Responding to COVID-19: Priorities Now and Preparing for the Future

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What have we done so far and what are some of the early lessons? Some thoughts on these two vital questions follow.

The crisis now

The COVID-19 crisis is the largest shock to the global economy since the 2008–09 global financial crisis, maybe since the Great Depression of the early 1930s. To avoid overwhelming their health care systems, governments have sought to slow down the spread of the virus by implementing various suppression policies. They have made the case that social distancing measures are central to these efforts, as shown by the recent experience of Korea, Singapore and Taiwan, where various combinations of lockdowns, testing and contact tracing appear to have slowed down the rate of infections.

The shocks to the economy have been multiple and mutually reinforcing. Business closures, travel bans and other transportation disruptions have undermined consumer spending and business confidence and could lead to a sharp increase in bankruptcies. Dismissals, layoffs, shortened working hours have reduced wages and salaries, adversely affecting household incomes. Simultaneously, supply chain breakdowns are disrupting trade flows in ways that are reminiscent of the global financial crisis, when the drying up of trade finance and a deterioration of credit conditions led to a sharp contraction of international trade.

There is awareness among policymakers that the tougher the containment measures, the more pronounced the recession, but this has generally been seen as a price worth paying, not only to save lives, but also to set the stage for a quick economic turnaround. Nevertheless, given the scale of the supply and demand shocks seen and expected, there seems to be a growing consensus that the short-term economic impact of COVID-19 could be much larger than that which resulted from the global financial crisis.

As they did during the global financial crisis, governments have responded with an array of measures, intended to ameliorate the public health repercussions of the pandemic, but also to mitigate its economic impact. Some of these measures have sought to rapidly expand the resources available to severely strained public health systems, for testing, for patient care, for protective equipment, and to boost the ability of hospitals and doctors to limit human suffering. Others have been aimed at strengthening the existing safety net by easing eligibility requirements for unemployment insurance, increasing the minimum wage, making direct cash payments to households, expanding child-care benefits for low-income parents, payments to workers without sick leave, among many others. These measures have in some cases been supported with other interventions of a fiscal nature, such as temporarily relaxing spending/budget limits or rules, temporary tax breaks, announcing boosts to infrastructure spending, providing flat monthly payments to those who have lost their jobs, and the provision of direct financial support to SMEs.

Monetary policies are also playing an active role by safeguarding liquidity conditions in the banking systems, ensuring that the flow of credit to the enterprise sector (the "real economy") is not interrupted, extending credit guarantees to forestall defaults, with central banks in many of the advanced economies increasing asset purchases to avoid amplifying the economic shock by liquidity shortages, with banks cutting back on lending when the demand for credit is on the rise. An important consideration in the framing of monetary policies has been the need to avoid at all costs the current economic crisis mutating into a financial crisis. While some governments have been faster than others in confronting the crisis, the response has generally, by now, been fairly robust and it is expected that more support measures will be implemented in coming weeks, as the full economic impact of the crisis becomes more visible.

One special source of concern at this point—adding extraordinarily high levels of uncertainty to any efforts aimed at estimating the extent of the economic contraction in 2020—is the speed of contagion and how it might affect other countries, particularly those in the developing world with far more precarious health systems and often limited scope for large-scale fiscal interventions. In this respect, the Spanish flu of 1918–19 provides particularly relevant insights. It is estimated that somewhere between 50 to 100 million people died over the three phases of the flu, with the second phase (September 1918 to January 1919) by far the deadliest. This level of mortality is equivalent to somewhere between 2.7 and 5.4 percent of the world's population in 1917, the year before the flu.

The global impact of the Spanish flu, however, was highly uneven. In the United States it led to 675,000 deaths, or about 0.65 percent of the US population. In India it is estimated that some 17 million people perished, equivalent to some 5½ percent of the country's population. Developing countries are more vulnerable in a pandemic, because it is more difficult to implement "social distancing" measures in congested urban settings, where tens of millions of people have no access to running water, sewage and other facilities available in the higher income countries. Moreover, because the overwhelming majority of the over 800 million malnourished people in the world are located in developing countries, these people, by definition, have much weaker immune systems. The economies in these countries will also be affected by capital flight, as foreign investors repatriate tens of billions of dollars from emerging markets, as workers' remittances—which, by now, vastly exceed official aid flows—drop precipitously, government revenues shrink, borrowing costs shoot up, and the erosion of export earnings limit their ability to import essential medical supplies and equipment, as well as food.

