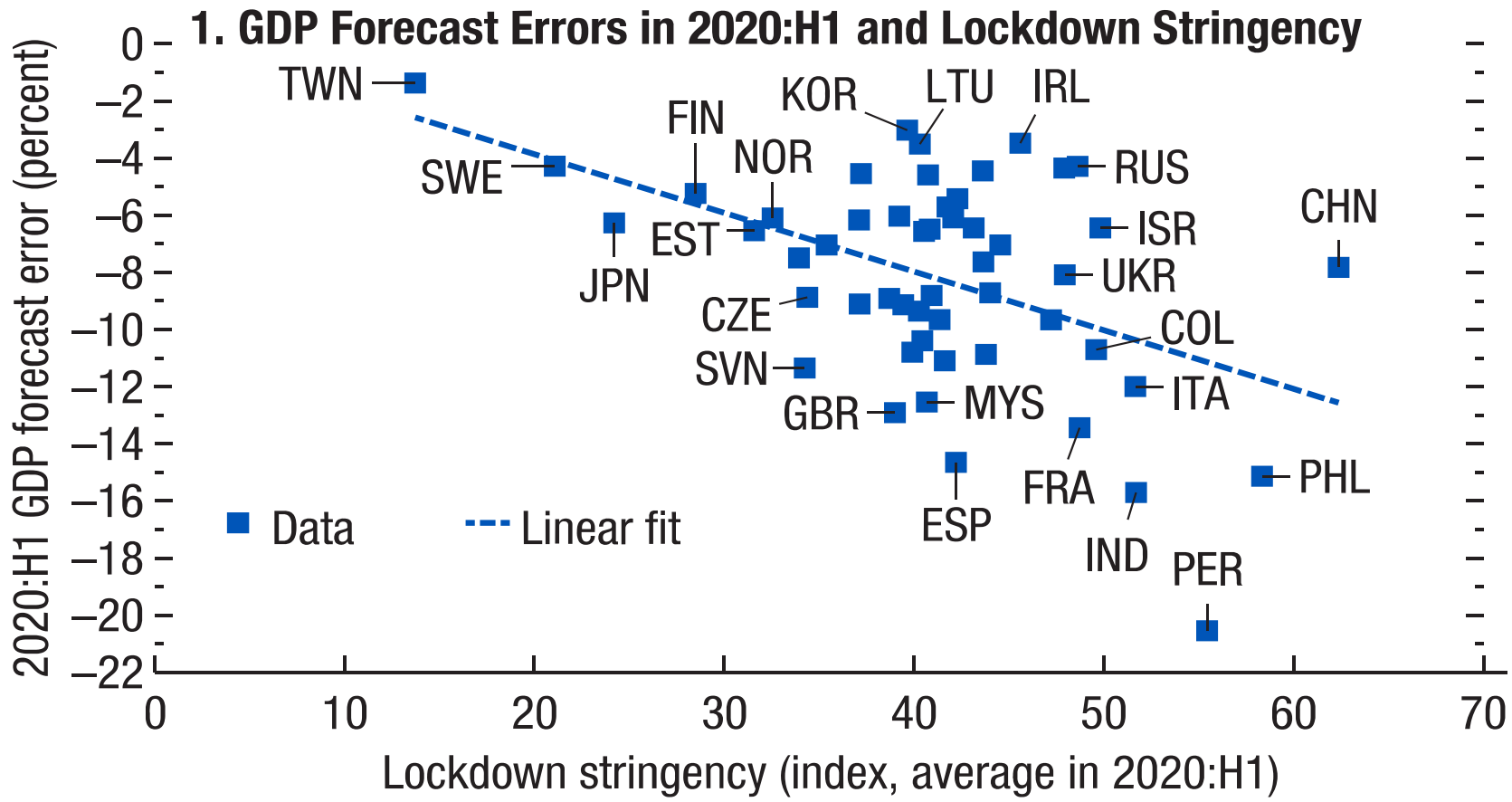


Lockdown stringency (0-100), average of the H1 2020



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



