

Experts measure the economic impact of the COVID-19 pandemic

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Between March 21 and 28, as the country enacted quarantine measures, the United States experienced a 3,000% jump in joblessness claims. By

the end of March, a stock market drop had wiped out all gains from the previous three years.

For months, shuttered restaurants, storefronts and offices punctured images of empty streets in New York City, Los Angeles and Venice, Italy. The ramifications of COVID-19 on economies around the world are becoming increasingly clear, and felt viscerally by the millions who remain unemployed or whose businesses teeter on the brink of bankruptcy.

Although the U.S. economy has added some back jobs since the initial low, Hawaii is facing Great Depression-level unemployment and in Kentucky people wait in line eight hours to speak to a person at the unemployment office.

Economists recently gathered for an online conference hosted by the USC Dornsife College of Letters, Arts and Sciences' Department of Economics to discuss the economic impact of COVID-19 and how best to avoid a serious world-wide recession.

Closing down everything but the most vital operations was key to avoiding mass infections and death, but it's a risky strategy. "You put the economy in an induced coma, to reduce inflammation," said Romain Ranciere, professor of economics, finance and business economics at USC Dornsife. "But how fast will recovery happen? That's the question."

Around the world in 180 days

Infection rates have declined in some of the hardest hit countries, such as Italy and Spain. China reopened Wuhan Province, formerly the virus' epicenter. Spring and summer brought increased temperatures to the Northern Hemisphere, which bodes well for those currently in the thick of it—[early research shows](#) that the virus dislikes warm, humid

environments.

But while northern countries bask in sunnier days, the southern hemisphere plunges into winter. This could mean a significant increase in infection rates below the equator, as conditions for the virus' improve and colder temperatures send people into confined spaces together.

"There's a bounce-back effect between the two hemispheres," said Ranciere. This rebound could mean that, just as the Northern Hemisphere feels safe to emerge from quarantine, the virus comes roaring back after wintering down south. Equal containment measures on both sides of the equator is essential.

However, many of the world's emerging economies reside in the Southern Hemisphere, which complicates the problem of seasonal rebound. "The strategy for advanced economies is largely out of reach for emerging economies," said Pierre-Olivier Gourinchas, professor of economics at the University of California, Berkeley.

Developing countries lack the financial resources to pay citizens to stay home from work. Reducing the rate of infection, or "flattening the curve," becomes a major challenge when workers must leave the house to feed their families. Poor [health care](#) infrastructure and limited access to clean water and soap for basic hygiene increase the likelihood of transmission. Economies dependent on supplying goods to wealthier nations are contending with suspension of commerce, further emptying state coffers.

Wealthier nations may be preoccupied with their own pandemic problems, but they shouldn't ignore emerging economies, said Gourinchas. Providing financial support so that all countries can enact strategies such as sheltering in place will both squash the virus worldwide and boost everyone's economic recovery.

"Recovery from the pandemic, and the recession, will be faster if it is global," he argued.

Of course, as the economic strain and health care costs skyrocket, even established economies may struggle to help anyone but themselves. This is true in some wealthier countries, including the United States and the United Kingdom, who seem unable to reverse the upward trend in infection rates.

Chain reactions

Established economies are also grappling with supply chain disruptions. The U.S. imports 90% of generic medications from India and China. Lockdowns in these countries threaten U.S. supplies as factory workers stay home and production stops.

Additionally, some nations banned the export of certain medications outside the country, which could have led to drug shortages in countries that rely on these manufacturers. India restricted export of 26 medications, including acetaminophen, a commonly used pain reliever. In part this was due to their own reliance on China for the raw materials to manufacture these drugs. With Chinese manufacturing running at reduced capacity, resources for drug production are in short supply.

India eventually reversed the medication export ban, but items like N95 masks, which are also overwhelmingly produced abroad, remain exceedingly difficult to procure.

"All this reveals that global chains are much more sensitive and fragile than we thought," Rainciere said.

Our food supply chains also face obstacles, particularly in California. Much of the produce grown in the state requires hands-on harvesting,

including grapes, lettuce, and strawberries, unlike grain production in Midwestern states, which can use unmanned machinery.

Harvesters are grappling with a backlog of unprocessed agricultural H-2A visas, which many foreign fieldworkers must obtain to work in the state. The pandemic and recent federal policies have essentially shut down visa processing.

Without stringent precautions, COVID-19 can spread rapidly among workers, who are often housed in rooms with up to 24 people, worsening the worker shortage and leaving produce to rot in the field, causing California's economy to sag.

Who's footing the bill?

The U.S. House recently approved America's newest COVID-19 relief bill—a staggering \$3 trillion in assistance to citizens and businesses beyond the first infusion of \$2 trillion in March. Other countries passed similar packages.

Each bill differs in the focus of its relief, says Ricardo Reis, professor of economics at the London School of Economics. "There is a mix between helping vulnerable individuals vs. helping businesses. European packages are very focused on 'going concern' with businesses. The U.S. package is very much driven toward [social insurance](#), which makes sense because there are holes in the safety nets here."

Regardless of where the relief is headed, these sorts of eye-popping sums raise the questions of who pays for it all.

Some countries have adopted a strategy of "partial employment." Under this plan, employers retain their workers and pay a portion of their employee's salary while the government pitches in the rest. In Germany,

60% of a worker's wage is guaranteed if the employer pays a stipend, and in Denmark, 90% is guaranteed. Employers won't need to worry about recruiting and training new workers once the pandemic eases, which makes [economic recovery](#) swifter, and the government receives a helping hand in supporting citizens monetarily.

Increased taxation will likely play a role, particularly when it comes to health care costs. "When you look at health systems, you will see higher pressure for taxation to cover this," said Ranciere.

Most advanced economies already provide taxpayer funded universal health care. In the U.S., where insurance is mostly tied to employment, millions have suddenly found themselves without coverage and unable to afford private insurance rates. Support for a taxpayer funded universal health care system that doesn't rely on employment for access appears to be rising among Americans during this crisis.

"The question of whether health is a public good or a private good is being reconsidered. We're learning that health is a public good—if you don't insure everyone, they will infect other people," Ranciere said.

Opening the gates

As the country begins to emerge from lockdown, the most pressing concern is how to allow people to return to work to avoid serious economic damage, but without worsening the pandemic. Until a vaccine emerges, the virus will likely continue to spread unless social distancing is maintained. Even then, COVID-19 could mutate and reemerge seasonally like influenza.

Countries that enact strong social safety nets that help people stay housed and fed during this time can avoid many of the health ramifications that occur during traditional economic downturns, which

leave people destitute and unmoored.

Allowing those without the virus to leave confinement while those infected, and the immune compromised, remain at home may be our best bet at allowing the economy to safely and effectively rev up again. In the U.S., this would require a significant increase in testing and contact tracing. Unfortunately, the country still faces a shortage of tests months after the outbreak began. This may mean getting creative.

Ranciere described a wartime strategy for avoiding the spread of STIs that could help. Tasked with testing WWII U.S. Army recruits for syphilis but stymied by the cost of individual blood tests, Robert Dorfman at Harvard University devised a method for group testing instead. Drawing blood from 10 recruits, the samples were mixed and then tested as one. If no disease was present, the whole group could be released. As more folks form "quarantine bubbles" in the face of extended isolation, group testing could make increasing sense.

Similar testing strategies could help as citizens return to work—and keep the economy more productive while we await the arrival of that hallowed vaccine.

Provided by University of Southern California

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