

Covid-19 and the Economy

What Happened and What Can Governments Do About It?

Daniel Prinz
Harvard University



How Does the Covid-19 Pandemic Impact the Economy?

Individual decisions

Individuals refrain from certain activities (e.g., don't want to go to crowded places) because of fear of catching the virus



Government policy

Governments implement restrictions to slow the spread of the virus

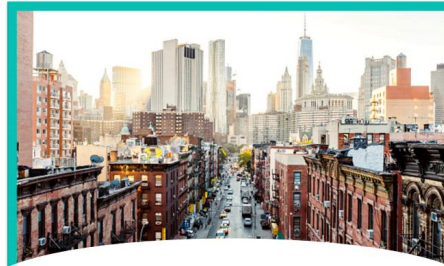


Deep recession

Supply + Demand shock

Many people's intuition is that **government policy** was more important than **individual decisions**, but there is some evidence pointing in the other direction

OPPORTUNITY
INSIGHTS



The Economic Impacts of COVID-19:

Evidence from a New Public Database Built Using Private Sector Data

Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner,
and the Opportunity Insights Team



Journal of Public Economics

Volume 189, September 2020, 104257



Disentangling policy effects using proxy data:
Which shutdown policies affected unemployment
during the COVID-19 pandemic? ☆

Edward Kong ^{a, b, c}, Daniel Prinz ^{a, c}



Journal of Public Economics

Volume 193, January 2021, 104311



Fear, lockdown, and diversion: Comparing drivers
of pandemic economic decline 2020 ☆

Austan Goolsbee ^{a, b, c}, Chad Syverson ^{a, b, c}

How Does the Covid-19 Pandemic Impact the Economy?

Direct effect

Supply + Demand shock



Indirect effect

Adverse demand amplification



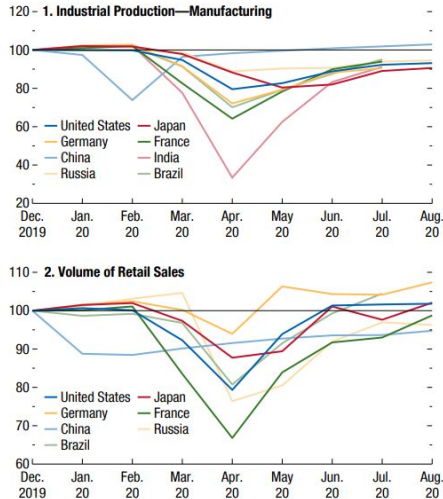
Long term scarring effect

Damage to long-term economic potential

Different from Prior Crises: Sharp Collapse and Rebound

Figure 1.1. Industrial Production and Retail Sales
(Index, December 2019 = 100; seasonally adjusted)

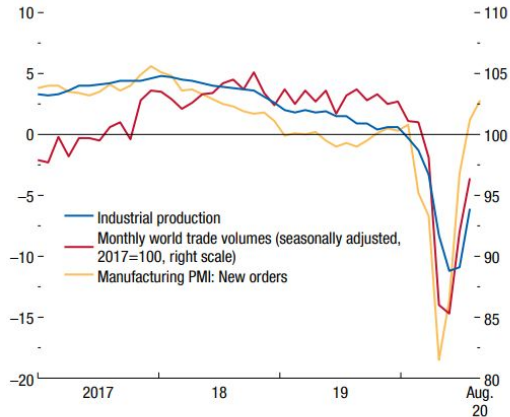
Retail sales have generally recovered stronger than industrial production.



Sources: Haver Analytics; and IMF staff calculations.

Figure 1.2. Global Activity Indicators
(Three-month moving average, annualized percent change; deviations from 50 for manufacturing PMI, unless noted otherwise)

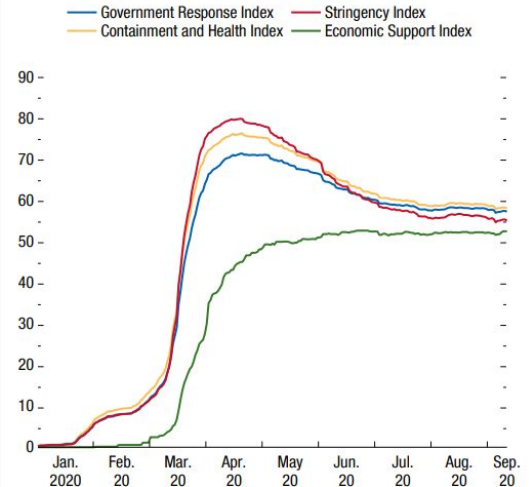
Global trade and industrial production picked up as lockdowns were eased.



Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff calculations.
Note: PMI = purchasing managers' index.

Figure 1.3. Government Lockdowns and Economic Responses to COVID-19: Global Index

Reopening has slowed as new infections have increased.



Source: Oxford COVID-19 Government Response Tracker.

What Should Governments Do in Response?

Public health
response

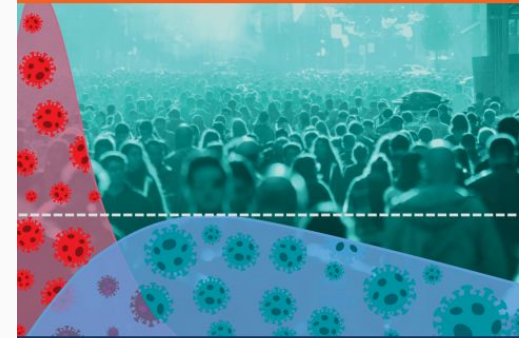
Use fiscal policy to
protect jobs and
wages

Provide liquidity to
companies

Run fiscal deficits
to finance response

Mitigating the COVID
Economic Crisis:
Act Fast and Do Whatever
It Takes

Edited by Richard Baldwin and Beatrice Weder di Mauro



A VoxEU.org Book

CEPR Press

Example Policies

Help with childcare

Forgivable loans to companies that keep workers

Extended unemployment insurance

Encourage teleworking

Kurzarbeit: reduce working hours instead of layoffs, receive government subsidy

Income support for quarantined workers



But Recovery Will Be Long and Uneven

Worst crisis since
the Great
Depression

Increase in extreme
poverty (90 million
people)

Increase in
inequality

Long-term issues
related to debt

INTERNATIONAL MONETARY FUND

WORLD ECONOMIC OUTLOOK

A Long and Difficult Ascent

2020
OCT