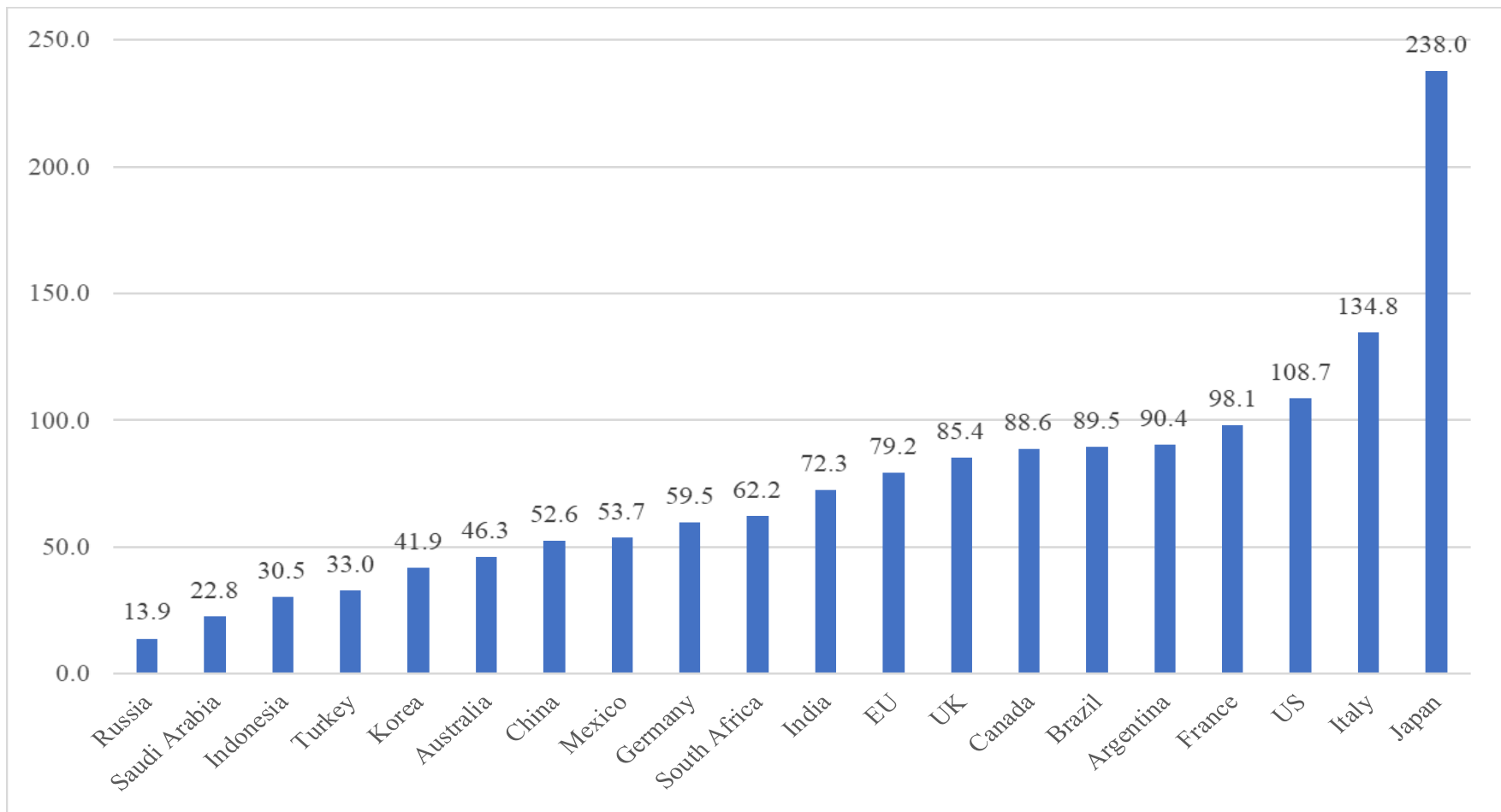


Source: <https://www.imf.org/~media/Files/Publications/WEO/2020/October/English/data/WEOOctober-2020Ch2.ashx?la=en>, Figure 2.1



