

The Economic Consequences of COVID-19

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Over the past few months, the Department of Applied Economics of the Université Libre de Bruxelles (DULBEA) has provided overviews of the latest papers and insights on the economic consequences of the Covid-19 crisis for policymakers, researchers and concerned citizens. In the [first](#) review we stated the initial consequences and policy recommendations to follow; in the [second](#) review we presented papers that pointed out how this medical crisis is likely to have an unequal impact on workers and businesses, we also mentioned the EU response to tackle it; in the [third](#) review we included papers which argued that some individuals and regions are more vulnerable to this pandemic. Additionally, we included papers on the economics behind a vaccine and the cost of controlling the pandemic. Each review can be found, following the links in blue. You can find the fourth review below.

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Lessons learned from the lockdown.

As lockdown restrictions are being lifted progressively across countries, citizens and policy makers have begun to question the effectiveness of social distancing measures. [Kapoor et al.](#) offers a plausible evaluation using the U.S. as an example. The use county-level statistics for average rain fall on the weekend before the restrictions were imposed as an exogenous instrument for (early) social distancing. The findings show that staying home slightly reduced cases and deaths whilst the effects were persistent over time. This implies that early social distancing might have been effective in avoiding “superspreader” events.

Whereas the World Health Organisation (WHO) has been heavily criticized for its management of the Covid-19 medical crisis, the pandemic has also demonstrated the importance of having an international organisation which identifies and controls infectious diseases. In this context, [Gadenne & Gathek](#) put forward a reform initiative named Global Response to Infectious Diseases (GRID) which could make the WHO more effective. They build on organisational theories to argue that if one country mismanages the crisis (the weakest link), all countries can be severely affected. They suggest that the WHO focuses on infectious diseases that represent a global threat and advocate for the introduction of a sanction system for countries who do not follow their recommendations. Finally, they suggest increasing the WHO budget as currently it is at the same levels as the budget of a hospital in Geneva (where the headquarters of the WHO is located).

Economic scenarios after the quarantine.

Daily routines are now framed in a new normality. The world has effectively stopped for several months now offering us an unprecedented context that engenders unseen and novel consequences. According to [Cheshire & Hilber](#), the uncertainty of the Covid-19 crisis will have

(at least) one clear consequence: lasting effects on the housing markets. Their article focuses in the case of the UK and shows that while real house prices and rents are likely to fall in the short and medium term this trend will not make housing more affordable. This is explained by the nearly fixed supply of houses in the UK and the reality that the pandemic left a huge percentage of the population in economically vulnerable positions. Furthermore, as new constructions will be halted, prices in the long term are likely to increase when incomes finally recover. Another perceived trend is connected to people who will seek for houses with more space and care less about commuting costs.

Although overall prices dropped during the lockdown, [Cechetti](#) argues that this deflation will not become a lasting trend. Admittedly, “price measurement is key to evaluate how the economy is doing” according to Cechetti. However, it is difficult to measure inflation during a pandemic due to, among other elements, the rapid changes in consumption patterns that the pandemic triggers. Various products will experience sharp decreases such as transportation services or energy commodities. To provide for a reliable indicator, the author presents a trimmed mean that excludes all these categories identified as outliers. The results show that inflation levels follow pre-pandemic trends.

[Barrero, Bloom & Davis](#) argue that Covid-19 will also imply a major reallocation shock in the US. They build on anecdotal evidence to form hypotheses that are contrasted with the Survey of Business Uncertainty (SBU). Several news outlets have recently reported the layoffs triggered by the pandemic while also confirming future large scale hiring within companies such as Walmart or Amazon. In addition, the SBU identified the enterprises which anticipate growing or shrinking during the next year. Results obtained show an expected excess reallocation rate rising from 1.54 percent in January 2020 to 5.39 in April. In addition, they found that coronavirus-related development created about 3 new hires for every 10 layoffs. The article further investigates economic outlooks depending on certain responses and shocks.

One size does not fit all.

Overall trends concerning the consequences of the pandemic have been identified. However, the post-crisis scenarios are going to be different depending on the characteristics of each region and their reaction. [Doerr & Gambacorta](#) investigate the impact of the lockdown measures in different European regions. First, they find that as mobility trends decreased, internet searches on the word “unemployment” considerably increased. They also show that Covid-19 employment exposure is greater in southern Europe, where small-firm employment also represents a higher share. To protect employment in Europe and avoid economic divergences across countries, measures should reflect spatial differences in Europe’s local economic fabric.

In addition, the mitigation of contagion rates relies heavily on the environment capacity of a household to protect itself from the virus. In this line of thought, [Brown, Ravallion & van de Walle](#), argue that the poorest population might have little capacity to protect themselves from the virus. Whereas poverty reduces the capacity to survive in isolation, staying home in countries with a strong dependence on the informal economy can be devastating. As a matter of fact, WHO and governmental recommendations for protection from the Covid-19 “have been developed in relatively rich countries”, failing to address the context of developing countries. Their results show that 90% of households in developing countries have an inadequate home environment protection while 40% do not have a formal healthcare provider in a 5 km radius around their home.

Misinformation during a pandemic.

[Bursztyn et al.](#) provide evidence on how media coverage has affected individual behaviour during the pandemic. More precisely, they compare US viewers who watched news shows from a presenter who warned about the threat of the Covid-19 in early February and another who dismissed its risks at the beginning. As viewers who watched one news shows or the other might differ in other unobservable dimensions, the authors use an instrumental variable approach. Namely, they use variability in when shows are broadcast in relation to local sunset times. People turning on their TVs at different times of the evening might be more exposed to certain news shows. Findings demonstrate that counties with greater exposure to the news broadcaster who disqualifed the Covid-19 crisis are associated with a greater number of cases and deaths. Furthermore, as these news shows became more concerned on the impact of the pandemic, the number of cases and deaths substantially diminished.