

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 first economic consequences of the COVID-19 pandemic are already felt. Although policymakers are in uncharted territory, the first economic response measures are starting to be implemented. No preceding crisis in the recent times has had such a worldwide impact and it may perhaps be the time for bold measures. 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 are preparing every two-weeks an updated short overview of the latest papers and insights on the economic consequences of the COVID-19 for policymakers, other researchers and concerned citizens. The two first ones can be found [here](#) & [here](#)... Enjoy the new one below.

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The impact of the pandemic in developing countries.

The pandemic has now reached developing countries which possess some of the weakest health-care systems. Many developing countries have, nonetheless, provided immediate responses to prevent the spread of the disease by implementing strict measures (e.g. closing workplaces, banning gatherings or restricting travel). However, the impact of these measures is likely to be particularly harmful in countries where workers principally work in the street. To this end, [Gottlieb, Grobovšek & Poschke](#) find that the share of workers who can work from home in urban areas in poor countries is at 20% in comparison with 40% of workers in developed countries. The share is highly conditioned on the ability of workers in the agricultural sector to work from home since they represent the highest share of employment.

In addition, containment measures amongst citizenries with low trust in state institutions can act as the trigger of social disruption. [González-Torres & Esposito](#) provide causal evidence of this association with the example of the Ebola outbreak in West Africa. Measures taken by weak states were likely to be perceived as coercive by the population and, consequently, increase the incidence of civil violence with persistent effects in the long-term.

[Gerard, Imbert & Orkin](#) provide further detail on the particularly delicate position of low- and middle-income countries due to specific shared features. The authors argue that a large portion of workers belong to employment categories which are difficult to insure against job or earnings loss, such as informal and self-employed workers whose regular income is difficult to assess. Hence, they argue that existing social insurance programmes are less effective in supporting workers in developing countries. Yet, social programmes are not limited to insurance schemes. Governments could alleviate financially difficult situations by providing unconditional cash

transfers or direct delivery of food. Furthermore, credible partners exist for central governments to help the “harder-to-reach” segments of the population. According to these characteristics, the authors set out several optimal policies for developing countries to implement. Most of the outlined measures demand a high level of creativity and adaptability.

The pandemics’ most vulnerable.

The current medical crisis exacerbates inequalities as some groups of individuals seem to be more vulnerable to the COVID-19 virus. [Platt and Warwick](#) analyse why the UK’s minority ethnic groups are over-represented in hospitalisations and deaths from the virus. The authors provide evidence that the higher impact on minorities might be explained by the type of jobs they do, as they entail a higher risk of infection. In addition, their analysis shows that ethnic minorities are more likely to be affected by the shutdown whilst they are in a more economically vulnerable situation, with lower savings, than white ethnic groups.

Exposure to the contagion can therefore be a key element to understanding the specific growth of COVID-19 cases in specific groups of the population. [Piotr Lewandowski](#) found cross-country differences in levels of exposure to the contagion in comparable occupations across 26 European countries. His results show that workers who are most exposed to the contagion tend to be those with weaker labour market positions. Differences in the nature of work across countries (e.g. physical proximity at work; dealing with clients, pupils or patients; working in public spaces; or not being able to work from home) might have contributed to the perceived differences in the number of infections.

Furthermore, [Fasani and Mazza](#) find that a considerable share of key occupations (such as personal care workers, teaching professionals, skilled agricultural workers or science and engineering associate professionals) are held by immigrant workers. Of an approximated 31% share of key workers, on average 13% are foreign born. This representation of migrant workers is even higher in low-skilled but high-demand professions.

The unequal impact of the disease has initiated changes in consumption behaviour. [Baker et al.](#) explore US households’ spending responses following the fiscal stimulus measures undertaken in the country. Their results suggest that individuals with lower liquidity levels show a higher response to the stimulus. The authors, therefore, conclude that “targeting low-income households can be more effective at increasing consumption which imply larger multipliers”.

The economics behind a potential COVID-19 vaccine.

The possibility of transitioning from the “new normality” to the previous one is tied on the development and global distribution of an effective vaccine. Whereas the pharmaceutical industry has historically monopolized the production of life-saving drugs through patents and lobbying, the current pandemic demands international scientific cooperation as explained by [Stiglitz, Jayadev & Prabhala](#). In the context of the current pandemic, these patents are making it more difficult for new producers to, for instance, produce medical-grade face masks at scale. This comes at the cost of thousands of lives. In order to allow for more drugs at more affordable prices, some authorities such as the Government of Costa Rica have called on the WHO to establish a voluntary pool of IP rights for COVID-19 treatments.

Another approach to overcome barriers in the development of a vaccine is proposed by [Athey, Kremer, Snyder & Tabarrok](#). Their concerns focus on having inadequate manufacturing capacity to swiftly produce a sufficient supply of vaccines for the population. They propose the

implementation of an A.M.C. model (Advanced Market Commitments, explained in detail [here](#)) which guarantees manufacturers a fixed price in return for an effective vaccine. This guarantee will economically support firms to prepare their manufacturing capacities for effective vaccine distribution.

The cost of controlling the pandemic.

Governments have shut down non-essential sectors of the economy for weeks now with the aim of reducing contagion rates. Whereas reducing the contagion rates might be very beneficial for older individuals, younger workers are more affected due to the fall in economic activity. To mitigate the negative effect of the lockdown, governments need to implement large redistributive policies at a huge cost. [Glover et al.](#) build a model that implements an interaction between the macro-mitigation and micro-redistribution policies to assess the optimal mitigation policy. They distinguish between young workers in a basic sector, young workers in a luxury sector and older retired people, where the basic sector produces essential goods. Their results concerning the US case show that the shutdown currently in place is around twice as extensive as it should be. However, the authors argue that a partial shutdown should be in place until July for an optimal mitigation policy.