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HOW ECONOMIES CAN KICKSTART POST THE PANDEMIC

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The COVID-19 outbreak was first identified in December 2019 in the city of Wuhan, in the South-East of China. Since then the virus has spread across the world. The number of coronavirus-related deaths in Europe overtook that of Asia in early March, with Italy, Spain and the UK being the worst hit countries. From mid-April, the US became the new global hotspot. In recent weeks, Latin America has seen an increase to nearly half of new deaths. Many emerging markets are still in a phase of accelerating death tolls with Brazil, Russia and India, showing upward trends in daily fatalities. At end of July 2020, there were more than 16 million confirmed cases in at least 188 countries and territories with almost 650,000 deaths worldwide. As the coronavirus has spread around the world, it has become apparent that the economic consequences for the most affected countries could be potentially catastrophic. For example, some analysts forecast that this year the GDP of India, in the worst-case scenario, could fall by 9.5 percent and that its government deficit could rise to 12 percent of its GDP.

This is probably happening because the economic shocks associated with COVID-19 are different from the other post war-pandemics. COVID-19 supply-side shocks stem from closures of workplaces and schools that reduce productivity through lower employment levels. A specific characteristic of these supply shocks relates to the propagation mechanism of the virus. Since its spread is not necessarily dictated by the geographical distance (the routes of airplanes and cruise ships influence the dissemination of the virus across the world) the size and the location of the shock is hard to predict. COVID-19 demand-side shocks arise from decisions of consumers and firms to postpone their purchases and investment decisions. Moreover, during partial or full lockdowns of the economy, consumers are physically prevented from getting to stores, so their demand disappears from the market. Another crucial difference between COVID-19 and most recent pandemics relates to the expected duration of the current crisis that is highly uncertain. World Health Organization (WHO) has repeatedly stated that the current pandemic will not be over until a vaccine is created and widely distributed.

In the last six months, we have observed important economic effects that are associated with a prolonged COVID-19 crisis. Firms are more likely to default because they have yet to pay debts and wages. Similarly, people have to make mortgage payments or pay the rent. Without any policy intervention, it is likely that a huge wave of bankruptcies and insolvencies will take place. International trade of goods and services is also likely to be reduced. Exports are negatively affected by factory closures; travel bans and border closings. Since modern economies are highly interconnected, supply shocks in one country have negative repercussions on the production of other nations. Given the fact that COVID-19 is also a demand shock, imports of nations that are most severely hit are likely to fall.

Governments and public institutions around the world are starting to understand that recovery from the economic recession generated by the COVID-19 is not just a case of returning to a pre-pandemic normal, but it will require a re-organization of the economy with the use of creativity and radical innovation. So far governments around the world have focused on short-term policies. Public institutions have provided firms with cheap loans in order to avoid defaults. Some governments have also paid most of the wage bills of people left unemployed due to the crisis. In some countries, households have been helped by public authorities in paying mortgages, rents and utility bills. Although these policies are certainly welcome and have avoided a tsunami of bankruptcies and layoffs, they are not sufficient to overcome the current crisis.

As argued by Dennis J. Snower in a recent article, governments should implement medium-term policies aiming to alleviate the "great economic mismatch" provoked by the COVID-19 pandemic. An example of this mismatch is the imbalance that occurred between the large inventories of face masks and medical gowns in some production centres, while doctors and nurses elsewhere treated COVID-19 patients without adequate protection. Similarly, we have observed food rotting in agricultural fields, while some people starved in big cities. According to Snower, governments should respond to these large imbalances by adopting 're-adaptation policies' with the aim of moving resources from sectors that are idle to sectors where there is excess of demand. There are different examples of re-adaptation policies. Governments could adopt transfer programs in which the income support received by the unemployed workers also provides hiring and training credits to firms that hire and train such workers. The aim of this policy is to redirect job searchers to sectors where there is a growing demand. Re-adaptation policies relate also to public investment. For example, governments could devote their resources into productive spending that involves physical capital, such as delivery vans for food producers, construction of new hospitals and production of face masks.

Turning to long-term policies, public authorities should incentivise investment in research and development (R&D). In recent months, the international collaboration on testing, therapeutics and vaccines for COVID-19 has taken place. In the next few years, this global collaboration and coordination will need to be strengthened in the fields of knowledge creation and technological innovation. National isolation is not a viable option especially for less developed countries such India.

In the recent years, GDP in India has grown rapidly but clearly it has to maintain a fast growth rate to catch-up with more advanced countries. In addition, the relatively young demographic structure implies that longer lockdowns can cause significant damage to the Indian economy. The current crisis can increase the already high level of unemployment pushing a large number of people into poverty and intensifying the problem of malnutrition. Consequently, the Indian government initially adopted a country-wide lockdown but, in late May, it has called Indians back to work. Prime Minister Modi was indeed worried about the collapse of the economy with its fragile banking sector and strained public finances. The end of the lockdown has caused a sudden increase in the number of infections especially among migrant workers living in the major cities that decided to travel back to their rural villages. By the end of July 2020, India counts almost 1,500,000 confirmed cases of coronavirus and more than 33,000 deaths.

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It is evident that COVID-19 has negatively affected the world economy and India is not an exception. The issues originated by the pandemic will be present in the global economic system for years to come. Policymakers will be judged according to the choices that will be taken in these extraordinary times. The more enlightened policymakers will be those who will provide a common crisis response. Those who will be able to rebuild trust and create a cooperative spirit that allows humanity to tackle other common threats such as climate change.