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The Economic Consequences of COVID-19

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As a human tragedy unfolds, as governments face an unprecedented crisis and as we anticipate a forthcoming economic catastrophe, we are watching, studying and reacting as researchers situated at the junction of economic and social policies. The COVID-19 pandemic has put the world on hold in myriad ways. Political leaders all over the world have announced lockdowns, global supply chains have been altered and the industrial sector has adjusted its production. Policymakers are in uncharted territory, with no consensus on the best response to the crisis. Even the economic outcomes of this crisis are unclear. No preceding crisis in the recent times has had such a worldwide impact and it may perhaps be the time for bold measures. When awarded the Nobel Prize for Economics in 1976, Milton Friedman stated that "only a crisis produces real change." How governments react to this crisis and the policies they choose to implement will certainly impact local, national, regional and internationals economic scenario for decades to come. At the Department of Applied Economics of the Université Libre de Bruxelles (DULBEA) we have long and broad experience in supporting Belgian public institutions as they draw up public policies. In this context, we have prepared a short overview of the latest papers on the economic consequences of the COVID-19 for policymakers, other researchers and concerned citizens. We will continue to review the relevant literature and send updates every two weeks for the foreseeable future.

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This unprecedent crisis raises questions on the economic impact of the pandemic.

Whereas it is difficult to disentangle the economic cost of the pandemic itself from the impact of the policies implemented to fight disease transmission, Correia, Luck and Verner offer a response by examining data from the 1918 flu pandemic in the U.S. This study looks at how cities adopted different policies and, therefore, perceived different economic outcomes. The research finds that cities that intervened earlier and more aggressively to limit activities and physical interactions among the public experienced more economic growth following the 1918 pandemic.

Focusing more directly on the current pandemic, Eichenbaum, Rebelo and Trabandt argue that although government interventions could be effective in saving thousands of lives, the imposition of social distancing behaviour could also exacerbate the size of the recession. However, their study is limited by not considering policies that mitigate the economic hardships suffered by households and businesses. These results suggest that governmental policies can therefore be crucial for softening economic damage.

Guerrieri, Lorenzoni and Straub go one step further and discuss the best optimal policy response. They present a *Keynesian* model in which supply shocks lead the demand to contract more than the initial fall in supply. The authors illustrate this idea through several adjusting mechanisms which include workers cutting consumption after a fall in income or the existence of imperfect markets and low substitutability across sectors. As an optimal policy, this study presents a scenario where monetary policy hits the natural rate, contact-intensive sectors are shut down whilst the government provides full insurance payments to affected workers.

Bold initiatives as a response to the pandemic.

Zucman and Saez have been critical on the policy response by the U.S. Government. As a solution, they propose to re-introduce a policy which was already implemented during the 1918 flu or the Second World War. Although most businesses are experiencing a fall in profits, some others might be "benefiting outrageously from a situation in which the masses suffered." In the current context, this could be the case of Amazon, Facebook or Netflix. The authors put forward the idea of introducing an excess profit tax on these businesses which could help finance full insurance payments to affected workers and businesses, following the model of countries such as Denmark.

With regards to the labour market, Giupponi and Landais suggest that short-time work (i.e. subsidies for temporary reductions in the volume of work) as a response to the COVID-19 pandemic proves "much more effective than other forms of insurance such as unemployment insurance or universal transfers." The authors extend the basic short-time work schemes with multiple recommendations such as making the take-up conditional on the prohibition of dismissal, extending it to temporary workers or introducing wage-subsidies in vital sectors such as health care or food.

In Europe, the vast majority of countries have individually reacted by providing solid social policy interventions despite the lack of a sound EU-wide response. Many economists support the idea of the introduction of "Coronabonds." Tooze, for example, argues that "a common bond would be the foundation of a fiscal apparatus to match the scale of the currency union." National fiscal stimuli are generally massive yet remain uneven among countries. Without a clearly defined fiscal framework that guarantees no future constraints such as the 2012 austerity-imposed measures, southern EU countries might not be willing to spend enough.

Beyond economic damage to businesses and workers.

The international public-health response has not only damaged businesses and workers but is likely to have broader implications. The Center for Global Development, presented nine different pathways originating from this crisis which could lead to an increase in violence towards women and children. In terms of gender equality, Alon, Doepke, Olmstead-Rumsey and Tertilt argue that the crisis will bring opposing trends. In the short-term, the crisis will have a "larger impact on sectors with high female employment shares". In addition, childcare due to school closure is likely to have a larger impact on working mothers than fathers. However, in the long-term, the authors argue that future trends such as flexible work arrangements and the rise in the number of fathers taking responsibility for childcare might promote gender equality, at least in the private sphere.

Regarding healthcare implications, systems have responded by firstly containing and mitigating the spread of the infection rate. However, as argued by the OECD, measures need to go beyond mere containment. They highlight four key measures: ensuring access to diagnosis and treatment for the vulnerable; strengthening the capacity to respond to high number of caseloads; leveraging data use to mitigate disease transmission and investing in R&D for the development of diagnostics, treatments and vaccines.