НАЦИОНАЛЬНЫЙ ИССЛЕДОВАТЕЛЬСКИЙ
УНИВЕРСИТЕТ

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)



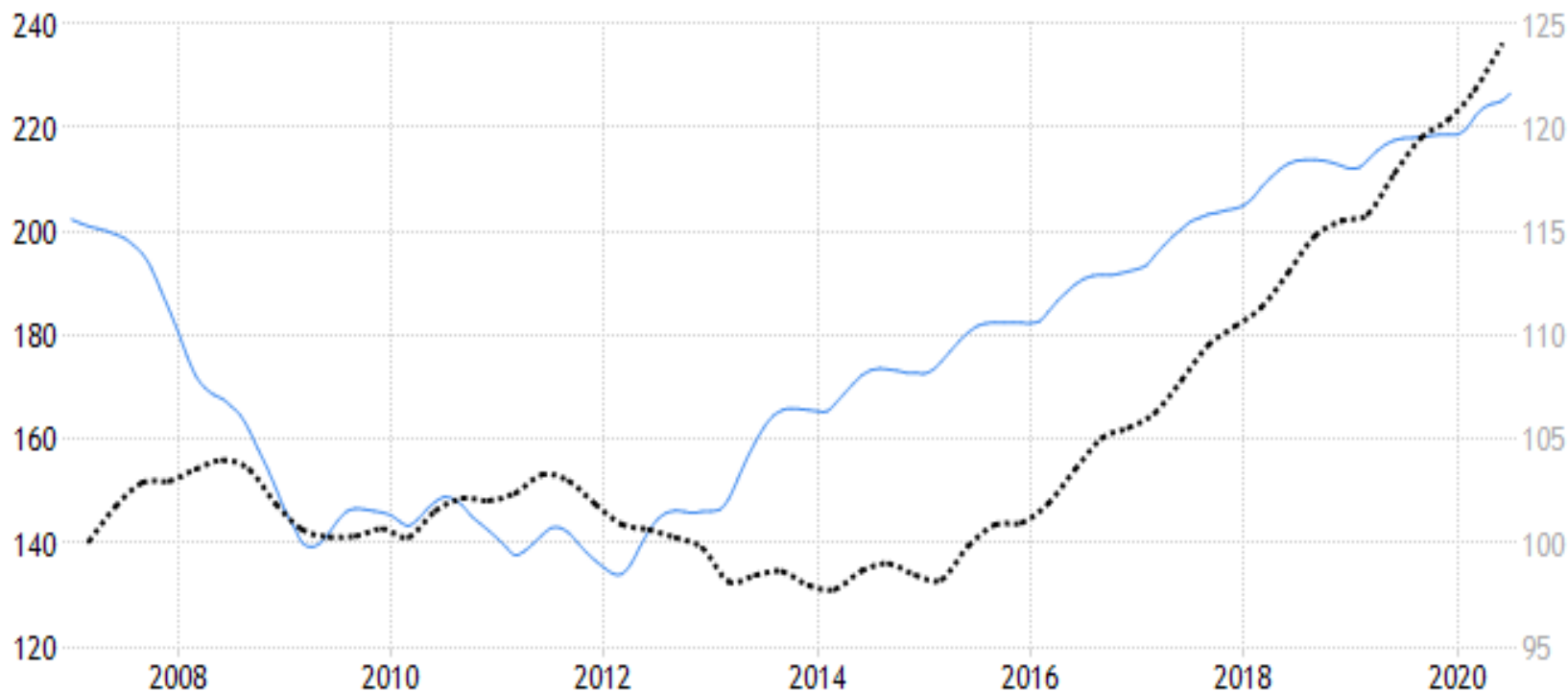
The nature of the COVID-19 crisis (2)

- 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