Some early lessons

What are some of the early lessons that can be drawn from the various country experiences thus far? The list that follows is an attempt to identify some key issues. How we internalize in coming years the ramifications of this crisis is tremendously important.

1. **Vulnerable public health infrastructures**. It is evident that COVID-19 has found most countries with woefully unprepared public health facilities: not enough hospital beds, not enough respirators and other vital equipment, forcing medical professionals to make unpalatable rationing choices, with life and death consequences. Some would argue that it will never be possible to be fully prepared for a highly contagious virus. But this misses the point. Some such pandemic has been widely anticipated, with some scientists arguing that it was only a matter of time before EBOLA, SARS and MERS were followed by something like the coronavirus.[1] Broken-down, neglected or, in any case, highly unprepared public health systems raise the question of budgetary priorities and whether governments are doing enough to take a hard look at the structure of public spending and ask themselves whether it is consistent with adequate levels of public health and the overall needs of the economy.

   Furthermore, the fact that individual country experiences have sharply differed in terms of health outcomes suggests the need for a thorough assessment of the state of the health care systems across the world and what needs to be done to empower them to deal more effectively with the next crisis. The Spanish government has announced the establishment of a commission to do precisely this and a strong case can be made for the World Health

[1] See, for instance, Bill Gates' 2015 TED talk: https://interestingengineering.com/bill-gates-warned-us-of-the-next-pandemic-in-his-2015-ted-talk

Organization (WHO) to take the lead role in this area, given the global nature of the pandemic. (The question of public spending priorities is a large subject and I will have more to say on this in a follow up piece. Nevertheless, let me share at this point a sobering statistic: the UN system is funded by contributions assessed on its 193 members; these contributions are an obligation of membership. The World Health Organization's share of these funds over the 2018 and 2019 fiscal years has amounted to an average of US$478 million, equivalent to the cost of about three or four of the more sophisticated and lethal fighter jets in the arsenals of some of the world's largest militaries, of which, of course, there are thousands).

2. **Broadening the safety net is a good investment**. COVID-19 strengthens the case for increasing the coverage of health insurance and paid sick leave. People respond to incentives; in a country in the middle of a public health crisis where social distancing measures and quickly identifying those infected and isolating them are part of the solution, the uninsured and those without paid sick leave benefits will have a powerful incentive to continue to work, because they cannot afford not to do so. This will endanger others, ultimately boost mortality rates, and heighten the overall economic impact of the crisis. There is increasing talk—in the media, among political and business leaders—of the need for "solidarity" in moments of crisis, that the global nature of the pandemic calls for tapping into our reservoirs of altruism and a concern for the well-being of others. One important lesson from COVID-19 may be that, in a fully integrated world, solidarity and altruism are not just luxuries for the spiritually minded but, in fact, are indispensable conditions for survival.

3. **Strengthening the role of the WHO**. Questions of international coordination and cooperation are critical in the public health area and the WHO has for several decades had the primary responsibility for the "management of the global regime for the control of the international spread of disease." Its International Health Regulations (IHR) were first adopted in 1969 and have been revised on several occasions, with the latest revision adopted in 2005, in the wake of the successful containment of the SARS virus and following extensive consultations within the WHO membership. This last update was particularly significant because a number of innovations were introduced which broadened the scope of definition of specific diseases and the manner of transmission, and significantly strengthened the obligations of members to notify WHO of public health emergencies. Indeed, the WHO Director General issued a Public Health Emergency of International Concern (PHEIC) on January 30, 2020, following consultations with expert panels.

