

# Coronavirus support packages will reshape the future economy, and that presents an opportunity

April 6 2020, by Ilan Noy

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Governments across the world have rolled out extensive financial packages to support individuals, businesses and large corporations

affected by the COVID-19 pandemic.

Equally, central banks have decreased their lending rates to almost zero, and have announced [extensive and previously untested direct lending](#) to private corporations and financial companies.

In many [wealthy countries](#), the support packages are [record-breaking in their size and scope](#), such as the [US\\$2.2 trillion stimulus package for the US economy](#).

The US and Australian stimulus packages each represent about 10% of GDP. New Zealand's program is about 5% of GDP, but each country is experiencing the [economic shock](#) differently, has different existing safety nets and priorities, and different mechanisms to deliver this assistance.

These support packages will play a significant role in shaping our world for many years, and we should not allow the clear emergency of the situation to stop us questioning their design.

## **Goals for financial support**

Our work on economic recovery following natural hazards and disasters defines a set of [build-back-better goals](#), and how they should be assessed.

This kind of thinking applies equally to our current predicament. We argue that globally, the purpose of COVID-19 stimulus packages should be threefold, and we should assess them against these three goals:

1. make sure people's basic needs are satisfied
2. make it possible for the economy to spring back into action once the necessary social distancing measures are relaxed

3. use these funds to create positive change, and rebuild areas we previously neglected (in many countries, this will mean investing in public health systems).

To achieve the first goal of making sure people can meet their basic needs, many high-income countries—including the US, Greece, the UK and France—are either providing direct payments to all citizens ([as in the US](#)) or targeted support to those who lost income or jobs.

These payments are sometimes a fixed proportion of each recipient's previous income, up to a cap ([as in the UK](#)), or are identical for everyone who has lost income ([as in New Zealand](#)).

From an economic perspective, it is clearly more efficient to provide support only to the people who really need it—those who have lost income and would not be able to support themselves and their dependents.

But these programs are also shaped by politics and ethics, and different countries chose different ways to distribute this assistance, not always based on need.

## **Restarting economies**

Even better are programs that provide the wage subsidies through existing employers, such as Germany's famed [Kurzarbeit program](#) (which translates to "work with shorter hours") which was implemented during the 2008 global financial crisis.

New Zealand's [wage subsidy package](#) is a similar program. It supports businesses to continue paying their staff even if they are unable to work.

Details of payments to businesses are posted online, to make sure

employers comply and transfer these funds to their employees. This initiative was trialled after the 2011 Christchurch earthquake.

A similar support was also implemented [in Australia](#).

Generally, wage subsidies allow for continued employment of individuals who would otherwise be let go, and they will also assist in achieving the second goal of resuming economic activity once restrictions are relaxed.

Such programs have been shown to be effective in [Germany](#) and [New Zealand](#) in ameliorating unexpected shocks.

While employees need support, directly or indirectly, it is also important that small and medium-sized businesses are propped up so they are ready to forge ahead once it is possible to do so. They should receive grants and subsidized loans to pay their costs, other than wages. Otherwise many businesses will fail, and the recovery will be slow and hard.

## **Global impacts**

Whether [large corporations](#) need to receive support depends partly on the longer-term importance of their sector. It is easier to justify support for national airlines, which are an important linchpin in many countries' global ties, than to support fossil fuel producers, for example.

Nor are there many reasons why taxpayers (present and future) should bail out wealthy individual owners of large businesses, when these businesses could be restructured in bankruptcy proceedings that should not lead to their shutdown.

But the COVID-19 pandemic has impacts well beyond individual countries and their economies and may require global support

mechanisms.

Most low- and middle-income countries have either not yet announced any assistance or their packages are less than 1% of GDP. They typically cannot afford more with their existing debt levels.

It is therefore incumbent on high-income countries that can afford larger fiscal support packages to [help countries that cannot](#). But so far only a handful of [high-income countries, including Finland and Norway](#), have provided such support.

The international institutions supported by the rich world, such as the International Monetary Fund ([IMF](#)) and the [World Bank](#), should pull out all the stops and lend enough, and at concessionary rates, to low-income countries so they can, at the very least, provide for their people's [basic needs](#).

Without that support, the virus will continue to spread in low-income countries and defeat the draconian social distancing measures that almost every country is implementing now.

Finally, it is important that we scrutinize these programs carefully now, rather than only once the public health emergency has passed and they have been entrenched. The sums involved are incredibly large and we will be remiss if we mis-spend what we are now borrowing from our children and grandchildren.

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