   The IHR provide a sensible framework for international cooperation in times of crisis. However, the progress made to equip countries to prevent and respond to health emergencies has been fairly slow and limited and, as with other international organizations, the WHO has at times been hampered by the tendency of governments to set aside their international commitments and obligations in the middle of a crisis, in favor of domestic policies which are perceived to better reflect national interests. There is growing evidence that with a pathogen like the coronavirus, the distinction between the "national" and the "global" interest is largely artificial, if not actually self-defeating. The international sharing of health data, the mobilization of medical resources, the formulation of more coordinated preparations and responses make eminent sense in the case of a virus which makes absolutely no distinctions of nationality, ethnicity, income level or religious preference when it comes to its victims.

4. **International cooperation is essential**. While the fiscal interventions announced thus far are welcome, the benefits to the global economy would be enhanced if there was a greater degree of cross border international coordination. The issues here are well-known to economists. The "fiscal multiplier" is smaller than it used to be; a given fiscal stimulus in the context of a more closely integrated global economy can spill or leak to the rest of the world through, for instance, higher imports, thereby reducing the impact on domestic demand. Coordinated responses magnify the impact of a given fiscal policy stimulus. There is no doubt in my mind that ten years ago one key ingredient in limiting the impact of the financial crisis and averting a greater economic calamity was the implementation of closely coordinated monetary, fiscal and trade policies in the context of the G-20.

   But the issue of international cooperation goes well beyond the coordination of macroeconomic interventions. It has a bearing on the overall strategy being followed by countries at present, which have largely focused on domestic responses. Abiy Ahmed, prime minister of Ethiopia and 2019 Nobel Peace prize laureate, stated in a March 27, 2020 *Financial Times* Op Ed (https://www.ft.com/content/c12a09c8-6db6-11ea-89df-41bea055720b) that "the current strategy of uncoordinated country-specific measures, while understandable, is myopic, unsustainable and potentially counterproductive. A virus that ignores borders cannot be tackled successfully like this," and then goes on to warn that "if the virus is not defeated in Africa, it will only bounce back to the rest of the world."

5. **Enhancing the role of the IFIs**. COVID-19 has moved from Asia to Europe and North America. It is highly likely in coming weeks to move to emerging markets and the developing world where, as noted earlier, public health systems are less prepared and countries are much more fiscally constrained. Rich country governments have a vested interest in assisting developing countries to respond to the crisis in pro-active ways that limit the extent of the downturn. Not only because avoiding an economic collapse in the developing world is in the best interests of the advanced economies, many of whose products are sold in the markets of Latin America, Africa and Asia, but also because it will be easier to contain the contagion when the damage to the local economies of these countries is limited on the downside. The IMF and the multilateral development banks will obviously play a role in this process, by, for instance, boosting their lending operations to support improvements in health systems, providing temporary budgetary support and helping their members close rapidly growing financing gaps linked, in part, to weaker

commodity prices, the collapse of tourism, a drop in remittances, and so on. Persuading bilateral donors to provide debt relief should also be part of these efforts.

But, given the volume of interventions announced thus far in the United States, the EU as well as some of the countries in Asia (e.g., Korea, Singapore), one can legitimately raise the issue of whether the collective "firepower" of these organizations (that is, the aggregate amount of financial resources potentially available for financial assistance to their members) is adequate to the task at hand. In this respect, in another setting, I have argued that it would be in our collective interest to sharply streamline procedures for Special Drawing Rights allocations in the IMF, the only international organization capable of creating international liquidity.[2] Beyond this, the multilateral development banks should explore innovative mechanisms to mobilize private sector resources in support of social and economic development programs. There is considerable scope here, with upwards of US$15 trillion of private sector wealth (equivalent to close to 20% of world GDP) earning at present negative yields. We may need to rethink the traditional funding model of the multilateral development banks, with periodic boosts to their capital provided from official sources.

6. **Rethinking "whatever it takes."** Sensible arguments for fiscal and monetary interventions in the middle of COVID-19 have sometimes referred to the statement made by the president of the European Central Bank at a speech in London in July of 2012, in the middle of the euro crisis and the potential unraveling of the euro area. The ECB would do "whatever it takes to preserve the euro." This statement, supported shortly thereafter by the *announcement* of a program to purchase the bonds of distressed countries, was seen as critical in precipitating a shift in expectations and a sharp reduction in bond yields. Ironically, the so-called program of Outright Monetary Transactions (OMT) was not introduced until 2015 but its mere announcement in 2012 was sufficient to restore confidence in the euro. The current crisis, no doubt, is another "whatever it takes" moment and this is not the time to worry unduly about the widening of fiscal deficits and the resulting accumulation of sizable amounts of additional government debt. The highest priority now should be to address the public health repercussions of the pandemic and to forestall major damage to the global economy, involving serious, lasting damage to productive capacity and, hence, the tax base.

   But there is little doubt that "whatever it takes" moments have rapidly diminishing returns. Our last such moment took place at the outset of the global financial crisis in 2008–09. Energetic, multiple, coordinated interventions prevented a major calamity, another Great Depression. But we would be foolish to ignore the fact that those interventions led to a sharp increase in government indebtedness and an erosion of our "fiscal space," our ability to respond to the next crisis from a position of fiscal strength. This is not to argue that we should be any less quick and ambitious at this moment.

[2] See *Chapter 15* in *Global Governance and the Emergence of Global Institutions for the 21st Century*, Cambridge University Press, 2020.

Rather, the point is that we need to think about future claims on public resources which will not go away simply because we are in the middle of a huge health-induced crisis now, which needs to be addressed with urgency. Population ageing, dealing with the impact of climate change, to take a couple of examples (there are others), are structural features of our long-term fiscal outlooks, all of them putting upward pressures on governments' balance sheets. What does this mean for economic policies past this crisis? Will the crisis be yet another way station from the early part of the 20th century when government spending to GDP ratios were in the neighborhood of 10–12% to today's range of 40–50%, on to a future in which central banks become lenders of last resort not just to the financial system but also to the real economy and in which notions of sustainability in managing public resources give way to addressing the needs of firms and workers at whatever the cost?

And, if one assumes, plausibly enough, that COVID-19 is by no means the last nor the most intense crisis which is baked into our future, then where does this all end? How to avoid a situation where, by late 2020, governments go back to business as usual, missing a unique opportunity to address the serious vulnerabilities in governance which the current crisis has revealed? (This raises complex issues, which I will address in my next blog).

7. **Technologies to the rescue**. One cannot fail to be impressed by the early success of Korea, Singapore and Taiwan in using technologies to protect the public health and the resulting relatively quick reduction in infections. Cell phone technologies have been used to locate and monitor people and to enforce quarantines and to empower the public health authorities to have real-time access to vital information. This, in turn, has allowed them to gather data to better understand the evolution of the spread of the disease and to take countervailing measures. This is, no doubt, one area where the WHO could encourage a unified approach that goes beyond the deployment of technological solutions at the national level and that involves the development of international protocols to allay concerns on the part of civil society, in particular, about the possible misuse of personal data and information.

8. **Guarding against protectionism**. In the middle of possibly the worst recession thus far this century, governments may wish to give some thought to reducing barriers to trade. This has multiple dimensions, including barriers to the export of medical equipment and other supplies, which many countries have imposed, often in violation of the letter and spirit of their international obligations. Furthermore, tariffs and other non-tariff barriers raise the cost of production and adversely affect the real incomes of households. They encourage trade diversion and other inefficiencies and their removal would make a positive contribution to mitigate the impact of the recession. It will also be important for countries not to use the exchange rate of their currencies as a lever for national advantage; this is ultimately self-defeating and will contribute to undermining the context for international cooperation at a time when an important part of the solution to the crisis will be to share information, to coordinate policies, to avoid needless confrontation and to recognize that,

given the highly integrated nature of the global economy, we no longer live in a zero-sum world; that is one of the key lessons to have come out of the global financial crisis, where concerted international cooperation played an important role in defusing some of the potentially more destructive ramifications of the near-collapse of the world's financial system. Ten years ago, the G-20 came out strongly in favor of avoiding a protectionist backlash to the global financial crisis.

9. **Preparing for the next crisis**. We have to give serious thought to the kinds of global institutional arrangements which need to be in place to empower us to deal with the looming crises that are likely ahead of us and which have the potential to destabilize not only the global economy but our social and political order. More on this later.